

City of Ann Arbor Downtown
Development Authority

Year Ended
June 30, 2015

Basic Financial
Statements

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CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

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INDEPENDENT AUDITORS' REPORT

October 12, 2015

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the *City of Ann Arbor Downtown Development Authority (the "Authority")*, a component unit of the City of Ann Arbor, Michigan, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Ann Arbor Downtown Development Authority as of June 30, 2015, and the respective changes in financial position, and the respective budgetary comparisons for the general and parking funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2015, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

This section of the Downtown Development Authority's (the "Authority") financial report presents a discussion and analysis of the Authority's financial performance for the fiscal year ended June 30, 2015. This discussion has been prepared by management along with financial statements and related footnote disclosures and should be read in conjunction with, and is qualified in its entirety by, the financial statements and footnotes. This discussion and analysis is designed to focus on current activities, resulting change and currently known facts.

Using this Annual Report

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

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

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

	Authority's Net Position		Percent Change
	2015	2014	
Assets	\$16,831,086	\$10,478,919	60.62%
Liabilities	<u>6,598,269</u>	<u>3,197,177</u>	106.38%
Net position - unrestricted	<u>\$10,232,817</u>	<u>\$ 7,281,742</u>	40.53%

Assets

The most significant increase in the assets category is due to an increase in cash and investments at June 30, 2015 from higher than anticipated revenues including an unbudgeted parking rate increase on January 1, 2015 and greater property tax revenues from increased downtown development. The components of this category are:

Cash and Investments

Cash

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

Investments, at fair market value

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

CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

Taxes Receivable

Represents amounts due from the City of Ann Arbor for taxes not paid in the fiscal year.

Receivables

Represents small amounts due from the parking operators for permit customers' unpaid balances ultimately due the DDA.

Liabilities

The increase in liabilities is related to an increase in the accounts payables as a result of the DDA receiving a bond payment invoice in July that was due May 1, 2015. This liability category is composed of:

Accounts Payable and Accrued Expenses

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

Due to Other Governments

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

Long-term Liabilities

This represents the amount due for the installment purchase agreement on parking equipment due in future years.

Net Position

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

	Authority's Change in Net Position		Percent Change
	2015	2014	
Revenues			
Property taxes	\$ 5,071,211	\$ 4,406,238	
Charges for services	21,399,834	19,868,826	
Investment income	92,546	55,696	
Other revenue	-	983	
Total revenues	26,563,591	24,331,743	9.17%
Expenses			
Downtown development	3,803,420	6,052,045	
Parking	19,766,002	18,130,366	
Interest on long-term debt	43,094	57,825	
Total expenses	23,612,516	24,240,236	-2.59%
Change in net position	2,951,075	91,507	
Net position, beginning of year	7,281,742	7,190,235	
Net position, end of year	\$10,232,817	\$ 7,281,742	40.53%

CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

Revenues

The increase in total revenue is related to a parking rate increase on January 1, 2015 and taxes captured after the completion of new developments in the DDA district.

Property Taxes

The Authority's property tax revenues are generated through the use of tax increment financing (TIF) in which the Authority captures ad valorem property taxes. Property tax increment revenues are generated by new construction and major improvements in the Authority's district. Property tax revenues for the year ended June 30, 2015 included property taxes levied July 1, 2014 and December 1, 2014.

Charges for Services

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

Investment Income

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

Expenses

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

Downtown Development

This is the cost of general administration of the Authority including grants to other organizations for the betterment of the downtown area as well as debt service and administrative studies.

Parking

This is the cost of maintaining the DDA operated parking facilities, operating the City's parking system and funding alternative transportation programs.

Interest on Long-term Debt

Current year interest paid pertaining to the long-term debt issuance.

Budgetary Highlights

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

CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

The general fund had final budgeted revenues of \$4,805,751 and budgeted expenditures of \$4,765,548. While the Authority's final budget for the general fund projected that revenues would exceed expenditures by \$40,203 the actual results for the year was \$1,215,396 better than what the Authority anticipated. Results for the year were an increase of \$1,255,599 in fund balance. Overall, actual revenues were \$253,268 more than the final budget and actual expenditures were \$962,128 less than the final budget.

The parking fund final budgeted revenues were \$19,431,435 and expenditures of \$21,866,423. While the Authority's final budget for the parking fund projected that fund balance would decrease by \$2,434,988, the actual results for the year was favorable by \$3,884,215 as fund balance increased by \$1,449,227. Overall, actual revenues exceeded final budgeted revenues by \$2,080,459 and actual expenditures were \$1,803,756 less than the final budget.

Financial Analysis of the Authority's Major Funds

The Authority completed fiscal year 2015 with its governmental funds reporting combined fund balances of \$10,784,816. The net changes are summarized in the following chart:

	General Fund	Parking Fund	Total
Total fund balance June 30, 2014	\$ 1,143,551	\$ 6,936,439	\$ 8,079,990
June 30, 2015	<u>2,399,150</u>	<u>8,385,666</u>	<u>10,784,816</u>
Net change	<u>\$ 1,255,599</u>	<u>\$ 1,449,227</u>	<u>\$ 2,704,826</u>

Capital Asset 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. The Authority entered into an installment purchase agreement for parking equipment in the amount of \$1,278,765 during fiscal 2013. There was long-term debt at year-end from this installment purchase agreement. More detailed information may be found in Note 5 to the financial statements.

Economic Factors

The fiscal year 2016 budget anticipates the Authority's tax increment finance income to increase due to the completion of six new private construction projects in the district during the upcoming year.

Contacting the DDA's Management

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

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Net Position

June 30, 2015

	Governmental Activities
Assets	
Cash and investments	\$ 16,801,092
Receivables	29,994
	<hr/>
Total assets	16,831,086
	<hr/>
Liabilities	
Accounts payable and accrued expenses	5,959,113
Due to other governments	59,530
Long-term liabilities:	
Due within one year	269,211
Due in more than one year	310,415
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Total liabilities	6,598,269
	<hr/>
Net position	
Unrestricted	\$ 10,232,817
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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, 2015

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Net (Expense) Revenue
Governmental activities			
Downtown development	\$ 3,803,420	\$ -	\$ (3,803,420)
Parking	19,766,002	21,399,834	1,633,832
Interest on long-term debt	43,094	-	(43,094)
Total	<u>\$ 23,612,516</u>	<u>\$ 21,399,834</u>	<u>(2,212,682)</u>
General revenues:			
			5,071,211
			<u>92,546</u>
Total general revenues			<u>5,163,757</u>
Change in net position			2,951,075
Net position, beginning of year			<u>7,281,742</u>
Net position, end of year			<u>\$ 10,232,817</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, 2015

	General Fund	Parking Fund	Total
Assets			
Cash and investments	\$ 6,273,990	\$ 10,527,102	\$ 16,801,092
Accounts receivable	-	2,367	2,367
Taxes receivable	27,627	-	27,627
Due from other funds	1,259,972	-	1,259,972
Total assets	\$ 7,561,589	\$ 10,529,469	\$ 18,091,058
Liabilities			
Accounts payable	\$ 5,103,475	\$ 852,494	\$ 5,955,969
Accrued wages	1,572	1,572	3,144
Due to other governments	29,765	29,765	59,530
Due to other funds	-	1,259,972	1,259,972
Total liabilities	5,134,812	2,143,803	7,278,615
Deferred inflows of resources			
Unavailable revenue	27,627	-	27,627
Fund balances			
Committed for parking improvements	-	135,000	135,000
Assigned for:			
Housing	144,098	-	144,098
Parking operations	-	8,250,666	8,250,666
Unassigned	2,255,052	-	2,255,052
Total fund balances	2,399,150	8,385,666	10,784,816
Total liabilities, deferred inflows of resources and fund balances	\$ 7,561,589	\$ 10,529,469	\$ 18,091,058

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, 2015

Fund balances - total governmental funds	\$ 10,784,816
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Deferred inflows are not <i>current financial resources</i> and therefore are not reported as revenue in the governmental funds.	27,627
Notes payable are not due and payable in the current period and therefore not reported in the governmental funds.	<u>(579,626)</u>
Net position of governmental activities	<u>\$ 10,232,817</u>

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, 2015

	General Fund	Parking Fund	Total
Revenues			
Property taxes	\$ 5,043,584	\$ -	\$ 5,043,584
Charges for services	-	21,174,515	21,174,515
Investment income	15,435	77,111	92,546
Other revenues and reimbursements	-	260,268	260,268
Total revenues	5,059,019	21,511,894	26,570,913
Expenditures			
Current:			
Downtown development	3,803,420	-	3,803,420
Parking	-	19,766,002	19,766,002
Debt service:			
Principal	-	253,571	253,571
Interest and fiscal charges	-	43,094	43,094
Total expenditures	3,803,420	20,062,667	23,866,087
Net change in fund balances	1,255,599	1,449,227	2,704,826
Fund balances, beginning of year	1,143,551	6,936,439	8,079,990
Fund balances, end of year	\$ 2,399,150	\$ 8,385,666	\$ 10,784,816

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, 2015

Net change in fund balances - total governmental funds	\$ 2,704,826
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Revenues earned but not available for current expenditures are not reported as revenues in the funds.	(7,322)
Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	<u>253,571</u>
Change in net position of governmental activities	<u><u>\$ 2,951,075</u></u>

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

CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 4,800,000	\$ 4,800,000	\$ 5,043,584	\$ 243,584
Investment income	5,751	5,751	15,435	9,684
Total revenues	4,805,751	4,805,751	5,059,019	253,268
Expenditures- downtown development	4,765,548	4,765,548	3,803,420	(962,128)
Net change in fund balance	40,203	40,203	1,255,599	1,215,396
Fund balance, beginning of year	1,143,551	1,143,551	1,143,551	-
Fund balance, end of year	\$ 1,183,754	\$ 1,183,754	\$ 2,399,150	\$ 1,215,396

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

CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Parking Fund

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Charges for services	\$ 19,298,219	\$ 19,298,219	\$ 21,174,515	\$ 1,876,296
Investment income	23,216	23,216	77,111	53,895
Other revenues and reimbursements	110,000	110,000	260,268	150,268
Total revenues	19,431,435	19,431,435	21,511,894	2,080,459
Expenditures				
Current-				
Parking	21,569,758	21,569,758	19,766,002	(1,803,756)
Debt service:				
Principal	253,571	253,571	253,571	-
Interest and fiscal charges	43,094	43,094	43,094	-
Total expenditures	21,866,423	21,866,423	20,062,667	(1,803,756)
Net change in fund balances	(2,434,988)	(2,434,988)	1,449,227	3,884,215
Fund balance, beginning of year	6,936,439	6,936,439	6,936,439	-
Fund balance - end of year	\$ 4,501,451	\$ 4,501,451	\$ 8,385,666	\$ 3,884,215

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

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

The Authority reports the following major governmental funds:

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Financial Statements

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

Assets, Liabilities, Deferred Inflows of Resources and Equity

Cash and Investments

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

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

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

Receivables

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

Due from Other Governments

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

Long-term Obligations

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

Deferred Inflows of Resources

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

CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Financial Statements

Fund Balance

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

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

Interfund Transactions

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

2. BUDGETARY INFORMATION

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

State statutes provide that a local unit shall not incur expenditures in excess of the amounts appropriated. The approved budgets of the Authority were adopted on a fund level basis. During the year ended June 30, 2015, the Authority did not incur expenditures in excess of the amounts appropriated at the legal level of budgetary control.

3. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposits and investments at June 30, 2015:

Statement of net position	
Cash and investments	<u>\$ 16,801,092</u>
Classification of deposits and investments	
Bank deposits (demand deposit accounts and certificates of deposit)	\$ 399,069
Investments	16,401,823
Cash on hand	<u>200</u>
Total	<u>\$ 16,801,092</u>

CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Financial Statements

Deposits

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure the Authority's deposits may not be returned to it. As of June 30, 2015, the carrying amounts of the Authority's deposits were \$399,069 and the bank balance was \$573,086 of which \$323,086 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

As of June 30, 2015, the Authority had total investments of \$16,401,823 consisting of \$752,795 in certificates of deposit, \$6,748,149 in the securities of U.S. agencies and \$8,900,879 in money market accounts.

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

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

As of June 30, 2015, the Authority's investments in U.S. agencies were rated AAA by Moody's Investor Services.

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

As of June 30, 2015, the maturities of the Authority's investments in U.S. agencies were as follows:

Investment Type	Fair Value	Investments Maturities (fair value by years)		
		1-5	6-10	More Than 10
U.S. agencies	\$ 6,748,149	\$ 4,016,852	\$ 2,731,297	\$ -

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

CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Financial Statements

4. INTERFUND RECEIVABLES AND PAYABLES

As of June 30, 2015, the parking fund had an interfund payable of \$1,259,972 which was due to the general fund.

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

5. LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities of the Authority for the year ended June 30, 2015:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Installment purchase agreement	\$ 833,197	\$ -	\$ (253,571)	\$ 579,626	\$ 269,211

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

Year ending June 30,	Principal	Interest
2016	\$ 269,211	\$ 27,453
2017	285,815	10,849
2018	24,600	123
	<u>\$ 579,626</u>	<u>\$ 38,425</u>

6. DEBT SERVICE COMMITMENTS

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

As of June 30, 2015, these commitments totaled \$64,655,000 and are payable through 2035, with \$4,200,000 due in the next fiscal year.

CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Financial Statements

7. RISK MANAGEMENT

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

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

8. NONCANCELABLE OPERATING LEASE OBLIGATIONS

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

The first is for the rental of office space that requires monthly payments of \$5,182 through June 30, 2016. The following is a schedule of future minimum lease payments required under this operating lease as of June 30, 2015.

Year Ending June 30,	Amount
2016	<u>\$ 62,186</u>

The second is for property used for parking that requires monthly payments of \$30,266 for calendar year 2015. The monthly payments for each year are adjusted based on the change in the Consumer Price Index, as established by the U.S. Department of Labor, each October in relation to the previous October. The current agreement is set to expire on November 30, 2017. Annual payment information beyond 2015 is not presented on this obligation because it is not determinable at this time.

The third is for property used for parking that requires monthly payments of \$2,234 through November 30, 2015. The monthly payments for each 12 month period are adjusted based on the change in the Consumer Price Index, as established by the U.S. Department of Labor, each September in relation to the previous September. The current agreement is set to expire on November 30, 2017. Annual payment information beyond 2015 is not presented because it is not determinable at this time.

CITY OF ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

■ Notes To Financial Statements

9. PARKING MANAGEMENT AGREEMENT

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

10. MASTER PARKING AGREEMENT WITH THE CITY OF ANN ARBOR

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

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

11. PROPERTY TAXES

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



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*

October 12, 2015

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the *City of Ann Arbor Downtown Development Authority* (the "Authority"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 12, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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