City of Ann Arbor Downtown Development Authority

Year Ended
June 30, 2016

Basic Financial Statements

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CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

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INDEPENDENT AUDITORS' REPORT

November 4, 2016

To the Board of Directors of the
City of Ann Arbor Downtown Development Authority
Ann Arbor, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the *City of Ann Arbor Downtown Development Authority* (the "Authority"), a component unit of the City of Ann Arbor, Michigan, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Ann Arbor Downtown Development Authority as of June 30, 2016, and the respective changes in financial position, and the respective budgetary comparisons for the general and parking funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated November 4, 2016, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

This section of the Downtown Development Authority's (the "Authority") financial report presents a discussion and analysis of the Authority's financial performance for the fiscal year ended June 30, 2016. This discussion has been prepared by management along with financial statements and related footnote disclosures and should be read in conjunction with, and is qualified in its entirety by, the financial statements and footnotes. This discussion and analysis is designed to focus on current activities, resulting change and currently known facts.

Using this Annual Report

This annual report consists of a series of financial statements that focus on the financial condition of the unit of government and the results of its operation as a whole.

One of the most important questions asked about governmental finances is whether the unit of government as a whole is better off or worse off as a result of the year's activities. The key to understanding this question is the statement of net position and statement of activities that present financial information in a form similar to the private sector.

The statement of net position includes the Authority's assets, liabilities and net position. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when levied or the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. The Authority's net position is one indicator of the Authority's financial health. Over time, increases or decreases in net position indicate the improvement or erosion of the Authority's financial health.

	Authority's Net Position		Percent
	2016	2015	Change
Assets	$15,574,338	$16,831,086	-7.47%
Liabilities	2,549,206	6,598,269	-61.37%
Net position - unrestricted	$13,025,132	$10,232,817	27.29%

Assets

The most significant decrease in the assets category was the decrease in cash and investments at June 30, 2016. This reduction was from the payment of the accounts payables owed at the June 30, 2015 year end. The components of this category are:

Cash and Investments

Cash
The Authority maintains a checking account for DDA payments, two bank accounts for depositing parking revenues until they are swept into investments and a small petty cash fund.

Investments, at Fair Market Value
The Authority keeps its excess funds in four investment accounts managed by a bank trust department that invests according to State of Michigan guidelines.

Taxes Receivable
This receivable represents amounts due from the City of Ann Arbor for taxes not paid during the fiscal year.

Receivables
This receivable represents small amounts due from the City for expenses paid by the Authority and parking operators for permit customers' unpaid balances ultimately due to the Authority.

Liabilities

The decrease in liabilities is related to the decrease in the accounts payables as of June 30, 2016. This liability category is composed of:

Accounts Payable and Accrued Expenses
This liability represents amounts due for goods and services received, but not paid for by the end of the fiscal year, as well as nominal amounts of payroll expenses due to the City.

Due to Other Governments
This liability represents amounts due to the City of Ann Arbor for various purposes and are mostly payroll related.

Long-term Liabilities
This liability represents the amount due for the installment purchase agreement on parking equipment due in future years and compensated absences.

Net Position

Net position presents the difference between the Authority's assets and liabilities. Unrestricted net position represents those funds that are available to the Authority for use towards approved expenses.

	Authority's Change in Net Position		Percent Change
	2016	2015	
Revenues			
Property taxes	$ 5,389,177	$ 5,071,211	
Charges for services	21,706,096	21,399,834	
Investment income	179,860	92,546	
Total revenues	27,275,133	26,563,591	2.68%
Expenses			
Downtown development	3,919,529	3,803,420	
Parking	20,535,835	19,766,002	
Interest on long-term debt	27,454	43,094	
Total expenses	24,482,818	23,612,516	3.69%
Change in net position	2,792,315	2,951,075	
Net position, beginning of year	10,232,817	7,281,742	
Net position, end of year	$13,025,132	$10,232,817	27.29%

Management's Discussion and Analysis

Revenues

The increase in total revenue is related to a parking rate increase on January 1, 2015 which was in effect for the 2016 fiscal year and additional taxes captured as a result of the completion of new developments in the Authority's district.

Property Taxes
The Authority's property tax revenues are generated through the use of tax increment financing (TIF) in which the Authority captures ad valorem property taxes. Property tax increment revenues are generated by new construction and major improvements in the Authority's district. Property tax revenues for the year ended June 30, 2016 included property taxes levied July 1, 2015 and December 1, 2015.

Charges for Services
This is the revenue generated by the approximately 5,700 space off-street parking system and the approximately 2,200 parking meters managed by the Authority.

Investment Income
This revenue represents interest earned on Authority funds invested in State approved investments through the Bank of Ann Arbor.

Expenses

The increase in Parking expense was due to the increase in repair and maintenance costs that were incurred for the Fourth and William street parking garage stair/elevator project.

Downtown Development
These expenses represent the cost of general administration of the Authority including grants to other organizations for the betterment of the downtown area as well as debt service and administrative studies.

Parking
These expenses represent the cost of maintaining the DDA operated parking facilities, operating the City's parking system and funding alternative transportation programs.

Interest on Long-term Debt
These expenses represent current year interest paid pertaining to the long-term debt issuance.

Budgetary Highlights

The Authority adopts budgets for all of its funds with budgetary comparisons being presented in this annual report for the general fund and the parking fund.

The general fund had final budgeted revenues of $5,074,858 and budgeted expenditures of $5,176,639. While the Authority's final budget for the general fund projected that expenditures would exceed revenues by $101,781 the actual results for the year was $1,770,483 better than what the Authority anticipated. Results for the year were an increase of $1,668,702 in fund balance. Overall, actual revenues were $342,506 more than the final budget and actual expenditures were $1,427,977 less than the final budget. The actual revenues exceeded the final budget due to an unanticipated development in the Authority's district which exceeded the City's development estimates that were used in the budget preparation. The actual expenditures were less than budgeted due to the Authority's decision to undertake significant capital projects in future years rather than begin the projects in 2016 as reflected in the final budget.

Management's Discussion and Analysis

The parking fund final budgeted revenues were $21,663,540 and expenditures of $24,362,426. While the Authority's final budget for the parking fund projected that fund balance would decrease by $2,698,886, the actual results for the year was favorable by $1,027,131 for a difference of $3,726,017. Overall, actual revenues exceeded final budgeted revenues by $196,091 and actual expenditures were $3,529,926 less than the final budget. The actual expenditures were less than the final budget due to delays in a major capital improvement project that was budgeted to have additional expenditures in 2016.

Financial Analysis of the Authority's Major Funds

The Authority completed fiscal year 2016 with its governmental funds reporting combined fund balances of $13,480,649. The net changes are summarized in the following chart:

	General Fund	Parking Fund	Total
Total fund balance			
June 30, 2015	$ 2,399,150	$ 8,385,666	$10,784,816
June 30, 2016	4,067,852	9,412,797	13,480,649
Net change	$ 1,668,702	$ 1,027,131	$ 2,695,833

Capital Asset and Debt Administration

The Authority holds no capital assets as all capital items that were purchased or constructed become the property of the City of Ann Arbor. The Authority entered into an installment purchase agreement for parking equipment in the amount of $1,278,765 during fiscal 2013. There was long-term debt of $310,415 at year-end from this installment purchase agreement and $170,867 for compensated absences. More detailed information may be found in Note 5 to the financial statements.

Economic Factors

The fiscal year 2017 budget anticipates the Authority's potential tax increment finance income to increase due to the completion of new private construction projects in the district during the upcoming year. The increase will be capped at approximately $6.3 million due to the City ordinance.

Contacting the DDA's Management

This financial report is designed to provide the DDA's citizens, taxpayers, customers, and creditors with a general overview of the DDA's finances and to demonstrate their accountability for the money it receives. If you have questions about this report or need additional information, contact the Ann Arbor DDA office at 150 S. Fifth Avenue, Suite 301, Ann Arbor, Michigan 48104.

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Net Position

June 30, 2016

	Governmental Activities
Assets	
Cash and investments	$ 15,321,504
Receivables	252,834
Total assets	15,574,338
Liabilities	
Accounts payable and accrued expenses	2,022,864
Due to other governments	45,060
Long-term liabilities:	
Due within one year	287,871
Due in more than one year	193,411
Total liabilities	2,549,206
Net position	
Unrestricted	$ 13,025,132

The accompanying notes are an integral part of these financial statements.

CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Activities

For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue
Governmental activities			
Downtown development	$ 3,919,529	$ -	$ (3,919,529)
Parking	20,535,835	21,706,096	1,170,261
Interest on long-term debt	27,454	-	(27,454)
Total	$ 24,482,818	$ 21,706,096	(2,776,722)

General revenues:	
Property taxes	5,389,177
Unrestricted investment earnings	179,860
Total general revenues	5,569,037
Change in net position	2,792,315
Net position, beginning of year	10,232,817
Net position, end of year	$ 13,025,132

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Balance Sheet
Governmental Funds
June 30, 2016

	General Fund	Parking Fund	Total
Assets			
Cash and investments	$ 5,955,710	$ 9,365,794	$ 15,321,504
Accounts receivable	22,651	201,782	224,433
Taxes receivable	28,401	-	28,401
Due from other funds	-	328,475	328,475
Total assets	$ 6,006,762	$ 9,896,051	$ 15,902,813
Liabilities			
Accounts payable	$ 1,559,030	$ 457,274	$ 2,016,304
Accrued wages	3,280	3,280	6,560
Due to other governments	22,360	22,700	45,060
Due to other funds	328,475	-	328,475
Total liabilities	1,913,145	483,254	2,396,399
Deferred inflows of resources			
Unavailable revenue	25,765	-	25,765
Fund balances			
Committed for parking improvements	-	1,180,000	1,180,000
Assigned for:			
Housing	243,825	-	243,825
Parking operations	-	8,232,797	8,232,797
Unassigned	3,824,027	-	3,824,027
Total fund balances	4,067,852	9,412,797	13,480,649
Total liabilities, deferred inflows of resources and fund balances	$ 6,006,762	$ 9,896,051	$ 15,902,813

The accompanying notes are an integral part of these financial statements.

CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2016

Fund balances - total governmental funds	$ 13,480,649
Amounts reported for *governmental activities* in the statement of net position are different because:	
Deferred inflows are not *current financial resources* and therefore are not reported as revenue in the governmental funds.	25,765
Long-term debt and compensated absences are not due and payable in the current period and therefore have not been included in the governmental funds including:	
Notes payable	(310,415)
Compensated absences	(170,867)
Net position of governmental activities	$ 13,025,132

The accompanying notes are an integral part of these financial statements.

CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2016

	General Fund	Parking Fund	Total
Revenues			
Property taxes	$ 5,363,412	$ -	$ 5,363,412
Charges for services	-	21,442,292	21,442,292
Investment income	53,952	125,908	179,860
Other revenues and reimbursements	-	291,431	291,431
Total revenues	5,417,364	21,859,631	27,276,995
Expenditures			
Current:			
Downtown development	3,748,662	-	3,748,662
Parking	-	20,535,835	20,535,835
Debt service:			
Principal	-	269,211	269,211
Interest and fiscal charges	-	27,454	27,454
Total expenditures	3,748,662	20,832,500	24,581,162
Net change in fund balances	1,668,702	1,027,131	2,695,833
Fund balances, beginning of year	2,399,150	8,385,666	10,784,816
Fund balances, end of year	$ 4,067,852	$ 9,412,797	$ 13,480,649

The accompanying notes are an integral part of these financial statements.

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2016

Net change in fund balances - total governmental funds	$ 2,695,833
Amounts reported for *governmental activities* in the statement of activities are different because:	
Revenues earned but not available for current expenditures are not reported as revenues in the funds.	(1,862)
Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	269,211
Certain expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as fund expenditures including the changes in accruals for compensated absences.	(170,867)
Change in net position of governmental activities	$ 2,792,315

The accompanying notes are an integral part of these financial statements.

CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	$ 5,071,059	$ 5,071,059	$ 5,363,412	$ 292,353
Investment income	3,799	3,799	53,952	50,153
Total revenues	5,074,858	5,074,858	5,417,364	342,506
Expenditures- downtown development	5,176,639	5,176,639	3,748,662	(1,427,977)
Net change in fund balance	(101,781)	(101,781)	1,668,702	1,770,483
Fund balance, beginning of year	2,399,150	2,399,150	2,399,150	-
Fund balance, end of year	$ 2,297,369	$ 2,297,369	$ 4,067,852	$ 1,770,483

The accompanying notes are an integral part of these financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Parking Fund
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Charges for services	$ 21,525,369	$ 21,525,369	$ 21,442,292	$ (83,077)
Investment income	28,171	28,171	125,908	97,737
Other revenues and reimbursements	110,000	110,000	291,431	181,431
Total revenues	21,663,540	21,663,540	21,859,631	196,091
Expenditures				
Current-				
Parking	24,065,761	24,065,761	20,535,835	(3,529,926)
Debt service:				
Principal	269,211	269,211	269,211	-
Interest and fiscal charges	27,454	27,454	27,454	-
Total expenditures	24,362,426	24,362,426	20,832,500	(3,529,926)
Net change in fund balances	(2,698,886)	(2,698,886)	1,027,131	3,726,017
Fund balance, beginning of year	8,385,666	8,385,666	8,385,666	-
Fund balance - end of year	$ 5,686,780	$ 5,686,780	$ 9,412,797	$ 3,726,017

The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

These financial statements present the activities of the City of Ann Arbor Downtown Development Authority (the "Authority" or "DDA"). The Authority was established May 10, 1982, pursuant to Public Act 197 of 1975. The primary purpose of the Authority is to revitalize and encourage economic activity in the downtown business district. The Authority's activities are primarily funded through its increment of property taxes and parking system charges for services.

The Authority is a component unit of the City of Ann Arbor, Michigan (the "City") since the City appoints the Authority's Board of Directors and is financially accountable for the Authority as defined under generally accepted accounting principles. Accordingly, the Authority is presented as a discrete component unit in the City's financial statements and is an integral part of that reporting entity.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements present the Authority's individual major funds. Separate columns are shown for the major funds on the balance sheet and statement of revenues, expenditures, and changes in fund balances.

The Authority reports the following major governmental funds:

General fund - The general fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those accounted for and reported in another fund.

Parking fund - The parking fund is used to account for all financial resources of the Authority relating to the public parking system, except for some debt service and capital expenditures from the general fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial information is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Fund financial information is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Assets, Liabilities, Deferred Inflows of Resources and Equity

Cash and Investments

Cash and investments consist of the Authority's checking, money market accounts and cash on hand.

Investments consist of U.S. government securities with original maturities of greater than 90 days and pooled investments held by the same agent in the Authority's name. Investments are recorded at fair market value.

State statutes authorize the authority to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Receivables

Receivables consist of amounts related to charges for services, reimbursements, and property taxes.

Due from Other Governments

Due from other governments, if any, consist of amounts due from the City of Ann Arbor for various payments.

Long-term Obligations

Long-term obligations are recognized as a liability in the government-wide financial statements when incurred. Long-term obligations are recognized as a liability of a governmental fund when due or when resources have been accumulated in a fund for payment early in the following year.

Compensated Absences

The Authority accrues vacation pay, severance pay for sick leave, and any salary-related payments for these compensated absences. Authority employees are granted vacation time based on length of service. Sick pay is earned at the rate of one day per month, and unused sick days may be accumulated without limitation. An employee is paid, in most cases, a maximum of 960 unused sick hours and the total of any remaining accumulated hours upon retirement or death. The Authority's policy provides for payment of unused vacation, but not unused sick hours, should the employee terminate their employment other than via retirement or death. Paid time off that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. The current portion of the liability for compensated absences reflects only the unpaid balance of reimbursable unused leave for employees that terminated by the fiscal year end. In accordance with GAAP, in the governmental fund financial statements, the noncurrent portion of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

Deferred Inflows of Resources

Deferred inflows of resources, if any, consists of amounts related to long-term receivables recorded at the fund level that are not available to finance current period expenditures and are therefore deferred.

Fund Balance

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance* is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Authority’s highest level of decision-making, the Board of Directors. A formal resolution of the Board of Directors is required to establish, modify, or rescind a fund balance commitment. *Assigned fund balance* is reported in instances where the Board of Directors has given authority for the making of such assignments to Authority management; assigned fund balances are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund.

When the government incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government’s policy to use restricted fund balance first, then committed, assigned, and finally unassigned fund balance.

Interfund Transactions

During the course of normal operations, the Authority has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

2. BUDGETARY INFORMATION

The annual budget of the Authority is prepared by Authority management and approved by the Authority's Board. It is also approved, and legally adopted, by City Council. Any revisions to the original budget are approved by the Authority's Board before the end of the fiscal year.

State statutes provide that a local unit shall not incur expenditures in excess of the amounts appropriated. The approved budgets of the Authority were adopted on a fund level basis. During the year ended June 30, 2016, the Authority did not incur expenditures in excess of the amounts appropriated at the legal level of budgetary control.

3. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposits and investments at June 30, 2016:

Statement of net position	
Cash and investments	$ 15,321,504
Classification of deposits and investments	
Bank deposits (demand deposit accounts and certificates of deposit due within one year)	$ 334,423
Investments	14,986,881
Cash on hand	200
Total	$ 15,321,504

Deposits

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure the Authority's deposits may not be returned to it. As of June 30, 2016, the carrying amounts of the Authority's deposits were $334,423 and the bank balance was $430,913 of which $180,913 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

As of June 30, 2016, the Authority had total investments of $14,986,881 consisting of $257,794 in certificates of deposit due in more than one year, $10,563,419 in the securities of U.S. agencies and $4,165,668 in money market accounts.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require, but the Authority has adopted, an investment policy for investment custodial credit risk. Of the investments described above, the money market accounts are unclassified for custodial credit risk as it is part of an investment pool and the U.S. agencies securities are uninsured and unregistered, with securities held by the agent in the Authority's name.

Notes To Financial Statements

Credit Risk. State law limits investments to specific government securities, certificates of deposit, and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk.

As of June 30, 2016, the Authority's investments in U.S. agencies were rated AAA by Moody's Investor Services.

Interest Rate Risk. State law limits the allowable investments and the maturities of some of those investments. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of June 30, 2016, the maturities of the Authority's investments in U.S. agencies were as follows:

		Investments Maturities (fair value by years)		
Investment Type	Fair Value	1-5	6-10	More Than 10
U.S. agencies	$ 10,563,419	$ 10,061,733	$ 501,686	$ -

Fair Value. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Authority's only recurring fair value measurements as of June 30, 2016 were related to its investments in government agency funds. These investments are valued using quoted market pricing of the underlying securities (Level 1 inputs).

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Authority's investment policy does not limit concentration of credit risk.

4. INTERFUND RECEIVABLES AND PAYABLES

As of June 30, 2016, the parking fund had an interfund receivable of $328,475 which was due from the general fund.

Amounts appearing as interfund receivables and payables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

Notes To Financial Statements

5. LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities of the Authority for the year ended June 30, 2016:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Installment purchase agreement	$ 579,626	$ -	$ (269,211)	$ 310,415	$ 285,815
Compensated absences	-	172,923	(2,056)	170,867	2,056
	$ 579,626	$ 172,923	$ (271,267)	$ 481,282	$ 287,871

The Authority entered into a long-term installment purchase agreement in fiscal year 2013 for the purchase of parking equipment for $1,278,765 due in monthly installments of $24,722, including interest at a rate of 6.0%, and payable through July 2017. Annual debt service requirements to maturity are as follows:

Year ending June 30,	Principal	Interest
2017	$ 285,815	$ 10,849
2018	24,600	123
	$ 310,415	$ 10,972

6. DEBT SERVICE COMMITMENTS

The Authority has commitments to pay debt service for parking structures and pedestrian improvements. The debt issues are obligations of the City of Ann Arbor that the Authority has agreed through action of its Board of Directors to fund in whole as applicable. The parking structure bonds and other construction bonds are to be serviced with revenues from the parking fund along with general fund revenues.

As of June 30, 2016, these commitments totaled $60,655,000 and are payable through 2035, with $4,320,000 due in the next fiscal year.

7. RISK MANAGEMENT

The Authority participates in a risk management pool through the Michigan Municipal Risk Management Authority. The pool is organized under Public Act 138 of 1982, as amended, as a governmental group property and casualty self-insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Authority has not been informed of any special assessments being required.

The Authority, as a component unit of the City of Ann Arbor, is covered from other losses as described in the note captioned "Risk Management" in the City's comprehensive annual financial report.

Notes To Financial Statements

8. NONCANCELABLE OPERATING LEASE OBLIGATIONS

The Authority has entered into three noncancelable long-term operating leases.

The first is for the rental of office space that requires monthly payments of $5,214 through June 30, 2017. The monthly payments for each year are adjusted based on the change in the Consumer Price Index, as established by the U.S. Department of Labor, each January in relation to the previous January. The current agreement is set to expire on June 30, 2021. Annual payment information beyond 2017 is not presented on this obligation because it is not determinable at this time.

The second is for property used for parking that requires monthly payments of $31,174 for calendar year 2016. The monthly payments for each year are adjusted based on the change in the Consumer Price Index, as established by the U.S. Department of Labor, each October in relation to the previous October. The current agreement is set to expire on November 30, 2017. Annual payment information beyond 2016 is not presented on this obligation because it is not determinable at this time.

The third is for property used for parking that requires monthly payments of $2,279 through November 30, 2016. The monthly payments for each 12 month period are adjusted based on the change in the Consumer Price Index, as established by the U.S. Department of Labor, each September in relation to the previous September. The current agreement is set to expire on November 30, 2017. Annual payment information beyond 2016 is not presented because it is not determinable at this time.

9. PARKING MANAGEMENT AGREEMENT

The Authority has entered into an agreement with Republic Parking, Inc., under which Republic operates various parking facilities in the City. Parking revenues collected are deposited directly in the Authority's bank account and the Authority is billed monthly for operating expenses incurred by Republic. Additionally, Republic is paid a management fee of $12,500 per month as well as an annual incentive payment that is determined based on certain agreed-upon measures of performance. This agreement commenced on February 1, 2007, and shall continue in effect through June 30, 2017. This agreement is automatically renewed for up to two additional one-year terms unless either party gives written notice.

10. MASTER PARKING AGREEMENT WITH THE CITY OF ANN ARBOR

The Downtown Development Authority, pursuant to various lease agreements, is responsible for management of the entire public parking system for the City of Ann Arbor, with the exception of parking enforcement and the residential permit program. The current agreement is for the period of July 1, 2011 through June 30, 2033, and provides that the Authority will pay the City, within thirty-one (31) days of the end of each calendar quarter, seventeen percent (17%) of gross parking revenue less certain expenses received by the Authority during the prior quarter.

These amounts are paid from the Authority's parking fund with revenues derived from charges for services at the various City parking facilities.

Notes To Financial Statements

11. PROPERTY TAXES

Property tax revenue is derived pursuant to tax increment financing arrangements per State Statute 197 as amended (DDA Act). Real and personal property taxes are levied and attach as an enforceable lien on properties located within the boundaries of the tax increment financing district. The City of Ann Arbor bills and collects the taxes on behalf of the Authority. Delinquent taxes on ad valorem real property are purchased by the County of Washtenaw. Property tax revenue is recognized in the year it is levied in both the government-wide financial statements and in the fund financial statements.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

November 4, 2016

To the Board of Directors of the
City of Ann Arbor Downtown Development Authority
Ann Arbor, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the *City of Ann Arbor Downtown Development Authority* (the "Authority"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 4, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rehmann Robson LLC