

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

FINANCIAL STATEMENTS

June 30, 2010

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City of Ann Arbor
Downtown Development Authority
Washtenaw County, Michigan

June 30, 2010

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City of Ann Arbor
Downtown Development Authority

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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

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

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, as of and for the year ended June 30, 2010, 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.

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, 2010, 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.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 3, 2010

City of Ann Arbor

Downtown Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

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, 2010. 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.

Condensed Statement of Net Assets
June 30, 2009 and 2010

	Fiscal Year <u>2009</u>	Fiscal Year <u>2010</u>	% <u>Change</u>
Current Assets	\$ 15,808,363	\$ 15,040,467	(4.86%)
Current Liabilities	1,759,525	4,597,338	161.28%
Long-term Liabilities	<u>1,260,000</u>	<u>650,000</u>	(48.41%)
Total Liabilities	<u>3,019,525</u>	<u>5,247,338</u>	73.78%
Net Assets:			
Unrestricted	<u>\$ 12,788,838</u>	<u>\$ 9,793,129</u>	(23.42%)

Current Assets

The decrease in current assets is due to the decrease in cash and investments being held at June 30, 2010. 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.

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.

City of Ann Arbor
Downtown Development Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010

Accounts Receivable

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

Due from Other Governmental Units

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

Current Liabilities

The increase 161.28% in current liabilities was due to an increase in the accounts payable due to an increase of invoices received after the year end close due to construction on the new 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 decrease in this category is due to the payment of principal for City obligations the DDA is contractually responsible for during the operating year. This category is composed of:

Long-term liabilities, due in more than one year

This represents the amount due for the bonds taken out for streetscape and parking projects due in more than 12 months.

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, 2010

Condensed Statement of Activities
Year Ended June 30, 2009 and 2010

	Fiscal Year <u>2009</u>	Fiscal Year <u>2008</u>
Revenues		
Property taxes	\$ 3,870,539	\$ 3,537,939
Charges for service	13,776,336	14,595,388
Investment income	475,273	159,606
Other revenue	<u>1,737,829</u>	<u>180,926</u>
Total Revenues	19,859,977	18,473,859
Expenses		
Downtown development	3,275,480	3,702,562
Parking	14,768,154	17,277,341
Housing	93,212	424,315
Interest on long-term debt	<u>90,833</u>	<u>65,350</u>
Total Expenses	<u>18,227,679</u>	<u>21,469,568</u>
Change in net assets	1,632,298	(2,995,709)
Net assets, beginning of year	<u>11,156,540</u>	<u>12,788,838</u>
Net assets, end of year	<u>\$ 12,788,838</u>	<u>\$ 9,793,129</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, 2010 included property taxes levied July 1, 2009 and December 1, 2009.

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.

Downtown Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

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.

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 major special revenue funds.

The General Fund had final budgeted revenues of \$3,646,027 and total expenditures and other financing uses of \$5,699,709. While the Authority's final budget for the General Fund projected that expenditures would exceed revenues by \$2,053,682, the actual results for the year was \$1,413,495 better than what the Authority anticipated. Results for the year were a decrease of \$640,187 in fund balance. Overall the change from the original Board adopted 2009-10 budget to the final budgeted to revenues that were \$91,758 (2.45%) less than the original budget and expenditures that were \$787,511 (16.71%) greater than the original budget.

The Parking Fund final budgeted revenues were \$15,013,496 and expenditures and other financing uses of \$19,675,544. While the Authority's final budget for the Parking Fund projected that expenditures would exceed revenues by \$4,662,048, the actual results for the year was \$1,236,716 better. Results for the year were a usage of \$3,425,332 in fund balance. Overall the change from the original Board adopted 2009-10 budget to the final budgeted to revenues that were \$1,975,077 (11.63%) and expenditures that were \$2,114,103 (10.73%) less than the original budget.

Financial analysis of the Authority's Major and Nonmajor Funds

As the Authority completed 2009/10 its governmental funds reported combined fund balances of \$10,901,196. The net changes are summarized in the following chart:

	General Fund	Parking Fund	Deck Improvements Fund	Nonmajor Governmental Funds
Fund Balance 06/30/09	\$ 6,617,460	\$ 4,305,224	\$ 1,852,056	\$ 1,691,886
Fund Balance 06/30/10	\$ 5,977,274	\$ 879,893	\$ 2,541,449	\$ 1,502,580
Net Change	\$ (640,186)	\$ (3,425,331)	\$ 689,393	\$ (189,306)

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. Long-term obligations totaled \$1,260,000 at year end. More detailed information may be found in Note E to the financial statements.

City of Ann Arbor

Downtown Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

Economic Factors and Next Year's Budget

The fiscal year 2011 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, 2011.

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, 2010

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 5,660,829
Investments	4,289,560
Accounts receivable	288,306
Taxes receivable	2,007
Due from other governmental units	<u>4,799,765</u>
TOTAL ASSETS	15,040,467
LIABILITIES	
Current liabilities	
Accounts payable	3,817,912
Accrued interest payable	16,800
Due to other governmental units	152,626
Current portion of long-term debt	<u>610,000</u>
Total current liabilities	4,597,338
Noncurrent liabilities	
Noncurrent portion of long-term debt	<u>650,000</u>
TOTAL LIABILITIES	<u>5,247,338</u>
NET ASSETS	
Unrestricted	<u><u>\$ 9,793,129</u></u>

City of Ann Arbor

Downtown Development Authority

STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenues and Changes in Net Assets Governmental Activities
Governmental activities			
Downtown development	\$ 3,702,562	\$ -	\$ (3,702,562)
Parking	17,277,341	14,595,388	(2,681,953)
Housing	424,315	-	(424,315)
Interest on long-term debt	65,350	-	(65,350)
Total	<u>\$ 21,469,568</u>	<u>\$ 14,595,388</u>	(6,874,180)
General revenues			
Property taxes			3,537,939
Investment earnings			159,606
Project reimbursement			174,517
Other			<u>6,409</u>
Total general revenues			<u>3,878,471</u>
Change in net assets			(2,995,709)
Net assets, beginning of year			<u>12,788,838</u>
Net assets, end of year			<u>\$ 9,793,129</u>

City of Ann Arbor
Downtown Development Authority
Governmental Funds
BALANCE SHEET

June 30, 2010

	General	Parking	Deck Improvements
ASSETS			
Cash and cash equivalents	\$ 2,890,325	\$ 2,010,381	\$ 159,067
Investments	2,174,213	406,790	805,765
Accounts receivable	171,504	116,802	-
Taxes receivable	2,007	-	-
Due from other governmental units	834,032	3,965,733	-
Due from other funds	3,781,413	-	1,576,617
TOTAL ASSETS	\$ 9,853,494	\$ 6,499,706	\$ 2,541,449
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 3,679,502	\$ 138,410	\$ -
Due to other governmental units	27,985	124,641	-
Due to other funds	-	5,356,762	-
Deferred revenue	168,733	-	-
TOTAL LIABILITIES	3,876,220	5,619,813	-0-
FUND BALANCES			
Reserved for:			
Capital improvements	-	-	2,541,449
Housing	-	-	-
Unreserved			
Undesignated, reported in:			
General fund	5,977,274	-	-
Special revenue fund	-	879,893	-
Capital projects fund	-	-	-
TOTAL FUND BALANCES	5,977,274	879,893	2,541,449
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,853,494	\$ 6,499,706	\$ 2,541,449

Nonmajor Governmental Funds	Total
\$ 601,056	\$ 5,660,829
902,792	4,289,560
-	288,306
-	2,007
-	4,799,765
-	5,358,030
<u>\$ 1,503,848</u>	<u>\$ 20,398,497</u>
\$ -	\$ 3,817,912
-	152,626
1,268	5,358,030
-	168,733
<u>1,268</u>	<u>9,497,301</u>
-	2,541,449
1,387,344	1,387,344
-	5,977,274
-	879,893
115,236	115,236
<u>1,502,580</u>	<u>10,901,196</u>
<u>\$ 1,503,848</u>	<u>\$ 20,398,497</u>

City of Ann Arbor

Downtown Development Authority

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

June 30, 2010

Total fund balances - governmental funds **\$ 10,901,196**

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	168,733
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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	\$ 1,260,000	
Accrued interest payable	16,800	
		(1,276,800)

Net assets of governmental activities	\$ 9,793,129
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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, 2010

	General	Parking	Deck Improvements
REVENUES			
Taxes	\$ 3,537,939	\$ -	\$ -
Charges for services	-	14,608,142	-
Investment income	55,950	20,557	48,090
Project reimbursement	174,517	-	-
Other	-	6,409	-
TOTAL REVENUES	3,768,406	14,635,108	48,090
EXPENDITURES			
Current			
General administrative	405,349	547,617	-
Operating	-	9,163,138	141,795
Grants to other organizations	1,491,983	4,282,576	-
Debt service	647,825	-	-
Capital outlay	1,663,435	1,973,503	1,310,507
TOTAL EXPENDITURES	4,208,592	15,966,834	1,452,302
EXCESS OF REVENUES (UNDER) EXPENDITURES	(440,186)	(1,331,726)	(1,404,212)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	2,093,605
Transfers out	(200,000)	(2,093,605)	-
TOTAL OTHER FINANCING SOURCES (USES)	(200,000)	(2,093,605)	2,093,605
NET CHANGE IN FUND BALANCES	(640,186)	(3,425,331)	689,393
Fund balances, beginning of year	6,617,460	4,305,224	1,852,056
Fund balances, end of year	\$ 5,977,274	\$ 879,893	\$ 2,541,449

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total
\$ -	\$ 3,537,939
-	14,608,142
35,009	159,606
-	174,517
-	6,409
35,009	18,486,613
-	952,966
4,315	9,309,248
420,000	6,194,559
-	647,825
-	4,947,445
424,315	22,052,043
(389,306)	(3,565,430)
200,000	2,293,605
-	(2,293,605)
200,000	-0-
(189,306)	(3,565,430)
1,691,886	14,466,626
\$ 1,502,580	\$ 10,901,196

City of Ann Arbor

Downtown Development Authority

RECONCILIATION OF THE CHANGE IN FUND BALANCES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

Net change in fund balances - total governmental funds **\$ (3,565,430)**

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: (12,754)

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 year, these amounts consist of:

Bond principal retirement 575,000

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 7,475

Change in net assets of governmental activities **\$ (2,995,709)**

City of Ann Arbor

Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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 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. 5, 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.

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.

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.

City of Ann Arbor
Downtown Development Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

The major funds of the Authority are:

- 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.
- c. Deck Improvements Fund - The Deck Improvements fund is used to account for all financial resources relating to improvements to the parking decks.

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.

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.

City of Ann Arbor
Downtown Development Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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

4. Basis of Accounting - continued

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. Receivables

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

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.

9. 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.

City of Ann Arbor
Downtown Development Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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

10. 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.

11. Reserved Fund Balance

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

12. 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.

City of Ann Arbor
Downtown Development Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured up to \$250,000 for interest-bearing savings deposits in an insured bank and up to \$250,000 for interest-bearing demand deposits at participating FDIC-insured institutions. FDIC insurance coverage through its Transaction Account Guarantee (TAG) Program provides unlimited insurance on non-interest bearing transaction accounts and low-interest bearing (i.e., no higher than 0.50 percent through June 30, 2010 and 0.25 percent after July 1, 2010) NOW accounts. This program is scheduled to end December 31, 2010, unless extended by the FDIC. Furthermore, if specific deposits are regulated by statute or bond indenture, these deposits are to be separately insured up to \$250,000. For the purpose of these rules, the term "savings deposits" includes NOW accounts, money market deposit accounts, and other interest-bearing checking accounts. Beginning December 31, 2010 through December 31, 2012, deposits held in noninterest-bearing transaction accounts will have unlimited coverage at all FDIC-insured institutions.

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, 2010, the carrying amounts of the Authority's deposits were \$311,184 and the bank balance was \$415,555, 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. \$5,464,732 of the investments listed below are unclassified as to custodial credit risk as the invested amount is part of an investment pool. \$4,174,273 of the investments below are uninsured and unregistered, with securities held by the agent in the Authority's name.

City of Ann Arbor
Downtown Development Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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

Investments

As of June 30, 2010, 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	\$ 3,338,763	\$ 3,338,763	Aaa	3.70 years
Federal Home Loan Mtg Corp	104,020	104,020	Aaa	6.03 years
Federal National Mtg Association	731,490	731,490	Aaa	10.35 years
Uncategorized pooled investments	<u>5,464,732</u>	<u>5,464,732</u>	Not rated	N/A
	<u>\$ 9,639,005</u>	<u>\$ 9,639,005</u>		

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, 2010:

	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 5,660,829
Investments	<u>4,289,560</u>
	<u>\$ 9,950,389</u>

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details interfund receivables and payables at June 30, 2010:

Due to General Fund from:	
Parking Fund	\$ 3,780,145
Nonmajor governmental funds	<u>1,268</u>
	<u>\$ 3,781,413</u>
Due to Deck Improvements Fund from:	
Parking Fund	<u>\$ 1,576,617</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.

City of Ann Arbor
Downtown Development Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE D: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfer to Deck Improvement Fund from:	
Parking Fund	<u>\$ 2,093,605</u>
Transfer to nonmajor governmental funds from:	
General Fund	<u>\$ 200,000</u>

The transfer from the General Fund to the nonmajor governmental funds was to cover operating expenditures. The transfer from the Parking Fund to the Deck Improvement Fund was to assist with ongoing construction activities in the Deck Improvement Fund.

NOTE E: 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, 2010:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
2002 Limited Tax Bonds	<u>\$ 1,835,000</u>	<u>\$ -0-</u>	<u>\$ 575,000</u>	<u>\$ 1,260,000</u>	<u>\$ 610,000</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 annual installments ranging from \$610,000 to \$650,000 through March 1, 2012 with 4.00 percent interest, payable semi-annually. \$ 1,260,000

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

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 610,000	\$ 50,400
2012	<u>650,000</u>	<u>26,000</u>
	<u>\$ 1,260,000</u>	<u>\$ 76,400</u>

NOTE F: BOND COMMITMENTS

The Authority has 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.

City of Ann Arbor
Downtown Development Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE F: BOND COMMITMENTS - CONTINUED

Significant details regarding outstanding commitments are presented below:

Bond Commitments

\$3,600,000 4 th and William Parking Garage bonds dated May 1, 2002, due in annual principal installments ranging from \$160,000 to \$275,000 through 2022 with interest ranging from 4.1 to 5.00 percent, payable semi-annually.	\$ 2,560,000
\$8,290,000 4 th and William Parking Garage Additional bonds dated December 1, 1998, and May 1, 2007, due in annual principal installments ranging from \$155,000 to \$330,000 through 2027 with interest ranging from 4.00 to 4.25 percent, payable semi-annually.	3,955,000
\$13,305,000 4 th , Washington, and Maynard Parking Garage bonds dated July 28, 2005, due in annual principal installments ranging from \$820,000 to \$1,470,000 through 2020 with interest ranging from 4.00 to 5.00 percent, payable semi-annually.	12,705,000
\$8,000,000 City Hall bonds dated July 1, 2008, due in annual principal installments ranging from \$62,756 to \$284,344 through 2038 with interest of 4.8 percent, payable semi-annually.	7,788,340
\$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 \$470,000 to \$555,000 through 2017 with interest ranging from 2.25 to 3.5 percent, payable semi-annually.	<u>3,570,000</u>
	<u>\$79,905,897</u>

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

Year Ending June 30,	4 th and William 2002 Bonds		4 th and William 1998 and 2007 Bonds		4 th , Washington, and Maynard 2005 Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 160,000	\$ 118,471	\$ 155,000	\$ 160,544	\$ 1,155,000	\$ 588,100
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
2016-2020	1,135,000	287,447	1,080,000	547,920	6,505,000	777,317
2021-2025	535,000	31,584	1,370,000	309,762	-	-
2026-2027	-	-	645,000	41,437	-	-
	<u>\$ 2,560,000</u>	<u>\$ 837,240</u>	<u>\$ 3,955,000</u>	<u>\$ 1,636,437</u>	<u>\$12,705,000</u>	<u>\$ 3,181,783</u>

City of Ann Arbor

Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE F: BOND COMMITMENTS - CONTINUED

Year Ending June 30,	City Hall Bonds		Capital Improvement Bonds		Building Authority Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 136,385	\$ 372,223	\$ -	\$ 2,750,061	\$ 470,000	\$ 97,538
2012	143,010	365,598	655,000	2,750,061	480,000	86,250
2013	149,957	358,651	1,305,000	2,733,686	495,000	74,063
2014	157,241	351,367	1,355,000	2,695,841	505,000	60,300
2015	164,879	343,729	1,395,000	2,648,416	525,000	44,850
2016-2020	952,603	1,590,437	7,790,000	12,297,569	1,095,000	37,913
2021-2025	1,207,568	1,335,472	9,585,000	10,163,930	-	-
2026-2030	1,530,775	1,012,265	12,065,000	7,188,608	-	-
2031-2035	1,940,488	602,552	15,270,000	3,071,900	-	-
2036-2038	1,405,434	120,390	-	-	-	-
	<u>\$ 7,788,340</u>	<u>\$ 6,452,684</u>	<u>\$49,420,000</u>	<u>\$46,300,072</u>	<u>\$ 3,570,000</u>	<u>\$ 400,914</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 of \$5,894 through June 30, 2011. The following is a schedule of future minimum lease payments required under this operating lease as of June 30, 2010.

Year Ending June 30,	Amount
2011	<u>\$ 70,722</u>

The second is for property used for parking that requires quarterly payments of \$79,390 for calendar year 2010. 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.

City of Ann Arbor
Downtown Development Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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: GASB PRONOUNCEMENTS

In March 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 will be replaced with five new classifications: nonspendable, restricted, committed, assigned and unassigned.

The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The Authority will implement Statement No. 54 beginning with the fiscal year ending June 30, 2011.

REQUIRED SUPPLEMENTARY INFORMATION

City of Ann Arbor
Downtown Development Authority
General Fund
BUDGETARY COMPARISON SCHEDULE

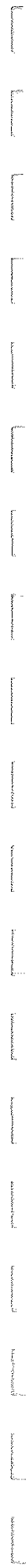
Year Ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 3,544,929	\$ 3,566,800	\$ 3,537,939	\$ (28,861)
Investment income	162,856	40,000	55,950	15,950
Project reimbursement	30,000	39,227	174,517	135,290
TOTAL REVENUES	3,737,785	3,646,027	3,768,406	122,379
EXPENDITURES				
Current				
General administrative	698,873	598,812	405,350	193,462
Grants to other organizations	2,119,705	2,172,277	1,491,983	680,294
Debt service	647,825	647,825	647,825	-0-
Capital outlay	1,245,795	2,080,795	1,663,435	417,360
TOTAL EXPENDITURES	4,712,198	5,499,709	4,208,593	1,291,116
EXCESS OF REVENUES (UNDER) EXPENDITURES	(974,413)	(1,853,682)	(440,187)	1,413,495
OTHER FINANCING (USES)				
Transfers out	(200,000)	(200,000)	(200,000)	-0-
NET CHANGE IN FUND BALANCE	(1,174,413)	(2,053,682)	(640,187)	1,413,495
Fund balance, beginning of year	6,617,460	6,617,460	6,617,460	-0-
Fund balance, end of year	<u>\$ 5,443,047</u>	<u>\$ 4,563,778</u>	<u>\$ 5,977,273</u>	<u>\$ 1,413,495</u>

City of Ann Arbor
Downtown Development Authority
Parking Fund
BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Charges for services	\$ 16,893,433	\$ 14,983,496	\$ 14,608,142	\$ (375,354)
Investment income	95,140	30,000	20,557	(9,443)
Other	-	-	6,409	6,409
TOTAL REVENUES	16,988,573	15,013,496	14,635,108	(378,388)
EXPENDITURES				
Current				
General administrative	524,096	582,060	547,617	34,443
Operating	8,876,043	9,405,661	9,163,138	242,523
Grants to other organizations	6,289,645	5,272,711	4,282,576	990,135
Capital outlay	4,006,258	2,321,507	1,973,503	348,004
TOTAL EXPENDITURES	19,696,042	17,581,939	15,966,834	1,615,105
EXCESS OF REVENUES (UNDER) EXPENDITURES	(2,707,469)	(2,568,443)	(1,331,726)	1,236,717
OTHER FINANCING (USES)				
Transfers out	(2,093,605)	(2,093,605)	(2,093,605)	-0-
NET CHANGE IN FUND BALANCE	(4,801,074)	(4,662,048)	(3,425,331)	1,236,717
Fund balance, beginning of year	4,305,224	4,305,224	4,305,224	-0-
Fund balance (deficit), end of year	\$ (495,850)	\$ (356,824)	\$ 879,893	\$ 1,236,717



OTHER SUPPLEMENTARY INFORMATION

City of Ann Arbor
Downtown Development Authority
Nonmajor Governmental Funds
COMBINING BALANCE SHEET

June 30, 2010

	<u>Special Revenue</u>	<u>Capital Projects 2002 Pedestrian Improvements</u>	<u>Total</u>
	<u>Housing</u>		
ASSETS			
Cash and cash equivalents	\$ 601,056	\$ -	\$ 601,056
Investments	787,556	115,236	902,792
TOTAL ASSETS	<u>\$ 1,388,612</u>	<u>\$ 115,236</u>	<u>\$ 1,503,848</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Due to other funds	\$ 1,268	\$ -	\$ 1,268
FUND BALANCES			
Reserved for:			
Housing	1,387,344	-	1,387,344
Unreserved			
Undesignated, reported in:			
Capital projects fund	<u>-</u>	<u>115,236</u>	<u>115,236</u>
TOTAL FUND BALANCES	<u>1,387,344</u>	<u>115,236</u>	<u>1,502,580</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,388,612</u>	<u>\$ 115,236</u>	<u>\$ 1,503,848</u>

City of Ann Arbor

Downtown Development Authority

Nonmajor Governmental Funds

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

Year Ended June 30, 2010

	Special Revenue	Capital Projects	
		2002	
	Housing	Pedestrian Improvements	Total
REVENUES			
Investment income	\$ 31,366	\$ 3,643	\$ 35,009
EXPENDITURES			
Current			
Operating	4,315	-	4,315
Grants to other organizations	420,000	-	420,000
TOTAL EXPENDITURES	424,315	-0-	424,315
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(392,949)	3,643	(389,306)
OTHER FINANCING SOURCES			
Transfers in	200,000	-	200,000
NET CHANGE IN FUND BALANCES	(192,949)	3,643	(189,306)
Fund balances, beginning of year	1,580,293	111,593	1,691,886
Fund balances, end of year	\$ 1,387,344	\$ 115,236	\$ 1,502,580

1. Introduction

2. Methodology

3. Results

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5. Conclusion

6. References

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9. Author Biographies

10. Contact Information

11. Declaration of Interest

12. Data Availability Statement

13. Ethics Statement

14. Funding

15. Supplementary Material

16. References

17. Appendix

18. Acknowledgments

19. Author Biographies

20. Contact Information