

**City of Ann Arbor  
Downtown Development Authority  
Washtenaw County, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2011**

City of Ann Arbor  
Downtown Development Authority  
Washtenaw County, Michigan

June 30, 2011

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City of Ann Arbor  
Downtown Development Authority

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June 30, 2011

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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information 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, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

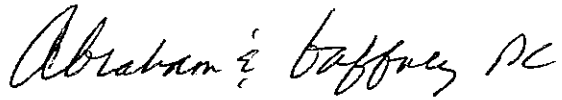
As discussed in Note A, the financial statements present only the City of Ann Arbor Downtown Development Authority, and does not purport to, and does not, present fairly the financial position of the City of Ann Arbor, Michigan, as of June 30, 2011, and the change in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Ann Arbor Downtown Development Authority as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ann Arbor Downtown Development Authority's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note N, during the year the Authority implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-Type Definitions*. As a result of this implementation, fund balance classifications in the governmental fund financial statements have been changed to reflect the new classifications of fund balance under GASB Statement No. 54.

A handwritten signature in cursive script that reads "Abraham & Gaffney PC".

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 8, 2011

City of Ann Arbor

Downtown Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

This section for 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, 2011. 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 operations 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 Assets and Statement of Activities that present financial information in a form similar to the private sector.

The Statement of Net Assets includes the Authority's assets, liabilities and net assets. 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 assets are one indicator of the Authority's financial health. Over time, increases or decreases in net assets indicate the improvement or erosion of the Authority's financial health.

	Fiscal Year 2010	Fiscal Year 2011	Percentage Change
Current Assets	\$ 15,040,467	\$ 16,979,850	12.89%
Current Liabilities	4,597,338	9,176,621	99.61%
Long-term Liabilities	650,000	-	-100.00%
Total Liabilities	5,247,338	9,176,621	74.88%
Net Assets			
Restricted	-	117,317	100.00%
Unrestricted	9,793,129	7,685,912	-21.52%
Total Net Assets	\$ 9,793,129	\$ 7,803,229	

**Current Assets**

The increase in current assets is due to an increase in cash as well as amounts due from other governmental units at June 30, 2011. The components of this category are:

**Cash**

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

City of Ann Arbor  
Downtown Development Authority  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011

**Current Assets - continued**

**Receivables**

These are funds due for loan payments and reimbursement for costs on parking structure operating as well as taxes.

**Due from Other Governmental Units**

Represents amounts due from the City of Ann Arbor for various purposes, mostly capital construction related.

**Noncurrent Assets**

The components of this category are:

**Investments at fair value**

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

**Current Liabilities**

The 69.41% increase in current liabilities was due to an increase in the accounts payable as a result of an increase of invoices received after the year end close due to construction of the underground parking deck. This category is composed of:

**Accounts Payable**

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

**Due to Other Governmental Units**

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

**Accrued Interest Payable**

This amount represents the amount of interest owed but not paid at year end on the outstanding bonds taken out for DDA and parking projects.

**Long-term liabilities, due within one year**

This represents the amount due for the bonds taken out for streetscape and parking projects due in the next year.

**Non-Current Liabilities**

The increase in this category is due to the increase in the value of the construction contracts. The DDA is responsible for the amount retained during the construction phase of the various projects. This category is composed of:

**Long-term liabilities, due in more than one year**

This represents the amounts retained from payments to contractors until the construction projects are completed.

**Net Assets**

Net assets represent the difference between the Authority's assets and liabilities.

**Unrestricted Net Assets**

Represents those funds available to the Authority for use in approved expenses.

City of Ann Arbor  
Downtown Development Authority  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011

Condensed Statement of Activities  
June 30, 2010 and 2011

	Fiscal Year 2010	Fiscal Year 2011
<b>Revenues</b>		
Property taxes	\$ 3,537,939	\$ 3,419,042
Charges for service	14,595,388	15,334,774
Investment income	159,606	39,804
Project reimbursement	174,517	13,145
Other revenue	6,409	-
	<hr/>	<hr/>
Total revenues	18,473,859	18,806,765
<b>Expenses</b>		
Downtown development	3,702,562	3,820,183
Parking	17,277,341	16,506,491
Housing	424,315	427,474
Interest on long-term debt	65,350	42,517
	<hr/>	<hr/>
Total expenses	21,469,568	20,796,665
Change in net assets	(2,995,709)	(1,989,900)
Net assets, beginning of year	<hr/> 12,788,838	<hr/> 9,793,129
Net assets, end of year	<hr/> <u>\$ 9,793,129</u>	<hr/> <u>\$ 7,803,229</u>

**Revenues**

**Property Taxes**

The Authority's property tax revenues are generated through the use of tax increment financing in which the Authority captures ad valorem property taxes. Property tax increment revenues generated by new construction in the Authority's district related to the City of Ann Arbor, Washtenaw County, Washtenaw Community College, and the Ann Arbor District Library are used to support the Authority's capital projects and debt service related to certain of those projects. Property tax revenues for the year ended June 30, 2011 included property taxes levied July 1, 2010 and December 1, 2010.

**Charges for Services**

This is the revenue generated by the 4,500 space off-street parking system and the 1,900 parking meters managed by the Authority.

**Investment earnings**

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

**Project reimbursements**

This is reimbursements by outside organizations for various projects.



MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

**Expenses**

**Downtown Development**

This is the cost of general administration of the Authority as well as grants to other organizations for the betterment of the downtown area. An example would be the funding of downtown worker bus passes.

**Parking**

This is the cost of operating the City's parking system.

**Housing**

This is the cost of one of the Authority's main functions, which is to assist various agencies in providing fair and equitable housing within the downtown area.

**Interest on long-term debt**

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

**Budgetary Highlights**

The Authority adopts budgets for all of its funds with budgetary comparisons being presented in this annual report for the General Fund and the major special revenue fund.

The General Fund had final budgeted revenues of \$3,926,721 and total expenditures and other financing uses of \$6,094,375. While the Authority's final budget for the General Fund projected that expenditures and other financing uses would exceed revenues by \$2,167,654, the actual results for the year was \$1,235,922 better than what the Authority anticipated. Results for the year were a decrease of \$931,732 in fund balance. Overall the change from the original Board adopted 2010-2011 budget to the final budgeted to revenues that were \$9,069 (0.23%) less than the original budget and expenditures that were \$741,799 (14.12%) greater than the original budget.

The Parking Fund final budgeted revenues were \$15,181,000 and expenditures and other financing uses of \$15,661,086. While the Authority's final budget for the Parking Fund projected that expenditures would exceed revenues by \$480,086, the actual results for the year was an unfavorable \$294,986. Results for the year were a usage of \$775,072 in fund balance. Overall the change from the original Board adopted 2010-2011 budget to the final budgeted revenues that were \$818,916 (5.12%) less and expenditures that were \$2,088,103 (11.79%) less than the original budget.

**Financial analysis of the Authority's Major and Nonmajor Funds**

As the Authority completed 2010/2011 with its governmental funds reported combined fund balances of \$8,181,087. The net changes are summarized in the following chart:

	General Fund	Parking Fund	Nonmajor Governmental Funds
Fund Balance 06/30/10	\$ 7,364,618	\$ 879,893	\$ 2,656,685
Fund Balance 06/30/11	\$ 6,117,260	\$ 104,821	\$ 1,959,006
Net Change	\$ (1,247,358)	\$ (775,072)	\$ (697,679)

City of Ann Arbor

Downtown Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

**Capital Assets and Debt Administration**

The Authority holds no capital assets as any capital items that are purchased or constructed become property of the City of Ann Arbor. The Authority issued no new debt during the year. Bond obligations totaled \$560,000 at year end. More detailed information may be found in Note D to the financial statements.

**Economic Factors and Next Year's Budget**

The fiscal year 2012 budget anticipates the property tax and parking income to increase due to the completion of two real estate projects in the district and a parking rate increase anticipated to be implemented next September 1, 2012.

**Contacting the DDA's Management**

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

## **BASIC FINANCIAL STATEMENTS**

City of Ann Arbor  
Downtown Development Authority  
STATEMENT OF NET ASSETS  
June 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 6,990,359
Investments	3,422,189
Receivables	317,481
Due from other governmental units	<u>6,249,821</u>
TOTAL ASSETS	16,979,850
LIABILITIES	
Current liabilities	
Accounts payable	7,429,669
Due to other governmental units	1,088,285
Accrued interest payable	8,667
Current portion of long-term debt	<u>650,000</u>
TOTAL LIABILITIES	<u>9,176,621</u>
NET ASSETS	
Restricted	117,317
Unrestricted	<u>7,685,912</u>
TOTAL NET ASSETS	<u><u>\$ 7,803,229</u></u>

See accompanying notes to financial statements.

City of Ann Arbor  
Downtown Development Authority  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenues and Changes in Net Assets
Governmental activities			
Downtown development	\$ 3,820,183	\$ -	\$ (3,820,183)
Parking	16,506,491	15,334,774	(1,171,717)
Housing	427,474	-	(427,474)
Interest on long-term debt	42,517	-	(42,517)
Total	<u>\$ 20,796,665</u>	<u>\$ 15,334,774</u>	(5,461,891)
General revenues			
Property taxes			3,419,042
Investment earnings			39,804
Project reimbursement			<u>13,145</u>
Total general revenues			<u>3,471,991</u>
Change in net assets			(1,989,900)
Net assets, beginning of year			<u>9,793,129</u>
Net assets, end of year			<u><u>\$ 7,803,229</u></u>

See accompanying notes to financial statements.

City of Ann Arbor  
Downtown Development Authority  
Governmental Funds  
BALANCE SHEET  
June 30, 2011

	General	Parking	Nonmajor Governmental Funds	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,990,298	\$ 3,081,653	\$ 918,408	\$ 6,990,359
Investments	1,510,228	746,817	1,165,144	3,422,189
Receivables				
Accounts	180,421	135,053	-	315,474
Taxes	2,007	-	-	2,007
Due from other governmental units	578,224	5,671,597	-	6,249,821
Due from other funds	7,472,297	-	-	7,472,297
<b>TOTAL ASSETS</b>	<b>\$ 12,733,475</b>	<b>\$ 9,635,120</b>	<b>\$ 2,083,552</b>	<b>\$ 24,452,147</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 5,647,016	\$ 1,782,653	\$ -	\$ 7,429,669
Due to other governmental units	788,778	299,507	-	1,088,285
Due to other funds	-	7,347,751	124,546	7,472,297
Deferred revenue	180,421	100,388	-	280,809
<b>TOTAL LIABILITIES</b>	<b>6,616,215</b>	<b>9,530,299</b>	<b>124,546</b>	<b>16,271,060</b>
<b>FUND BALANCES</b>				
Restricted				
Pedestrian improvements	-	-	117,317	117,317
Assigned				
Housing	1,071,718	-	-	1,071,718
Park operations	-	104,821	-	104,821
Deck improvements	-	-	1,841,689	1,841,689
Unassigned	5,045,542	-	-	5,045,542
<b>TOTAL FUND BALANCES</b>	<b>6,117,260</b>	<b>104,821</b>	<b>1,959,006</b>	<b>8,181,087</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 12,733,475</b>	<b>\$ 9,635,120</b>	<b>\$ 2,083,552</b>	<b>\$ 24,452,147</b>

See accompanying notes to financial statements.

City of Ann Arbor

Downtown Development Authority

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

June 30, 2011

<b>Total fund balances - governmental funds</b>	<b>\$ 8,181,087</b>
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Amounts reported for the governmental activities in the statement of net assets are different because:

Long-term receivables are not available to pay for current period expenditures and are therefore deferred in the funds. These consist of:

Deferred revenue	280,809
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	\$ 650,000	
Accrued interest payable	<u>8,667</u>	
		<u>(658,667)</u>

<b>Net assets of governmental activities</b>	<b><u><u>\$ 7,803,229</u></u></b>
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City of Ann Arbor

Downtown Development Authority

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2011

	General	Parking	Nonmajor Governmental Funds	Total
<b>REVENUES</b>				
Taxes	\$ 3,419,042	\$ -	\$ -	\$ 3,419,042
Charges for services	-	15,222,698	-	15,222,698
Investment income	35,133	794	3,877	39,804
Project reimbursement	13,145	-	-	13,145
<b>TOTAL REVENUES</b>	<b>3,467,320</b>	<b>15,223,492</b>	<b>3,877</b>	<b>18,694,689</b>
<b>EXPENDITURES</b>				
Current				
General administrative	584,953	414,193	-	999,146
Operating	2,424	9,024,198	193,629	9,220,251
Grants to other organizations	3,324,321	3,031,656	-	6,355,977
Debt service	660,650	-	-	660,650
Capital outlay	142,330	3,528,517	507,927	4,178,774
<b>TOTAL EXPENDITURES</b>	<b>4,714,678</b>	<b>15,998,564</b>	<b>701,556</b>	<b>21,414,798</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(1,247,358)</b>	<b>(775,072)</b>	<b>(697,679)</b>	<b>(2,720,109)</b>
Restated fund balances, beginning of year	7,364,618	879,893	2,656,685	10,901,196
Fund balances, end of year	<u>\$ 6,117,260</u>	<u>\$ 104,821</u>	<u>\$ 1,959,006</u>	<u>\$ 8,181,087</u>

See accompanying notes to financial statements.



City of Ann Arbor

Downtown Development Authority

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

<b>Net change in fund balances - total governmental funds</b>	<b>\$ (2,720,109)</b>
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Amounts reported for governmental activities in the statement of activities  
are different because:

Revenues earned but not available for current expenditures are not reported as revenues in the funds. In the current period these amounts are:	112,076
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current period, these amounts consist of:

Bond principal retirement	610,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	<u>8,133</u>
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<b>Change in net assets of governmental activities</b>	<b><u><u>\$ (1,989,900)</u></u></b>
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City of Ann Arbor  
Downtown Development Authority  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Ann Arbor Downtown Development Authority was created on May 10, 1982, pursuant to Act 197 of the Public Acts of Michigan, 1975 as amended. The Authority has no stockholders, and all monies received are to be used for certain specified purposes in accordance with the City of Ann Arbor ordinance establishing the Authority.

The primary revenue sources of the City of Ann Arbor Downtown Development Authority are "tax increment revenue" and "parking structure revenue". The taxing units are required by law to transmit to the Authority that portion of the tax levy of all taxing bodies paid each year on the captured assessed value of all real and personal property located in the development area. The "captured assessed value" is basically defined as the amount in any one year by which the current assessed value of the project area exceeds the initial assessed value.

The accompanying financial statements present only the activity of the City of Ann Arbor Downtown Development Authority, and does not purport to, and does not, present fairly the financial position of the City of Ann Arbor, Michigan, as of June 30, 2011, and the change in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. The financial statements of the City of Ann Arbor Downtown Development Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority's more significant accounting policies are described below.

**1. Reporting Entity**

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 4*, these financial statements are exclusive presentations of the financial condition and results of operations of the City of Ann Arbor Downtown Development Authority. The Authority is considered a component unit of the City of Ann Arbor, Michigan and is discretely presented in the City of Ann Arbor's (the primary government) financial statements. A copy of the City's audited financial statements may be obtained at the Ann Arbor City Hall.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the City of Ann Arbor Downtown Development Authority contain all the funds controlled by the Authority Board.

**2. Basis of Presentation**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The statement of net assets and the statement of activities (the government-wide statements) present information for the Authority as a whole. Interfund activity has been eliminated in the preparation of the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**- CONTINUED**

2. Basis of Presentation - continued

GOVERNMENT-WIDE FINANCIAL STATEMENTS - CONTINUED

The statement of activities presents the direct functional expenses of the Authority and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes investment earnings and property taxes and shows how governmental functions are either self-financing or supported by the general revenues of the Authority.

FUND FINANCIAL STATEMENTS

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

The Authority reports the following major governmental funds:

- a. General Fund - The general operating fund is used to account for all financial resources of the Authority which are restricted to expenditures for downtown development purposes.
- b. Parking Fund - The Parking fund is used to account for all financial resources of the Authority relating to the parking structures.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**- CONTINUED**

4. Basis of Accounting - continued

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used 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 period. Revenues susceptible to accrual include property taxes, reimbursements receivable, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The Authority reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the Authority receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. If/when both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Budgets and Budgetary Accounting

The annual budget of the Authority is prepared by Authority management and approved by the Board. Any revisions to the original budget are approved by the Board before the end of the fiscal year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of the Authority's checking and money market accounts.

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 market value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

7. Due from Other Governmental Units

Due from other governmental units consist of amounts due from the City of Ann Arbor for various payments.

8. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is 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. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

City of Ann Arbor  
Downtown Development Authority  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**- CONTINUED**

9. Receivables

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

10. Deferred Revenue

Deferred revenue 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.

11. Restricted Net Assets

Restrictions of net assets shown in the government-wide financial statements indicate restrictions that have been imposed by outside sources which preclude a portion of net assets from their use unrestricted purpose.

12. 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.

13. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the Authority is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

## Downtown Development Authority

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**Deposits

There is a custodial credit risk as it relates to 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, 2011, the carrying amounts of the Authority's deposits were \$156,284 and the bank balance was \$367,931, all of which was covered by federal depository insurance. The Authority had \$200 of imprest cash on hand.

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. The ratings for each investment are identified below for investments held at year-end.

Interest rate risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of investments above. 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.

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. All investments held at year-end are reported below.

Custodial credit risk

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 and the Authority does not have a policy for investment custodial credit risk. On the investments listed below, the custodial credit risk is indicated for those investments which are rated. \$6,951,194 of the investments listed below are unclassified as to custodial credit risk as the invested amount is part of an investment pool. \$3,304,870 of the investments below are uninsured and unregistered, with securities held by the agent in the Authority's name.

Investments

As of June 30, 2011, the Authority had the following investments:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Moody's Rating</u>	<u>Weighted Average Maturity</u>
Federal Home Loan Bank	\$ 763,931	\$ 763,931	Aaa	3.51
Federal Home Loan Mtg Corp	993,220	993,220	Aaa	7.91
Federal National Mtg Association	1,547,719	1,547,719	Aaa	11.15
Uncategorized pooled investments	6,951,194	6,951,194	Not rated	N/A
	<u>\$ 10,256,064</u>	<u>\$ 10,256,064</u>		

City of Ann Arbor

Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the balance sheet and statement of net assets based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2011:

	Governmental Activities
Cash and cash equivalents	\$ 6,990,359
Investments	3,422,189
	<u>\$ 10,412,548</u>

**NOTE C: INTERFUND RECEIVABLES AND PAYABLES**

The following schedule details interfund receivables and payables at June 30, 2011:

Due to General Fund from:	
Parking Fund	\$ 7,347,751
Nonmajor governmental funds	124,546
	<u>\$ 7,472,297</u>

Amounts appearing as interfund payables and receivables 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 D: LONG-TERM DEBT**

The following is a summary of changes in long-term debt (including current portion) of the Authority for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Amounts Due Within One Year
2002 Limited Tax Bonds	<u>\$ 1,260,000</u>	<u>\$ -</u>	<u>\$ (610,000)</u>	<u>\$ 650,000</u>	<u>\$ 650,000</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation Bonds

\$4,925,000 2002 General Obligation Limited Tax Development Bonds dated May 1, 2002 due in an annual installment of \$650,000 on March 1, 2012 with interest of 4.00 percent.

\$ 650,000

City of Ann Arbor

Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE D: LONG-TERM DEBT - CONTINUED**

All bond payments are made from the General Fund. The annual requirement to pay principal and interest outstanding for the long-term debt is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	<u>\$ 650,000</u>	<u>\$ 26,000</u>

**NOTE E: RETAINAGE PAYABLE**

The City of Ann Arbor Downtown Development Authority has entered into multiple agreements with various contractors for completion of the Underground Parking Structure at the Ann Arbor District Library and the 5th and Division Streetscape Projects. These projects were not completed as of June 30, 2011. Upon successful completion of the projects the Authority will owe the contractors for the amount retained pertaining to each project. The total amount that has been retained and is payable to contractors at June 30, 2011 was \$1,420,295. The remaining bond proceeds are expected to be sufficient to cover these commitments.

**NOTE F: CONTRACTUAL AND BOND COMMITMENTS**

The Authority has entered into an agreement with several contractors for completion of the Underground Parking Structure at the Ann Arbor District Library and for the 5<sup>th</sup> and Division Streetscape projects that were not completed as of June 30, 2011. The amount remaining on these contracts at June 30, 2011 was \$19,610,855. The remaining bond proceeds are expected to be sufficient to cover these commitments.

The Authority has also entered into various agreements to provide financial assistance with projects which are related to the DDA's overall mission. These agreements include several commitments to the City of Ann Arbor to assist with payment of debt issues for parking structures and the new City Hall addition. The debt issues are obligations of the City of Ann Arbor that the Authority has agreed through action of the Board of Directors to fund in whole or in part as applicable. The parking structure bonds are to be serviced with revenues from the Parking Fund. The City Hall bonds are to be serviced from future tax-increment revenues of the General Fund.

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>	<u>Amounts Due Within One Year</u>
4th and William Parking Garage	\$ 2,560,000	\$ -	\$ (160,000)	\$ 2,400,000	\$ 170,000
4th and William Parking Garage Additional	3,955,000	-	(155,000)	3,800,000	165,000
4th, Washington, and Maynard Parking Garage	12,705,000	-	(1,155,000)	11,550,000	1,200,000
City Hall Bonds	7,788,340	-	(203,688)	7,584,652	143,426
2009 Capital Improvement Bonds	49,420,000	-	-	49,420,000	655,000
2008 Building Authority Bonds	3,570,000	-	(470,000)	3,100,000	480,000
	<u>\$79,998,340</u>	<u>\$ -0-</u>	<u>\$ (2,143,688)</u>	<u>\$77,854,652</u>	<u>\$ 2,813,426</u>



City of Ann Arbor

Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE F: CONTRACTUAL AND BOND COMMITMENTS - CONTINUED**

Significant details regarding outstanding bond commitments are presented below:

**Bond Commitments**

\$3,600,000 4th and William Parking Garage bonds dated May 1, 2002, with in annual principal installments ranging form \$170,000 to \$275,000 through 2022 with interest ranging from 4.25 to 5.00 percent, payable semi-annually.	\$ 2,400,000
\$8,290,000 4th and William Parking Garage Additional bonds dated December 1, 1998 and May 1, 2007, due in annual principal installments ranging form \$165,000 to \$330,000 through 2027 with interest ranging from 4.00 to 4.25 percent, payable semi-annually.	3,800,000
\$13,305,000 4th, Washington, and Maynard Parking Garage bonds dated July 28, 2005, due in annual principal installments ranging form \$820,000 to \$1,470,000 through 2020 with interest ranging from 4.00 to 5.00 percent, payable semi-annually.	11,550,000
\$8,000,000 City Hall bonds dated July 1, 2008 due in annual installments ranging from \$62,756 to \$284,344 through 2038 with interest of 4.80 percent, payable semi-annually.	7,584,652
\$49,420,000 Capital Improvement bonds dated August 19, 2009 due in annual principal installments ranging from \$655,000 to \$3,350,000 through 2035 with interest ranging from 2.50 to 6.50 percent, payable semi-annually.	49,420,000
\$3,570,000 Building Authority bonds dated July 1, 2008, due in annual principal installments ranging from \$480,000 to \$555,000 through 2017 with interest ranging from 2.50 to 3.50 percent, payable semi-annually.	<u>3,100,000</u>
	<u>\$ 77,854,652</u>

The annual requirements to pay the debt principal and interest outstanding for the bond commitments are as follows:

Year Ending June 30,	4th and William 2002 Bonds		4th and William 1998 and 2007 Bonds		4th, Washington, and Maynard 2005 Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 170,000	\$ 111,689	\$ 165,000	\$ 154,344	\$ 1,200,000	\$ 541,300
2013	180,000	104,233	170,000	147,744	1,245,000	488,550
2014	185,000	96,178	180,000	140,942	1,285,000	425,633
2015	195,000	87,638	190,000	133,744	1,315,000	360,883
2016	205,000	78,446	200,000	126,144	1,370,000	294,217
2017-2021	1,190,000	231,418	1,130,000	504,720	5,135,000	483,100
2022-2026	275,000	9,167	1,435,000	254,230	-	-
2027	-	-	330,000	14,025	-	-
	<u>\$ 2,400,000</u>	<u>\$ 718,769</u>	<u>\$ 3,800,000</u>	<u>\$ 1,475,893</u>	<u>\$ 11,550,000</u>	<u>\$ 2,593,683</u>

City of Ann Arbor  
Downtown Development Authority  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

**NOTE F: CONTRACTUAL AND BOND COMMITMENTS - CONTINUED**

Year Ending June 30,	City Hall Bonds		Capital Improvement Bonds		Building Authority Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 143,426	\$ 365,181	\$ 655,000	\$ 1,787,540	\$ 480,000	\$ 82,250
2013	150,311	358,297	1,305,000	1,776,896	495,000	69,938
2014	157,525	351,082	1,355,000	1,752,298	505,000	55,251
2015	165,087	343,521	1,395,000	1,721,470	525,000	39,599
2016	173,011	335,597	1,445,000	1,686,334	540,000	22,351
2017-2021	997,886	1,545,150	8,095,000	7,754,626	555,000	3,238
2022-2026	1,261,501	1,281,536	10,030,000	6,267,514	-	-
2027-2031	1,594,756	948,282	12,640,000	4,209,252	-	-
2032-2036	2,016,046	526,991	12,500,000	1,351,580	-	-
2037-2038	925,103	68,818	-	-	-	-
	<u>\$ 7,584,652</u>	<u>\$ 6,124,455</u>	<u>\$ 49,420,000</u>	<u>\$ 28,307,510</u>	<u>\$ 3,100,000</u>	<u>\$ 272,627</u>

**NOTE G: RISK MANAGEMENT**

The Authority participates in a State pool through the Michigan Municipal Risk Management Authority, with other municipalities for liability, property, and crime losses. 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 protected from other losses as described in the note captioned "Risk Management" within the City's Comprehensive Annual Financial Report.

**NOTE H: NON-CANCELABLE OPERATING LEASE OBLIGATIONS**

The Authority has entered into two (2) non-cancelable long-term operating leases.

The first is for rental of office space that requires monthly payments ranging from \$4,451 to \$5,182 through June 30, 2016. The following is a schedule of future minimum lease payments required under this operating lease as of June 30, 2011.

Year Ending June 30,	Amount
2012	\$ 53,416
2013	55,010
2014	57,402
2015	59,794
2016	62,186
	<u>\$ 287,808</u>

City of Ann Arbor

Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE H: NON-CANCELABLE OPERATING LEASE OBLIGATIONS - CONTINUED**

The second is for property used for parking that requires quarterly payments of \$80,494 for calendar year 2011. The quarterly 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 December 31, 2011, but has been extended in five-year increments since 1982 and is expected to continue beyond that date. Annual payment information beyond 2011 is not presented on this obligation because they are not determinable at this time.

**NOTE I: PARKING MANAGEMENT AGREEMENT**

The Authority has entered into an agreement with Republic Parking, Inc., under which Republic operates various parking facilities in the City. Parking revenues collected are deposited directly in the Authority's bank account and the Authority is billed monthly for operating expenses incurred by Republic. Additionally, Republic is paid a management fee of \$12,500 per month as well as an annual incentive payment that is determined based on certain agreed-upon measures of performance. This agreement commenced on February 1, 2007, and is automatically renewed for up to seven (7) additional one (1) year terms unless either party gives written notice.

**NOTE J: MASTER PARKING AGREEMENT WITH THE CITY OF ANN ARBOR**

The Downtown Development Authority, pursuant to various lease agreements, is responsible for management of the entire public parking system for the City of Ann Arbor, with the exception of parking enforcement and the residential permit program. The current agreement is for the period of July 1, 2005 through June 30, 2015, and provides for the Authority to pay the following amounts to the City of Ann Arbor:

- Payment of all facility maintenance and utility costs
- Payment of an annual fund transfer of \$730,000 to the City's Major and Local Street Funds
- Payment of annual rent of \$1,000,000

All of these amounts are paid from the Authority's Parking Fund with revenues derived from charges for services at the various City parking facilities.

**NOTE K: PROPERTY TAXES**

Property tax revenue is derived pursuant to a tax increment financing agreement between the Authority and various applicable taxing districts. 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 L: SUBSEQUENT EVENT**

The Downtown Development Authority and the City of Ann Arbor entered into an agreement on July 1, 2011 which extends through June 30, 2033. This agreement states that the Authority will pay the City of Ann Arbor, within 31 days of each calendar year quarter end, 17% of gross parking revenues received by the Authority in the previous quarter. Over time this agreement is expected to result in a reduction of fund balances in the governmental funds and overall net assets in the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE M: RESTATEMENT OF FUND BALANCE**

Beginning fund balance for the General Fund and Housing Fund have been restated to reflect a change in accounting standards as a result of the implementation of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The General Fund's beginning fund balance was increased \$1,387,344 to account for this change in accounting standards while the Housing Fund's fund balance was reduced \$1,387,344. The Housing Fund does not meet the definition of a Special Revenue fund for external financial reporting purposes.

**NOTE N: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS**

In February 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated and unreserved have been replaced with five new classifications: nonspendable, restricted, committed, assigned and unassigned.

*Nonspendable* - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

*Restricted* - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

*Committed* - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

*Assigned* - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipal official.

*Unassigned* - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

**Fund Balance Classification Policies and Procedures**

For committed fund balance, the City of Ann Arbor Downtown Development Authority's highest level of decision-making authority is the Board of Directors. The formal action that is required to be taken to establish a fund balance commitment has not been determined by the City of Ann Arbor Downtown Development Authority.

For assigned fund balance, the City of Ann Arbor Downtown Development Authority has not approved a policy indicating who is authorized to assign amounts to a specific purpose. As a result, the authority is retained by the Board of Directors.

The City of Ann Arbor Downtown Development Authority has not formally adopted a policy that determines when both restricted and unrestricted fund balances are available which should be used first.

## **REQUIRED SUPPLEMENTARY INFORMATION**

City of Ann Arbor

Downtown Development Authority

General Fund

BUDGETARY COMPARISON SCHEDULE (NON-GAAP BUDGETARY BASIS)

Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 3,796,929	\$ 3,908,576	\$ 3,419,042	\$ (489,534)
Investment income	108,861	5,000	23,285	18,285
Project reimbursement	30,000	13,145	13,145	-0-
TOTAL REVENUES	3,935,790	3,926,721	3,455,472	(471,249)
EXPENDITURES				
Current				
General administrative	653,871	520,201	584,953	(64,752)
Grants to other organizations	1,817,302	3,457,771	2,899,271	558,500
Debt service	660,650	660,650	660,650	-0-
Capital outlay	2,020,753	1,355,753	142,330	1,213,423
TOTAL EXPENDITURES	5,152,576	5,994,375	4,287,204	1,707,171
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,216,786)	(2,067,654)	(831,732)	1,235,922
OTHER FINANCING (USES)				
Transfers out	(100,000)	(100,000)	(100,000)	-0-
Net change in fund balance (budgetary basis)	<u>\$ (1,316,786)</u>	<u>\$ (2,167,654)</u>	(931,732)	<u>\$ 1,235,922</u>
Budgetary perspective difference			<u>(315,626)</u>	
Net change in fund balance, end of year (GAAP basis)			<u>\$ (1,247,358)</u>	

City of Ann Arbor  
Downtown Development Authority  
Parking Fund  
BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Charges for services	\$ 15,999,916	\$ 15,176,500	\$ 15,222,698	\$ 46,198
Investment income	-	4,500	794	(3,706)
TOTAL REVENUES	15,999,916	15,181,000	15,223,492	42,492
EXPENDITURES				
Current				
General administrative	561,822	594,775	414,193	180,582
Operating	7,166,682	8,916,253	9,024,198	(107,945)
Grants to other organizations	7,224,178	3,469,739	3,031,656	438,083
Capital outlay	2,796,507	2,680,319	3,528,517	(848,198)
TOTAL EXPENDITURES	17,749,189	15,661,086	15,998,564	(337,478)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,749,273)	(480,086)	(775,072)	(294,986)
OTHER FINANCING (USES)				
Transfers out	2,093,605	-	-	-0-
NET CHANGE IN FUND BALANCE	344,332	(480,086)	(775,072)	(294,986)
Fund balance, beginning of year	879,893	879,893	879,893	-0-
Fund balance, end of year	<u>\$ 1,224,225</u>	<u>\$ 399,807</u>	<u>\$ 104,821</u>	<u>\$ (294,986)</u>

City of Ann Arbor

Downtown Development Authority

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2011

**NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

During the year ended June 30, 2011, the Authority incurred expenditures in the Parking Fund in excess of the amount appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
Parking Fund	\$ 15,661,086	\$ 15,998,564	\$ 337,478

**NOTE B: BUDGET/GAAP RECONCILIATION**

The City of Ann Arbor Downtown Development Authority budgets the activities of the Housing Fund separately from the General Fund. For financial reporting purposes and the GAAP-basis basic financial statements, however, the activities of the Housing Fund are combined with the General Fund as required by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The budgetary perspective difference shown on the General Fund Budgetary Comparison Schedule (Non-GAAP budgetary basis) reconciles the change in fund balance to the GAAP-basis basic financial statements and the details related to these amounts are as follows:

Net actual change in fund balance (budgetary basis)	\$ (931,732)
To adjust investment income related to Housing	11,848
To adjust operating expenditures related to Housing	(2,424)
To adjust grants to other organizations expenditures related to Housing	(425,050)
To remove transfer out from the budgetary basis related to Housing	<u>100,000</u>
Net actual change in fund balance (GAAP Basis)	<u>\$ (1,247,358)</u>



## **OTHER SUPPLEMENTARY INFORMATION**

City of Ann Arbor  
Downtown Development Authority  
Nonmajor Governmental Funds  
COMBINING BALANCE SHEET  
June 30, 2011

	Capital Projects		Total
	Deck Improvements	2002 Pedestrian Improvements	
ASSETS			
Cash and cash equivalents	\$ 918,408	\$ -	\$ 918,408
Investments	1,047,827	117,317	1,165,144
<b>TOTAL ASSETS</b>	<b>\$ 1,966,235</b>	<b>\$ 117,317</b>	<b>\$ 2,083,552</b>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Due to other funds	\$ 124,546	\$ -	\$ 124,546
FUND BALANCES			
Restricted			
Pedestrian improvements	-	117,317	117,317
Assigned			
Deck improvements	1,841,689	-	1,841,689
<b>TOTAL FUND BALANCES</b>	<b>1,841,689</b>	<b>117,317</b>	<b>1,959,006</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,966,235</b>	<b>\$ 117,317</b>	<b>\$ 2,083,552</b>

City of Ann Arbor

Downtown Development Authority

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2011

	Capital Projects		Total
	Deck Improvements	2002 Pedestrian Improvements	
REVENUES			
Investment income	\$ 1,796	\$ 2,081	\$ 3,877
EXPENDITURES			
Current			
Operating	193,629	-	193,629
Capital outlay	507,927	-	507,927
TOTAL EXPENDITURES	701,556	-0-	701,556
NET CHANGE IN FUND BALANCES	(699,760)	2,081	(697,679)
Fund balances, beginning of year	2,541,449	115,236	2,656,685
Fund balances, end of year	\$ 1,841,689	\$ 117,317	\$ 1,959,006

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA  
Alan D. Panter, CPA  
William I. Tucker IV, CPA



**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Ann Arbor Downtown Development Authority for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 7, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Ann Arbor Downtown Development Authority are described in Note A to the financial statements. As described in Note N to the financial statements, the Authority adopted Governmental Accounting Standards Board Statement (GASB Statement) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during the fiscal year ended June 30, 2011. Accordingly, the effect of the accounting change is reported in the governmental fund financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 8, 2011.

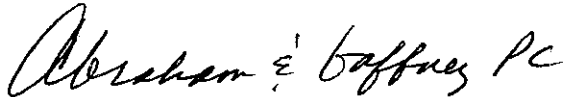
### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of the City of Ann Arbor Downtown Development Authority and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Abraham & Gaffney PC".

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 8, 2011

Principals

Dale J. Abraham, CPA  
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS**

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

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information 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, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

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 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

**Compliance and Other Matters**

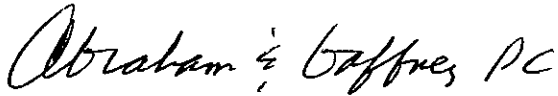
As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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 the following instance of noncompliance which is described below:

## UNFAVORABLE BUDGET VARIANCES

As noted in the notes to the required supplementary information of the financial statements, the activities of the Authority's Parking Fund exceeded the amount appropriated. Michigan Public Act 621 of 1978, as amended, provides that the Authority adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We recommend the Authority monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

This report is intended solely for the use of management and the Board of Directors of the City of Ann Arbor Downtown Development Authority, others within the organization, applicable departments of the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Abraham & Gaffney, PC".

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 8, 2011