

City of Ann
Arbor
Downtown
Development
Authority



Year Ended
June 30, 2022

Basic Financial
Statements

Rehmann

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**CITY OF ANN ARBOR
DOWNTOWN DEVELOPMENT AUTHORITY**

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INDEPENDENT AUDITORS' REPORT

December 21, 2022

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

Report on the Audit of the Financial Statements

Opinions

We have audited 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, 2022, and the related notes to the financial statements, which collectively comprise the basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2022, and the changes in financial position and the budgetary comparisons for the general fund and the major special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Independent Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.



In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Independent Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 December 21, 2022, 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 solely 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 the effectiveness of the Authority's 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

CITY OF ANN ARBOR

DOWNTOWN DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

The City of Ann Arbor Downtown Development Authority (the "Authority") was established pursuant to Public Act 97 of 1975, as amended. The Authority presents this management's discussion and analysis of its financial performance as an overview of financial activities for the fiscal year ended June 30, 2022.

Using this Annual Report

The discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The basic financial statements are comprised of the following:

- The *statement of net position* presents information on all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- The *statement of activities* presents information showing how the Authority's net position changed during the most recent fiscal year.
- The *balance sheet and statement of revenues, expenditures, and changes in fund balances – governmental funds* focuses on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.
- The *statement of revenues, expenditures, and change in fund balance – budget and actual* presents information showing the comparison of the Authority's actual revenues and expenditures to what was budgeted for its primary operating fund.
- The *notes to the basic financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**CITY OF ANN ARBOR
DOWNTOWN DEVELOPMENT AUTHORITY**

Management's Discussion and Analysis

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the Authority, assets exceeded liabilities by \$25,672,928 at the close of the most recent fiscal year.

A comparative analysis of the data is presented below:

	Net Position	
	2022	2021
Assets		
Cash and investments	\$ 27,978,804	\$ 21,078,453
Other assets	<u>1,122,798</u>	<u>3,195,845</u>
Total assets	<u>29,101,602</u>	<u>24,274,298</u>
Liabilities		
Accounts payable and accrued liabilities	3,294,786	3,199,471
Long-term debt	<u>133,888</u>	<u>109,978</u>
Total liabilities	<u>3,428,674</u>	<u>3,309,449</u>
Net position		
Unrestricted	<u>\$ 25,672,928</u>	<u>\$ 20,964,849</u>

**CITY OF ANN ARBOR
DOWNTOWN DEVELOPMENT AUTHORITY**

Management's Discussion and Analysis

The net position of the Authority is summarized for the purpose of determining the overall fiscal position. As shown above, the Authority’s net position was \$25.7 million, of which all was unrestricted.

	Changes in Net Position	
	2022	2021
Total revenues	\$ 29,540,800	\$ 24,137,758
Total expenses	<u>24,832,721</u>	<u>25,503,201</u>
Change in net position	4,708,079	(1,365,443)
Net position, beginning of year	<u>20,964,849</u>	<u>22,330,292</u>
Net position, end of year	<u>\$ 25,672,928</u>	<u>\$ 20,964,849</u>

Revenues increased approximately \$5.4 million, and expenses decreased by approximately \$0.7 million, which resulted in a change in net position of approximately \$4.7 million. These changes were largely due to the following factors:

- Total revenue increased primarily due to parking revenues recovering from pandemic related losses in the previous year.
- Total expense decreased primarily due to project expenditures fluctuating year over year.

General Fund

At the end of fiscal year 2022, fund balance for the Authority's general fund was \$11.92 million. Compared with the ending fund balance of \$9.80 million in the prior year, this represented an increase of \$2.12 million. The increase in parking fund balance was largely due to conservative budgeting by the Authority for expenditures and an increase in property tax revenue driven by an overall increase in the property tax base for the City.

Parking Special Revenue Fund

At the end of fiscal year 2022, fund balance for the Authority's parking fund was \$13.77 million. Compared with the ending fund balance of \$11.14 million in the prior year, this represented an increase of \$2.63 million. The increase in parking fund balance was largely due to conservative budgeting by the Authority for expenditures and an increase in revenue driven by the return to in-person activity during the pandemic recovery.

CITY OF ANN ARBOR

DOWNTOWN DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

Budgetary Highlights

General Fund

During fiscal year 2022, total general fund revenues were \$11.7 million, which was \$0.2 million less than the final amended budget of \$11.9 million. This was largely due to losses on investments due to market conditions. The final amended budget for revenue was \$3.7 million more than the original budget primarily due to bond reimbursements being rolled forward due to project timing.

During fiscal year 2022, total general fund expenditures were \$9.56 million, which was \$0.36 million less than the final amended budget of \$9.92 million. This is largely due to variances on project expenditures being rolled forward to future periods. This also caused a reduction in the final amended budget for expenditures which resulted in the final budget being \$3.27 million less than the original budget.

Capital Assets and Debt Administration

The Authority holds no capital assets as all capital items that were purchased or constructed became property of the City of Ann Arbor, Michigan (the "City"). The City issues debt on behalf of the Authority, and the related debt is reported in the City's annual comprehensive financial report.

Economic Factors and Next Year's Budget

The fiscal year 2023 budget anticipates an increase in tax increment finance income due to the completion of new private development projects in the downtown business district during calendar year 2021. This increase will be capped at approximately \$7.9 million, per City ordinance. Negative impacts of COVID on downtown businesses are anticipated to be significant and long lasting. Parking revenues are anticipated to be negatively impacted in fiscal year 2023 and beyond.

Contacting the City of Ann Arbor Downtown Development Authority

This financial report is designed to provide a general overview of the City of Ann Arbor Downtown Development Authority finances and to show accountability for the money it receives and expends. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 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, 2022

	Governmental Activities
Assets	
Cash and investments	\$ 27,978,804
Accounts receivable	129,688
Due from other governments	153,406
Prepaid items	<u>839,704</u>
Total assets	<u>29,101,602</u>
Liabilities	
Accounts payable and accrued liabilities	3,294,786
Long-term debt - compensated absences:	
Due within one year	20,926
Due in more than one year	<u>112,962</u>
Total Liabilities	<u>3,428,674</u>
Net position	
Unrestricted	<u><u>\$ 25,672,928</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, 2022

Functions / Programs	Expenses	Program Revenues	Net (Expense) Revenue
		Charges for Services	
Governmental activities			
Downtown development	\$ 9,573,226	\$ 4,131,146	\$ (5,442,080)
Parking	15,259,495	18,136,375	2,876,880
Total	<u>\$ 24,832,721</u>	<u>\$ 22,267,521</u>	<u>(2,565,200)</u>
General revenues			
Property taxes			7,928,843
Unrestricted investment loss			(768,901)
Other revenue			113,337
Total general revenues			<u>7,273,279</u>
Change in net position			4,708,079
Net position, beginning of year			<u>20,964,849</u>
Net position, end of year			<u>\$ 25,672,928</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, 2022

	General Fund	Parking Special Revenue Fund	Totals
Assets			
Cash and investments	\$ 12,727,078	\$ 15,251,726	\$ 27,978,804
Accounts receivable	6,275	123,413	129,688
Due from other governments	146,794	6,612	153,406
Prepaid items	6,790	832,914	839,704
Total assets	<u>\$ 12,886,937</u>	<u>\$ 16,214,665</u>	<u>\$ 29,101,602</u>
Liabilities			
Accounts payable	\$ 865,552	\$ 2,239,381	\$ 3,104,933
Accrued liabilities	13,002	13,002	26,004
Due to other governments	77,500	86,349	163,849
Total liabilities	<u>956,054</u>	<u>2,338,732</u>	<u>3,294,786</u>
Deferred inflows of resources			
Unavailable revenue	<u>6,224</u>	<u>108,874</u>	<u>115,098</u>
Fund balances			
Nonspendable -			
Prepaid items	6,790	832,914	839,704
Assigned for:			
Housing	767,594	-	767,594
Parking operations	-	12,934,145	12,934,145
Unassigned	11,150,275	-	11,150,275
Total fund balances	<u>11,924,659</u>	<u>13,767,059</u>	<u>25,691,718</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 12,886,937</u>	<u>\$ 16,214,665</u>	<u>\$ 29,101,602</u>

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, 2022

Fund balances - total governmental funds \$ 25,691,718

Amounts reported for *governmental activities* in the statement of net position are different because:

Long-term receivables are reported as an asset and revenue when earned on the statement of net position and the statement of activities while the governmental funds report these balances as an asset and deferred inflows of resources until the availability criterion for revenue recognition is met.

Deferred inflows of resources for unavailable revenue 115,098

Certain liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

Compensated absences (133,888)

Net position of governmental activities \$ 25,672,928

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, 2022

	General Fund	Parking Special Revenue Fund	Totals
Revenues			
Property taxes	\$ 7,928,843	\$ -	\$ 7,928,843
Charges for services	4,131,146	18,136,375	22,267,521
Investment earnings (loss)	(380,623)	(388,278)	(768,901)
Other revenue	2,821	125,680	128,501
Total revenues	<u>11,682,187</u>	<u>17,873,777</u>	<u>29,555,964</u>
Expenditures			
Downtown development	9,561,271	-	9,561,271
Parking	-	15,247,540	15,247,540
Total expenditures	<u>9,561,271</u>	<u>15,247,540</u>	<u>24,808,811</u>
Net change in fund balances	2,120,916	2,626,237	4,747,153
Fund balances, beginning of year	<u>9,803,743</u>	<u>11,140,822</u>	<u>20,944,565</u>
Fund balances, end of year	<u><u>\$ 11,924,659</u></u>	<u><u>\$ 13,767,059</u></u>	<u><u>\$ 25,691,718</u></u>

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 Position of Governmental Activities
For the Year Ended June 30, 2022

Net change in fund balances - total governmental funds \$ 4,747,153

Amounts reported for *governmental activities* in the statement of activities are different because:

Long-term receivables are reported as revenue when earned on the statement of activities while the governmental funds report these balances as revenue when the availability criterion for revenue recognition is met.

Net change in deferred inflows of resources (15,164)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Change in the accrual for compensated absences (23,910)

Change in net position of governmental activities \$ 4,708,079

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

**CITY OF ANN ARBOR
DOWNTOWN DEVELOPMENT AUTHORITY**

Statement of Revenues, Expenditures, and Change in Fund Balance

Budget and Actual - General Fund
For the Year Ended June 30, 2022

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenues				
Property taxes	\$ 7,607,900	\$ 7,607,900	\$ 7,928,843	\$ 320,943
Charges - general government	554,702	4,225,200	4,131,146	(94,054)
Investment earnings (loss)	40,800	40,800	(380,623)	(421,423)
Other revenue	4,000	4,000	2,821	(1,179)
Total revenues	8,207,402	11,877,900	11,682,187	(195,713)
Expenditures				
Current -				
Downtown development	13,198,919	9,921,091	9,561,271	(359,820)
Net change in fund balance	(4,991,517)	1,956,809	2,120,916	164,107
Fund balance, beginning of year	9,803,743	9,803,743	9,803,743	-
Fund balance, end of year	\$ 4,812,226	\$ 11,760,552	\$ 11,924,659	\$ 164,107

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

**CITY OF ANN ARBOR
DOWNTOWN DEVELOPMENT AUTHORITY**

Statement of Revenues, Expenditures and Change in Fund Balance

Budget and Actual - Parking Special Revenue Fund
For the Year Ended June 30, 2022

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenues				
Charges for services	\$ 14,548,000	\$ 19,714,800	\$ 18,136,375	\$ (1,578,425)
Investment earnings (loss)	35,000	35,000	(388,278)	(423,278)
Other revenue	4,000	4,000	125,680	121,680
Total revenues	14,587,000	19,753,800	17,873,777	(1,880,023)
Expenditures				
Current -				
Parking services	17,612,936	17,996,036	15,247,540	(2,748,496)
Net change in fund balance	(3,025,936)	1,757,764	2,626,237	868,473
Fund balance, beginning of year	11,140,822	11,140,822	11,140,822	-
Fund balance, end of year	\$ 8,114,886	\$ 12,898,586	\$ 13,767,059	\$ 868,473

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

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NOTES TO FINANCIAL STATEMENTS

CITY OF ANN ARBOR

DOWNTOWN DEVELOPMENT AUTHORITY

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 are 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:

The *general fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

The *parking special revenue fund* is used to account for all financial resources of the Authority relating to the public parking system, except for some debt service expenditures from the general fund.

CITY OF ANN ARBOR

DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Financial Statements

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. Property taxes are recognized as revenues in the year for which they are levied.

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.

Property taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Authority reports the general fund as the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those, if any, accounted for and reported in another fund.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

Cash and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments consist of certificates of deposit, U.S. government notes and bonds, municipal bonds, commercial paper, money market accounts, 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 government 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.

Prepaid Items

Prepaid items represent payments made to vendors for goods and services applicable to future fiscal years. Prepaids of governmental funds are recorded as expenditures when consumed rather than when purchased. Prepaid items are offset by nonspendable fund balance in governmental funds.

CITY OF ANN ARBOR

DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Financial Statements

Capital Assets

The Authority has no capital assets for which it holds legal ownership. Capital assets, including improvements to parking structures paid for by the Authority, are not recorded as the Authority's capital assets, even though the Authority has committed to repay the debt issued to finance the related projects. Such capital assets become the property of the City when they are placed into service and, accordingly, are reported in the City's capital assets.

Receivables and Due from Other Governments

Receivables consist of amounts related to charges for services, reimbursements, and property taxes. Due from other governments, if any, consist of amounts due from the City for various payments.

Long-term Obligations

The Authority has no long-term debt for which it holds legal ownership. The City issues debt on behalf of the Authority for both parking and TIF system projects. The City holds the bond proceeds and reimburses the Authority for construction expenditures as incurred based on the individual project and funding agreement. The Authority has commitments to pay debt service. The debt issues are obligations of the City 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 special revenue fund along with general fund revenues.

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 80 hours per year, and unused sick days may be accumulated without limitation. An employee is paid, in most cases, a maximum of 960 unused sick 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. In accordance with GAAP, in the fund financial statements, compensated absences are considered a long-term liability and therefore, are not a fund liability and represent a reconciling item between the fund level and government-wide presentations.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental fund reports unavailable revenues, which arise only under a modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**CITY OF ANN ARBOR
DOWNTOWN DEVELOPMENT AUTHORITY**

Notes To Financial Statements

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*, if any, 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*, if any, 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. A formal resolution of the Board is required to establish, modify, or rescind a fund balance commitment. The Authority currently has no nonspendable, restricted or committed fund balances. The Authority reports assigned fund balance for amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund.

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

Budgetary Information

The general fund and parking special revenue fund are under formal budgetary control, and their budgets are prepared on the same modified accrual basis used to reflect actual results. The Authority’s budgets are adopted and amended at the activity level (the Authority has only one activity to present in each fund).

During the year ended June 30, 2022, the Authority did not incur expenditures in excess of the amounts appropriated at the legal level of budgetary control.

2. DEPOSITS AND INVESTMENTS

Following is a summary of deposit balances and investments as of June 30, 2022:

Statement of Net Position

Cash and investments	<u>\$ 27,978,804</u>
----------------------	----------------------

Deposits and Investments

Deposits:	
Petty cash	\$ 107
Bank deposits (checking and savings accounts)	1,527,620
Certificates of deposit - due in more than 1 year	2,059,306
Investments:	
U.S. government treasury notes	1,450,488
U.S. agencies (asset backed)	16,375,841
Municipal bonds	2,842,772
Commercial paper	992,177
Money market funds	<u>2,730,493</u>

Total	<u><u>\$ 27,978,804</u></u>
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CITY OF ANN ARBOR

DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Financial Statements

All accounts are in the name of the Authority. Interest is recorded when deposits mature or is credited to the applicable account.

Statutory Authority

The Authority is authorized by Michigan law to invest surplus funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States Banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Cash and cash equivalents are in accordance with statutory authority.

Custodial Credit Risk – Deposits. For deposits, custodial credit risk is the risk, that in the event of a bank failure, the Authority's deposits may not be returned to the government. As of June 30, 2022, of the Authority's bank balance of \$3,775,452 (total book balance was \$3,586,926) of which \$2,539,426 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For investments, 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. The Authority's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery vs. payment. As of June 30, 2022, none of the Authority's investments were exposed to risk since the securities are held in the Authority's name by the counterparty. Short-term investments in money market funds are not subject to custodial credit risk.

**CITY OF ANN ARBOR
DOWNTOWN DEVELOPMENT AUTHORITY**

Notes To Financial Statements

Credit Risk. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. As of June 30, 2022, the Authority's investments in U.S. Government notes and bonds, municipal bonds, and commercial paper were as follows:

Investment	Amount	S&P Rating
U.S. government treasury notes	\$ 1,450,488	AA+
U.S. agencies	16,375,841	N/A
Municipal bonds:		
Rated bonds	235,090	AAA
Rated bonds	455,955	AA
Rated bonds	1,080,918	AA-
Unrated bonds	1,070,809	N/A
Commercial paper	992,177	A-1+

Concentration of Credit Risk. The Authority's investment policy does not address this risk. At June 30, 2022, the investment portfolio was concentrated as follows:

Investment Type	Issuer	% of Portfolio
U.S. agencies	Federal Home Loan Bank	57.74%
U.S. agencies	Federal Farm Credit Bank	13.34%

Interest Rate Risk. As of June 30, 2022, maturities of debt securities were as follows:

	Fair Value	Investment Maturities (fair value by years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. government treasury notes	\$ 1,450,488	\$ -	\$ 1,450,488	\$ -	\$ -
U.S. agencies	16,375,841	2,868,735	13,507,106	-	-
Municipal bonds	2,842,772	-	2,386,817	455,955	-
Commercial paper	992,177	992,177	-	-	-
	<u>\$ 21,661,278</u>	<u>\$ 3,860,912</u>	<u>\$ 17,344,411</u>	<u>\$ 455,955</u>	<u>\$ -</u>

The Authority's investment policy does not address interest rate risk.

**CITY OF ANN ARBOR
DOWNTOWN DEVELOPMENT AUTHORITY**

Notes To Financial Statements

Fair Value Measurements. 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 (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs – other than quoted prices – included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable and are based on estimates and assumptions. These levels are determined by the management's review of the type and substance of investments held by the Authority.

The Authority had the following recurring fair value measurements as of June 30, 2022:

	Level 1	Level 2	Level 3	Total
U.S. government treasury notes	\$ -	\$ 1,450,488	\$ -	\$ 1,450,488
U.S. agencies	-	16,375,841	-	16,375,841
Municipal bonds	2,842,772	-	-	2,842,772
Commercial paper	992,177	-	-	992,177
Money market funds	2,730,493	-	-	2,730,493
	<u>\$ 6,565,442</u>	<u>\$ 17,826,329</u>	<u>\$ -</u>	<u>\$ 24,391,771</u>

The fair value of the Authority's Level 1 investments is based on quotes from publicly traded securities markets, where available. The fair value of the Authority's Level 2 investments is determined primarily by a matrix pricing technique, which is used to value securities based on their relationship to benchmark quoted prices. Due to the inherent uncertainty of determining the fair value of investments that are not publicly traded, the fair value reported for these investments may differ significantly from the values that would have been used had a publicly traded market existed for such investments.

3. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Payables and accrued liabilities as of year end are as follows:

	Governmental Activities
Fund Financial Statements	
Accounts payable	\$ 3,104,933
Accrued salaries and related liabilities	26,004
Due to other governments	163,849
	<u>3,294,786</u>
Government-wide Financial Statements	<u>\$ 3,294,786</u>

**CITY OF ANN ARBOR
DOWNTOWN DEVELOPMENT AUTHORITY**

Notes To Financial Statements

4. COMPENSATED ABSENCES

Long-term debt activity for the year ended June 30, 2022 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental activities					
Compensated absences	\$ 109,978	\$ 57,805	\$ 33,895	\$ 133,888	\$ 20,926

Compensated absences are generally liquidated by both the general fund and the parking fund.

5. 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 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 special revenue fund along with general fund revenues.

As of June 30, 2022, these commitments and the remaining annual obligations are follows:

Year Ended June 30,	Principal	Interest	Annual Payment
2023	\$ 3,625,000	\$ 1,634,640	\$ 5,259,640
2024	3,735,000	1,541,790	5,276,790
2025	3,860,000	1,435,020	5,295,020
2026	3,965,000	1,323,912	5,288,912
2027	4,110,000	1,209,125	5,319,125
2028-2032	21,145,000	4,288,913	25,433,913
2033-2035	10,150,000	772,400	10,922,400
Totals	\$ 50,590,000	\$ 12,205,800	\$ 62,795,800

6. 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, is covered from other losses as described in the note captioned "Risk Management" in the City's annual comprehensive financial report.

CITY OF ANN ARBOR

DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Financial Statements

7. PARKING MANAGEMENT AGREEMENT

Through June 30, 2022, the Authority had an agreement with Republic parking, under which Republic operated various parking facilities in the City. Effective July 1, 2022, the Authority has entered into an agreement with PCI Municipal Services ("PCI") under which PCI 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 PCI. Additionally, PCI is paid a management fee of \$10,417 per month as well as an annual incentive payment that is determined based on certain agreed-upon measures of performance. The term of this agreement is three years and shall automatically renew for up to two additional one-year terms unless the Authority should elect to terminate the agreement. The Authority must do so by giving a written notice no less than 90 days prior to the commencement of the applicable renewal period.

8. MASTER PARKING AGREEMENT WITH THE CITY

The Authority, pursuant to various agreements, is responsible for management of the entire public parking system for the City, with the exception of parking enforcement and the residential permit program. The original agreement is for the period of July 1, 2011 through June 30, 2033, and provides that the Authority will pay the City, within 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. The agreement was amended on March 1, 2017 to increase the percentage to twenty percent (20%) effective for the period of July 1, 2017 through June 30, 2019. On March 7, 2018 the increase to twenty percent (20%) was made permanent by the Authority Board.

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

9. 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 bills and collects the taxes on behalf of the Authority. Delinquent taxes on ad valorem real property are purchased by Washtenaw County. Property tax revenue is recognized in the year it is levied in both the government-wide financial statements and in the fund financial statements.

10. RELATED PARTY TRANSACTIONS

The Authority prides itself on having a board that is invested and involved in a variety of downtown interests. During the year, in accordance with Authority bylaws, two Authority board members recused themselves from resolutions related to contacts in which they were either personally involved with one of the vendors, or had an immediate family member who was personally involved with the vendor. The resolutions were approved by the board members who had no related party involvement with those contracts and/or vendors.

**CITY OF ANN ARBOR
DOWNTOWN DEVELOPMENT AUTHORITY**

Notes To Financial Statements

11. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The pandemic has resulted in operational challenges for the Authority as it determines the impact on employees, vendors, and taxpayers, and the appropriate method for providing services. Management expects that the negative impacts of COVID on downtown businesses are anticipated to be significant and long lasting. Parking revenues are anticipated to be negatively impacted in fiscal year 2023 and beyond.



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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***

December 21, 2022

Board of Directors
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"), *a component unity of the City of Ann Arbor, Michigan*, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 21, 2022.

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) as a basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. 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 or significant deficiencies 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 financial statements. 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.

A handwritten signature in black ink that reads "Rehman Lohani LLC". The signature is written in a cursive style with a large, prominent 'R' at the beginning.

INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

December 21, 2022

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

We have audited 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, 2022, and have issued our report thereon dated December 21, 2022. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated August 31, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Authority solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated December 21, 2022. In addition, we noted a certain other matter which is included in Attachment A to this letter.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on August 12, 2022.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

We have identified the risks of management override of internal control and revenue recognition as significant risks, and have obtained an understanding of the Authority's related controls, including control activities, relevant to such risks.

Qualitative Aspects of Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Authority is included in Note 1 to the financial statements.

There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during the year.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. We did not identify any misstatements during our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Authority's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in Attachment C to this letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Authority, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Authority.

Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment B to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

This information is intended solely for the use of the governing body and management of the **City of Ann Arbor Downtown Development Authority** and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Robson LLC

**CITY OF ANN ARBOR
DOWNTOWN DEVELOPMENT AUTHORITY**

Attachment A - Comments and Recommendations

For the June 30, 2022 Audit

During our audit, we became aware of a certain other matter that is an opportunity for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding this matter. Our consideration of the Authority's internal control over financial reporting is described in our report, dated December 21, 2022, issued in accordance with *Government Auditing Standards*. This memorandum does not affect that report or our report dated December 21, 2022, on the financial statements of the Authority.

Review and Approval of Manual Journal Entries

The Authority uses manual journal entries to account for various types of transactions, such as: wire transfers, indirect cost allocations, and corrections of errors. Journal entries, which are an essential part of any accounting system, represent an opportunity to enter information into the Authority's records in a way that bypasses normal internal controls. Accordingly, the Authority should have a system in place to ensure that all journal entries, and similar adjustments made to the Authority's accounting records, are reviewed and approved. During our audit, we noted that due to staffing constraints, the Authority did not consistently follow their practice of having independent review and approval of all journal entries. We recommend that the Authority incorporate independent review and approval whenever possible, and that this review be signed and dated as evidence of the control activity.



CITY OF ANN ARBOR

DOWNTOWN DEVELOPMENT AUTHORITY

Attachment B – Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2022 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the Plan in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the Authority. For the complete text of these and other GASB standards, visit www.gasb.org and click on the “Standards & Guidance” tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

GASB 91 ■ Conduit Debt Obligations

Effective 12/15/2022 (your FY 2023)

This standard defines "conduit debt obligations", where a government issues debt whose proceeds are received and repaid by a third-party obligor without the issuer being primarily liable. The standard requires issuers to disclose conduit debt obligations, but not to record a liability unless it is more likely than not that a commitment made by the issuer will require it to support one or more debt payments for a conduit debt obligation. We do not expect this standard to have any significant effect on the Authority.

GASB 94 ■ Public-Private and Public-Public Partnerships and Availability Payment Arrangements

Effective 06/15/2023 (your FY 2023)

This standard addresses accounting and financial reporting for arrangements in which a government contracts with an operator to provide public services by conveying control of the right to operate or use a capital asset for a period of time in an exchange or exchange-like transaction. We do not expect this standard to have any significant effect on the Authority.

GASB 96 ■ Subscription-Based Information Technology Arrangements

Effective 06/15/2023 (your FY 2023)

This standard expands on the new guidance for leases and applies it to computer software contracts (subscriptions) with similar characteristics. Governments that subscribe to a vendor's IT software will now report offsetting intangible subscription assets and subscription liabilities equal to the present value of future subscription payments.

GASB 99 ■ Omnibus 2022

Effective 06/15/2023 (your FY 2023)

This standard includes a variety of small technical revisions to previously issued GASB statements. We do not expect this standard to have any significant effect on the Authority.

**CITY OF ANN ARBOR
DOWNTOWN DEVELOPMENT AUTHORITY**

Attachment B – Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2022 Audit

GASB 100 ■ Accounting Changes and Error Corrections

Effective 06/15/2024 (your FY 2024)

This standard clarifies the presentation and disclosure requirements for prior period adjustments to beginning net position. We do not expect this standard to have any significant effect on the Authority.

GASB 101 ■ Compensated Absences

Effective 12/15/2024 (your FY 2025)

This standard revises the liability governments record for compensated absences payable to include any sick, vacation, personal time, or other PTO reasonably expected to be used by employees or paid out to them at termination.



**CITY OF ANN ARBOR
DOWNTOWN DEVELOPMENT AUTHORITY**

Attachment C – Management Representations

For the June 30, 2022 Audit

The following pages contain the written representations that we requested from management.



ANN ARBOR
DOWNTOWN DEVELOPMENT AUTHORITY
150 S. FIFTH AVENUE STE. 301
ANN ARBOR, MICHIGAN 4 8 10 4

Website: a2dda.org
734-994-6697

December 21, 2022

Rehmann Robson
555 Briarwood Circle
Suite 300
Ann Arbor, MI 48108

This representation letter is provided in connection with your audit of the 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, 2022, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and the respective budgetary comparison for the general fund and the major special revenue fund of the Authority in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of December 21, 2022.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated August 31, 2022, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
2. The financial statements referred to above have been fairly presented in accordance with U.S. GAAP, and include all properly classified funds, required supplementary information, and notes to the basic financial statements.
3. With respect to any assistance you provided in drafting the financial statements and related notes, we have performed the following:
 - a. Made all management decisions and performed all management functions;
 - b. Assigned a competent individual to oversee the services;
 - c. Evaluated the adequacy of the services performed;
 - d. Evaluated and accepted responsibility for the result of the service performed; and
 - e. Established and maintained internal controls, including monitoring ongoing activities.

4. We acknowledge our responsibility for 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.
5. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
6. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
7. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
8. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
9. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
10. With regard to items reported at fair value:
 - a. The underlying assumptions are reasonable, and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
11. All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
12. All funds and activities are properly classified.
13. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
14. All components of net position and fund balance classifications have been properly reported.
15. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
16. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
17. All interfund and intra-entity transactions and balances have been properly classified and reported.
18. Deposit and investment risks have been properly and fully disclosed.
19. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
20. All required supplementary information is measured and presented within the prescribed guidelines.

21. In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The pandemic has resulted in operational challenges for the Authority as it determines the impact on employees, vendors, and taxpayers, and the appropriate method for providing services. Management expects that the negative impacts of COVID on downtown businesses are anticipated to be significant and long lasting. Parking revenues are anticipated to be negatively impacted in fiscal year 2023 and beyond.

Information Provided

22. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
23. All transactions have been recorded in the accounting records and are reflected in the financial statements.
24. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
25. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - d. Management;
 - e. Employees who have significant roles in internal control; or
 - f. Others where the fraud could have a material effect on the financial statements.
26. We have no knowledge of any instances, that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance, whether communicated by employees, former employees, vendors (contractors), regulators, or others.
27. We have no knowledge of any instance that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
28. We have no knowledge of any instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
29. We have a process to track the status of audit findings and recommendations.
30. We have identified for you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
31. We have provided views on your reported audit findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
32. We are not aware of any litigation and claims whose effects should be considered when preparing the financial statements.
33. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

34. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
35. The government has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
36. We have disclosed to you all guarantees, whether written or oral, under which the government is contingently liable.
37. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
38. There are no:
 - g. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - h. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
 - i. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement No. 62.
39. The government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
40. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
41. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

Maura Thomson

Maura Thomson, Interim Executive Director

Sara McCallum

Sara McCallum, Accounting Director and Deputy Director

Signature: *Maura Thomson*

Email: mthomson@a2dda.org

Signature: *Sara McCallum*

Email: smccallum@a2dda.org