

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the City of Detroit, Michigan)

FINANCIAL STATEMENTS
(With Required Supplementary Information)

June 30, 2017 and 2016



CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

December 21, 2017

To the Board of Directors
City of Detroit Downtown Development Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Detroit Downtown Development Authority (the "DDA"), a component unit of the City of Detroit, Michigan, as of, and for the years ended, June 30, 2017 and 2016, as well as the related notes to the financial statements, which collectively comprise the DDA's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

The DDA's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the DDA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DDA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the DDA as of June 30, 2017 and 2016, and the respective changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and budgetary comparison on pages 49 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 21, 2017, on our consideration of the DDA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DDA's internal control over financial reporting and compliance.

George Johnson & Company

CERTIFIED PUBLIC ACCOUNTANTS
Detroit, Michigan

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2017 and 2016

This section of the annual report of the City of Detroit Downtown Development Authority (the “DDA”) presents management’s discussion and analysis of the DDA’s financial performance during the fiscal years that ended on June 30, 2017 and 2016. Please read it in conjunction with the DDA’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The DDA continued to make improvements to the Downtown District during the year ended June 30, 2017. The DDA continued its strategy to reinvent the Harmonie Park area as part of the new Paradise Valley Project. The Lower Woodward Improvement Program, a multi-year initiative to build new streetscapes, improve facades on buildings, and provide gap financing, which was a resounding success, was further extended to provide new looks to cross-streets.

On June 19, 2013, the DDA announced a memorandum of understanding with other parties governing the potential future construction of a Catalyst Development Project (“Catalyst”), including Little Caesars Arena (the “Arena”), an event center that will house the Detroit Red Wings hockey team and the Detroit Pistons basketball team. This Catalyst Development Project has allowed the DDA to restart collection of special tax increment financing revenue that would have otherwise left the City of Detroit. This is expected to result in a large increase in future revenue, as the project has reached its fruition.

The DDA will own the Arena and will lease it out for operations. Bonds were issued by Olympia Development and the Michigan Strategic Fund for the construction of the Arena. These bonds are to be repaid from various revenue streams, including the Catalyst tax increment revenue described in the previous paragraph. Construction on the Arena began in the spring of 2015 and has been completed in September 2017. Upon completion of construction, the capital asset will begin to have depreciation charged against it.

The Lower Woodward Improvement Program and Paradise Valley were not alone as major activities of the DDA. Quicken Loans, Olympia Development, Ally Financial, and Blue Cross Blue Shield of Michigan continue to lead the area’s rebirth in their downtown locations. The Dangerous Building Demolition, Campus Martius, and East Riverfront Roads projects continued.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report contains two types of financial statements. The statements of net position and statements of activities (which are presented on pages 9 and 10) are considered government-wide financial statements. The balance sheets and statements of revenue, expenditures, and fund balances for governmental funds (which are presented on pages 11, 12, 14, and 15) are considered fund financial statements. A further discussion of each type of statement follows.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

June 30, 2017 and 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements

The government-wide financial statements report information about the DDA as a whole using accounting methods similar to those used by private-sector companies and non-profit organizations. The statements of net position include all of the DDA's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenue and expenses are accounted for in the statements of activities, regardless of when cash is received or paid.

The two government-wide financial statements report the DDA's net position and how they have changed. Net position represents the difference between the DDA's total of assets and deferred outflows of resources and its total of liabilities and deferred inflows of resources, and it represents one way to measure the DDA's financial health, or position. Over time, increases or decreases in the DDA's net position are an indicator of whether its financial health is improving or deteriorating.

Fund Financial Statements

The fund financial statements provide more detailed information about the DDA's funds, not the DDA as a whole. Funds are accounting devices that the DDA uses to keep track of specific sources of funding and spending for particular purposes.

Most of the DDA's activities are included in governmental funds, which focus on how cash, and other financial assets that can be readily converted to cash, flow in and out, and show the balances left at the end of the year that are available for spending. As such, the fund financial statements provide a detailed short-term view that shows whether there are more or fewer financial resources that can be spent in the near future to finance the DDA's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, additional information is provided on pages 13 and 16 that explains the relationship between the fund financial statements and the government-wide financial statements.

The notes to the financial statements, which begin on page 17, explain some of the information in the financial statements and provide more detailed data. A comparison of the DDA's general fund revenue and expenditures to its budget is provided on page 49.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

June 30, 2017 and 2016

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE

Table 1 reflects a condensed summary of the DDA's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2017, 2016, and 2015:

Table 1
Statements of Net Position
June 30, 2017, 2016, and 2015
(in millions of dollars)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets:			
Cash	\$ 2.1	\$ 7.3	\$ 2.6
Investments	58.8	132.0	282.4
Notes, land contracts, and accrued interest receivable	7.9	10.5	31.3
Capital assets	830.2	305.6	142.8
Other assets	169.7	24.1	28.7
Total Assets	1,068.7	479.5	487.8
Deferred Outflows of Resources:			
Accumulated decrease in fair value of hedging derivatives	13.8	26.3	2.2
Total Assets and Deferred Outflows of Resources	1,082.5	505.8	490.0
Liabilities:			
Long-term liabilities:			
Due or expected to be paid within one year	2.8	2.8	3.0
Due or expected to be paid in more than one year	490.9	314.0	316.7
Other liabilities	188.1	73.0	53.0
Total Liabilities	681.8	389.8	372.7
Net Position:			
Net investment in capital assets	392.9	123.1	125.1
Restricted for development	3.2	-0-	-0-
Unrestricted	4.6	(7.1)	(7.8)
Total Net Position	\$ 400.7	\$ 116.0	\$ 117.3

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**June 30, 2017 and 2016****FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)**

The net position of the DDA increased 245 percent. This increase is due to activity on the Arena, which the DDA owns. The DDA sold bonds in prior years to finance part of the construction, with the developer being responsible for additional costs. The initial costs were paid from the DDA allocation, but subsequent payments made during the year ended June 30, 2017 were made by the developer. These payments are recorded as income to the DDA. The net position will decrease over the next 30 years as the facility is depreciated. Cash decreased a great amount as it was spent on the construction of the Arena. Debt service payments on the bonds continue to be made.

Table 2 reflects a condensed summary of the DDA's revenue, expenses, and changes in net position for the years ended June 30, 2017, 2016, and 2015:

Table 2
Statements of Activities
For the Years Ended June 30, 2017, 2016, and 2015
(in millions of dollars)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenue:			
Program revenue	\$ 284.6	\$ 4.0	\$ 90.4
General revenue:			
Property taxes	31.5	28.8	22.7
Other revenue	1.8	2.2	2.1
Total Revenue	317.9	35.0	115.2
Expenses:			
Economic development	33.2	36.3	38.5
Net Increase (Decrease) in Net Position	284.7	(1.3)	76.7
Net Position, Beginning of Year	116.0	117.3	40.6
Net Position, End of Year	\$ 400.7	\$ 116.0	\$ 117.3

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

June 30, 2017 and 2016

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

Program revenue increased by a large amount due to payments made by the developer for construction of the Arena. Property tax revenue increased during the year ended June 30, 2017 as taxable values continue to increase and some properties returned to the tax rolls.

The following are highlights of the comparison of the DDA's general fund revenue and expenditures to its budget, as shown on page 49:

- The DDA receives lease revenue from the Kennedy Square garage, as well as parking revenue from several sites being held for future developments. Parking revenue that was higher than expected resulted in a positive budget variance.
- Property tax revenue had a positive variance as one mil receipts were greater than expected.
- The management of the DDA exercised tight control over parking and contingency-based expenses in the general fund, resulting in a positive variance for administrative and operating expenses.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

As of June 30, 2017, the DDA held long-term, partially depreciated capital assets of \$830.2 million. This balance consisted primarily of various parcels of land and construction-in-progress of over \$799 million, as well as more than \$13.9 million invested in the Kennedy Garage and \$16.7 million in the 150 Michigan Garage. This activity is summarized in Note E to the financial statements.

The DDA had approximately \$51.9 million in previously issued bonds outstanding as of June 30, 2017, which is a decrease of seven percent from June 30, 2016. The decrease is due to debt service payments on the bonds, which were made in accordance with the schedule of payments required in the bond issuance, as well as a \$3 million additional defeasance. On July 1, 2017, a scheduled debt service payment was made, further decreasing the outstanding balance of the bonds. This activity is summarized in Note G to the financial statements.

In addition, there are long-term bonds payable to the Michigan Strategic Fund, in conjunction with the new event center, of approximately \$437.3 million as of June 30, 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

June 30, 2017 and 2016

ECONOMIC FACTORS

The DDA receives a large majority of its revenue through statutorily designated tax receipts. The economic health of the downtown area has a substantial impact on the level of revenue received. Downtown Detroit property values have been increasing and, as long as that continues, the DDA should continue to be funded adequately. Projects such as the Catalyst Development Project, the Lower Woodward Improvement Program, and Paradise Valley, coupled with private investment from the business community, should continue to ensure a bright future for downtown Detroit.

FINANCIAL CONTACT

This financial report is designed to present its users with a general overview of the DDA's finances and to demonstrate the DDA's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the office of the Chief Financial Officer of the Detroit Economic Growth Corporation, 500 Griswold, Suite 2200, Detroit, Michigan 48226.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

STATEMENTS OF NET POSITION

June 30, 2017 and 2016

	Governmental Activities	
	2017	2016
Assets:		
Cash (Note B)	\$ 2,087,690	\$ 7,266,069
Investments (Note B)	58,768,491	131,961,066
Accounts and contracts receivable (no allowance considered necessary)	151,403,258	4,565,407
Notes and accrued interest receivable, net (Notes A and C)	7,877,588	10,495,334
Property held for development (Note F)	17,447,000	18,732,500
Prepaid expenses	930,658	865,573
Capital assets (Note E):		
Nondepreciable capital assets	799,111,014	272,593,762
Depreciable capital assets, net	31,082,246	33,056,021
Total Assets	1,068,707,945	479,535,732
Deferred Outflows of Resources:		
Accumulated decrease in fair value of hedging derivatives (Note B)	13,779,572	26,277,559
Total Assets and Deferred Outflows of Resources	1,082,487,517	505,813,291
Liabilities:		
Accounts payable	5,137,574	2,242,078
Accrued interest payable	9,383,801	8,781,539
Project costs payable	159,784,177	35,597,453
Escrow deposits payable (Note H)	44,156	22,680
Hedging derivatives - swap liability (Note B)	13,779,572	26,277,559
Long-term liabilities (Note G):		
Due or expected to be paid within one year	2,771,434	2,796,893
Due or expected to be paid in more than one year	490,936,000	314,049,975
Total Liabilities	681,836,714	389,768,177
Net Position:		
Net investment in capital assets	392,873,260	123,154,526
Restricted for development	3,173,213	-
Unrestricted	4,604,330	(7,109,412)
Total Net Position	\$ 400,650,803	\$ 116,045,114

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2017 and 2016

	Governmental Activities	
	2017	2016
Expenses:		
Economic development program:		
Project costs	\$ 7,834,434	\$ 13,199,404
Administrative and operating expenses (Note A)	3,930,209	3,580,835
Interest expense	18,724,405	16,460,938
Professional fees	719,188	471,946
Provision for uncollectible loans and taxes (Notes C and D)	-0-	585,200
Depreciation (Note E)	2,036,960	2,018,128
Total Program Expenses	33,245,196	36,316,451
Program Revenue:		
Economic development program	284,569,046	4,030,007
Net Program Revenue (Expense)	251,323,850	(32,286,444)
General Revenue:		
Property taxes (Note D)	31,491,713	28,786,476
Other revenue	1,790,126	2,205,510
Total General Revenue	33,281,839	30,991,986
Net Increase (Decrease) in Net Position	284,605,689	(1,294,458)
Net Position, Beginning of Year	116,045,114	117,339,572
Net Position, End of Year	\$ 400,650,803	\$ 116,045,114

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

BALANCE SHEETS - GOVERNMENTAL FUNDS

June 30, 2017

(With Comparative Totals as of June 30, 2016)

	2017				Total All Funds	
	General Fund	Special Revenue Fund	Debt Service Funds		2017	2016
			Stadium Fund	Other		
ASSETS						
Cash (Note B)	\$ 114,932	\$ 1,972,758	\$ -0-	\$ -0-	\$ 2,087,690	\$ 7,266,069
Investments (Note B)	4,419,786	25,000,518	25,012,307	4,335,880	58,768,491	131,961,066
Accounts and contracts receivable (no allowance considered necessary)	381,340	4,060,289	146,407,407		150,849,036	4,015,457
Notes and accrued interest receivable, net (Notes A and C)		7,877,588			7,877,588	10,495,334
Property held for development (Note F)		17,447,000			17,447,000	18,732,500
Prepaid expenditures	139,247	791,411			930,658	865,573
Total Assets	\$ 5,055,305	\$ 57,149,564	\$ 171,419,714	\$ 4,335,880	\$ 237,960,463	\$ 173,335,999
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 450,975	\$ 4,681,501	\$ 5,098	\$ -0-	\$ 5,137,574	\$ 2,242,078
Accrued interest payable			5,789,059	3,594,742	9,383,801	8,781,539
Project costs payable			159,784,177		159,784,177	35,597,453
Escrow deposits payable (Note H)		44,156			44,156	22,680
Maturing bonds contract payable (Note G)				741,138	741,138	718,186
Total Liabilities	450,975	4,725,657	165,578,334	4,335,880	175,090,846	47,361,936
Fund Balances:						
Nonspendable	139,247	26,115,999			26,255,246	30,093,407
Restricted		17,191,533			17,191,533	14,392,072
Committed		7,260,000			7,260,000	5,360,000
Assigned		1,856,375	5,841,380		7,697,755	72,237,130
Unassigned	4,465,083				4,465,083	3,891,454
Total Fund Balances	4,604,330	52,423,907	5,841,380	-0-	62,869,617	125,974,063
Total Liabilities and Fund Balances	\$ 5,055,305	\$ 57,149,564	\$ 171,419,714	\$ 4,335,880	\$ 237,960,463	\$ 173,335,999

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

BALANCE SHEETS - GOVERNMENTAL FUNDS

June 30, 2016

	General Fund	Special Revenue Fund	Debt Service Funds		Total All Funds
			Stadium Fund	Other	
ASSETS					
Cash (Note B)	\$ 535,949	\$ 6,730,120	\$ -0-	\$ -0-	\$ 7,266,069
Investments (Note B)	3,298,724	13,438,279	110,898,292	4,325,771	131,961,066
Accounts and contracts receivable (no allowance considered necessary)	141,525	3,873,932			4,015,457
Notes and accrued interest receivable, net (Notes A and C)		10,495,334			10,495,334
Property held for development (Note F)		18,732,500			18,732,500
Prepaid expenditures	146,973	718,600			865,573
Total Assets	\$ 4,123,171	\$ 53,988,765	\$ 110,898,292	\$ 4,325,771	\$ 173,335,999
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 84,744	\$ 2,065,704	\$ 91,630	\$ -0-	\$ 2,242,078
Accrued interest payable			5,173,954	3,607,585	8,781,539
Project costs payable			35,597,453		35,597,453
Escrow deposits payable (Note H)		22,680			22,680
Maturing bonds contract payable (Note G)				718,186	718,186
Total Liabilities	84,744	2,088,384	40,863,037	4,325,771	47,361,936
Fund Balances:					
Nonspendable	146,973	29,946,434			30,093,407
Restricted		14,392,072			14,392,072
Committed		5,360,000			5,360,000
Assigned		2,201,875	70,035,255		72,237,130
Unassigned	3,891,454				3,891,454
Total Fund Balances	4,038,427	51,900,381	70,035,255	-0-	125,974,063
Total Liabilities and Fund Balances	\$ 4,123,171	\$ 53,988,765	\$ 110,898,292	\$ 4,325,771	\$ 173,335,999

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

RECONCILIATIONS OF GOVERNMENTAL FUNDS BALANCE SHEETS TO STATEMENTS OF NET POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Total Fund Balances, Governmental Funds	\$ 62,869,617	\$ 125,974,063
<p>Amounts reported for governmental activities in the statements of net position differ from amounts reported in the governmental funds balance sheets due to the following:</p>		
<p>Long-term accounts receivable applicable to governmental activities are not due and collectible in the current period and, therefore, are not reported in the funds. These assets consist of the following:</p>		
Accounts and contracts receivable	554,222	549,950
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of the following:</p>		
Nondepreciable capital assets	799,111,014	272,593,762
Depreciable capital assets:		
Cost	53,113,976	53,178,221
Less: Accumulated depreciation	(22,031,730)	(20,122,200)
<p>Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of the following:</p>		
Contract, notes, bonds, and bonds contract payable	<u>(492,966,296)</u>	<u>(316,128,682)</u>
Total Net Position, Governmental Activities	<u>\$ 400,650,803</u>	<u>\$ 116,045,114</u>

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS**

**For the Year Ended June 30, 2017
(With Comparative Totals for the Years Ended June 30, 2016)**

	2017				Total All Funds	
	General Fund	Special Revenue Fund	Debt Service Funds		2017	2016
			Stadium Fund	Other		
Revenue:						
Property taxes (Note D)	\$ 983,678	\$ 26,781,862	\$ -0-	\$ 3,726,173	\$ 31,491,713	\$ 28,786,476
Other revenue	1,785,854	4,363,023	280,206,023		286,354,900	6,137,941
Total Revenue	2,769,532	31,144,885	280,206,023	3,726,173	317,846,613	34,924,417
Expenditures:						
Current:						
Project costs		7,834,434			7,834,434	13,199,404
Administrative and operating expenses (Note A)	2,234,441	1,689,768	6,000		3,930,209	3,580,835
Interest expense		4,864,242	13,860,163		18,724,405	16,460,938
Professional fees	719,188				719,188	471,946
Provision for uncollectible loans and taxes (Notes C and D)					-0-	585,200
Debt service (Note G)		131,213		3,726,173	3,857,386	3,781,459
Capital outlay (Note E)		63,185	526,517,252		526,580,437	164,828,587
Total Expenditures	2,953,629	14,582,842	540,383,415	3,726,173	561,646,059	202,908,369
Excess (Deficiency) of Revenue over Expenditures	(184,097)	16,562,043	(260,177,392)	-0-	(243,799,446)	(167,983,952)
Other Financing Sources (Uses):						
Issuance of bond proceeds (Note G)			180,695,000		180,695,000	1,160,000
Repayment of land contract receivable					-0-	1,320,200
Interfund transfers	750,000	(16,038,517)	15,288,517		-0-	-0-
Net Increase (Decrease) in Fund Balances	565,903	523,526	(64,193,875)	-0-	(63,104,446)	(165,503,752)
Fund Balances, Beginning of Year	4,038,427	51,900,381	70,035,255	-0-	125,974,063	291,477,815
Fund Balances, End of Year	\$ 4,604,330	\$ 52,423,907	\$ 5,841,380	\$ -0-	\$ 62,869,617	\$ 125,974,063

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2016

	General Fund	Special Revenue Fund	Debt Service Funds		Total All Funds
			Stadium Fund	Other	
Revenue:					
Property taxes (Note D)	\$ 1,005,085	\$ 24,079,538	\$ -0-	\$ 3,701,853	\$ 28,786,476
Other revenue	2,156,232	3,969,667	12,042		6,137,941
Total Revenue	3,161,317	28,049,205	12,042	3,701,853	34,924,417
Expenditures:					
Current:					
Project costs		13,199,404			13,199,404
Administrative and operating expenses (Note A)	2,185,865	1,388,970	6,000		3,580,835
Interest expense		4,960,799	11,500,139		16,460,938
Professional fees	471,946				471,946
Provision for uncollectible loans and taxes (Notes C and D)		585,200			585,200
Debt service (Note G)		79,606		3,701,853	3,781,459
Capital outlay (Note E)		74,975	164,753,612		164,828,587
Total Expenditures	2,657,811	20,288,954	176,259,751	3,701,853	202,908,369
Excess (Deficiency) of Revenue over Expenditures	503,506	7,760,251	(176,247,709)	-0-	(167,983,952)
Other Financing Sources (Uses):					
Issuance of bond proceeds (Note G)			1,160,000		1,160,000
Repayment of land contract receivable		1,320,200			1,320,200
Interfund transfers	750,000	(14,479,330)	13,729,330		-0-
Net Increase (Decrease) in Fund Balances	1,253,506	(5,398,879)	(161,358,379)	-0-	(165,503,752)
Fund Balances, Beginning of Year	2,784,921	57,299,260	231,393,634	-0-	291,477,815
Fund Balances, End of Year	\$ 4,038,427	\$ 51,900,381	\$ 70,035,255	\$ -0-	\$ 125,974,063

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**RECONCILIATIONS OF GOVERNMENTAL FUNDS STATEMENTS OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO STATEMENTS OF ACTIVITIES**

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Net Increase (Decrease) in Fund Balances, Governmental Funds	\$ (63,104,446)	\$ (165,503,752)
<p>Amounts reported for governmental activities in the statements of activities differ from amounts reported in the governmental funds statements of revenue, expenditures, and changes in fund balances due to the following:</p>		
<p>Capital outlays are reported as expenditures in governmental funds. However, in the statements of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. During the years presented, these amounts are as follows:</p>		
Capital outlay	526,580,437	164,828,587
Depreciation expense	(2,036,960)	(2,018,128)
<p>Certain revenue reported in the statements of activities does not provide current financial resources and, therefore, is not reported as revenue in governmental funds. During the years presented, these amounts are as follows:</p>		
Accounts and contracts receivable in more than 60 days, end of year	554,222	549,950
Less:		
Accounts and contracts receivable in more than 60 days, beginning of year	(549,950)	(452,374)
<p>Repayment of long-term accounts receivable is reported as a financing source, but the repayment reduces long-term assets in the statements of net position. During the years presented, these amounts are as follows:</p>		
Repayment of land contract receivable	-0-	(1,320,200)
<p>Proceeds issued on long-term debt are reported as a financing source, and repayment of long-term debt is reported as an expenditure, in governmental funds, but the repayment reduces long-term liabilities in the statements of net position. During the years presented, these amounts are as follows:</p>		
Issuance of bond proceeds	(180,695,000)	(1,160,000)
Repayment of notes and bonds contract payable	<u>3,857,386</u>	<u>3,781,459</u>
Net Increase (Decrease) in Net Position, Governmental Activities	<u><u>\$ 284,605,689</u></u>	<u><u>\$ (1,294,458)</u></u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities and Purpose

The City of Detroit Downtown Development Authority (the “DDA”) was created by the Detroit City Council by Ordinance No. 119-H on May 20, 1976, under the provisions of Act 197, Public Acts of Michigan of 1975. The DDA was established for the purpose of promoting and developing economic growth in the downtown business district of the City of Detroit, Michigan (the “City”). The DDA has been authorized to fund its activities by an ad valorem tax of one mill on real and tangible personal property not exempt by laws in the downtown development district, and the issuance of negotiable revenue and tax increment obligations to finance the development activities of the DDA.

The DDA may issue tax increment bonds and may not pledge for annual debt service requirements for any one-year amounts in excess of 80 percent of the estimated tax increment revenue to be received from the development district for that year, or may pledge solely the tax increments of the project for which the bonds had been issued and any other revenue for which the DDA may specifically pledge.

For financial reporting purposes, the DDA is a component unit of the City because the members of the DDA’s Board of Directors are appointed by the City’s mayor and are confirmed by the Detroit City Council, which approves the DDA’s budget. There are no fiduciary funds or component units included in the accompanying financial statements.

Basis of Presentation

The financial statements of the DDA consist of government-wide financial statements, which include the statements of net position and statements of activities, and fund financial statements, which include the balance sheets and statements of revenue, expenditures, and fund balances for governmental funds.

Government-Wide Financial Statements

The government-wide financial statements report information about all of the DDA’s assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenue, and expenses. Deferred outflows of resources represent the consumption of net assets by the DDA that is applicable to a future reporting period, while deferred inflows of resources represent the acquisition of net assets by the DDA that is applicable to a future reporting period, and net position is the residual of all other elements presented in the statements of net position.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

Fund Financial Statements

For purposes of the fund financial statements, the accounts of the DDA are organized on the basis of governmental funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures. The various funds are summarized by type in the fund financial statements. The following funds, all of which are considered major funds, are used by the DDA:

General Fund

The general fund is the general operating fund of the DDA. It is used to account for all financial resources other than those required to be accounted for in another fund.

Special Revenue Fund

The special revenue fund is used to account for financial resources to be used for the acquisition or construction of capital projects. The DDA finances its development plan by capturing the tax proceeds on the increase in assessed value within the tax increment district located within the downtown area. Funds raised from this levy are restricted for use within the tax increment district pursuant to the Tax Increment Financing Plan. This fund is not legally required to adopt a budget.

Debt Service Funds

Stadium Fund

The stadium fund accounts for the servicing of obligations incurred for the construction of Little Caesars Arena (the “Arena”) and related development being financed by the 2014 bond issuance by the Michigan Strategic Fund (the “MSF”), which is secured by various revenue streams of the DDA.

Other Debt Service Fund

The other debt service fund accounts for the servicing of general long-term obligations not being financed by proprietary or similar trust funds or by the stadium fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

Fund Financial Statements (continued)

The DDA's fund balances are classified as follows, based on the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable

These fund balances consist of amounts that are not in a spendable form (such as inventory or prepaid expenditures) or that are required to be maintained intact.

Restricted

These fund balances consist of amounts that are constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed

These fund balances consist of amounts that are constrained to specific purposes by the DDA itself, using its highest level of decision-making authority, which is the Board of Directors. To be reported as committed, such amounts cannot be used for any other purpose unless the Board of Directors takes action to remove or change the constraint. The Board of Directors typically establishes (and modifies or rescinds) fund balance commitments by passage of a resolution, or through adoption and amendment of the budget.

Assigned

These fund balances consist of amounts that the DDA intends to use for a specific purpose. Such intent can be expressed by the governing body, which is the Board of Directors, or by an official or body to which the Board of Directors delegates the authority, such as the DDA's duly authorized agents. Assigned fund balances are typically established through funding agreements or adoption or amendment of the budget.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

Fund Financial Statements (continued)

Unassigned

These fund balances consist of amounts that are available for any purpose. Only the general fund has a positive unassigned fund balance.

Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus. Accordingly, revenue is recorded when earned and expenses are recorded when incurred. Grants and other revenue intended for use within the special revenue fund are classified as program revenue. All other revenue, including all property tax revenue, is classified as general revenue.

Fund Financial Statements

The fund financial statements are prepared on the modified accrual basis of accounting using the flow of current financial resources as a measurement focus. Under the modified accrual basis of accounting, revenue is recorded when susceptible to accrual, which is when it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred, if measurable. In applying the susceptible-to-accrual concept to intergovernmental revenue, the legal and contractual requirements of the numerous individual programs are used as guidance. Monies virtually unrestricted as to purpose of expenditure and revocable only for failure to comply with prescribed compliance requirements are reflected as revenue at the time of receipt, or earlier if the susceptible-to-accrual criteria are met.

Expenditures that are incurred for purposes for which both restricted and unrestricted fund balances are available are applied first to available restricted fund balances, then to unrestricted fund balances. Expenditures that are incurred for purposes for which committed, assigned, and unassigned fund balances are available are applied first to available committed fund balances, then to available assigned fund balances, and finally to unassigned fund balances.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Administration

For the years ended June 30, 2017 and 2016, the DDA entered into agreements with the Detroit Economic Growth Corporation (the “DEGC”) for administrative and professional services at an annual cost not to exceed \$1,900,000 per year for the years ended June 30, 2017 and 2016, respectively. These expenditures are reflected in administrative expenses for services rendered for each year. No amounts were due to the DEGC as of June 30, 2017 or 2016.

Accounting for Notes Receivable

The DDA is in the business of loaning funds to various entities for which, in some cases, the collection process does not begin immediately. In those instances, the collection process may not begin for a number of years. The DDA provides a reserve for these notes, land contracts, and other loans if and when these instruments are deemed to be partially or fully uncollectible. Due to the nature of the collection terms on these instruments, recoverability of these instruments may be uncertain and, furthermore, may not be evident for a number of years. The ultimate collectibility of these instruments is dependent upon the long-term viability of these entities.

Capital Assets

Capital assets are recorded at historical cost. The DDA capitalizes all expenditures for land, buildings, equipment, fixtures, and improvements in excess of \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, as follows:

Buildings	40 years
Equipment and fixtures	7-25 years
Leasehold improvements	9-40 years

Expenditures for maintenance and repairs are charged to expense. Renewals or betterments which extend the life or increase the value of the properties are capitalized.

Grant Revenue

Grant revenue is recognized when expenses that are reimbursable under an agreement with the funding source are incurred.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pollution Remediation Obligations

Pollution remediation obligations are obligations to address the current or potential detrimental effects of existing pollution by participating in activities such as site assessments and cleanups. Upon the occurrence of one of five specified events, the DDA estimates the components of expected pollution remediation outlays to determine whether outlays for these components should be accrued as a liability in the government-wide financial statements at current value or, under certain circumstances, whether these outlays should be capitalized in the government-wide financial statements. No pollution remediation obligations have been recorded as of June 30, 2017 and 2016 because none of the five specified events have occurred.

Interfund Transactions and Eliminations

Transfers of tax increment financing revenue from the special revenue fund to the general and stadium funds are recorded as interfund transactions in the fund financial statements. All interfund transactions and balances have been eliminated in the accompanying financial statements.

Allowance for Doubtful Notes and Interest Receivable

The DDA charges notes and interest receivable to the allowance for doubtful notes and interest receivable when it is probable that a note receivable, or the related accrued interest receivable, is impaired (that is, when the DDA will be unable to collect all amounts due according to the contractual terms of the agreement). Changes in the present value of an obligation's expected future cash flows from one reporting period to the next are recorded as additions or reductions to the allowance for doubtful notes and interest receivable. The DDA also includes in the allowance for doubtful notes and interest receivable a general provision based on the DDA's historical recovery of these receivables.

Investments

The DDA's investments are stated at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price).

Units of money market funds are valued at quoted market prices, which represent the net asset value of units held by the DDA as of the end of the year. The fair value of repurchase agreements is based on the assets the DDA will repurchase from the bank upon the expiration of each repurchase agreement. The interest rate swap is valued as described in Note B.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis.

Fair Value Measurements

The DDA uses fair value measurements in the preparation of its financial statements, which utilize various inputs, including those that can be readily observable, corroborated, or are generally unobservable. The DDA utilizes market-based data and valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Additionally, the DDA applies assumptions that market participants would use in pricing an asset or liability, including assumptions about risk.

The measurement of fair value includes a hierarchy based on the quality of inputs used to measure fair value. Financial assets and liabilities are categorized into this three-level fair value hierarchy based on the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs.

The various levels of the fair value hierarchy are described as follows:

- Level 1 - Financial assets and liabilities whose values are based on unadjusted quoted market prices for identical assets and liabilities in an active market that the DDA has the ability to access
- Level 2 - Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable for substantially the full term of the asset or liability
- Level 3 - Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement

The use of observable market data, when available, is required in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk

During the years ended June 30, 2017 and 2016, the DDA utilized three vendors and two vendors, respectively, for purchases of \$7,053,525 and \$6,335,830, respectively, or 65 percent and 57 percent, respectively, of total purchases. No amounts were due to these vendors as of June 30, 2017 and 2016.

Downtown Events Center Project

In 2014, the MSF issued bonds, with the proceeds used toward the construction of Little Caesars Arena, a downtown events center to be used by the Detroit Red Wings hockey team and the Detroit Pistons basketball team, as well as for other entertainment and sporting events. The DDA will be the owner of the Arena. Olympia Development (“Olympia”) is the concessionaire that will run the Arena. Olympia donated land and construction costs valued at \$47,800,000 to the project. See Note G for details on the bonds issued, as well as Note B for details on derivative instruments issued in connection with the bonds payable and Note K for events that occurred subsequent to June 30, 2017.

Development Projects

The DDA has been involved in several other major projects, which primarily include the following:

- Riverfront Residential Project
- Trappers Alley
- Millender Center
- Madison Center
- Congress/First Street Hotel Development - Cobo Hall Expansion
- Theater District
- Annis Fur Building Development
- International Hotel
- Ramada/Leland Downtown Hotel
- Harmonie Park Project
- Merchants Row
- Michigan Opera Theatre
- Hilton Garden Inn
- Music Hall Center for the Performing Arts
- Stadia Complex

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Development Projects (continued)

- Lower Woodward Improvement Plan
- Campus Martius
- East Riverfront District
- Riverfront Promenade
- Kales Building
- Kennedy Square Office Building
- 1001 Woodward Parking Garage
- Au Bon Pain
- Michigan Opera Garage
- Book Cadillac Project
- Broadway Property and Partners
- Lafer Building
- Vinton Building
- Paradise Valley Project
- Capitol Park
- Whitney Building
- The District Detroit (Little Caesars Arena and surrounding development)
- Q-Line
- Business Attraction:
 - Ally Financial
 - Blue Cross Blue Shield of Michigan
 - Quicken Loans
- Development Financing Small Business Loan Transactions Program:
 - Fieldstone Properties
 - Opus to Go, L.L.C.
 - Seldom Blues
 - Marmalade Enterprises
 - Diversified Restaurant Group
 - Vincente III, L.L.C.
 - Dunwright, L.L.C.
 - Detroit Breakfast House
 - Adams and Park

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE B - CASH DEPOSITS, INVESTMENTS, AND DERIVATIVES

Cash Deposits

State of Michigan (the “State”) statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts be made with banks doing business and having a place of business in the State that are also members of a federal or national insurance corporation.

Custodial credit risk is the risk that, in the event of a bank failure, the DDA’s deposits may not be returned to the DDA. The DDA does not have a deposit policy for custodial credit risk.

As of June 30, 2017 and 2016, the DDA’s carrying amount of deposits and bank balances, and the bank balances that are not covered by federal depository insurance, are as follows:

	<u>2017</u>	<u>2016</u>
Carrying amount of deposits	<u>\$ 2,087,690</u>	<u>\$ 7,266,069</u>
Total bank balances	<u>\$ 2,201,384</u>	<u>\$ 7,725,018</u>
Uninsured and uncollateralized bank balances	<u>\$ 1,451,384</u>	<u>\$ 7,215,018</u>

Investments

The DDA’s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and 2016 is summarized as follows:

	<u>Fair Value Measurements</u>			
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total</u>
2017				
Assets:				
Investments at fair value:				
Money market funds	\$ 55,768,491	\$ -0-	\$ -0-	\$ 55,768,491
Repurchase agreements		3,000,000		3,000,000
	<u>\$ 55,768,491</u>	<u>\$ 3,000,000</u>	<u>\$ -0-</u>	<u>\$ 58,768,491</u>

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE B - CASH DEPOSITS, INVESTMENTS, AND DERIVATIVES (CONTINUED)

Investments (continued)

	<u>Fair Value Measurements</u>			<u>Total</u>
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
2017 (continued)				
Liabilities:				
Hedging derivatives:				
Interest rate swap	\$ -0-	\$ 13,779,572	\$ -0-	\$ 13,779,572
2016				
Assets:				
Investments at fair value:				
Money market funds	\$ 128,961,066	\$ -0-	\$ -0-	\$ 128,961,066
Repurchase agreements		3,000,000		3,000,000
	\$ 128,961,066	\$ 3,000,000	\$ -0-	\$ 131,961,066
Liabilities:				
Hedging derivatives:				
Interest rate swap	\$ -0-	\$ 26,277,559	\$ -0-	\$ 26,277,559

Credit risk is the risk that the DDA will not recover its investments due to the inability of the counterparty to fulfill its obligations. State statutes authorize the DDA to invest in obligations and certain repurchase agreements of the U.S. Treasury and related governmental agencies, commercial paper rated prime at the time of purchase and maturing not more than 270 days from the date of purchase, bankers acceptances and certificates of deposit issued or created by any state or national bank insured with the applicable federal agency, investment pools authorized by the Surplus Funds Investment Act, and mutual funds composed entirely of the above investments. The DDA has no investment policy that would further limit its investment options.

The DDA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the DDA will not be able to recover the value of its investments that are in the possession of an outside party. The DDA places no limit on the amount it may invest in any one issuer.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE B - CASH DEPOSITS, INVESTMENTS, AND DERIVATIVES (CONTINUED)

Investments (continued)

Individual investments that represent five percent or more of the DDA's total investments either as of June 30, 2017 or as of June 30, 2016, or for which credit risk or interest rate risk disclosures are required, are as follows:

	<u>2017</u>	<u>2016</u>
Investments held by the counterparty's trust department or agent in the DDA's name:		
Money market funds:		
Aaa-mf rating from Moody's:		
First American Government Obligations Fund, Class Y (weighted average maturity of 34 days and 26 days for 2017 and 2016, respectively)	\$ 33,633,582	\$ 123,629,802
AAAm rating from Standard & Poor's:		
Federated Government Obligations Fund:		
Maturity date June 30, 2017	14,554,462	-0-
Maturity date June 30, 2016	-0-	209,633
JPMorgan U.S. Treasury Plus Money Market Fund (weighted average maturity of 23 days and 31 days for 2017 and 2016, respectively)	37,185	37,154
Unrated:		
Comerica Governmental Cash Investment Fund J (weighted average maturity of 36 days and 32 days for 2017 and 2016, respectively)	7,543,262	5,084,477
Repurchase agreements:		
First Independence National Bank	3,000,000	3,000,000

Interest Rate Swap

The DDA has entered into an interest rate swap with Comerica Bank as the counterparty. The swap is set up to manage the DDA's interest rate exposure on the Series 2014B bonds (see Note G) and to reduce the overall costs of its financings.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE B - CASH DEPOSITS, INVESTMENTS, AND DERIVATIVES (CONTINUED)

Interest Rate Swap (continued)

The terms of the swap are as follows:

Effective date	January 2, 2018
Fixed rate paid	5.41 percent
Rate received	2.75 percent over the three-month London Inter-Bank Offering Rate ("LIBOR")
Termination date	July 1, 2045
Bond maturity date	July 1, 2045

Changes in the fair value of the swap for the years ended June 30, 2017 and 2016, as well as the notional amount as of June 30, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Governmental Activities:		
Hedging derivatives:		
Reported in deferred outflows of resources:		
Series 2014B interest rate swap:		
Fair value, beginning of year	\$ (26,277,559)	\$ (2,256,391)
Increase (decrease) in fair value	<u>12,497,987</u>	<u>(24,021,168)</u>
Fair Value, End of Year	<u>\$ (13,779,572)</u>	<u>\$ (26,277,559)</u>
Notional amount	<u>\$ 200,000,000</u>	<u>\$ 200,000,000</u>

The fair value of the interest rate swap was estimated using the income approach. This method calculates the value of the swap by discounting future expected net cash flows, using LIBOR to build the yield curve, and adjusting for credit risk and quoted bid/offer levels for similar securities in the market.

Credit risk can be measured by the actual market value exposure or theoretical exposure. When the fair value of any swap has a positive market value, then the DDA is exposed to the actual risk that the counterparty will not fulfill its obligations. As of June 30, 2017 and 2016, the DDA had no net exposure to actual credit risk on its swap for its counterparty. As of June 30, 2017 and 2016, the credit quality ratings of Comerica Bank, the counterparty to the swap, are A- and A, respectively, from Standard & Poor's and A3 from Moody's.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE B - CASH DEPOSITS, INVESTMENTS, AND DERIVATIVES (CONTINUED)

Interest Rate Swap (continued)

The DDA believes it has significantly reduced interest rate risks by entering into the interest rate swap. The DDA is exposed to basis risk when the variable interest received on a swap is based on a different index than the variable interest rate to be paid on the associated variable rate debt obligation. As of June 30, 2017 and 2016, the associated variable rate debt used the same index (based on LIBOR) as the swap. As a result, there was no significant exposure to basis risk as of June 30, 2017 or 2016.

According to the terms of the swap agreement, the DDA did not pay or receive any cash when entering into the contract. The terms of the swap agreement do not specify any terms under which there will be an unscheduled end to the instrument. The interest rate swap is secured by semi-annual concession fees paid by Olympia to the DDA, which will commence July 2, 2018.

NOTE C - NOTES RECEIVABLE

The DDA's portfolio of notes receivable as of June 30, 2017 and 2016 is as follows:

Trappers Alley Limited Partnership

Two notes receivable have been issued to Trappers Alley Limited Partnership:

- The DDA issued a mortgage note over 40 years, dated December 27, 1983, which is secured by property, with interest at 12 percent. Interest only is payable, to the extent there is sufficient cash flow, for the first 20 years, beginning January 2, 1987; the note is fully amortized over the remaining 20 years.
- The DEGC issued a promissory note, dated December 27, 1983; the DDA purchased the note from the DEGC on June 25, 1987. This note bears annual interest of 11.25 percent and is secured by the borrower's property. The DDA has strong concerns regarding the recovery of this loan, as this project has had continuous operating losses. The current underutilization of the space (only two floors of the five-story structure are being used) adds to these concerns. Unpaid interest has been accrued on this loan.

Tobin-Harmonie Park Limited Partnership

This is an Urban Development Action Grant ("UDAG") promissory note, dated July 6, 1992, secured by a mortgage. There is no fixed interest rate, but annual payments equal to 15 percent of net annual cash flow were to be made as contingent interest. The loan is coming due, and the borrower is in negotiations with the DDA.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE C - NOTES RECEIVABLE (CONTINUED)

Charles A. Forbes

This is a promissory revolving loan note, dated February 13, 1990, as amended on May 29, 1997 and again amended on March 1, 1999, secured by a mortgage on various properties. The note does not bear interest. The loan was to be repaid in 19 equal annual installments of \$177,500, commencing on December 31, 1999 and continuing through December 31, 2017, with one final installment of \$27,500 due on December 31, 2018. The borrower has prepaid some of the outstanding balance.

400 Monroe Associates

This is a UDAG promissory note, dated February 25, 1988, secured by a mortgage and payable over 15 years. Interest payments are deferred and did not accrue for years one and two. Interest only is payable in years three through five, and the repayment of principal and interest thereafter are payable in monthly installments, based on a 25-year amortization schedule, with a balloon payment in year 15 sufficient to pay off the remaining principal balance plus accrued interest thereon. Interest is payable at three percent per annum. The project was completed July 31, 1992. This loan was restructured by the DDA in June 2009 to require payments of interest only for the period from June 1, 2009 through November 30, 2010 and to extend the loan amortization period for 18 months. The borrower has resumed making full monthly payments.

Leland House Limited Partnership Company

This is a final promissory note, dated July 9, 1991, secured by a mortgage and security agreement. The bankruptcy confirmation order, dated September 27, 1993, restricted the payment on debts so that the DDA and the City will share the payments (no payments in years one through five, \$30,000 per year in years six and seven, \$60,000 per year in years eight through 28, and \$90,000 per year in years 29 and 30) on a pro rata basis.

KWA I, L.L.C.

This is a promissory note, dated May 30, 2003, for residential loft and ground floor retail development. A payment of \$3,750,000 is due seven years from the project's closing, with the balance to be repaid via single business tax credits or sale proceeds. This agreement has been amended, extending the maturity date to September 30, 2029 and modifying the loan amount to \$3,900,000.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE C - NOTES RECEIVABLE (CONTINUED)

Seldom Blues, L.L.C.

This is a promissory note, dated May 5, 2004, secured by equipment and the personal guarantee of the owner. Payments of interest only were due for the first 12 months of the loan. After that, payments of principal and interest were to be made monthly through, and including, May 1, 2011. Interest accrued at the rate of four percent per annum. This loan was restructured by the DDA in June 2009 to require payments of interest only for the period from June 1, 2009 through November 30, 2010 and to extend the loan amortization period for 18 months. The business has closed, and the guarantor has filed for bankruptcy; the DDA has actively pursued collection from the guarantors and has been receiving partial payments since September 2012. A structured settlement was reached with the last guarantor in 2017.

Michigan Opera Garage

This is a promissory note, dated December 8, 2004, secured by a second mortgage. Repayment is due under two separate schedules. For 36 months, \$226,000 of the loan was interest-free, then accrued interest at five percent per annum, amortized over 15 years, with a balloon payment for the unpaid balance due in 10 years. That portion has been repaid. The remaining \$800,000 of the loan is interest-free during the term of the first position debt, then accrues interest at four percent per annum, with fully amortizing payments thereafter.

Au Bon Pain

This is a promissory note, dated December 13, 2004, secured by equipment and personal guarantees. The note has a 10-year term, with payments of interest only due during the first year, followed by payments of principal and interest over a nine-year amortization period. No interest was charged for the first three months; interest accrues at four percent per annum thereafter. This loan was restructured by the DDA in June 2009 to require payments of interest only for the period from June 1, 2009 through November 30, 2010 and to extend the loan amortization period for 18 months. The business has closed, and the remaining balance has been written off.

Vincente III, L.L.C.

This is a promissory note, dated October 12, 2004, secured by a second mortgage, equipment, and a personal guarantee, with payments of interest only due during the first year, followed by payments of principal and interest over a nine-year amortization period. A balloon payment is due at the end of the seventh year. No interest is charged for the first three months, and then interest accrues at four percent per annum thereafter.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE C - NOTES RECEIVABLE (CONTINUED)

Vincente III, L.L.C. (continued)

This loan was restructured by the DDA in June 2009 to require payments of interest only for the period from June 1, 2009 through November 30, 2010 and to extend the loan amortization period for 18 months. The borrower resumed making full payments, and then paid the loan in full.

Lafer Building

This was a non-recourse loan. No payments were due until seven years from the date of closing, at which time payments of interest only were due at the same rate as the interest rate on the first position debt. The loan has been paid off.

Whitney Partners

This was a short-term note to aid in the redevelopment of the Whitney Building. Interest accrued at three percent per annum. Interest accrued, but payment was deferred through March 7, 2012. The borrower repaid the loan in full in August 2016.

Hudson Business Enterprises, Inc.

This note, dated October 9, 2006, was issued to fund a portion of the costs associated with the build-out of leased space located at 1441 Woodward Avenue. Interest accrues a rate of four percent per annum. Monthly payments of interest only are payable through October 1, 2007. Beginning November 1, 2007, monthly payments of \$1,932 in principal and interest are payable until the note matures on October 1, 2016. This loan was restructured by the DDA in June 2009 to require payments of interest only for the period from June 1, 2009 through November 30, 2010 and to extend the loan amortization period for 18 months. The borrower has been making partial principal payments along with full interest payments as the loan is being restructured.

Book Cadillac Hotel

Three notes receivable have been issued in relation to the Book Cadillac Hotel:

- The DDA issued an unsecured loan for the interior demolition and remediation of the Book Cadillac Hotel. No interest or payments were due on this loan. The loan has been forgiven as expected upon the completion of several covenants by the borrower.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE C - NOTES RECEIVABLE (CONTINUED)

Book Cadillac Hotel (continued)

- The DDA issued a loan for the renovation of the Book Cadillac Hotel; the loan was secured by a fourth position on the building. Contingent interest payments at five percent per annum were due based on available cash flow. DDA accepted a discounted payoff of this loan in 2017.
- The DDA issued a guaranty note, dated May 7, 2008, from the Housing/Office/Retail fund. It is a short-term bridge loan made to fund the completion of the Book Cadillac Hotel. The note is secured by deposits on the condominium portion of the project. The outstanding balance was originally due January 30, 2009. The borrower and the DDA agreed to extend the due date of the loan. The loan is being repaid from the excess proceeds from the sale of the condominiums. Based on current sales projections, the DDA expects to receive full principal payoff. A large partial payment was received in late 2016.

Adams and Park

This is a promissory note, dated August 5, 2008. It was issued to fund a portion of the costs associated with the build-out of leased space located at 76 West Adams for a Shield's Pizza. It is secured by an assignment of lease, equipment, and personal guarantees. Interest accrues at a rate of four percent per annum. The loan has a term of seven years, with no payments due for the first six months. Commencing on November 1, 2008 and continuing through April 1, 2009, payments of interest only were due. Thereafter, principal and interest payments are due through March 1, 2015. On April 1, 2015, a balloon payment is due. The project fell behind schedule and did not open on time. The landlord evicted the borrower. The DDA has retained counsel and is pursuing the guarantors for the outstanding loan balance.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE C - NOTES RECEIVABLE (CONTINUED)

The outstanding balances on these notes receivable, and the related accrued interest receivable, are as follows as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Trappers Alley Limited Partnership:		
DDA loan	\$ 2,800,000	\$ 2,800,000
DEGC loan	982,170	982,170
Tobin-Harmonie Park Limited Partnership	1,425,000	1,425,000
Charles A. Forbes	150,000	300,000
400 Monroe Associates	2,745,690	2,933,399
Leland House Limited Partnership Company	979,648	979,648
KWA I, L.L.C.	3,900,000	3,900,000
Seldom Blues, L.L.C.	100,000	225,309
Michigan Opera Garage	800,000	800,000
Au Bon Pain	-0-	139,814
Vincente III, L.L.C.	-0-	131,587
Lafer Building	-0-	420,000
Whitney Partners	-0-	1,000,000
Hudson Business Enterprises, Inc.	171,502	174,184
Book Cadillac Hotel:		
Book Cadillac remediation	-0-	5,800,000
Book Cadillac redevelopment	-0-	5,700,000
Book Cadillac bridge loan	989,771	2,000,000
Adams and Park	184,463	184,563
	<u>15,228,244</u>	<u>29,895,674</u>
Accrued interest receivable	<u>2,751,659</u>	<u>2,751,659</u>
	17,979,903	32,647,333
Less:		
Allowance for doubtful notes and interest receivable	<u>(10,102,315)</u>	<u>(22,151,999)</u>
Net Notes and Accrued Interest Receivable	<u><u>\$ 7,877,588</u></u>	<u><u>\$ 10,495,334</u></u>

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE C - NOTES RECEIVABLE (CONTINUED)

Changes in the allowance for doubtful notes and interest receivable are as follows for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 22,151,999	\$ 21,566,799
Additions	-0-	585,200
Less:		
Recovery of notes receivable previously fully reserved	(859,770)	-0-
Write-off of uncollectible notes receivable	<u>(11,189,914)</u>	<u>-0-</u>
Balance, End of Year	<u>\$ 10,102,315</u>	<u>\$ 22,151,999</u>

Because of the long-term nature of these notes receivable and the uncertainty of the time of collection on many of them, the fair value of these notes receivable as of June 30, 2017 and 2016 cannot be readily determined.

NOTE D - PROPERTY TAXES

The DDA finances its general and administrative operations with the proceeds of a one-mill levy on the assessed value of the Downtown Development District. A portion of this fund has been designated by the DDA's Board of Directors to meet existing contracts outstanding.

Effective July 1, 1978, the DDA was authorized to finance its development plan by capturing the tax proceeds on the increases in the assessed value on real and personal property within the tax increment district located within the downtown development area. Funds raised from this levy are restricted for use within the tax increment district.

On July 19, 1978, the DDA entered into an agreement with the Board of Commissioners of Wayne County, Michigan (the "County") to exclude certain proceeds of the tax increment fund which had been previously designated for certain County operational and construction activities.

The City and the County levy property taxes on July 1 of each year. July property taxes are due in full to the City on August 31 of each year, but may be paid in two installments, which are due on August 15 and January 15 of each year. The County also levies property taxes on December 1 of each year. December property taxes are due on January 15 of each year. Taxes become a lien on property assessed on July 1 and December 1 of each year.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE D - PROPERTY TAXES (CONTINUED)

The City is scheduled to remit collected incremental property taxes to the DDA in December and June of each year for all millage rates being captured.

An allowance for doubtful taxes receivable is recorded based upon the historical uncollectible experience for total real and personal property tax assessments, plus allowances for other specific accounts for which collection is uncertain. No such allowance is considered necessary as of June 30, 2017 and 2016.

NOTE E - CAPITAL ASSETS

Nondepreciable capital asset activity for the years ended June 30, 2017 and 2016 is as follows:

	<u>Land</u>	<u>Stadium Construction in Progress</u>	<u>Total</u>
Balance, July 1, 2015	\$ 46,900,670	\$ 60,939,480	\$ 107,840,150
Acquisitions		164,753,612	164,753,612
Balance, June 30, 2016	46,900,670	225,693,092	272,593,762
Acquisitions		526,517,252	526,517,252
Balance, June 30, 2017	<u>\$ 46,900,670</u>	<u>\$ 752,210,344</u>	<u>\$ 799,111,014</u>

Depreciable capital asset activity for the years ended June 30, 2017 and 2016 is as follows:

	<u>Buildings</u>	<u>Equipment and Fixtures</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Cost:				
Balance, July 1, 2015	\$ 50,050,177	\$ 68,446	\$ 2,984,623	\$ 53,103,246
Acquisitions			74,975	74,975
Balance, June 30, 2016	50,050,177	68,446	3,059,598	53,178,221
Acquisitions			63,185	63,185
Less: Dispositions			(127,430)	(127,430)
Balance, June 30, 2017	<u>\$ 50,050,177</u>	<u>\$ 68,446</u>	<u>\$ 2,995,353</u>	<u>\$ 53,113,976</u>

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE E – CAPITAL ASSETS (CONTINUED)

	<u>Buildings</u>	<u>Equipment and Fixtures</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Accumulated Depreciation:				
Balance, July 1, 2015	\$ 16,132,901	\$ 68,446	\$ 1,902,725	\$ 18,104,072
Depreciation expense	1,668,340		349,788	2,018,128
	<u>17,801,241</u>	<u>68,446</u>	<u>2,252,513</u>	<u>20,122,200</u>
Balance, June 30, 2016				
Depreciation expense	1,668,339		368,621	2,036,960
Less: Dispositions			(127,430)	(127,430)
	<u>19,469,580</u>	<u>68,446</u>	<u>2,493,704</u>	<u>22,031,730</u>
Balance, June 30, 2017				
Net Depreciable Capital Assets:				
Balance, June 30, 2016	\$ 32,248,936	\$ -0-	\$ 807,085	\$ 33,056,021
Balance, June 30, 2017	<u>\$ 30,580,597</u>	<u>\$ -0-</u>	<u>\$ 501,649</u>	<u>\$ 31,082,246</u>

NOTE F - PROPERTY HELD FOR DEVELOPMENT

As of June 30, 2017 and 2016, the DDA has acquired property for the development of the following projects that are not part of the DDA's regular operations:

	<u>2017</u>	<u>2016</u>
Paradise Valley Project	\$ 6,747,000	\$ 7,097,000
Riverfront Residential Project	8,700,000	8,700,000
Broadway	500,000	500,000
Bates Avenue	1,500,000	1,500,000
Washington Boulevard	-0-	935,500
	<u>\$ 17,447,000</u>	<u>\$ 18,732,500</u>

The Paradise Valley Project consists of properties assembled as part of a master plan to further economic development activities in downtown Detroit by revitalizing the Harmonie Park area with an enhanced physical environment and new investment opportunities.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE F - PROPERTY HELD FOR DEVELOPMENT (CONTINUED)

The DDA will work to accomplish this by executing a plan to acquire, rehabilitate, and re-position important landmark buildings for business opportunities, to further upgrade public open spaces, and to provide a right of way to create a festive, safe, and inviting environment for the public, as well as by developing other marketing and management tools to help sustain commerce in the area in the future.

NOTE G - LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2017 and 2016 consist of the following:

Contract Payable

The contract payable consists of amounts due to Amerivision Corporation under a UDAG used to partially finance development of the Trappers Alley Project. The Trappers Alley Project was financed in part with \$2,800,000 of UDAG funds received by the City and administered by the DDA. The funds were originally loaned to the developer and are to be repaid, contingent upon cash flow, in installments over 40 years. The repayment proceeds will be used to liquidate the DDA's obligation.

Notes Payable

Invest Detroit Foundation

As part of a redevelopment plan for the west district in Capitol Park, in November 2009, the DDA's Board of Directors approved the acquisition of 1145 Griswold for \$1,907,562. The DDA's Board of Directors further approved the borrowing of \$2,000,000 from the Lower Woodward Housing Fund of Detroit Renaissance Foundation (now Invest Detroit Foundation) for the acquisition, interest-free for 24 months. The loan was secured by a mortgage on 1145 Griswold. The loan was modified in 2012, extending the maturity date to June 30, 2013. The loan was further modified in 2013, extending the maturity date to coincide with receipts from the entity chosen to redevelop the area. A \$50,000 payment was made during the year ended June 30, 2017, leaving the balance at \$1,950,000. Future payments are tied to receipts from the developer and are based upon a cash flow schedule.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE G - LONG-TERM LIABILITIES (CONTINUED)

Notes Payable (continued)

Economic Development Corporation of the City of Detroit

Two loans were issued by the Economic Development Corporation of the City of Detroit from the SmartBuilding Green Fund to fund energy improvement projects for properties owned by the DDA: one for the 150 Michigan Avenue Garage, and the other for five buildings in the Paradise Valley area of downtown Detroit. Each loan has an interest rate of two percent per annum, and payments began on both loans on August 1, 2014. The 150 Michigan Garage loan matures in July 2018, and the Paradise Valley loan matures in July 2022.

Payments on these loans are made primarily from the special revenue fund.

Bonds Payable

In 2014, the MSF issued \$250,000,000 in Series 2014A bonds and \$200,000,000 in Series 2014B bonds, with the proceeds to be used toward the construction of the Arena. The Series 2014A bonds will be serviced primarily through Catalyst Development Project tax revenue captured by the DDA. Beginning in 2019, there will also be a variable contribution toward the debt service from the DDA's general tax revenue that is captured. The Series 2014B bonds will be serviced by a variable concession management payment from Olympia to the DDA and have a variable interest rate. Series 2014A bonds were disbursed entirely at the outset of the project. Series 2014B bond proceeds are drawn down as required.

As the bonds were issued, the DDA entered into loan agreements with the MSF. The proceeds from the bonds are loaned to the DDA by the MSF, and the DDA is obligated to pay the aforementioned revenue to the MSF to service the bonds. A bond issued by the DDA to the MSF secures this obligation. The total outstanding balances of the Series 2014A and Series 2014B bonds were \$437,320,000 and \$256,625,000 as of June 30, 2017 and 2016, respectively.

Payments on these bonds will be made primarily from the stadium fund.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE G - LONG-TERM LIABILITIES (CONTINUED)

Bonds Contract Payable

The City and the DDA have issued the following bonds:

Issued by the City on August 1, 1989 ("1989 bonds"):	
Series 1989A tax-exempt bonds	\$ 15,225,000
Series 1989B taxable bonds	<u>71,000,000</u>
	<u>\$ 86,225,000</u>
Issued by the DDA on April 18, 1996 ("1996 bonds"):	
Series 1996A taxable bonds	\$ 75,014,000
Series 1996B tax-exempt bonds	13,330,000
Series 1996C tax-exempt bonds	64,883,198
Series 1996D tax-exempt bonds	<u>14,185,000</u>
	<u>\$ 167,412,198</u>
Issued by the DDA on September 1, 1998 ("1998 bonds"):	
Series 1998A tax-exempt bonds	\$ 68,900,000
Series 1998B taxable bonds	32,195,000
Series 1998C junior lien bonds	<u>21,425,000</u>
	<u>\$ 122,520,000</u>

The principal and interest on the bonds are primarily payable from, and secured by, certain incremental property tax revenue to be received by the DDA from Development Area No. 1 within the downtown business district (see Note A). Payments on the bonds contract payable are made from the other debt service fund under the general bond resolution.

A portion of the 1996 bond proceeds, \$87,996,800, was put into an escrow account to repay the 1989 bonds. A portion of the 1998 bond proceeds, \$65,124,175, was also put into an escrow account to repay the Series 1996C (partial refund) and the Series 1996D bonds. The escrow agent was responsible for monitoring and making the required debt service payments on those bonds, which were removed as liabilities from the DDA's financial statements. The 1989 bonds, the Series 1996C (partial refund) bonds, and the Series 1996D bonds have been fully repaid.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE G - LONG-TERM LIABILITIES (CONTINUED)

Long-term liability activity for the years ended June 30, 2017 and 2016 is as follows:

	<u>Special Revenue Fund</u>		<u>Stadium Fund</u>	<u>Other Debt Service Fund</u>			<u>Total</u>
	<u>Contract Payable</u>	<u>Notes Payable</u>	<u>Bonds Payable</u>	<u>Bonds Contract Payable</u>	<u>Bond Discount</u>	<u>Net</u>	
Balance, July 1, 2015	\$ 2,800,000	\$ 2,469,078	\$ 255,465,000	\$ 59,693,471	\$ 726,080	\$ 58,967,391	\$ 319,701,469
Additions			1,160,000				1,160,000
Less:							
Repayments		(79,606)		(4,016,737)		(4,016,737)	(4,096,343)
Amortization					(81,742)	81,742	81,742
Balance, June 30, 2016	2,800,000	2,389,472	256,625,000	55,676,734	644,338	55,032,396	316,846,868
Additions			180,695,000				180,695,000
Less:							
Repayments		(131,213)		(3,782,233)		(3,782,233)	(3,913,446)
Amortization					(79,012)	79,012	79,012
Balance, June 30, 2017	\$ 2,800,000	\$ 2,258,259	\$ 437,320,000	\$ 51,894,501	\$ 565,326	\$ 51,329,175	\$ 493,707,434
Amounts Due Within One Year:							
June 30, 2016	\$ -0-	\$ 2,078,707	\$ -0-	\$ 782,234	\$ 64,048	\$ 718,186	\$ 2,796,893
June 30, 2017	\$ -0-	\$ 2,030,296	\$ -0-	\$ 803,826	\$ 62,688	\$ 741,138	\$ 2,771,434

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE G - LONG-TERM LIABILITIES (CONTINUED)

Maturities of long-term liabilities (excluding the bond discount), including the full issuance of the Series 2014B variable interest bonds using an interest rate of 6.115 percent, as well as the related swap, which will mature in conjunction with the maturities of the Series 2014B variable interest bonds, are as follows as of June 30, 2017:

	<u>Principal</u>	<u>Interest</u>	<u>Total Principal and Interest</u>	<u>Interest Rate Swap (Net)</u>
For the Years Ending June 30:				
2018	\$ 2,834,122	\$ 22,915,066	\$ 25,749,188	\$ -0-
2019	4,920,730	26,098,512	31,019,242	538,293
2020	6,693,424	27,331,783	34,025,207	1,661,840
2021	12,446,723	27,087,500	39,534,223	7,937,350
2022	14,108,026	26,315,930	40,423,956	8,541,080
2023-2027	96,081,571	116,004,236	212,085,807	51,458,273
2028-2032	117,416,146	75,411,829	192,827,975	69,856,146
2033-2037	85,302,097	45,267,066	130,569,163	36,637,097
2038-2042	76,563,107	28,934,831	105,497,938	12,263,107
2043-2046	90,586,814	9,035,125	99,621,939	11,106,814
	<u>\$ 506,952,760</u>	<u>\$ 404,401,878</u>	<u>\$ 911,354,638</u>	<u>\$ 200,000,000</u>

The maturities of principal and interest displayed in the preceding schedule consist of the following as of June 30, 2017:

	<u>Stadium Fund</u>				
	<u>Special Revenue Fund</u>	<u>Fixed Interest Rate</u>	<u>Variable Interest Rate</u>	<u>Other Debt Service Fund</u>	<u>Total</u>
Principal:					
For the years ending June 30:					
2018	\$ 2,030,296	\$ -0-	\$ -0-	\$ 803,826	\$ 2,834,122
2019	56,069		538,293	4,326,368	4,920,730
2020	54,593	1,090,000	1,661,840	3,886,991	6,693,424
2021	55,695	435,000	7,937,350	4,018,678	12,446,723
2022	56,819	1,025,000	8,541,080	4,485,127	14,108,026
2023-2027	2,804,787	18,490,000	51,458,273	23,328,511	96,081,571
2028-2032		36,515,000	69,856,146	11,045,000	117,416,146
2033-2037		48,665,000	36,637,097		85,302,097
2038-2042		64,300,000	12,263,107		76,563,107
2043-2046		79,480,000	11,106,814		90,586,814
	<u>\$ 5,058,259</u>	<u>\$ 250,000,000</u>	<u>\$ 200,000,000</u>	<u>\$ 51,894,501</u>	<u>\$ 506,952,760</u>

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE G - LONG-TERM LIABILITIES (CONTINUED)

	<u>Stadium Fund</u>				
	Special Revenue Fund	Fixed Interest Rate	Variable Interest Rate	Other Debt Service Fund	Total
Interest:					
For the years ending June 30:					
2018	\$ 5,404	\$ 10,312,500	\$ 7,654,883	\$ 4,942,279	\$ 22,915,066
2019	4,024	10,312,500	10,961,707	4,820,281	26,098,512
2020	2,939	10,290,019	12,338,160	4,700,665	27,331,783
2021	1,837	10,258,566	12,237,008	4,590,089	27,087,500
2022	713	10,228,453	11,633,278	4,453,486	26,315,930
2023-2027	8	49,377,281	49,413,517	17,213,430	116,004,236
2028-2032		43,646,522	31,015,644	749,663	75,411,829
2033-2037		34,915,134	10,351,932		45,267,066
2038-2042		23,304,600	5,630,231		28,934,831
2043-2046		7,616,606	1,418,519		9,035,125
	\$ 14,925	\$ 210,262,181	\$ 152,654,879	\$ 41,469,893	\$ 404,401,878

NOTE H - ESCROW DEPOSITS PAYABLE

As of June 30, 2017 and 2016, the DDA has escrow deposits due to Leland House Limited Partnership Company. These deposits are utilized by the DDA to pay tax and insurance obligations related to the Ramada/Leland Hotel Project.

NOTE I - RISK MANAGEMENT

The DDA has insurance policies covering its directors and officers. It also has general liability insurance and property insurance covering its various assets. At the request of the Board of Directors, the DDA has obtained two excess general liability policies in addition to the original policy to ensure sufficient coverage. Due to the extent of insurance that the DDA maintains, the risk of loss to the DDA, in management's opinion, is minimal.

NOTE J – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law for the general fund. All annual appropriations lapse at the end of the fiscal year.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE J – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

Under the State’s Uniform Budgeting and Accounting Act, actual expenditures for any budgeted expenditure category are not to exceed the amounts budgeted for that category. The Uniform Budgeting and Accounting Act permits governmental entities to amend their budgets during the year, and requires amended budgets to be approved by the governing body prior to expending funds in excess of the amount budgeted for that category.

During the year ended June 30, 2017, the DDA did not incur expenditures in excess of the amounts budgeted for any category.

NOTE K – SUBSEQUENT EVENTS

On August 10, 2017, the DDA issued \$36,000,000 in Series 2017 bonds, with the proceeds to be used toward construction changes and enhancements to the Arena. These changes were necessary in order to make the Arena compliant with National Basketball Association requirements and to incentivize the Detroit Pistons to relocate to the City of Detroit. These bonds will be repaid through Catalyst Development Project tax increment revenue captured by the DDA.

On November 9, 2017, the DDA entered into a swap novation transaction with Garden Trust Company, LLC, as Trustee of the Michael Ilitch Trust Agreement (“Garden Trust”), for the purpose of removing the DDA from the swap transaction. Furthermore, the entire outstanding amount of Series 2014B bonds drawn down, \$188,500,000 as of November 9, 2017, was retired through a prepayment of the base concession fees payable by Garden Trust to the DDA under the Concession Management Agreement relating to the Arena. The corresponding loan agreement with the MSF and related agreements regarding the Series 2014B bonds were also terminated.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

December 21, 2017

To the Board of Directors
City of Detroit Downtown Development Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the City of Detroit Downtown Development Authority (the "DDA"), as of, and for the year ended, June 30, 2017, and the related notes to the financial statements, which collectively comprise the DDA's basic financial statements, and have issued our report thereon dated December 21, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the DDA's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DDA's internal control. Accordingly, we do not express an opinion on the effectiveness of the DDA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the DDA's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS (CONTINUED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DDA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DDA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DDA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CERTIFIED PUBLIC ACCOUNTANTS
Detroit, Michigan

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

SCHEDULES OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND (UNAUDITED)

For the Years Ended June 30, 2017 and 2016

	2017				2016			
	Original Budget	Final Budget	Actual	Positive (Negative) Variance with Final Budget	Original Budget	Final Budget	Actual	Positive (Negative) Variance with Final Budget
Revenue:								
Property taxes	\$ 850,000	\$ 850,000	\$ 983,678	\$ 133,678	\$ 850,000	\$ 850,000	\$ 1,005,085	\$ 155,085
Other revenue	1,671,000	1,671,000	1,785,854	114,854	1,671,000	1,671,000	2,156,232	485,232
Total Revenue	2,521,000	2,521,000	2,769,532	248,532	2,521,000	2,521,000	3,161,317	640,317
Expenditures:								
Current:								
Administrative and operating expenses	2,300,000	2,300,000	2,234,441	65,559	2,300,000	2,300,000	2,185,865	114,135
Professional fees	721,000	721,000	719,188	1,812	721,000	721,000	471,946	249,054
Total Expenditures	3,021,000	3,021,000	2,953,629	67,371	3,021,000	3,021,000	2,657,811	363,189
Excess (Deficiency) of Revenue over Expenditures	(500,000)	(500,000)	(184,097)	315,903	(500,000)	(500,000)	503,506	1,003,506
Other Financing Sources:								
Interfund transfers	750,000	750,000	750,000	-0-	750,000	750,000	750,000	-0-
Net Increase (Decrease) in Fund Balance	\$ 250,000	\$ 250,000	\$ 565,903	\$ 315,903	\$ 250,000	\$ 250,000	\$ 1,253,506	\$ 1,003,506

See note to schedules of revenue and expenditures - budget and actual (general fund).

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**NOTE TO SCHEDULES OF REVENUE AND EXPENDITURES -
BUDGET AND ACTUAL - GENERAL FUND (UNAUDITED)**

For the Years Ended June 30, 2017 and 2016

NOTE A - BUDGETS AND BUDGETARY ACCOUNTING

The City of Detroit Downtown Development Authority (the “DDA”) establishes a budget that is reflected in the financial statements for the general fund. The budget is presented on the modified accrual basis of accounting.

Budgeted amounts are as presented to the DDA’s Finance Committee and approved by the DDA’s Board of Directors and the Detroit City Council. No amendments to the budget were made during the year. Appropriations are authorized by the DDA’s management. Unexpended appropriations lapse at the end of the fiscal year.