

City of Ann Arbor Downtown  
Development Authority

Year Ended  
June 30, 2012

Basic Financial  
Statements

# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

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**INDEPENDENT AUDITORS' REPORT**

December 12, 2012

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information 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, 2012, which collectively comprise the basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Ann Arbor Downtown Development Authority as of June 30, 2012, and the respective changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the 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 assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ann Arbor Downtown Development Authority's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

## Management's Discussion and Analysis

This section for 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, 2012. 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 assets and statement of activities that present financial information in a form similar to the private sector.

The statement of net assets includes the Authority's assets, liabilities and net assets. 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 assets are one indicator of the Authority's financial health. Over time, increases or decreases in net assets indicate the improvement or erosion of the Authority's financial health.

	Authority's Net Assets		Percent Change
	2012	2011	
Assets	\$ 12,394,277	\$ 16,979,850	-27.01%
Liabilities	<u>3,626,351</u>	<u>9,176,621</u>	-60.48%
Net assets			
Restricted	119,077	117,317	1.50%
Unrestricted	<u>8,648,849</u>	<u>7,685,912</u>	12.53%
Total net assets	<u>\$ 8,767,926</u>	<u>\$ 7,803,229</u>	

### Assets

The decrease in assets is due to a decrease in cash as well as amounts due from other governmental units at June 30, 2012. The components of this category are:

#### Cash

The Authority maintains a checking account for DDA payments and two bank accounts for depositing parking revenues until they are swept into investments.

#### Receivables

These are funds due for loan payments and reimbursement costs on parking structure operations as well as taxes.

#### Due from Other Governments

Represents amounts due from the City of Ann Arbor for various purposes, mostly capital construction related.

# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

## Management's Discussion and Analysis

### Investments, at fair value

The Authority keeps its excess funds in investment accounts managed by a bank trust department that invests according to State of Michigan guidelines.

The year-to-year change in this category is in keeping with the DDA's financing plan for the construction of a new parking structure and streetscape. Fund balances were utilized to meet the City's cash payment requirements to secure City bond financing.

### Liabilities

The decrease in liabilities was related to a decrease in the accounts payable as a result of a decrease of invoices received after the year end close due to construction of the underground parking deck and the a decrease in amount due to other funds and governments. This category is composed of:

#### Accounts Payable

This amount is made up of amounts due for goods and services received, but not paid for by the end of the fiscal year.

#### Due to Other Governments

Represents amounts due to the City of Ann Arbor for various purposes, mostly payroll related.

#### Accrued Interest Payable

This amount represents the amount of interest owed but not paid at year end on the outstanding bonds taken out for DDA and parking projects. There was no accrued interest payable at June 30, 2012.

#### Long-term liabilities, due within one year

This represents the amount due for the bonds taken out on streetscape and parking projects due in the next year. There were no long-term liabilities, due within one year or otherwise, at June 30, 2012.

### Net Assets

Net assets represent the difference between the Authority's assets and liabilities. Unrestricted net assets represent those funds that are available to the Authority for use in approved expenses.

# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

## Management's Discussion and Analysis

	Authority's Change in in Net Assets	
	2012	2011
<b>Revenues</b>		
Property taxes	\$ 3,726,763	\$ 3,419,042
Charges for services	17,026,279	15,334,774
Investment income	96,038	39,804
Other revenue	104,240	13,145
<b>Total revenues</b>	<u>20,953,320</u>	<u>18,806,765</u>
<b>Expenses</b>		
Downtown development	4,562,542	3,820,183
Parking	15,154,995	16,506,491
Housing	253,503	427,474
Interest on long-term debt	17,583	42,517
<b>Total expenses</b>	<u>19,988,623</u>	<u>20,796,665</u>
<b>Change in net assets</b>	964,697	(1,989,900)
<b>Net asset, beginning of year</b>	<u>7,803,229</u>	<u>9,793,129</u>
<b>Net assets, end of year</b>	<u>\$ 8,767,926</u>	<u>\$ 7,803,229</u>

### Revenues

#### Property Taxes

The Authority's property tax revenues are generated through the use of tax increment financing in which the Authority captures ad valorem property taxes. Property tax increment revenues generated by new construction in the Authority's district related to the City of Ann Arbor, Washtenaw County, Washtenaw Community College and the Ann Arbor District Library are used to support the Authority's capital projects and debt service related to certain of those projects. Property tax revenues for the year ended June 30, 2012 included property taxes levied July 1, 2011 and December 1, 2011.

#### Charges for Services

This is the revenue generated by the 4,500 space off-street parking system and the 1,900 parking meters managed by the Authority.

#### Investment income

This is interest revenue earned when Authority funds are invested in State approved investments through the Bank of Ann Arbor.

#### Other revenues

This is reimbursements by outside organizations for various projects.

### Expenses

#### Downtown Development

This is the cost of general administration of the Authority as well as grants to other organizations for the betterment of the downtown area.



# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

## Management's Discussion and Analysis

### Parking

This is the cost of operating the City's parking system.

### Housing

This is the cost of one of the Authority's ancillary project areas, which is to assist various agencies in providing diverse housing within the core area.

### Interest on long-term debt

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 major special revenue fund.

The general fund had final budgeted revenues of \$3,801,349 and budgeted expenditures of \$7,648,145. While the Authority's final budget for the general fund projected that expenditures would exceed revenues by \$3,846,796, the actual results for the year was \$2,480,006 better than what the Authority anticipated. Results for the year were a decrease of \$1,366,790 in fund balance. Overall, actual revenues exceeded final budgeted revenues by \$70,653 and actual expenditures were \$2,409,353 less than the final budget.

The parking fund final budgeted revenues were \$17,152,505 and expenditures of \$15,979,955. While the Authority's final budget for the parking fund projected that revenues would exceed expenditures by \$1,172,550, the actual results for the year was favorable by \$839,200 as fund balance increased by \$2,011,750. Overall, actual revenues exceeded final budgeted revenues by \$14,240 and actual expenditures were \$824,960 less than the final budget.

### Financial Analysis of the Authority's Major and Nonmajor Funds

The Authority completed 2011/2012 with its governmental funds reported combined fund balances of \$8,601,050. The positive net changes are summarized in the following chart:

	General Fund	Parking Fund	Nonmajor Governmental Funds	Total
<b>Total Fund Balance:</b>				
June 30, 2011	\$ 6,117,260	\$ 104,821	\$ 1,959,006	\$ 8,181,087
June 30, 2012	4,750,470	2,116,571	1,734,009	8,601,050
<b>Change</b>	<u>\$ (1,366,790)</u>	<u>\$ 2,011,750</u>	<u>\$ (224,997)</u>	<u>\$ 419,963</u>

# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

## Management's Discussion and Analysis

### Capital Asset and Debt Administration

The Authority holds no capital assets as any capital items that are purchased or constructed become property of the City of Ann Arbor. The Authority issued no new debt during the year. There was no long-term debt at year-end. More detailed information may be found in Note 4 to the financial statements.

### Economic Factors

The fiscal year 2013 budget anticipates the property tax and parking income to increase due to the completion of two real estate projects in the district and a parking rate increase anticipated to be implemented by September 1, 2012.

### 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.

## BASIC FINANCIAL STATEMENTS

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

## Statement of Net Assets

June 30, 2012

	Governmental Activities
<b>Assets</b>	
Cash and pooled investments	\$ 8,978,336
Receivables	<u>3,415,941</u>
<b>Total assets</b>	12,394,277
<b>Liabilities</b>	
Accounts payable and accrued expenses	<u>3,626,351</u>
<b>Net assets</b>	
Restricted for construction projects	119,077
Unrestricted	<u>8,648,849</u>
<b>Total net assets</b>	<u><u>\$ 8,767,926</u></u>

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, 2012

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue
<b>Governmental activities</b>			
Downtown development	\$ 4,562,542	\$ -	\$ (4,562,542)
Parking	15,154,995	17,026,279	1,871,284
Housing	253,503	-	(253,503)
Interest on long-term debt	17,583	-	(17,583)
	<u>\$ 19,988,623</u>	<u>\$ 17,026,279</u>	<u>(2,962,344)</u>
General revenues:			
			3,726,763
			96,038
			104,240
			<u>3,927,041</u>
			964,697
			<u>7,803,229</u>
			<u>\$ 8,767,926</u>

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, 2012

	General Fund	Parking Fund	Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and pooled investments	\$ 2,769,250	\$ 4,231,174	\$ 1,977,912	\$ 8,978,336
Accounts receivable	190,214	147,313	-	337,527
Taxes receivable	23,769	-	-	23,769
Due from other governments	151,213	2,903,432	-	3,054,645
Due from other funds	4,246,280	-	-	4,246,280
<b>Total assets</b>	<b>\$ 7,380,726</b>	<b>\$ 7,281,919</b>	<b>\$ 1,977,912</b>	<b>\$ 16,640,557</b>
<b>Liabilities</b>				
Accounts payable	\$ 2,526,962	\$ 1,010,801	\$ -	\$ 3,537,763
Due to other governments	44,294	44,294	-	88,588
Due to other funds	-	4,002,377	243,903	4,246,280
Deferred revenue	59,000	107,876	-	166,876
<b>Total liabilities</b>	<b>2,630,256</b>	<b>5,165,348</b>	<b>243,903</b>	<b>8,039,507</b>
<b>Fund balances</b>				
Restricted for pedestrian improvements	-	-	119,077	119,077
Assigned				
Housing	1,087,256	-	-	1,087,256
Park operations	-	2,116,571	-	2,116,571
Deck improvements	-	-	1,614,932	1,614,932
Unassigned	3,663,214	-	-	3,663,214
<b>Total fund balances</b>	<b>4,750,470</b>	<b>2,116,571</b>	<b>1,734,009</b>	<b>8,601,050</b>
<b>Total liabilities and fund balances</b>	<b>\$ 7,380,726</b>	<b>\$ 7,281,919</b>	<b>\$ 1,977,912</b>	<b>\$ 16,640,557</b>

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 Assets of Governmental Activities  
June 30, 2012

Fund balances - total governmental funds	\$ 8,601,050
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Deferred revenue is not a <i>current financial resource</i> and therefore is not reported as revenue in the governmental funds.	<u>166,876</u>
Net assets of governmental activities	<u><u>\$ 8,767,926</u></u>

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

# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

## Statement of Revenue, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2012

	General Fund	Parking Fund	Nonmajor Governmental Funds	Total
<b>Revenues</b>				
Property taxes	\$ 3,726,763	\$ -	\$ -	\$ 3,726,763
Charges for services	-	17,050,292	-	17,050,292
Investment income	40,999	26,533	28,506	96,038
Other revenues	104,240	89,920	-	194,160
<b>Total revenues</b>	<b>3,872,002</b>	<b>17,166,745</b>	<b>28,506</b>	<b>21,067,253</b>
<b>Expenditures</b>				
General administration	419,956	595,408	-	1,015,364
Operating	2,895	8,731,090	86,827	8,820,812
Grants and payments for debt obligations to other organizations	3,061,415	3,393,692	-	6,455,107
Debt service:				
Principal	650,000	-	-	650,000
Interest and fiscal charges	26,250	-	-	26,250
Capital outlay	1,078,276	2,434,805	166,676	3,679,757
<b>Total expenditures</b>	<b>5,238,792</b>	<b>15,154,995</b>	<b>253,503</b>	<b>20,647,290</b>
Net change in fund balances	(1,366,790)	2,011,750	(224,997)	419,963
Fund balances, beginning of year	6,117,260	104,821	1,959,006	8,181,087
<b>Fund balances, end of year</b>	<b>\$ 4,750,470</b>	<b>\$ 2,116,571</b>	<b>\$ 1,734,009</b>	<b>\$ 8,601,050</b>

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

# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

## Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Assets of Governmental Activities  
For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds	\$ 419,963
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Revenues earned but not available for current expenditures are not reported as revenues in the funds.	(113,933)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets - Principal payments on long-term liabilities	650,000
Accrued interest expense on bonds and the amortization of bond issuance costs and discounts are not recorded by governmental funds but are reported under interest and fiscal charges for purposes of net assets - Change in accrued interest payable on bonds	<u>8,667</u>
Change in net assets of governmental activities	<u><u>\$ 964,697</u></u>

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

# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

## Statement of Revenue, Expenditures and Changes in Fund Balances

Budget to Actual - General Fund  
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Property taxes	\$ 3,893,943	\$ 3,690,154	\$ 3,726,763	\$ 36,609
Investment income	34,963	17,896	40,999	23,103
Other revenues	-	93,299	104,240	10,941
<b>Total revenues</b>	<b>3,928,906</b>	<b>3,801,349</b>	<b>3,872,002</b>	<b>70,653</b>
<b>Expenditures</b>				
Current:				
General administrative	3,138,605	421,816	419,956	1,860
Operating	2,000	2,565	2,895	(330)
Grants and payments for debt obligations to other organizations	3,564,273	3,065,808	3,061,415	4,393
Debt service:				
Principal	650,000	650,000	650,000	-
Interest	13,125	13,125	26,250	(13,125)
Capital outlay	1,017,847	3,494,831	1,078,276	2,416,555
<b>Total expenditures</b>	<b>8,385,850</b>	<b>7,648,145</b>	<b>5,238,792</b>	<b>2,409,353</b>
<b>Net change in fund balance</b>	<b>(4,456,944)</b>	<b>(3,846,796)</b>	<b>(1,366,790)</b>	<b>2,480,006</b>
Fund balances, beginning of year	6,117,260	6,117,260	6,117,260	-
<b>Fund balances - end of year</b>	<b>\$ 1,660,316</b>	<b>\$ 2,270,464</b>	<b>\$ 4,750,470</b>	<b>\$ 2,480,006</b>

# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

## Statement of Revenue, Expenditures and Changes in Fund Balances

Budget to Actual - Parking Fund  
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Charges for services	\$ 16,162,752	\$ 17,029,669	\$ 17,050,292	\$ 20,623
Investment income	-	25,974	26,533	559
Other revenues	-	96,862	89,920	(6,942)
<b>Total revenues</b>	<u>16,162,752</u>	<u>17,152,505</u>	<u>17,166,745</u>	<u>14,240</u>
<b>Expenditures</b>				
Current:				
General administrative	638,325	592,527	595,408	(2,881)
Operating	9,424,812	8,712,463	8,731,090	(18,627)
Grants and payments for debt obligations to other organizations	5,490,766	3,377,001	3,393,692	(16,691)
Capital outlay	927,903	3,297,964	2,434,805	863,159
<b>Total expenditures</b>	<u>16,481,806</u>	<u>15,979,955</u>	<u>15,154,995</u>	<u>824,960</u>
<b>Net change in fund balance</b>	(319,054)	1,172,550	2,011,750	839,200
Fund balances, beginning of year	<u>104,821</u>	<u>104,821</u>	<u>104,821</u>	-
<b>Fund balances - end of year</b>	<u>\$ (214,233)</u>	<u>\$ 1,277,371</u>	<u>\$ 2,116,571</u>	<u>\$ 839,200</u>

## NOTES TO FINANCIAL STATEMENTS

# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ann Arbor Downtown Development Authority was created on May 10, 1982, pursuant to Act 197 of the Public Acts of Michigan, 1975, as amended. The Authority has no stockholders and all monies received are to be used for certain specified purposes in accordance with the City of Ann Arbor ordinance establishing the Authority.

The primary revenue sources of the City of Ann Arbor Downtown Development Authority are tax increment revenue and parking structure revenues. The taxing units are required by law to transmit to the Authority that portion of the tax levy of all taxing bodies paid each year on the captured assessed value of all real and personal property located in the development area. The captured assessed value is basically defined as the amount in any one year by which the current assessed value of the project area exceeds the initial assessed value.

The financial statements of the City of Ann Arbor Downtown Development Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority's more significant accounting policies are described below.

#### Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No.14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39), these financial statements are exclusive presentations of the financial condition and results of operations of the City of Ann Arbor Downtown Development Authority. The Authority is considered a component unit of the City of Ann Arbor, Michigan and is discretely presented in the City of Ann Arbor's (the primary government) financial statements. A copy of the City's audited financial statements may be obtained at the Ann Arbor City Hall.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the City of Ann Arbor Downtown Development Authority contain all the funds controlled by the Authority Board.

#### Government-wide and Fund Financial Statements

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

# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Financial 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 and aggregated nonmajor funds. Separate columns are shown for the major funds on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are shown in a single column.

The Authority reports the following major governmental funds:

*General Fund* - The general operating fund is used to account for all financial resources of the Authority which are restricted to expenditures for downtown development purposes.

*Parking Fund* - The Parking fund is used to account for all financial resources of the Authority relating to the parking structures.

Additionally, the Authority reports the following fund type -

The *capital projects funds* are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

### 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.

Governmental 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.

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied.



# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Financial Statements

### Assets, Liabilities and Net Assets or Equity

#### *Cash, Cash Equivalents and Pooled Investments*

Cash and cash equivalents consist of the Authority's checking and money market accounts.

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 market value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

#### *Statutory Authority*

Michigan law authorizes the Authority to deposit and invest in:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

#### *Receivables*

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

#### *Due from Other Governmental Units*

Due from other governmental units consist of amounts due from the City of Ann Arbor for various payments.

# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Financial Statements

### *Long-term Obligations*

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is 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. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

### *Deferred Revenue*

Deferred revenue 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 Equity*

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 government's highest level of decision-making authority, 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 Board. Any revisions to the original budget are approved by the 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, 2012, the Authority did not incur expenditures in excess of the amounts appropriated at the legal level of budgetary control.

# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Financial Statements

### 3. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposits and investments at June 30, 2012:

<b>Statement of Net Assets</b>	
Cash and pooled investments	<u>\$ 8,978,336</u>
<b>Classification of deposits and investments</b>	
Bank deposits (demand deposit accounts and certificates of deposit)	\$ 344,617
Equity in pooled deposits held at the City of Ann Arbor	119,077
Investments	8,514,442
Cash on hand	<u>200</u>
<b>Total</b>	<u><u>\$ 8,978,336</u></u>

#### *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, 2012, the carrying amounts of the Authority's deposits were \$344,617 and the bank balance was \$1,806,591. As of year end, \$1,556,591 of the Authority's bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized. For the deposits held at the City of Ann Arbor, it is impossible to determine custodial credit risk since the Authority's deposits are pooled with other City deposits.

#### *Investments*

As of June 30, 2012, the Authority had total investments of \$8,514,442 consisting of \$644,776 in the securities of U.S. agencies and \$7,869,666 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 and the Authority does not have a 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.

*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. The ratings for each investment are identified below for investments held at year-end.

As of June 30, 2012, the Authority's investments in U.S. agencies were rated Aaa by Moody's Investor Services.

# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Financial Statements

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of investments above. 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, 2012, the maturities of the Authority's investments in U.S. agencies were as follows:

Investment Type	Fair Value	Investments Maturities (fair value by years)		
		1-5	6-10	More Than 10
U.S. agencies	\$ 644,776	\$ 27,322	\$ 300,971	\$ 316,483

*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. All investments held at year-end are reported above.

## 4. INTERFUND RECEIVABLES AND PAYABLES

The following schedule details interfund receivables and payables at June 30, 2012:

	Due From	Due To
General fund	\$ 4,246,280	\$ -
Parking fund	-	4,002,377
Nonmajor governmental funds	-	243,903
	<u>\$ 4,246,280</u>	<u>\$ 4,246,280</u>

Amounts appearing as interfund payables and receivables 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.

# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Financial Statements

### 5. LONG-TERM DEBT

The following is a summary of the changes in long-term obligations for the year ended June 30, 2012:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
2002 Limited tax bonds	\$ 650,000	\$ -	\$ (650,000)	\$ -	\$ -

### 6. RETAINAGE PAYABLE

The City of Ann Arbor Downtown Development Authority has entered into multiple agreements with various contractors for completion of the Underground Parking Structure at the Ann Arbor District Library and the 5th and Division Streetscape Projects. These projects were not completed as of June 30, 2012. Upon successful completion of the projects the Authority will owe the contractors for the amount retained pertaining to each project. The total amount that has been retained and is payable to contractors at June 30, 2012 was \$1,097,946. The remaining bond proceeds are expected to be sufficient to cover these commitments.

### 7. CONTRACTUAL COMMITMENTS

The Authority has entered into an agreement with several contractors for completion of the Underground Parking Structure at the Ann Arbor District Library and for the 5th and Division Streetscape projects that were not completed as of June 30, 2012. The amount remaining on these contracts at June 30, 2012 was \$1,378,275. The remaining bond proceeds and the Authority's available fund balance are expected to be sufficient to cover these commitments.

### 8. DEBT SERVICE COMMITMENTS TO THE CITY OF ANN ARBOR

The Authority has entered into various agreements to provide financial assistance with projects which are related to the DDA's overall mission. These agreements include several commitments to the City of Ann Arbor to assist with payment of debt issues for parking structures and the new City Hall addition. The debt issues are obligations of the City of Ann Arbor that the Authority has agreed through action of the Board of Directors to fund in whole or in part as applicable. The parking structure bonds are to be serviced with revenues from the parking fund. The City Hall bonds are to be serviced from future tax increment revenues of the general fund.

As of June 30, 2012, these commitments totaled approximately \$75 million and are payable through the year 2035, with approximately \$3.6 million due in the next fiscal year.

### 9. 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.

# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Financial Statements

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.

### 10. NONCANCELABLE OPERATING LEASE OBLIGATIONS

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

The first is for the rental of office space that requires monthly payments ranging from \$4,451 to \$5,182 through June 30, 2016. The following is a schedule of future minimum lease payments required under this operating lease as of June 30, 2012.

Year Ending June 30,	Amount
2013	\$ 55,010
2014	57,402
2015	59,794
2016	62,186
	<u>\$ 234,392</u>

The second is for property used for parking that requires monthly payments of \$28,333 for calendar year 2012. 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 December 31, 2014. Annual payment information beyond 2012 is not presented on this obligation because they are not determinable at this time.

### 11. 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 is automatically renewed for up to seven additional one-year terms unless either party gives written notice.

### 12. 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 for the following:

- 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 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.

# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

## ■ Notes To Financial Statements

### 13. PROPERTY TAXES

Property tax revenue is derived pursuant to a tax increment financing agreement between the Authority and various applicable taxing districts. 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.



## COMBINING FUND FINANCIAL STATEMENTS



# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

## Combining Balance Sheet

Nonmajor Capital Projects Funds

June 30, 2012

	Deck Improvements	2002 Pedestrian Improvements	Total
<b>Assets</b>			
Cash and pooled investments	\$ 1,858,835	\$ 119,077	\$ 1,977,912
<b>Liabilities</b>			
Due to other funds	\$ 243,903	\$ -	\$ 243,903
<b>Fund balances</b>			
Restricted for pedestrian improvements	-	119,077	119,077
Assigned for deck improvements	1,614,932	-	1,614,932
Total fund balances	1,614,932	119,077	1,734,009
<b>Total liabilities and fund balances</b>	<b>\$ 1,858,835</b>	<b>\$ 119,077</b>	<b>\$ 1,977,912</b>

# CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Capital Projects Funds  
For the Year Ended June 30, 2012

	Deck Improvements	2002 Pedestrian Improvements	Total
<b>Revenues</b>			
Investment income	\$ 26,746	\$ 1,760	\$ 28,506
<b>Expenditures</b>			
Operating	86,827	-	86,827
Capital outlay	166,676	-	166,676
Total expenditures	253,503	-	253,503
Net change in fund balances	(226,757)	1,760	(224,997)
Fund balances, beginning of year	1,841,689	117,317	1,959,006
Fund balances, end of year	\$ 1,614,932	\$ 119,077	\$ 1,734,009

**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***

December 12, 2012

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *City of Ann Arbor Downtown Development Authority* (the "Authority"), as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the District, and have issued our report thereon dated December 12, 2012. 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.

**Internal Control Over Financial Reporting**

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.

This report is intended solely for the information and use of the governing board, management, others within the organization, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.