

**City of Ann Arbor Downtown Development Authority**

**Financial Statements**

**June 30, 2019**



## Table of Contents

Section		Page
1	<b>List of Board of Directors</b>	1 – 1
2	<b>Independent Auditors' Report</b>	2 – 1
3	<b>Management's Discussion and Analysis</b>	3 – 1
4	<b>Basic Financial Statements</b>	
	Government-wide Financial Statements	
	Statement of Net Position	4 – 1
	Statement of Activities	4 – 2
	Fund Financial Statements	
	Governmental Funds	
	Balance Sheet	4 – 3
	Reconciliation of Fund Balances of Governmental Funds to Net Position of Governmental Activities	4 – 4
	Statement of Revenues, Expenditures and Changes in Fund Balances	4 – 5
	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	4 – 6
	Notes to the Financial Statements	4 – 7
5	<b>Required Supplementary Information</b>	
	Budgetary Comparison Schedule	
	General fund	5 – 1
	Parking fund	5 – 2
6	<b>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></b>	6 – 1

**City of Ann Arbor Downtown Development Authority**  
**List of Board of Directors**  
**June 30, 2019**

---

Marie Klopf – Chair

Keith Orr – Vice Chair

Darren McKinnon - Treasurer

Joan Lowenstein – Secretary

Robert Guenzel

Howard Lazarus

Jessica A.S. Letaw

Molly McFarland

John Mouat

Rishi Narayan

John Splitt

Phil Weiss



800.968.0010 | yeoandyeo.com

## Independent Auditors' Report

Board of Directors  
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, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's 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.

### ***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, 2019, and the respective changes in financial position, for the year then ended in accordance 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 the management's discussion and analysis and budgetary comparison information, as 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 18, 2019 on our consideration of the City of Ann Arbor Downtown Development 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 City of Ann Arbor Downtown Development 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 City of Ann Arbor Downtown Development Authority's internal control over financial reporting and compliance.

*Yeo & Yeo, P.C.*

Ann Arbor, MI  
October 18, 2019

**City of Ann Arbor Downtown Development Authority**  
**Management's Discussion and Analysis**  
**June 30, 2019**

---

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, 2019 . 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.

	<b>Authority's Net Position</b>		<b>Percent Change</b>
	<b>2019</b>	<b>2018</b>	
<b>Assets</b>	\$ 24,469,127	\$ 18,883,768	29.58%
<b>Liabilities</b>	<u>4,486,729</u>	<u>3,336,756</u>	34.46%
<b>Net position - unrestricted</b>	<u>\$ 19,982,398</u>	<u>\$ 15,547,012</u>	28.53%

**City of Ann Arbor Downtown Development Authority**  
**Management's Discussion and Analysis**  
**June 30, 2019**

---

**Assets**

The DDA's assets increased by 29.6%. This is primarily attributed to a receivable for bond reimbursement and an increase in cash levels. Approximately half of the cash level increase is related to the timing of bill payment and is offset by an increase in short-term liabilities. The remaining increase in cash reserves is planned to fund capital projects in the near future.

*Cash*

The Authority maintains a checking account for the making payments. It also maintains two bank accounts for depositing parking revenues which are swept into investment accounts on a semi-weekly basis.

*Investments, at Fair Market Value*

The Authority maintains four investment accounts which are managed by a bank trust department. These funds are invested within Public Act 20 of 1943 limitations and guidelines, as well as those established in the Authority's Investment Policy.

*Taxes Receivable*

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

*Receivables*

Represents the amounts due from the parking customers for unpaid parking fees.

*Due from the City of Ann Arbor*

Represents the amount due to the Authority from the City of Ann Arbor for bond reimbursements and cost sharing reimbursements on joint Authority/City construction projects.

**Liabilities**

The liabilities for the Authority increased from the previous year.

- Accrued and Other Liabilities increased by 34.5% due to the timing of final parking management payment for the year.
- Accounts Payable increased due to the timing of the payment of vendor invoices.

*Accounts Payable*

Represents amounts due for goods and services received, but not paid for by the end of the fiscal year.

*Accrued and Other Liabilities*

Represents amounts due to other organizations at the year-end, but not paid. Mostly construction retainages and parking operations related.

**City of Ann Arbor Downtown Development Authority**  
**Management's Discussion and Analysis**  
**June 30, 2019**

---

*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.

	<b>Authority's Change in Net Position</b>		<b>Percent</b>
	<b>2019</b>	<b>2018</b>	<b>Change</b>
<b>Revenues</b>			
Property taxes	\$ 6,827,492	\$ 6,458,309	
Charges for services	22,787,368	21,868,070	
Charges -general government	2,229,170	-	
Other Revenues	<u>897,167</u>	<u>507,037</u>	
<b>Total revenues</b>	<u>32,741,197</u>	<u>28,833,416</u>	13.55%
<b>Expenses</b>			
Downtown development	7,329,207	6,163,265	
Parking	20,976,604	22,436,722	
Interest on long-term debt	<u>-</u>	<u>122</u>	
<b>Total expenses</b>	<u>28,305,811</u>	<u>28,600,109</u>	-1.03%
<b>Change in net position</b>	4,435,386	233,307	
Net position, beginning of year	<u>15,547,012</u>	<u>15,313,705</u>	
<b>Net position, end of year</b>	<u>\$ 19,982,398</u>	<u>\$ 15,547,012</u>	28.53%



**City of Ann Arbor Downtown Development Authority**  
**Management's Discussion and Analysis**  
**June 30, 2019**

---

**Revenues**

The revenues for the Authority increased from the previous year.

- Property taxes increased by 5.83% due to a (capped) 3.5% increase in taxable value for the district, and an increase in millage rate.
- Charges for Services increased due to an increase in rates and the conversion to an e-park system for on street parking.
- Charges – General Government revenues are bond revenues which the Authority receives from the City to cover incurred expenditures.

*Property Taxes*

The Authority's property tax revenues are generated through the capture of tax increment financing (TIF) in which a portion of the tax revenues generated in the district are captured to fund the Authority's programs. Property tax increment revenues are generated on new private construction and major improvements in the Authority's district. Property tax revenues for the year ended June 30, 2019 included property taxes levied July 1, 2018 and December 1, 2018. Beginning in fiscal year 2017 DDA district taxable values have been capped by City Ordinance to a maximum annual increase of 3.5%.

*Charges for Services*

Charges for Services revenue is generated by the approximately 5,500 space off-street parking system and the approximately 2,200 parking meters managed by the Authority.

*Other Revenues*

This is interest revenue earned on Authority funds invested in State approved investments through a bank trust department.

**Expenses**

Total expenses of the Authority increased primarily due to construction projects: the Fifth and Detroit Street streetscape project, the Huron Street project, the First/Ashley/William streets project, and repair costs for the parking system.

*Downtown Development*

Downtown Development is the cost of general administration of the Authority for the betterment of the downtown area, improvements to the Authority's district, debt service and administrative studies, and grants to other organizations.

*Parking*

Parking includes the cost of general management of the Authority's parking system, grants to other organizations for the betterment of the downtown area and alternative transportation programs, cost of debt service, and the maintenance and operation of the City's parking system.

*Interest on Long-term Debt*

Interest on Long-Term Debt represents the current year's interest payment on long-term debt issuance.

**City of Ann Arbor Downtown Development Authority**  
**Management's Discussion and Analysis**  
**June 30, 2019**

---

**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.

The general fund had budgeted revenues of \$8,987,132 and budgeted expenditures of \$10,692,883. Actual revenues came in higher than budgeted at \$9,420,451: a variance of \$433,319, or 4.8%. Actual expenditures came in under budget at \$7,305,734: a variance of \$3,387,149, or 31.7%. While the Authority's budget for the general fund projected that expenditures would exceed revenues by \$1,705,751, the actual results for the year were that revenues exceeded expenditures by \$2,114,717. This was largely due to delayed project starts.

The parking fund had budgeted revenues of \$21,360,806 and budgeted expenditures of \$26,119,334. Actual revenues came in higher than budgeted at \$23,330,844; a variance of \$1,970,038 or 9.2%. Actual expenditures came in under budget at \$20,976,604: a variance of \$5,142,730 or 19.7%. The Authority's budget for the parking fund projected that expenditures would exceed revenues by \$4,758,528. The actual results for the year were that revenues exceeded expenditures by \$2,354,240. This was due to parking revenues being up, as well as delayed project starts.

**Financial Analysis of the Authority's Major Funds**

The Authority completed fiscal year 2019 with its governmental funds reporting combined fund balances of \$20,199,854. The net changes are summarized in the following chart:

	<u>General Fund</u>	<u>Parking Fund</u>	<u>Total</u>
<b>Total fund balance</b>			
June 30, 2018	\$ 6,247,899	\$ 9,482,998	\$ 15,730,897
June 30, 2019	<u>8,362,616</u>	<u>11,837,238</u>	<u>20,199,854</u>
<b>Net change</b>	<u>\$ 2,114,717</u>	<u>\$ 2,354,240</u>	<u>\$ 4,468,957</u>

**City of Ann Arbor Downtown Development Authority**  
**Management's Discussion and Analysis**  
**June 30, 2019**

---

**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.

**Economic Factors**

The fiscal year 2020 budget anticipates an increase in tax increment finance income due to the completion of new private development projects in the district during calendar year 2018. This increase will be capped at approximately \$7.1 million, per City ordinance.

**Contacting the Authority's Management**

This financial report is designed to provide the Authority's citizens, taxpayers, customers, and creditors with a general overview of the Authority'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 Downtown Development Authority's office at 150 S. Fifth Avenue, Suite 301, Ann Arbor, Michigan 48104.

**City of Ann Arbor Downtown Development Authority**  
**Statement of Net Position**  
**June 30, 2019**

---

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and investments	\$ 23,220,405
Receivables	98,782
Due from the City of Ann Arbor	1,118,279
Prepaid items	31,661
Total assets	<u>24,469,127</u>
<b>Liabilities</b>	
Accounts payable	3,372,516
Accrued and other liabilities	888,205
Noncurrent liabilities	
Due within one year	70,605
Due in more than one year	155,403
Total liabilities	<u>4,486,729</u>
<b>Net Position</b>	
Restricted for	
Housing	31,661
Unrestricted	<u>19,950,737</u>
Total net position	<u>\$ 19,982,398</u>

See Accompanying Notes to the Financial Statements

**City of Ann Arbor Downtown Development Authority**  
**Statement of Activities**  
**For the Year Ended June 30, 2019**

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Net (Expense) Revenue</u>
			<u>Total</u>
<b>Functions/Programs</b>			
<b>Primary government</b>			
Governmental activities			
Downtown development	\$ 7,329,207	\$ -	\$ (7,329,207)
Parking	<u>20,976,604</u>	<u>22,787,368</u>	<u>1,810,764</u>
Total	<u>\$ 28,305,811</u>	<u>\$ 22,787,368</u>	<u>(5,518,443)</u>
General revenues			
Property taxes			6,827,492
Unrestricted investment earnings			897,167
Charges - general government			<u>2,229,170</u>
Total general revenues			<u>9,953,829</u>
Change in net position			4,435,386
Net position - beginning of year			<u>15,547,012</u>
Net position - end of year			<u>\$ 19,982,398</u>

See Accompanying Notes to the Financial Statements

**City of Ann Arbor Downtown Development Authority**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2019**

	General	Parking	Total Governmental Funds
<b>Assets</b>			
Cash and investments	\$ 8,406,511	\$ 14,813,894	\$ 23,220,405
Receivables	36,652	62,130	98,782
Due from the City of Ann Arbor	1,106,807	11,472	1,118,279
Due from other funds	2,290,742	-	2,290,742
Prepaid items	-	31,661	31,661
Total assets	<b>\$ 11,840,712</b>	<b>\$ 14,919,157</b>	<b>\$ 26,759,869</b>
<b>Liabilities</b>			
Accounts payable	\$ 3,372,516	\$ -	\$ 3,372,516
Accrued and other liabilities	97,028	791,177	888,205
Due to other funds	-	2,290,742	2,290,742
Total liabilities	3,469,544	3,081,919	6,551,463
<b>Deferred Inflows of Resources</b>			
Unavailable revenue	8,552	-	8,552
<b>Fund Balances</b>			
Non-spendable			
Prepaid items	-	31,661	31,661
Committed for parking improvements	-	2,506,769	2,506,769
Assigned for			
Housing	939,584	-	939,584
Parking operations	-	9,298,808	9,298,808
Unassigned	7,423,032	-	7,423,032
Total fund balances	8,362,616	11,837,238	20,199,854
Total liabilities, deferred inflows of resources, and fund balances	<b>\$ 11,840,712</b>	<b>\$ 14,919,157</b>	<b>\$ 26,759,869</b>

See Accompanying Notes to the Financial Statements

**City of Ann Arbor Downtown Development Authority**  
**Governmental Funds**  
**Reconciliation of Fund Balances of Governmental Funds**  
**to Net Position of Governmental Activities**  
**June 30, 2019**

---

<b>Total fund balances for governmental funds</b>	\$ 20,199,854
Total net position for governmental activities in the statement of net position is different because:	
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Compensated absences	(226,008)
Deferred inflows of resources are not current financial resources and therefore are not reported as revenue in the governmental funds.	<u>8,552</u>
<b>Net position of governmental activities</b>	<u>\$ 19,982,398</u>

**City of Ann Arbor Downtown Development Authority**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2019**

	<u>General</u>	<u>Parking</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Taxes	\$ 6,837,590	\$ -	\$ 6,837,590
Charges for services	-	22,787,368	22,787,368
Charges - general government	2,229,170	-	2,229,170
Other revenue	<u>353,691</u>	<u>543,476</u>	<u>897,167</u>
 Total revenues	 <u>9,420,451</u>	 <u>23,330,844</u>	 <u>32,751,295</u>
<b>Expenditures</b>			
Current			
Downtown development	7,305,734	-	7,305,734
Parking	<u>-</u>	<u>20,976,604</u>	<u>20,976,604</u>
 Total expenditures	 <u>7,305,734</u>	 <u>20,976,604</u>	 <u>28,282,338</u>
 Net change in fund balance	 <u>2,114,717</u>	 <u>2,354,240</u>	 <u>4,468,957</u>
 Fund balance - beginning of year	 <u>6,247,899</u>	 <u>9,482,998</u>	 <u>15,730,897</u>
 Fund balance - end of year	 <u>\$ 8,362,616</u>	 <u>\$ 11,837,238</u>	 <u>\$ 20,199,854</u>

See Accompanying Notes to the Financial Statements



**City of Ann Arbor Downtown Development Authority**  
**Governmental Funds**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2019**

---

<b>Net change in fund balances - total governmental funds</b>	\$ 4,468,957
Total change in net position reported for governmental activities in the statement of activities is different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Property taxes	(10,098)
Expenses are recorded when incurred in the statement of activities.	
Compensated absences	<u>(23,473)</u>
<b>Change in net position of governmental activities</b>	<u><u>\$ 4,435,386</u></u>

**City of Ann Arbor Downtown Development Authority**  
**Notes to the Financial Statements**  
**June 30, 2019**

---

**Note 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:

*General fund* – 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.

*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 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.

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, as well as expenditures related to compensated absences and claims and judgments, 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.

**City of Ann Arbor Downtown Development Authority**  
**Notes to the Financial Statements**  
**June 30, 2019**

---

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.

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. Paid time off that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. The current portion of the liability for compensated absences reflects

only the unpaid balance of reimbursable unused leave for employees that terminated by the fiscal year end. In accordance with GAAP, in the governmental fund financial statements, the noncurrent portion of the compensated absences are considered long-term and therefore, are not a fund liability and represent a reconciling item between the fund level and government-wide presentations.

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.

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 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.

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

**City of Ann Arbor Downtown Development Authority**  
**Notes to the Financial Statements**  
**June 30, 2019**

---

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.

**Adoption of New Accounting Standards**

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities should be included when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

**Upcoming accounting and reporting changes**

Statement No. 87, *Leases* increases the usefulness of the financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a

lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

**Note 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, 2019, the Authority did not incur expenditures in excess of the amounts appropriated at the legal level of budgetary control.

**Note 3 - Deposits and Investments**

At year end the Authority's deposits and investments were reported in the financial statements in the following categories:

Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 9,014,989
Investments in securities, mutual funds and similar vehicles	14,205,216
Petty cash and cash on hand	<u>200</u>
	<u>\$ 23,220,405</u>

**City of Ann Arbor Downtown Development Authority**  
**Notes to the Financial Statements**  
**June 30, 2019**

**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, 2019, the carrying amounts of the Authority's bank deposits in cash and cash on hand were \$404,568 and the bank balance was \$992,193 of which \$742,193 was exposed to custodial credit risk because it was uninsured and uncollateralized. The Authority had \$1,001,938 in certificates of deposit of which \$1,000,000 was FDIC insured. The remaining deposits of \$7,608,683 were in money market accounts which are all uninsured.

**Investments**

As of June 30, 2019, the Authority had total investments of \$14,205,216 in the securities of U.S. agencies.

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, 2019, the Authority's investments in the U.S. agencies were rated AA+ by Standard & Poor's Global 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, 2019, the maturities of the Authority's investments in the U.S. agencies were as follows:

Investment type	Fair Value	Investment Maturities (fair value by years)		
		1 - 5	6 - 10	More than 10
U.S. Securities	\$ 14,205,216	\$ 14,205,216	\$ -	\$ -

Fair Value - 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 in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Authority's only recurring fair value measurements as of June 30, 2019 were related to its investments in government agency funds. These investments are valued using quoted market pricing of the underlying securities (Level 1 inputs).

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 the Financial Statements**  
**June 30, 2019**

**Note 4 - Interfund Receivables and Payables**

As of June 30, 2019, the general fund had an interfund receivable of \$2,290,742 which was due from the parking 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.

**Note 5 - Long-Term Liabilities**

The following is a summary of changes in long-term liabilities of the Authority for the year ended June 30, 2019:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Compensated absences	\$ 202,535	\$ 67,546	\$ 44,073	\$ 226,008	\$ 70,605

**Note 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, 2019, these commitments totaled \$63,335,000, and the remaining annual obligations are follows:

Year Ending June 30,	Principal
2020	\$ 4,040,000
2021	3,565,000
2022	3,695,000
2023	3,585,000
2024	3,715,000
2025-20289	20,255,000
2030-2034	21,130,000
2035-2039	<u>3,350,000</u>
	<u>\$ 63,335,000</u>

**Note 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.

**City of Ann Arbor Downtown Development Authority**  
**Notes to the Financial Statements**  
**June 30, 2019**

---

**Note 8 - Noncancelable Operating Lease Obligations**

The Authority has entered into a noncancelable long-term operating lease.

The lease is for the rental of office space that requires monthly payments of \$5,469 through June 30, 2019. 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 January in relation to the previous January. The current agreement is set to expire on June 30, 2021. Annual payment information beyond 2019 is not presented on this obligation because it is not determinable at this time.

**Note 9 - Parking Management Agreement**

The Authority has entered into an agreement with Republic Parking, Inc., (Republic) 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 \$10,417 per month as well as an annual incentive payment that is determined based on certain agreed-upon measures of performance. The agreement commenced on July 1, 2017. The term of this agreement is one year and shall automatically renew for up to four 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.

**Note 10 - Master Parking Agreement with the City of Ann Arbor**

The 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 original 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. 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 DDA Board.

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

**Note 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.

**City of Ann Arbor Downtown Development Authority**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Actual Over (Under)
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
<b>Revenues</b>				
Taxes				
Property taxes	\$ 6,736,432	\$ 6,736,432	\$ 6,837,590	\$ 101,158
Other revenue	21,500	21,500	353,691	332,191
Charges - general government	-	2,229,200	2,229,170	(30)
	<u>6,757,932</u>	<u>8,987,132</u>	<u>9,420,451</u>	<u>433,319</u>
<b>Expenditures</b>				
General government				
Downtown development	<u>8,670,783</u>	<u>10,692,883</u>	<u>7,305,734</u>	<u>(3,387,149)</u>
Excess (deficiency) of revenues over expenditures	(1,912,851)	(1,705,751)	2,114,717	3,820,468
Fund balance - beginning of year	<u>6,247,899</u>	<u>6,247,899</u>	<u>6,247,899</u>	<u>-</u>
Fund balance - end of year	<u>\$ 4,335,048</u>	<u>\$ 4,542,148</u>	<u>\$ 8,362,616</u>	<u>\$ 3,820,468</u>



**City of Ann Arbor Downtown Development Authority**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**Parking Fund**  
**For the Year Ended June 30, 2019**

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
<b>Revenues</b>				
Charges for services	\$ 21,360,806	\$ 21,360,806	\$ 22,787,368	\$ 1,426,562
Other revenue	190,000	190,000	543,476	353,476
Total revenues	<u>21,550,806</u>	<u>21,550,806</u>	<u>23,330,844</u>	<u>1,780,038</u>
<b>Expenditures</b>				
Current				
Parking services	<u>26,119,334</u>	<u>26,119,334</u>	<u>20,976,604</u>	<u>(5,142,730)</u>
Excess (deficiency) of revenues over expenditures	(4,568,528)	(4,568,528)	2,354,240	6,922,768
Fund balance - beginning of year	<u>9,482,998</u>	<u>9,482,998</u>	<u>9,482,998</u>	<u>-</u>
Fund balance - end of year	<u>\$ 4,914,470</u>	<u>\$ 4,914,470</u>	<u>\$ 11,837,238</u>	<u>\$ 6,922,768</u>



800.968.0010 | yeoandyeo.com

## **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***

### **Independent Auditors' Report**

Management and the 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, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Ann Arbor Downtown Development Authority's basic financial statements, and have issued our report thereon dated October 18, 2019.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Ann Arbor Downtown Development 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 City of Ann Arbor Downtown Development Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Ann Arbor Downtown Development 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 City of Ann Arbor Downtown Development'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 entity'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.

*Yeo & Yeo, P.C.*

Ann Arbor, Michigan  
October 18, 2019