

City of Ann
Arbor
Downtown
Development
Authority



Year Ended
June 30, 2023

Basic Financial
Statements

Rehmann

This page intentionally left blank.

**CITY OF ANN ARBOR
DOWNTOWN DEVELOPMENT AUTHORITY**

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds	16
Reconciliation - Fund Balances of Governmental Funds to Net Position of Governmental Activities	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	18
Reconciliation - Net Changes in Fund Balances of Governmental Funds to Change in Net Position of Governmental Activities	19
Statement of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual - General Fund	20
Statement of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual - Parking Special Revenue Fund	21
Notes to Financial Statements	23
Internal Control and Compliance	
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 <i>Government Auditing Standards</i>	35



This page intentionally left blank.

INDEPENDENT AUDITORS' REPORT

December 15, 2023

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, 2023, 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, 2023, 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 opinions.

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 opinions. 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 15, 2023, 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.

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

This page intentionally left blank.

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, 2023.

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 and liabilities, 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 \$25.2 million at the close of the most recent fiscal year.

A comparative analysis of the data is presented below:

	Net Position	
	2023	2022
Assets		
Cash and investments	\$ 29,385,995	\$ 27,978,804
Other assets	<u>1,081,020</u>	<u>1,122,798</u>
Total assets	<u>30,467,015</u>	<u>29,101,602</u>
Liabilities		
Other liabilities	5,085,809	3,294,786
Long-term liabilities	<u>189,968</u>	<u>133,888</u>
Total liabilities	<u>5,275,777</u>	<u>3,428,674</u>
Net position		
Unrestricted	<u>\$ 25,191,238</u>	<u>\$ 25,672,928</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 \$25.2 million, of which all was unrestricted.

	Changes in Net Position	
	2023	2022
Revenues		
Program revenues	19,686,924	22,267,521
General revenues	8,761,128	7,273,279
Total revenues	<u>28,448,052</u>	<u>29,540,800</u>
Expenses		
Downtown development	11,609,979	9,573,226
Parking	17,319,763	15,259,495
Total expenses	<u>28,929,742</u>	<u>24,832,721</u>
Change in net position	(481,690)	4,708,079
Net position, beginning of year	<u>25,672,928</u>	<u>20,964,849</u>
Net position, end of year	<u>\$ 25,191,238</u>	<u>\$ 25,672,928</u>

Revenues decreased approximately \$1.1 million, and expenses increased by approximately \$4.1 million, which resulted in a decrease in net position of approximately \$0.5 million. These changes were largely due to the following factors:

- Total revenue decreased primarily due to the ongoing effects of changing demand parking. Revenue was up across all other categories, but charges for services related to parking activity were down \$2.6 million from 2022 based on a decline in activity for the parking system.
- Total expense increased primarily due to capital projects undertaken during the fiscal year.

CITY OF ANN ARBOR

DOWNTOWN DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

General Fund

At the end of fiscal year 2023, fund balance for the Authority's general fund was \$8.7 million. Compared with the ending fund balance of \$11.9 million in the prior year, this represented a decrease of \$3.3 million. The decrease in fund balance was largely driven by an increase in capital project expenditures which fluctuate year to year based on infrastructure needs.

Parking Special Revenue Fund

At the end of fiscal year 2023, fund balance for the Authority's parking fund was \$16.5 million. Compared with the ending fund balance of \$13.8 million in the prior year, this represented an increase of \$2.8 million. The increase in parking fund balance was largely due to conservative budgeting by the Authority for expenditures and an increase in revenue (when compared to activity during the pandemic) driven by the return to in-person activity during the pandemic recovery.

Budgetary Highlights

General Fund

During fiscal year 2023, total general fund revenues were \$8.3 million, which was \$69,500 more than the final amended budget of \$8.3 million. This was largely due to investment gains from the Authority's investment portfolio which were better than expected. The final amended budget for revenue was flat against the original budget as the Authority does not amend revenues unless the anticipated variance is significant and corresponds to an increase in expenditures.

During fiscal year 2023, total general fund expenditures were \$11.6 million, which was \$0.8 million less than the final amended budget of \$12.4 million. This is largely due to capital project expenditure rollovers from fiscal year 2023 to fiscal year 2024. The final amended budget for expenditures was \$4.1 million greater than the original budget primarily due to capital project expenditure rollovers from fiscal year 2022 to fiscal year 2023. Project timing informs these rollovers.

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.

CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

Economic Factors and Next Year's Budget

The fiscal year 2024 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 2022. This increase will be capped at approximately \$8.4 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 2024 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.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF ANN ARBOR
DOWNTOWN DEVELOPMENT AUTHORITY**

Statement of Net Position

June 30, 2023

	Governmental Activities
Assets	
Cash and investments	\$ 29,385,995
Accounts receivable	665,669
Prepaid items	415,351
	<hr/>
Total assets	30,467,015
	<hr/>
Liabilities	
Accounts payable and accrued liabilities	4,809,976
Unearned revenue	275,833
Long-term liabilities - compensated absences:	
Due within one year	24,995
Due in more than one year	164,973
	<hr/>
Total Liabilities	5,275,777
	<hr/>
Net position	
Unrestricted	\$ 25,191,238
	<hr/> <hr/>

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, 2023

Functions / Programs	Expenses	Program Revenues	Net (Expense) Revenue
		Charges for Services	
Governmental activities			
Downtown development	\$ 11,609,979	\$ -	\$ (11,609,979)
Parking	17,319,763	19,686,924	2,367,161
Total	<u>\$ 28,929,742</u>	<u>\$ 19,686,924</u>	<u>(9,242,818)</u>
General revenues			
Property taxes			8,152,675
Unrestricted investment earnings			411,003
Other revenue			197,450
Total general revenues			<u>8,761,128</u>
Change in net position			(481,690)
Net position, beginning of year			<u>25,672,928</u>
Net position, end of year			<u>\$ 25,191,238</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, 2023

	General Fund	Parking Special Revenue Fund	Totals
Assets			
Cash and investments	\$ 10,813,643	\$ 18,572,352	\$ 29,385,995
Accounts receivable	4,312	566,769	571,081
Due from other governments	94,588	-	94,588
Prepaid items	10,557	404,794	415,351
Total assets	<u>\$ 10,923,100</u>	<u>\$ 19,543,915</u>	<u>\$ 30,467,015</u>
Liabilities			
Accounts payable	\$ 2,224,437	\$ 2,415,295	\$ 4,639,732
Accrued liabilities	15,759	15,759	31,518
Unearned revenue	-	275,833	275,833
Due to other governments	15,137	123,589	138,726
Total liabilities	<u>2,255,333</u>	<u>2,830,476</u>	<u>5,085,809</u>
Deferred inflows of resources			
Unavailable revenue	4,247	171,608	175,855
Fund balances			
Nonspendable -			
Prepaid items	10,557	404,794	415,351
Committed for -			
Parking operations	-	16,137,037	16,137,037
Assigned for -			
Housing	630,089	-	630,089
Unassigned	8,022,874	-	8,022,874
Total fund balances	<u>8,663,520</u>	<u>16,541,831</u>	<u>25,205,351</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 10,923,100</u>	<u>\$ 19,543,915</u>	<u>\$ 30,467,015</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, 2023

Fund balances - total governmental funds \$ 25,205,351

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 175,855

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 (189,968)

Net position of governmental activities \$ 25,191,238

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, 2023

	General Fund	Parking Special Revenue Fund	Totals
Revenues			
Property taxes	\$ 8,152,675	\$ -	\$ 8,152,675
Charges for services	-	19,686,924	19,686,924
Investment earnings	164,232	246,771	411,003
Other	3,893	132,800	136,693
Total revenues	8,320,800	20,066,495	28,387,295
Expenditures			
Downtown development	11,581,939	-	11,581,939
Parking	-	17,291,723	17,291,723
Total expenditures	11,581,939	17,291,723	28,873,662
Net change in fund balances	(3,261,139)	2,774,772	(486,367)
Fund balances, beginning of year	11,924,659	13,767,059	25,691,718
Fund balances, end of year	\$ 8,663,520	\$ 16,541,831	\$ 25,205,351

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, 2023

Net change in fund balances - total governmental funds \$ (486,367)

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 60,757

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 (56,080)

Change in net position of governmental activities \$ (481,690)

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, 2023

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenues				
Property taxes	\$ 8,206,500	\$ 8,206,500	\$ 8,152,675	\$ (53,825)
Investment earnings	40,800	40,800	164,232	123,432
Other	4,000	4,000	3,893	(107)
Total revenues	8,251,300	8,251,300	8,320,800	69,500
Expenditures				
Current - Downtown development	8,284,673	12,416,173	11,581,939	(834,234)
Net change in fund balance	(33,373)	(4,164,873)	(3,261,139)	903,734
Fund balance, beginning of year	11,924,659	11,924,659	11,924,659	-
Fund balance, end of year	\$ 11,891,286	\$ 7,759,786	\$ 8,663,520	\$ 903,734

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, 2023

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenues				
Charges for services	\$ 17,784,100	\$ 21,362,500	\$ 19,686,924	\$ (1,675,576)
Investment earnings	30,000	30,000	246,771	216,771
Other	190,000	190,000	132,800	(57,200)
Total revenues	18,004,100	21,582,500	20,066,495	(1,516,005)
Expenditures				
Current - Parking services	20,247,567	19,998,667	17,291,723	(2,706,944)
Net change in fund balance	(2,243,467)	1,583,833	2,774,772	1,190,939
Fund balance, beginning of year	13,767,059	13,767,059	13,767,059	-
Fund balance, end of year	\$ 11,523,592	\$ 15,350,892	\$ 16,541,831	\$ 1,190,939

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

This page intentionally left blank.

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 Inflows of Resources and Equity

Deposits 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 restricted 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, 2023, 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 and investment balances as of June 30, 2023:

Statement of Net Position

Cash and investments	<u>\$ 29,385,995</u>
----------------------	----------------------

Deposits and Investments

Deposits:

Petty cash	\$ 184
Bank deposits (checking and savings accounts)	212,943
Certificates of deposit - due in less than 1 year	994,588
Certificates of deposit - due in more than 1 year	1,088,559

Investments:

U.S. government treasuries	1,555,405
U.S. agencies (asset backed)	13,345,841
Municipal bonds	2,805,184
Money market funds	<u>9,383,291</u>

Total	<u>\$ 29,385,995</u>
--------------	----------------------

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, 2023, of the Authority's bank balance of \$2,877,330 (total book balance was \$2,296,090) of which \$1,634,285 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, 2023, 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, 2023, 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 treasuries	\$ 1,555,405	AA+
U.S. agencies	13,345,841	N/A
Municipal bonds:		
Rated bonds	232,230	AAA
Rated bonds	439,935	AA
Rated bonds	1,074,968	AA-
Unrated bonds	1,058,051	N/A

Concentration of Credit Risk. The Authority's investment policy does not address this risk. At June 30, 2023, 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, 2023, maturities of debt securities were as follows:

	Investment Maturities (fair value by years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. government treasuries	\$ 1,555,405	\$ 1,555,405	\$ -	\$ -	\$ -
U.S. agencies	13,345,841	3,285,404	10,060,437	-	-
Municipal bonds	2,805,184	1,170,426	1,194,823	439,935	-
	<u>\$ 17,706,430</u>	<u>\$ 6,011,235</u>	<u>\$ 11,255,260</u>	<u>\$ 439,935</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, 2023:

	Level 1	Level 2	Level 3	Total
U.S. government treasuries	\$ -	\$ 1,555,405	\$ -	\$ 1,555,405
U.S. agencies	-	13,345,841	-	13,345,841
Municipal bonds	2,805,184	-	-	2,805,184
Money market funds	9,383,291	-	-	9,383,291
	<u>\$ 12,188,475</u>	<u>\$ 14,901,246</u>	<u>\$ -</u>	<u>\$ 27,089,721</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	\$ 4,639,732
Accrued salaries and related liabilities	31,518
Due to other governments	<u>138,726</u>
Government-wide Financial Statements	<u>\$ 4,809,976</u>

**CITY OF ANN ARBOR
DOWNTOWN DEVELOPMENT AUTHORITY**

Notes To Financial Statements

4. COMPENSATED ABSENCES

Long-term liability activity for the year ended June 30, 2023 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental activities					
Compensated absences	\$ 133,888	\$ 71,911	\$ 15,831	\$ 189,968	\$ 24,995

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, 2023, these commitments and the remaining annual obligations are follows:

Year Ended June 30,	Principal	Interest	Annual Payment
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	3,940,000	1,088,300	5,028,300
2029-2033	21,295,000	3,606,612	24,901,612
2034-2035	6,060,000	366,400	6,426,400
Totals	\$ 46,965,000	\$ 10,571,159	\$ 57,536,159

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

Effective July 1, 2022, the Authority 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.



INTERNAL CONTROL AND COMPLIANCE

This page intentionally left blank.

**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 15, 2023

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, 2023, 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 15, 2023.

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. 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 "Lehmann Johnson LLC". The signature is written in a cursive, flowing style.