

City of Ann Arbor Downtown Development Authority

Financial Statements

June 30, 2021



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City of Ann Arbor Downtown Development Authority
List of Board of Directors
June 30, 2021

Jessica A.S. Letaw - Chair

Tyler Kinley - Vice Chair

Marie Klopf - Treasurer

Darren McKinnon - Secretary

Micah Bartelme

Alexandra Dieck

Robert Guenzel

Ji Hye Kim

Jonathon Massey

Molly McFarland

Rishi Narayan



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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 (a component unit of the City of Ann Arbor, Michigan), as of and for the year ended June 30, 2021, 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, 2021, 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 25, 2021 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 25, 2021

City of Ann Arbor Downtown Development Authority
Management's Discussion and Analysis
June 30, 2021

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, 2021. 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
	2021	2020	
Assets	\$ 24,274,298	\$ 25,534,123	-4.93%
Liabilities	<u>3,309,449</u>	<u>3,203,831</u>	3.30%
Net position - unrestricted	<u>\$ 20,964,849</u>	<u>\$ 22,330,292</u>	-6.11%

City of Ann Arbor Downtown Development Authority
Management's Discussion and Analysis
June 30, 2021

Assets

The DDA's assets decreased by 4.93%. This is primarily attributed to the loss of parking revenues due to COVID-19 impacts.

Cash

The Authority maintains three depository accounts: one regular checking account for paying vendors, and two accounts for the receipt of parking revenues. The parking revenue accounts are swept into the DDA's investment account on a semi-weekly basis.

Investments at Fair Market Value

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

Taxes Receivable

Represents amounts due for uncollected delinquent personal property taxes.

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 by 3.30% from the previous year. This is due to timing of vendor invoices, many of which are project related and are not likely to be consistent from year to year.

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.

Long-term Liabilities

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

City of Ann Arbor Downtown Development Authority
Management's Discussion and Analysis
June 30, 2021

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
	2021	2020	Change
Revenues			
Property taxes	\$ 7,348,754	\$ 7,017,231	4.72%
Charges for services	12,304,093	19,533,127	
Charges -general government	3,910,224	5,074,228	
Other Revenues	<u>574,687</u>	<u>476,647</u>	
Total revenues	<u>24,137,758</u>	<u>32,101,233</u>	-24.81%
Expenses			
Downtown development	10,808,451	11,464,253	
Parking	<u>14,694,750</u>	<u>18,289,086</u>	
Total expenses	<u>25,503,201</u>	<u>29,753,339</u>	-14.28%
Change in net position	(1,365,443)	2,347,894	
Net position, beginning of year	<u>22,330,292</u>	<u>19,982,398</u>	
Net position, end of year	<u>\$ 20,964,849</u>	<u>\$ 22,330,292</u>	-6.11%

City of Ann Arbor Downtown Development Authority
Management's Discussion and Analysis
June 30, 2021

Revenues

The revenues for the Authority decreased by 24.81% from the previous year.

- Property taxes increased by 4.72%. Annual taxable value increases for the Authority are limited by City Ordinance to 3.5%, however when the millage rate also increases, total revenues may increase by a greater rate, as happened in FY21.
- Charges for Services are primarily composed of parking fees. These decreased by 37.01% due to the impacts of COVID.
- Charges – General Government are bond reimbursements that the DDA receives from the City of Ann Arbor. The City of Ann Arbor issued bonds on behalf of the Authority and holds those bond revenues, reimbursing the DDA for project expenditures as they occur. These revenues vary based on the timing of project activities.

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. TIF captures are generated on new private construction and major improvements in the Authority's district. TIF revenues for the year ended June 30, 2021 include property taxes levied July 1, 2020 and December 1, 2020. Beginning in fiscal year 2017 DDA district taxable values have been capped by City Ordinance to a maximum annual increase of 3.50%.

Charges for Services

Charges for Services are parking fees generated by the approximately 5,500 space off-street parking system and 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 decreased by 14.28% primarily due to the winding down of a major construction project – the First & Ashley Streetscape Project. Project expenditures for FY21 were \$3.2M, compared to \$8.9M in expenditures in FY20.

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.

City of Ann Arbor Downtown Development Authority
Management's Discussion and Analysis
June 30, 2021

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 \$14,974,100 and budgeted expenditures of \$19,662,400. Actual revenues came in lower than budgeted at \$11,553,743: a variance of \$3,420,357 or -30%. This variance is primarily due to project timing which delayed the timing of bond proceeds reimbursements. Actual expenditures came in under budget at \$10,881,039: a variance of \$8,781,361, or -81%. This was due to project delays, primarily related to COVID. While the Authority's budget for the general fund projected that expenditures would exceed revenues by \$4,688,300, the actual results for the year were that revenues exceeded expenditures by \$672,704.

The parking fund had budgeted revenues of \$25,356,600 and budgeted expenditures of \$31,773,100. Actual revenues came in under budget at \$12,822,983; a variance of \$12,533,617 or -49%. The FY21 budget was adopted with pre-pandemic numbers. The reduced revenues were due to COVID response and related activity decline in the downtown. Actual expenditures came in under budget at \$14,694,750: a variance of \$17,078,350 or -54%. This is due to cost cutting measures implemented in response to loss of parking revenues, which included cuts to administration, operations, and maintenance. The Authority's budget for the parking fund projected that expenditures would exceed revenues by \$6,416,500. The actual results for the year were that expenditures exceeded revenues by \$1,871,767.

Financial Analysis of the Authority's Major Funds

The Authority completed fiscal year 2021 with its governmental funds reporting combined fund balances of \$20,944,565. The net changes are summarized in the following chart:

	General Fund	Parking Fund	Total
Total fund balance			
June 30, 2020	\$ 9,131,039	\$13,012,589	\$ 22,143,628
June 30, 2021	<u>9,803,743</u>	<u>11,140,822</u>	<u>20,944,565</u>
Net change	<u>\$ 672,704</u>	<u>\$ (1,871,767)</u>	<u>\$ (1,199,063)</u>

City of Ann Arbor Downtown Development Authority
Management's Discussion and Analysis
June 30, 2021

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 2022 budget anticipates an increase in tax increment finance income due to the completion of new private development projects in the district during calendar year 2020. This increase will be capped at approximately \$7.6 million, per City ordinance. Negative impacts of COVID on downtown businesses are anticipated to be grave and long lasting. Parking revenues are anticipated to be negatively impacted in fiscal year 2022 and beyond.

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, 2021

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 21,078,453
Receivables	353,329
Due from the City of Ann Arbor	2,312,256
Prepaid items	530,260
Total assets	<u>24,274,298</u>
Liabilities	
Accounts payable	2,699,583
Accrued and other liabilities	15,370
Retainage payable	484,518
Noncurrent liabilities	
Due within one year	33,480
Due in more than one year	76,498
Total liabilities	<u>3,309,449</u>
Net Position	
Restricted for	
Housing	7,880
Parking operations	522,380
Unrestricted	<u>20,434,589</u>
Total net position	<u>\$ 20,964,849</u>

See Accompanying Notes to the Financial Statements

City of Ann Arbor Downtown Development Authority
Statement of Activities
For the Year Ended June 30, 2021

	Expenses	Charges for Services	Net (Expense) Revenue
Functions/Programs			Total
Governmental activities			
Downtown development	\$ 10,808,451	\$ -	\$ (10,808,451)
Parking	14,694,750	12,304,093	(2,390,657)
Total	\$ 25,503,201	\$ 12,304,093	(13,199,108)
			General revenues
			Property taxes
			7,348,754
			Unrestricted investment earnings
			574,687
			Charges - general government
			3,910,224
			Total general revenues
			11,833,665
			Change in net position
			(1,365,443)
			Net position - beginning of year
			22,330,292
			Net position - end of year
			\$ 20,964,849

See Accompanying Notes to the Financial Statements

City of Ann Arbor Downtown Development Authority
Governmental Funds
Balance Sheet
June 30, 2021

	General	Parking	Total Governmental Funds
Assets			
Cash and investments	\$ 9,388,928	\$ 11,689,525	\$ 21,078,453
Receivables	7,797	345,532	353,329
Due from the City of Ann Arbor	2,312,256	-	2,312,256
Prepaid items	<u>7,880</u>	<u>522,380</u>	<u>530,260</u>
Total assets	<u>\$ 11,716,861</u>	<u>\$ 12,557,437</u>	<u>\$ 24,274,298</u>
Liabilities			
Accounts payable	\$ 1,479,032	\$ 1,220,551	\$ 2,699,583
Accrued and other liabilities	7,685	7,685	15,370
Retainage payable	<u>419,941</u>	<u>64,577</u>	<u>484,518</u>
Total liabilities	<u>1,906,658</u>	<u>1,292,813</u>	<u>3,199,471</u>
Deferred Inflows of Resources			
Unavailable revenue	<u>6,460</u>	<u>123,802</u>	<u>130,262</u>
Fund Balances			
Non-spendable			
Prepaid items	7,880	522,380	530,260
Committed for parking improvements	-	2,506,769	2,506,769
Assigned for			
Housing	471,441	-	471,441
Parking operations	-	8,111,673	8,111,673
Unassigned	<u>9,324,422</u>	<u>-</u>	<u>9,324,422</u>
Total fund balances	<u>9,803,743</u>	<u>11,140,822</u>	<u>20,944,565</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 11,716,861</u>	<u>\$ 12,557,437</u>	<u>\$ 24,274,298</u>

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, 2021

Total fund balances for governmental funds	\$ 20,944,565
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	(109,978)
Deferred inflows of resources are not current financial resources and therefore are not reported as revenue in the governmental funds.	<u>130,262</u>
Net position of governmental activities	<u>\$ 20,964,849</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, 2021

	<u>General</u>	<u>Parking</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 7,350,768	\$ -	\$ 7,350,768
Charges for services	-	12,541,047	12,541,047
Charges - general government	3,910,224	-	3,910,224
Other revenue	<u>292,751</u>	<u>281,936</u>	<u>574,687</u>
 Total revenues	 <u>11,553,743</u>	 <u>12,822,983</u>	 <u>24,376,726</u>
Expenditures			
Current			
Downtown development	10,881,039	-	10,881,039
Parking	<u>-</u>	<u>14,694,750</u>	<u>14,694,750</u>
 Total expenditures	 <u>10,881,039</u>	 <u>14,694,750</u>	 <u>25,575,789</u>
 Net change in fund balance	 <u>672,704</u>	 <u>(1,871,767)</u>	 <u>(1,199,063)</u>
 Fund balance - beginning of year	 <u>9,131,039</u>	 <u>13,012,589</u>	 <u>22,143,628</u>
 Fund balance - end of year	 <u>\$ 9,803,743</u>	 <u>\$ 11,140,822</u>	 <u>\$ 20,944,565</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, 2021

Net change in fund balances - total governmental funds \$ (1,199,063)

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.

Parking	(236,954)
Property taxes	(2,014)

Expenses are recorded when incurred in the statement of activities.

Compensated absences	<u>72,588</u>
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Change in net position of governmental activities \$ (1,365,443)

City of Ann Arbor Downtown Development Authority
Notes to the Financial Statements
June 30, 2021

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.

City of Ann Arbor Downtown Development Authority
Notes to the Financial Statements
June 30, 2021

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.

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.

City of Ann Arbor Downtown Development Authority
Notes to the Financial Statements
June 30, 2021

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.

Adoption of New Accounting Standards

No new accounting policies were adopted and the application of existing policies was not changed during the year.

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, 2022.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset

reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2022.

Statement No. 91, *Conduit Debt Obligations* provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This statement is effective for the year ending June 30, 2023.

Statement No. 93, *Replacement of Interbank Offered Rates* establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments. This statement is effective for the year ending June 30, 2022.

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service

City of Ann Arbor Downtown Development Authority
Notes to the Financial Statements
June 30, 2021

concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. This statement is effective for the year ending June 30, 2023.

Statement No. 96, *Subscription-Based Information Technology Arrangements*, is based on the standards established in Statement No. 87 *Leases*. This statement (1) defines a SBITA as a contract that conveys control of the right to use a SBITA vendor's IT software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction (2) requires governments with SBITAs to recognize a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability, and (3) provides guidance related to outlays other than subscription payments, including implementation costs, and requirements for note disclosures related to a SBITA. This statement is effective for the year ending June 30, 2023.

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 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, 2021, 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)	\$ 8,937,893
Investments in securities, mutual funds and similar vehicles	12,140,360
Petty cash and cash on hand	<u>200</u>
	<u>\$ 21,078,453</u>

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, 2021, the carrying amounts of the Authority's bank deposits in cash and cash on hand were \$1,097,011 and the bank balance was \$2,000,430 of which \$1,750,430 was exposed to custodial credit risk because it was uninsured and uncollateralized. The remaining deposits of \$7,841,082 were in money market accounts which are all uninsured.

Investments

As of June 30, 2021, the Authority had total investments of \$12,140,360 in the securities of U.S. agencies and in mutual funds.

City of Ann Arbor Downtown Development Authority
Notes to the Financial Statements
June 30, 2021

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, 2021, 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, 2021, 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	\$ 10,047,359	\$ 10,047,359	\$ -	\$ -

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 recurring fair value measurements as of June 30, 2021 were related to its investments in mutual funds and government agency securities.

- Mutual funds of \$2,093,001 are valued using quoted market prices (Level 1 inputs)
- U.S. government agency securities of \$ 10,047,359 are valued using a matrix pricing model (Level 2 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, 2021

Note 4 - Long-Term Liabilities

The following is a summary of changes in long-term liabilities of the Authority for the year ended June 30, 2021:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Compensated absences	\$ 182,566	\$ 61,856	\$ 134,444	\$ 109,978	\$ 33,480

Note 5 - Debt Service Commitments

The Authority has commitments to pay debt service for parking structures and pedestrian improvements. The debt issues are obligations of the City 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, 2021, these commitments totaled \$54,345,000, and the remaining annual obligations are follows:

Year Ending June 30,	Principal
2022	\$ 3,755,000
2023	3,625,000
2024	3,735,000
2025	3,860,000
2026	3,965,000
2027-2031	20,720,000
2032-2035	<u>14,685,000</u>
	<u>\$ 54,345,000</u>

Note 6 - Risk Management

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

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

Note 7 - 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 \$7,975 which includes utilities through June 30, 2022. The current agreement may be extended for an optional term of five years with an annual adjustment increase of 3%.

Note 8 - 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

City of Ann Arbor Downtown Development Authority
Notes to the Financial Statements
June 30, 2021

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 9 - 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 10 - 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.

Note 11 - COVID-19 Pandemic

As result of the global coronavirus pandemic of 2020, many organizations' financial picture has seen an unanticipated change. The duration and full effects of the outbreak are currently unknown, as the global picture continues to change daily. While management is hopeful that the impact is temporary in nature, a description of known and anticipated circumstances expected to have a significant impact on the Authority as of the date of management's review is as follows:

Investments – The Authority currently has no immediate plans to liquidate investments and remains focused on long term appreciation.

Revenues and Liquidity – The Authority does not foresee significant liquidity issues at this time, however, the effect the pandemic may have on future revenues is unknown. As of August 2021 month-end, Authority parking revenues continue to be down materially from prior years.

Accounts Receivable – The Authority has experienced material delays in collection of accounts receivable and has offered payment plans to customers in order to collect over time. However, if the pandemic leads to a protracted recession and such delays convert to bad debt, the Authority has sufficient liquidity to effectively mitigate any cash flow issues that could arise.

Additional Expenditures – The Authority took on some additional expenditures in 2021 to implement safety measures in the downtown area during the pandemic. But those additional expenditures were more than offset by expenditure cuts in other areas that were made to keep spending in line with reduced revenue streams.

City of Ann Arbor Downtown Development Authority
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2021

	<u>Budgeted Amounts</u>		<u>Actual</u>	Actual Over (Under)
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Revenues				
Taxes				
Property taxes	\$ 7,263,400	\$ 7,263,400	\$ 7,350,768	\$ 87,368
Other revenue	129,600	129,600	292,751	163,151
Charges - general government	<u>2,144,200</u>	<u>7,581,100</u>	<u>3,910,224</u>	<u>(3,670,876)</u>
Total revenues	<u>9,537,200</u>	<u>14,974,100</u>	<u>11,553,743</u>	<u>(3,420,357)</u>
Expenditures				
General government				
Downtown development	<u>14,740,000</u>	<u>19,662,400</u>	<u>10,881,039</u>	<u>(8,781,361)</u>
Excess (deficiency) of revenues over expenditures	(5,202,800)	(4,688,300)	672,704	5,361,004
Fund balance - beginning of year	<u>9,131,039</u>	<u>9,131,039</u>	<u>9,131,039</u>	<u>-</u>
Fund balance - end of year	<u>\$ 3,928,239</u>	<u>\$ 4,442,739</u>	<u>\$ 9,803,743</u>	<u>\$ 5,361,004</u>

City of Ann Arbor Downtown Development Authority
Required Supplementary Information
Budgetary Comparison Schedule
Parking Fund
For the Year Ended June 30, 2021

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Revenues				
Charges for services	\$ 25,006,600	\$ 25,006,600	\$ 12,541,047	\$ (12,465,553)
Other revenue	350,000	350,000	281,936	(68,064)
Total revenues	<u>25,356,600</u>	<u>25,356,600</u>	<u>12,822,983</u>	<u>(12,533,617)</u>
Expenditures				
Current				
Parking services	<u>31,219,400</u>	<u>31,773,100</u>	<u>14,694,750</u>	<u>(17,078,350)</u>
Excess (deficiency) of revenues over expenditures	(5,862,800)	(6,416,500)	(1,871,767)	4,544,733
Fund balance - beginning of year	<u>13,012,589</u>	<u>13,012,589</u>	<u>13,012,589</u>	<u>-</u>
Fund balance - end of year	<u>\$ 7,149,789</u>	<u>\$ 6,596,089</u>	<u>\$ 11,140,822</u>	<u>\$ 4,544,733</u>



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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, 2021, 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 25, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 25, 2021