

City of Ann Arbor Downtown Development Authority

Financial Statements

June 30, 2017



Table of Contents

Section		Page
1	List of Board of Directors	1 – 1
2	Independent Auditors' Report	2 – 1
3	Management's Discussion and Analysis	3 – 1
4	Basic Financial Statements	
	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	Required Supplementary Information	
	Budgetary Comparison Schedule	
	General fund	5 – 1
	Parking fund	5 – 2
6	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>	6 – 1

City of Ann Arbor Downtown Development Authority
List of Board of Directors
June 30, 2017

Rishi Narayan - Chairman

Marie Klopf - Treasurer

Phil Weiss - Secretary

Robert Guenzel

Howard Lazarus

Sava Lelcaj-Farah

Joan Lowenstein

Darren McKinnon

Al McWilliams

John Mouat

Keith Orr

John Splitt



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, 2017, 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, 2017, 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.

Yeo & Yeo, P.C.

Ann Arbor, MI
October 16, 2017

City of Ann Arbor Downtown Development Authority
Management's Discussion and Analysis
June 30, 2017

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, 2017 . 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
	2017	2016	Change
Assets	\$ 19,010,489	\$ 15,574,338	22.06%
Liabilities	<u>3,696,784</u>	<u>2,549,206</u>	45.02%
Net position - unrestricted	<u>\$ 15,313,705</u>	<u>\$ 13,025,132</u>	17.57%

City of Ann Arbor Downtown Development Authority
Management's Discussion and Analysis
June 30, 2017

Assets

The most significant increase in the assets category was the increase in cash and investments at June 30, 2017, which correlated with the increase in the accounts payable at June 30, 2017.

Cash

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

Investments, at Fair Market Value

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

Taxes Receivable

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

Receivables

Represents small amounts due from entities sharing ownership of two parking facilities, from the parking contractor for expenses paid by the Authority that could not be received by the end of the fiscal year, and from permit customers unpaid balances ultimately due the Authority.

Due from the City of Ann Arbor

Represents the amount due to the Authority for payments made by the Authority on a joint Authority /City construction project in the Authority's district.

Liabilities

The increase in liabilities is related to the increases in accounts payable due to an ongoing capital construction project and repairs to the parking facilities. This liability category is composed of:

Accounts Payable and Accrued Expenses

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

Due to Other Governments

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

Long-term Liabilities

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

City of Ann Arbor Downtown Development Authority
Management's Discussion and Analysis
June 30, 2017

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
	2017	2016	Change
Revenues			
Property taxes	\$ 6,285,018	\$ 5,389,177	
Charges for services	21,409,960	21,706,096	
Investment income	181,697	179,860	
Total revenues	27,876,675	27,275,133	2.21%
Expenses			
Downtown development	4,677,413	3,919,529	
Parking	20,899,839	20,535,835	
Interest on long-term debt	10,850	27,454	
Total expenses	25,588,102	24,482,818	4.51%
Change in net position	2,288,573	2,792,315	
Net position, beginning of year	13,025,132	10,232,817	
Net position, end of year	\$ 15,313,705	\$ 13,025,132	17.57%

City of Ann Arbor Downtown Development Authority
Management's Discussion and Analysis
June 30, 2017

Revenues

The revenues for the Authority remained largely unchanged from the previous year. The largest difference was the increase in Property Taxes which was due to new construction in the Authority district.

Property Taxes

The Authority's property tax revenues are generated through the use of tax increment financing (TIF) in which the Authority captures ad valorem property taxes. Property tax increment revenues are generated by new construction and major improvements in the Authority's district. Property tax revenues for the year ended June 30, 2017 included property taxes levied July 1, 2016 and December 1, 2016. Beginning in this fiscal year those property taxes have been capped by a City Ordinance to a 3.5% maximum annual increase.

Charges for Services

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

Investment Income

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

Expenses

The expenses of the Authority increased due to the South University streetscape construction project and increased operational cost for operating the parking system.

Downtown Development

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

Parking

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

Interest on Long-term Debt

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

City of Ann Arbor Downtown Development Authority
Management's Discussion and Analysis
June 30, 2017

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 \$6,262,757 and budgeted expenditures of \$6,540,930. While the Authority's budget for the general fund projected that expenditures would exceed revenues by \$278,173, the actual results for the year were \$1,925,321 and better than what the Authority anticipated. Results for the year were an increase of \$1,647,148 in fund balance. Overall, actual revenues were \$44,563 more than the final budget while actual expenditures were \$1,880,758 less than the final budget.

The parking fund final budgeted revenues were \$21,972,139 and expenditures of \$22,703,865. While the Authority's final budget for the parking fund projected that fund balance would decrease by \$731,726, the actual results for the year were \$1,109,817 and better than what the Authority anticipated. The Authority's fund balance increased by \$378,091. Overall, actual revenues fell short of the final budgeted revenues by \$397,544 while actual expenditures were \$1,507,361 less than the final budget.

Financial Analysis of the Authority's Major Funds

The Authority completed fiscal year 2017 with its governmental funds reporting combined fund balances of \$15,505,888. The net changes are summarized in the following chart:

	General Fund	Parking Fund	Total
Total fund balance			
June 30, 2016	\$ 4,067,852	\$9,412,797	\$13,480,649
June 30, 2017	<u>5,715,000</u>	<u>9,790,888</u>	<u>15,505,888</u>
Net change	<u>\$ 1,647,148</u>	<u>\$ 378,091</u>	<u>\$ 2,025,239</u>

City of Ann Arbor Downtown Development Authority
Management's Discussion and Analysis
June 30, 2017

Capital Asset and Debt Administration

The Authority holds no capital assets as all capital items that were purchased or constructed became property of the City of Ann Arbor. The Authority entered into an installment purchase agreement for parking equipment in the amount of \$1,278,765 during fiscal 2013. There was long-term debt at year-end from this installment purchase agreement. More detailed information may be found in Note 5 to the financial statements.

Economic Factors

The fiscal year 2018 budget anticipates the Authority's potential tax increment finance income to increase, reflecting the completion of new private development projects in the district during the upcoming year. This increase will be capped at approximately \$6.23M due to 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, 2017

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 18,005,016
Receivables	363,745
Due from the City of Ann Arbor	<u>641,728</u>
Total assets	<u>19,010,489</u>
Liabilities	
Accounts payable	2,772,614
Accrued and other liabilities	626,298
Due to other units of government	85,164
Noncurrent liabilities	
Debt due within one year	24,600
Debt due in more than one year	<u>188,108</u>
Total liabilities	<u>3,696,784</u>
Net Position	
Unrestricted	<u>\$ 15,313,705</u>

See Accompanying Notes to the Financial Statements

City of Ann Arbor Downtown Development Authority
Statement of Activities
For the Year Ended June 30, 2017

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Net (Expense) Revenue</u>
Functions/Programs			<u>Total</u>
Governmental activities			
Downtown development	\$ 4,677,413	\$ -	\$ (4,677,413)
Parking	20,899,839	21,409,960	510,121
Interest and fiscal charges on long-term debt	<u>10,850</u>	<u>-</u>	<u>(10,850)</u>
Total	<u>\$ 25,588,102</u>	<u>\$ 21,409,960</u>	<u>(4,178,142)</u>
General revenues			
Property taxes			6,285,018
Unrestricted investment earnings			<u>181,697</u>
Total general revenues			<u>6,466,715</u>
Change in net position			2,288,573
Net position - beginning of year			<u>13,025,132</u>
Net position - end of year			<u>\$ 15,313,705</u>

See Accompanying Notes to the Financial Statements

City of Ann Arbor Downtown Development Authority
Governmental Funds
Balance Sheet
June 30, 2017

	General	Parking	Total Governmental Funds
Assets			
Cash and investments	\$ 7,012,170	\$ 10,992,846	\$ 18,005,016
Receivables	20,525	343,220	363,745
Due from the City of Ann Arbor	641,728	-	641,728
Due from other funds	981,105	-	981,105
Total assets	<u>\$ 8,655,528</u>	<u>\$ 11,336,066</u>	<u>\$ 19,991,594</u>
Liabilities			
Accounts payable	\$ 2,772,614	\$ -	\$ 2,772,614
Accrued and other liabilities	104,807	521,491	626,298
Due to other funds	-	981,105	981,105
Due to other units of government	42,582	42,582	85,164
Total liabilities	<u>2,920,003</u>	<u>1,545,178</u>	<u>4,465,181</u>
Deferred Inflows of Resources			
Unavailable revenue	20,525	-	20,525
Fund Balances			
Committed for parking improvements	-	2,342,360	2,342,360
Assigned for			
Housing	544,373	-	544,373
Parking operations	-	7,448,528	7,448,528
Unassigned	5,170,627	-	5,170,627
Total fund balances	<u>5,715,000</u>	<u>9,790,888</u>	<u>15,505,888</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 8,655,528</u>	<u>\$ 11,336,066</u>	<u>\$ 19,991,594</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, 2017

Total fund balances for governmental funds	\$ 15,505,888
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Compensated absences	(188,108)
Deferred inflows of resources are not current financial resources and therefore are not reported as revenue in the governmental funds.	
	20,525
Long-term liabilities applicable to governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities.	
Notes payable	<u>(24,600)</u>
Net position of governmental activities	<u>\$ 15,313,705</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, 2017

	General	Parking	Total Governmental Funds
Revenues			
Taxes	\$ 6,290,258	\$ -	\$ 6,290,258
Charges for services	-	21,409,960	21,409,960
Other revenue	17,062	164,635	181,697
 Total revenues	 <u>6,307,320</u>	 <u>21,574,595</u>	 <u>27,881,915</u>
Expenditures			
Current			
Downtown development	4,660,172	-	4,660,172
Parking	-	20,899,839	20,899,839
Debt service			
Principal retirement	-	285,815	285,815
Interest and fiscal charges	-	10,850	10,850
 Total expenditures	 <u>4,660,172</u>	 <u>21,196,504</u>	 <u>25,856,676</u>
 Excess of revenues over expenditures	 1,647,148	 378,091	 2,025,239
 Fund balance - beginning of year	 <u>4,067,852</u>	 <u>9,412,797</u>	 <u>13,480,649</u>
 Fund balance - end of year	 <u>\$ 5,715,000</u>	 <u>\$ 9,790,888</u>	 <u>\$ 15,505,888</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, 2017

Net change in fund balances - total governmental funds \$ 2,025,239

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 (5,240)

Expenses are recorded when incurred in the statement of activities.

Compensated absences (17,241)

Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Repayments of long-term debt 285,815

Change in net position of governmental activities \$ 2,288,573

City of Ann Arbor Downtown Development Authority
Notes to the Financial Statements
June 30, 2017

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, 2017

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, 2017

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.

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, 2017, 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)	\$ 308,333
Investments in securities, mutual funds and similar vehicles	17,696,483
Petty cash and cash on hand	<u>200</u>
	<u>\$ 18,005,016</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, 2017, the carrying amounts of the Authority's deposits were \$308,333 and the bank balance was \$608,553 of which \$358,553 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

As of June 30, 2017, the Authority had total investments of \$17,696,483 consisting of \$546,623 in certificates of deposit due in more than one year, \$13,426,983 in the securities of U.S. agencies and \$3,722,877 in money market accounts.

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

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

As of June 30, 2017, the Authority's investments in the U.S. agencies were rated AA+ by Standard & Poor's Global Investor Services.

City of Ann Arbor Downtown Development Authority
Notes to the Financial Statements
June 30, 2017

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, 2017, 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. Securites	\$ 13,426,983	\$ 12,927,865	\$ 499,118	\$ -

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, 2017 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.

Note 4 - Interfund Receivables and Payables

As of June 30, 2017, the general fund had an interfund receivable of \$981,105 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, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Installment purchase agreement	\$ 310,415	\$ -	\$ 285,815	\$ 24,600	\$ 24,600
Compensated absences	170,867	17,241	-	188,108	-
Total governmental activities	\$ 481,282	\$ 17,241	\$ 285,815	\$ 212,708	\$ 24,600

The Authority entered into a long-term installment purchase agreement in fiscal year 2013 for the purchase of parking equipment for \$1,278,765 due in monthly installments of \$24,723, including interest at a rate of 6.0%, and payable through July 2017. The remaining annual debt service requirement to maturity is as follows:

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2018	\$ 24,600	\$ 123

City of Ann Arbor Downtown Development Authority
Notes to the Financial Statements
June 30, 2017

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, 2017, these commitments totaled \$56,235,000, and the remaining annual obligations are follows:

Year Ending June 30,	Principal
2018	\$ 3,810,000
2019	3,870,000
2020	3,275,000
2021	2,665,000
2022	2,770,000
2023-2027	14,285,000
2028-2032	15,965,000
2033-2037	9,595,000
	\$ 56,235,000

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.

Note 8 - Noncancelable Operating Lease Obligations

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

The first is for the rental of office space that requires monthly payments of \$5,338 through June 30, 2018. 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 2018 is not presented on this obligation because it is not determinable at this time.

The second is for property used for parking that requires monthly payments of \$32,109 for calendar year 2017. The monthly payments for each year are adjusted based on the change in the Consumer Price Index, as established by the U.S. Department of Labor, each October in relation to the previous October. The current agreement is set to expire on November 30, 2017. Annual payment information beyond 2017 is not presented on this obligation because it is not determinable at this time.

The third is for property used for parking that requires monthly payments of \$2,325 through November 30, 2017. The monthly payments for each 12 month period are adjusted based on the change in the Consumer Price Index, as established by the U.S. Department of Labor, each September in relation to the previous September. The current agreement is set to expire on November 30,

City of Ann Arbor Downtown Development Authority
Notes to the Financial Statements
June 30, 2017

2017. Annual payment information beyond 2017 is not presented 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 \$12,500 per month as well as an annual incentive payment that is determined based on certain agreed-upon measures of performance. This agreement commenced on February 1, 2007, and shall continue in effect through June 30, 2017. A new agreement between the Authority and Republic became effective on July 1, 2017. The term of this agreement is one year and shall renew automatically 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. The original agreement percentage (17%) resumes July 1, 2019 through June 30, 2033.

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, 2017

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Taxes				
Property taxes	\$ 6,258,717	\$ 6,258,717	\$ 6,290,258	\$ 31,541
Other revenue	4,040	4,040	17,062	13,022
Total revenues	<u>6,262,757</u>	<u>6,262,757</u>	<u>6,307,320</u>	<u>44,563</u>
Expenditures				
General government				
Downtown development	<u>6,540,930</u>	<u>6,540,930</u>	<u>4,660,172</u>	<u>(1,880,758)</u>
Excess (deficiency) of revenues over expenditures	(278,173)	(278,173)	1,647,148	1,925,321
Fund balance - beginning of year	<u>4,067,852</u>	<u>4,067,852</u>	<u>4,067,852</u>	<u>-</u>
Fund balance - end of year	<u>\$ 3,789,679</u>	<u>\$ 3,789,679</u>	<u>\$ 5,715,000</u>	<u>\$ 1,925,321</u>

City of Ann Arbor Downtown Development Authority
Required Supplementary Information
Budgetary Comparison Schedule
Parking Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Charges for services	\$ 21,825,179	\$ 21,825,179	\$ 21,409,960	\$ (415,219)
Other revenue	146,960	146,960	164,635	17,675
Total revenues	<u>21,972,139</u>	<u>21,972,139</u>	<u>21,574,595</u>	<u>(397,544)</u>
Expenditures				
Current				
Parking services	22,407,200	22,407,200	20,899,839	(1,507,361)
Debt service				
Principal retirement	285,815	285,815	285,815	-
Interest and fiscal charges	10,850	10,850	10,850	-
Total expenditures	<u>22,703,865</u>	<u>22,703,865</u>	<u>21,196,504</u>	<u>(1,507,361)</u>
Excess (deficiency) of revenues over expenditures	(731,726)	(731,726)	378,091	1,109,817
Fund balance - beginning of year	<u>9,412,797</u>	<u>9,412,797</u>	<u>9,412,797</u>	<u>-</u>
Fund balance - end of year	<u>\$ 8,681,071</u>	<u>\$ 8,681,071</u>	<u>\$ 9,790,888</u>	<u>\$ 1,109,817</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, 2017, 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 16, 2017.

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 16, 2017