

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

FINANCIAL STATEMENTS
(With Required Supplementary Information)

June 30, 2022 and 2021



CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

September 16, 2022

To the Board of Directors
City of Detroit Local Development Finance Authority

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and each major fund of the City of Detroit Local Development Finance Authority (the "LDFA"), a component unit of the City of Detroit, Michigan, as of, and for the years ended, June 30, 2022 and 2021, as well as the related notes to the financial statements, which collectively comprise the LDFA's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying 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 LDFA as of June 30, 2022 and 2021, and the respective changes in financial position thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS") and *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the LDFA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The LDFA's management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, and for 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Financial Statements (continued)

Responsibilities of Management for the Financial Statements (continued)

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the LDFA's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. *Reasonable assurance* is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with U.S. GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS and *Government Auditing Standards*:

- We exercise professional judgment and maintain professional skepticism throughout the audit.
- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and we design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- We obtain an understanding of internal control relevant to the audit 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 LDFA's internal control. Accordingly, no such opinion is expressed.
- We evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and we evaluate the overall presentation of the financial statements.
- We conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the LDFA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Financial Statements (continued)

Required Supplementary Information

U.S. GAAP requires that the management's discussion and analysis on pages 4 through 8 and budgetary comparison on pages 23 through 24 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 U.S. GAAS, 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 audits 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 September 16, 2022, on our consideration of the LDFA'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 the effectiveness of the LDFA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the LDFA's internal control over financial reporting and compliance.



CERTIFIED PUBLIC ACCOUNTANTS
Detroit, Michigan

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2022 and 2021

This section of the annual report of the City of Detroit Local Development Finance Authority (the “LDFA”) presents management’s discussion and analysis of the LDFA’s financial performance during the fiscal years that ended on June 30, 2022 and 2021. Please read it in conjunction with the LDFA’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The LDFA’s main purpose has been to collect taxes within the tax increment district and pay debt service on the bonds that were issued to construct the Jefferson Avenue Chrysler Plant. In May 2002, the LDFA expanded its function and adopted resolutions establishing an additional development district and approving the Tax Increment Financing Plan for Technology Park Area No. 1 (the “TIF Plan”). The purpose of the TIF Plan was to partially fund the development of the Wayne State University Research and Technology Park. In October 2003, the LDFA further expanded its function and entered into a Core Community Fund grant agreement with the Michigan Economic Development Corporation. The purpose of the grant agreement was to fund projects in the City of Detroit (the “City”) on the East Riverfront, in the downtown district, and in the University Cultural Area.

In the early years of the LDFA, the financial report was prepared by the City. In recent years, due to the increased activity being performed by the LDFA, the LDFA has increased the level of service it has requested the Detroit Economic Growth Corporation to perform on its behalf.

For the year ended June 30, 2022, the LDFA had revenue of approximately \$4.8 million. This is a slight decrease from the prior two years, but still up from other recent years. Acts 480 and 481, Public Acts of Michigan of 2018 (“Acts 480 and 481”) assisted authorities that were receiving reimbursement from the State of Michigan (the “State”) after having been adversely affected by personal property tax reform. 2021-22 was the final year of the TIF Plan, and the LDFA will not capture taxes going forward.

Expenses spiked to about \$4.8 million, primarily due to project cost reimbursement to the City. The Core Community Fund grant project is near completion, and the remainder of the grant should be spent during the year ending June 30, 2023.

In order to alleviate cash flow concerns, the LDFA had received a \$2.5 million bridge loan from the Economic Development Corporation of the City of Detroit. The loan was repaid during the fiscal year ended June 30, 2021.

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.

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

June 30, 2022 and 2021

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The balance sheets and statements of revenue, expenditures, and changes in fund balances for governmental funds (which are presented on pages 11 and 12) are considered fund financial statements. A further discussion of each type of statement follows.

Government-Wide Financial Statements

The government-wide financial statements report information about the LDFA 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 LDFA'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 LDFA's net position and how they have changed. Net position represents the difference between the LDFA'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 LDFA's financial health or position. Over time, increases or decreases in the LDFA'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 LDFA's funds, not the LDFA as a whole. Funds are accounting devices that the LDFA uses to keep track of specific sources of funding and spending for particular purposes.

Most of the LDFA'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 LDFA's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, additional information is provided on page 13 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 14, explain some of the information in the financial statements and provide more detailed data. A comparison of the LDFA's general fund revenue and expenditures to its budget is provided on page 23.

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

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

June 30, 2022 and 2021

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE

Table 1 reflects a condensed summary of the LDFA’s assets, liabilities, and net position as of June 30, 2022, 2021, and 2020:

Table 1
Statements of Net Position
June 30, 2022, 2021, and 2020
(in millions of dollars)

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Assets:			
Cash	\$ 1.2	\$ 1.5	\$ 1.0
Investments	-0-	-0-	6.1
Total Assets	<u>1.2</u>	<u>1.5</u>	<u>7.1</u>
Liabilities:			
Long-term liabilities:			
Due or expected to be paid within one year	-0-	-0-	7.3
Due or expected to be paid in more than one year	-0-	-0-	2.5
Other liabilities	-0-	0.3	0.1
Total Liabilities	<u>-0-</u>	<u>0.3</u>	<u>9.9</u>
Net Position:			
Restricted for TIF Plan purposes	-0-	-0-	6.1
Restricted for grant projects	0.4	0.4	0.4
Unrestricted	0.8	0.8	(9.3)
Total Net Position	<u><u>\$ 1.2</u></u>	<u><u>\$ 1.2</u></u>	<u><u>\$ (2.8)</u></u>

The net position of the LDFA remained stable from June 30, 2021. It is expected that the remaining net position will decline gradually over the next couple of years as the final business of the LDFA is conducted.

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

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

June 30, 2022 and 2021

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

Table 2 reflects a condensed summary of the LDFA’s revenue, expenses, and changes in net position for the years ended June 30, 2022, 2021, and 2020:

Table 2
Statements of Activities
For the Years Ended June 30, 2022, 2021, and 2020
(in millions of dollars)

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Revenue:			
General revenue	\$ 4.8	\$ 4.9	\$ 5.2
Expenses:			
Economic development	<u>4.8</u>	<u>0.9</u>	<u>0.9</u>
Change in Net Position	-0-	4.0	4.3
Net Position, Beginning of Year	<u>1.2</u>	<u>(2.8)</u>	<u>(7.1)</u>
Net Position, End of Year	<u>\$ 1.2</u>	<u>\$ 1.2</u>	<u>\$ (2.8)</u>

Revenue experienced a slight decrease during the year ended June 30, 2022, but remained well up over other recent years. Acts 480 and 481 assisted authorities that were receiving reimbursement from the State after having been adversely affected by personal property tax reform. 2021-22 was the final year of the TIF Plan, and the LDFA will no longer capture TIF Plan revenue in future years. Due to the time expiration of the TIF Plan, expenses during the year ended June 30, 2022 consisted mainly of project cost reimbursement.

In comparing the LDFA’s revenue and expenditures to its budget, the LDFA was overly optimistic about expected increases in the tax district. Property tax revenue fell short of expectations; however, this was offset by a savings in grant expenditures, as there was less money to disburse.

LONG-TERM LIABILITIES

All long-term debt has been retired. The activity is summarized in Note D to the financial statements.

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

June 30, 2022 and 2021

ECONOMIC FACTORS

The LDFA received a large majority of its revenue through dedicated tax receipts. The economic health of the tax increment district area had a substantial impact on the level of revenue received. Personal property tax reform by the State ensured payment to the LDFA of revenue that it was receiving in prior years, but limited the ability of the LDFA's property tax revenue to grow significantly. Acts 480 and 481 assisted the LDFA in offsetting the limitations to capture as a result of personal property tax reform by allowing the use of 2013 industrial personal property values rather than current-year industrial personal property values when submitting personal property loss reimbursement forms to the State's Treasury Department. The TIF Plan has sunset as of the end of the 2021 tax year.

FINANCIAL CONTACT

This financial report is designed to present its users with a general overview of the LDFA's finances and to demonstrate the LDFA'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 LOCAL DEVELOPMENT FINANCE AUTHORITY

STATEMENTS OF NET POSITION

June 30, 2022 and 2021

	<u>Governmental Activities</u>	
	<u>2022</u>	<u>2021</u>
Assets:		
Cash (Note B)	\$ 1,175,622	\$ 1,529,566
Total Assets	<u>1,175,622</u>	<u>1,529,566</u>
Liabilities:		
Accounts payable	7,887	366,833
Total Liabilities	<u>7,887</u>	<u>366,833</u>
Net Position:		
Restricted for grant projects	397,485	397,485
Unrestricted	770,250	765,248
Total Net Position (see page 11)	<u>\$ 1,167,735</u>	<u>\$ 1,162,733</u>

See notes to financial statements.

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2022 and 2021

	Governmental Activities	
	2022	2021
Expenses:		
Economic development program:		
Project costs	\$ 4,637,033	\$ 353,702
Administrative and operating expenses (Note A)	145,131	164,935
Interest expense	-0-	345,613
	4,782,164	864,250
General Revenue:		
Property taxes (Note C)	4,787,033	4,856,949
Earnings on investments	133	604
	4,787,166	4,857,553
	5,002	3,993,303
Net Position, Beginning of Year	1,162,733	(2,830,570)
	\$ 1,167,735	\$ 1,162,733

See notes to financial statements.

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

BALANCE SHEETS — GOVERNMENTAL FUNDS

June 30, 2022 and 2021

	<u>General Fund</u>	
	<u>2022</u>	<u>2021</u>
ASSETS		
Cash (Note B)	\$ 1,175,622	\$ 1,529,566
Total Assets	<u>\$ 1,175,622</u>	<u>\$ 1,529,566</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 7,887	\$ 366,833
Total Liabilities	<u>7,887</u>	<u>366,833</u>
Fund Balances:		
Restricted	397,485	397,485
Unassigned	770,250	765,248
Total Fund Balances (see page 9)	<u>1,167,735</u>	<u>1,162,733</u>
Total Liabilities and Fund Balances	<u>\$ 1,175,622</u>	<u>\$ 1,529,566</u>

See notes to financial statements.

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

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

For the Years Ended June 30, 2022 and 2021

	General Fund	
	2022	2021
Revenue:		
Property taxes (Note C)	\$ 4,787,033	\$ 4,856,949
Earnings on investments	133	604
Total Revenue	4,787,166	4,857,553
Expenditures:		
Current:		
Project costs	4,637,033	353,702
Administrative and operating expenses (Note A)	145,131	164,935
Interest expense	-0-	414,736
Debt service (Note D)	-0-	9,840,000
Total Expenditures	4,782,164	10,773,373
Change in Fund Balances	5,002	(5,915,820)
Fund Balances, Beginning of Year	1,162,733	7,078,553
Fund Balances, End of Year	\$ 1,167,735	\$ 1,162,733

See notes to financial statements.

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

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

For the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Change in Fund Balances, Governmental Funds	\$ 5,002	\$ (5,915,820)
<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>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>		
Repayment of bonds and note payable	-0-	9,840,000
Accrued interest payable, beginning of year	<u>-0-</u>	<u>69,123</u>
Change in Net Position, Governmental Activities	<u><u>\$ 5,002</u></u>	<u><u>\$ 3,993,303</u></u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

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

Nature of Activities and Purpose

The City of Detroit Local Development Finance Authority (the “LDFA”) was created by a Detroit City Council resolution dated October 31, 1988 under the provisions of Act 281, Public Acts of Michigan of 1986, which has been recodified under Act 57, Public Acts of Michigan of 2018. The LDFA was established, in part, for the purpose of financing the Jefferson/Conner Industrial Revitalization Project (the “Project”). The Project’s area encompasses approximately 380 acres and is located in the southeast portion of the City of Detroit, Michigan (the “City”). The Jefferson North Assembly Plant occupies approximately 60 percent of the Project’s total land area. The LDFA has since expanded its function and adopted resolutions establishing an additional development district and approving the Tax Increment Financing Plan for Technology Park Area No. 1 (the “TIF Plan”). The purpose of the TIF Plan was to partially fund the development of the Wayne State University Research and Technology Park. The LDFA has also entered into a Core Community Fund grant agreement with the Michigan Economic Development Corporation that includes several City improvement projects.

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

Basis of Presentation

The financial statements of the LDFA 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 changes in fund balances for governmental funds.

Government-Wide Financial Statements

The government-wide financial statements report information about all of the LDFA’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 LDFA that is applicable to a future reporting period, while deferred inflows of resources represent the acquisition of net assets by the LDFA 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, 2022 and 2021

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

Basis of Presentation (continued)

Fund Financial Statements

For purposes of the fund financial statements, the accounts of the LDFA 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 fund, which is considered a major fund, is used by the LDFA:

General Fund

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

The LDFA'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 LDFA 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2022 and 2021

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

Basis of Presentation (continued)

Fund Financial Statements (continued)

Assigned

These fund balances consist of amounts that the LDFA 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 LDFA's duly authorized agents. Assigned fund balances are typically established through adoption or amendment of the budget.

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 in specific projects 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2022 and 2021

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

Basis of Accounting (continued)

Fund Financial Statements (continued)

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.

Administration

For the years ended June 30, 2022 and 2021, the LDFA entered into agreements with the Detroit Economic Growth Corporation (the “DEGC”) for administrative and professional services at an annual cost not to exceed \$125,000 per year. These expenditures are reflected in administrative expenses for services rendered for each year. No amounts were due to the DEGC as of June 30, 2022 or 2021.

Fair Value Measurements

The LDFA 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 LDFA utilizes market-based data and valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Additionally, the LDFA 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 LDFA has the ability to access

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2022 and 2021

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

Fair Value Measurements (continued)

- 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.

As of June 30, 2022 and 2021, the LDFA does not have any financial assets or liabilities subject to being classified in any of the above categories.

NOTE B — 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 LDFA’s deposits may not be returned to the LDFA. The LDFA does not have a deposit policy for custodial credit risk.

As of June 30, 2022 and 2021, the LDFA’s carrying amount of deposits and bank balances, and the bank balances that are not covered by federal depository insurance or another type of insurance, are as follows:

	<u>2022</u>	<u>2021</u>
Carrying amount of deposits	\$ 1,175,622	\$ 1,529,566
Total bank balances	<u>\$ 1,175,622</u>	<u>\$ 1,529,566</u>
Uninsured and uncollateralized bank balances	<u>\$ 675,622</u>	<u>\$ 1,029,566</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2022 and 2021

NOTE C — PROPERTY TAXES

The LDFA is authorized to finance its activities by capturing an incremental portion of the tax proceeds on the increases in the assessed value on the real and personal property of the Jefferson North Assembly Plant that are levied by the City and Wayne County, Michigan (the “County”).

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. The City is scheduled to remit collected incremental property taxes to the LDFA in October and April of each year for all millage rates being captured.

In 1994, State voters passed Proposal A, which affected school property tax revenue. As a result, tax increment plans are only allowed to capture school tax revenue to the extent necessary to cover existing debt service, and the excess must be returned to the State.

An audit was completed by the State for the tax years ended through 2009, but an audit of subsequent years has not been completed as of June 30, 2022. At this time, it is anticipated that the LDFA has not overcaptured any taxes and, as such, management has recorded no provision for estimated future refunds.

NOTE D — LONG-TERM LIABILITIES

Long-term liabilities consisted of the following:

Bonds Payable

On September 15, 1998, the LDFA issued \$52,205,000 in 1998 Series A subordinated bonds, of which \$46,869,964 was being used to pay the City for certain costs of public facilities. Principal and interest payments commenced on May 1, 1999 and were payable through May 2021. Interest payments were due semi-annually each May and November. As of June 30, 2021, the LDFA has satisfied all obligations under this bond issue.

On September 5, 1997, the LDFA issued \$45,865,000 in 1997 Series A tax increment refunding bonds, with an average interest rate of 5.3 percent per annum, to refund \$42,000,000 of outstanding bonds issued in 1991. The proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on all of the refunded bonds. As a result, the refunded bonds were considered defeased, and the liability for those bonds was removed from the financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2022 and 2021

NOTE D — LONG-TERM LIABILITIES (CONTINUED)**Bonds Payable (continued)**

On September 5, 1997, the LDFA also issued \$11,500,000 in 1997 Series B and Series C tax increment bonds, the proceeds of which were being used to pay the City for certain costs of public facilities. Principal payments commenced on July 14, 2000 and were payable through July 2021. Interest payments were due semi-annually each May and November and commenced on November 1, 1997. As of June 30, 2021, the LDFA has satisfied all obligations under this bond issue.

The interest rates on the outstanding fixed-rate bonds ranged from 4.1 percent to 6.85 percent per annum. The property taxes of the LDFA were pledged for repayment of the bonds.

Note Payable

On November 21, 2018, the LDFA executed a funding agreement with the Economic Development Corporation of the City of Detroit (the “EDC”) to borrow \$2,500,000 in order to fund remaining debt service obligations in connection with the aforementioned bonds. Under the funding agreement with the EDC, the note did not bear any interest and matured on December 31, 2021. The note was fully repaid on May 10, 2021.

Long-term liability activity for the years ended June 30, 2022 and 2021 is as follows:

	<u>Bonds Payable</u>	<u>Note Payable</u>	<u>Total</u>
Balance, July 1, 2020	\$ 7,340,000	\$ 2,500,000	\$ 9,840,000
Less: Repayments	<u>(7,340,000)</u>	<u>(2,500,000)</u>	<u>(9,840,000)</u>
Balance, June 30, 2021	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Balance, June 30, 2022	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

NOTE E — RISK MANAGEMENT

The LDFA has insurance policies covering its directors and officers. It also has general liability insurance and property insurance covering its various assets. Due to the extent of insurance that the LDFA maintains, the risk of loss to the LDFA, in management’s opinion, is minimal.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2022 and 2021

NOTE F — 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.

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, 2022, the LDFA did not incur expenditures in excess of the amounts budgeted for any category.

NOTE G — CONTINGENCIES

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date that the accompanying financial statements were available to be issued. As such, it is uncertain as to the full magnitude that the pandemic will have on the LDFA’s net position, liquidity, and future operations. The LDFA’s operations are heavily dependent on the ability to raise property taxes. The COVID-19 outbreak may have a continued impact on economic and market conditions.

As of the date of issuance of the financial statements, the LDFA’s operations have not been significantly impacted, but the LDFA’s management continues to monitor the situation.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

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

For the Years Ended June 30, 2022 and 2021

	2022				2021			
	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	\$ 5,500,000	\$ 5,500,000	\$ 4,787,033	\$ (712,967)	\$ 5,000,000	\$ 5,000,000	\$ 4,856,949	\$ (143,051)
Earnings on investments	10,000	10,000	133	(9,867)	20,000	20,000	604	(19,396)
Total Revenue	5,510,000	5,510,000	4,787,166	(722,834)	5,020,000	5,020,000	4,857,553	(162,447)
Expenditures:								
Current:								
Grant expenditures	5,747,500	5,747,500	4,637,033	1,110,467	397,500	397,500	353,702	43,798
Administrative and operating expenses	160,000	160,000	145,131	14,869	180,000	180,000	164,935	15,065
Interest expense				-0-	414,736	414,736	414,736	-0-
Debt service				-0-	9,840,000	9,840,000	9,840,000	-0-
Total Expenditures	5,907,500	5,907,500	4,782,164	1,125,336	10,832,236	10,832,236	10,773,373	58,863
Change in Fund Balance	\$ (397,500)	\$ (397,500)	\$ 5,002	\$ 402,502	\$ (5,812,236)	\$ (5,812,236)	\$ (5,915,820)	\$ (103,584)

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

CITY OF DETROIT LOCAL DEVELOPMENT FINANCE AUTHORITY

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

For the Years Ended June 30, 2022 and 2021

NOTE A — BUDGETS AND BUDGETARY ACCOUNTING

The City of Detroit Local Development Finance Authority (the “LDFA”) 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 and approved by the LDFA’s Board of Directors and the Detroit City Council. No amendments to the budget were made during the year. Appropriations are authorized by the LDFA’s management.