

### INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

December 18, 2024

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

We have audited 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, 2024, and have issued our report thereon dated December 18, 2024. 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 March 18, 2024, our responsibility, as described by professional standards, is to form and express opinions 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 18, 2024. In addition, we noted certain other matters which are 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.

### 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.

### Qualitative Aspects of the Authority's 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. The Authority had no sensitive accounting estimates affecting its financial statements which were deemed to be significant.

### 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.

The schedule of adjustments passed is included with management's written representations in Attachment C to this letter, and summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

### 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 the 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's auditors.

### **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 Loham LLC

### **Attachment A - Comments and Recommendations**

For the June 30, 2024 Audit

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. Our consideration of the Authority's internal control over financial reporting is described in our report, dated December 18, 2024, issued in accordance with *Government Auditing Standards*. This memorandum does not affect that report or our report dated December 18, 2024, on the financial statements of the Authority.

# Lack of Procedures to Identify and Mitigate IT Risk Arising from the Use of Third-Party Service Providers (i.e. SOC Report Review)

Per our discussions with Management, there is not a defined process to identify the IT risks arising from the use of third-party service providers and ensure appropriate process and controls are in place to mitigate IT risk. The in-scope third-party application's Systems and Organization Controls (SOC) Reports (SOC1 Type 2) have not been obtained and reviewed to assess the controls in place within the vendor's IT environments to mitigate risks and ensure that Information Technology General Controls (ITGCs) are adequately designed, tested, and operating effectively at the service organization. Additionally, management has not reviewed the SOC report to understand its responsibilities within the report's Complementary User Entity Controls (CUECs) section to ensure processes/controls have been appropriately instituted, to ensure there are no carve outs or limitations on the usage of the SOC report, to ensure no exceptions are noted within SOC reports that may have a direct impact on management's data or use of the application, and to ensure no additional risk arising from the use of Sub-Service providers.

### **Bank Reconciliation Review**

The Authority is responsible for establishing effective internal controls to safeguard the Authority's assets and to prevent or detect misstatements to the financial statements. Although the Authority prepares and reviews the bank reconciliation, it does not currently maintain documentation showing a signature or electronic signoff of the reviewer on bank reconciliations. It is our understanding the Authority is currently in the process of creating a policy/procedure to address this issue which will require a cover sheet detailing reconciling items which will be signed by both the preparer and reviewer as is consistent with our recommendation to the finance department.

## Attachment B – Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2024 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the Authority 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 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.

### GASB 102 ■ Certain Risk Disclosures

Effective 06/15/2025 (your FY 2025)

This standard requires governments to disclose essential information about risks related to vulnerabilities due to certain concentrations or constraints. We do not expect this standard to have any significant effect on the Authority.

### GASB 103 ■ Financial Reporting Model Improvements

Effective 06/15/2026 (your FY 2026)

This standard establishes new accounting and financial reporting requirements—or modifies existing requirements—related to the following: a. management's discussion and analysis (MD&A), b. unusual or infrequent items, c. presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position, d. information about major component units in basic financial statements, e. budgetary comparison information, and f. financial trends information in the statistical section.

### GASB 104 ■ Disclosure of Certain Capital Assets

Effective 06/15/2026 (your FY 2026)

This standard requires certain types of capital assets to be disclosed separately in the capital assets note disclosures, requires certain intangible assets to be disclosed separately by major class, and requires additional disclosures for capital assets held for sale.

## Attachment C – Management Representations

For the June 30, 2024 Audit

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

## Schedule of Adjustments Passed (SOAP)

For the June 30, 2024 Audit

In accordance with generally accepted auditing standards, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. We are providing this schedule to both management and those charged with governance to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement							
	Assets		Liabilities		eginning Equity	Revenues	Expenses/ Expenditures	
General fund/governmental activities Unrecorded accounts payable	\$ -	\$	(75,091)	\$	-	\$ -	\$	(75,091)
Misstatement as a percentage of total assets - governmental activities	0.0%	6	-0.2%		0.0%	0.0%		-0.2%