

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

FINANCIAL STATEMENTS
(With Required Supplementary Information)

June 30, 2016 and 2015



CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

October 6, 2016

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, 2016 and 2015, 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, 2016 and 2015, 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.

Adoption of New Accounting Pronouncements


As discussed in Note A, effective July 1, 2015, the DDA has adopted the fair value measurement and disclosure provisions contained in Statement of Governmental Accounting Standards No. 72, *Fair Value Measurement and Application*. As a result, the balances of hedging derivatives and the accumulated decrease in the fair value of hedging derivatives as of June 30, 2015 have been restated. Our opinions are not modified with respect to this matter.

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 51 through 52 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 October 6, 2016, 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.


CERTIFIED PUBLIC ACCOUNTANTS
Detroit, Michigan

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2016 and 2015

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, 2016 and 2015. 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, 2016. 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 an event center that would house the Detroit Red Wings hockey team. This Catalyst Development Project would allow the DDA to restart collection of special tax increment financing revenue that would have otherwise left the City of Detroit and will result in a large increase in future revenue when the project reaches its fruition.

The DDA will own the event center 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 event center began in the spring of 2015 and is expected to be completed by September 2017. When construction is complete, 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, 2016 and 2015

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 51.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

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

June 30, 2016 and 2015

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, 2016, 2015, and 2014:

Table 1
Statements of Net Position
June 30, 2016, 2015, and 2014
(in millions of dollars)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets:			
Cash	\$ 7.3	\$ 2.6	\$ 2.7
Investments	132.0	282.4	63.7
Notes, land contracts, other loans, and accrued interest receivable	10.5	31.3	32.3
Capital assets	305.6	142.8	44.5
Other assets	24.1	28.7	45.0
Total Assets	479.5	487.8	188.2
Deferred Outflows of Resources:			
Accumulated decrease in fair value of hedging derivatives	26.3	2.2	-0-
Total Assets and Deferred Outflows of Resources	505.8	490.0	188.2
Liabilities:			
Long-term liabilities:			
Due or expected to be paid within one year	2.8	3.0	7.2
Due or expected to be paid in more than one year	314.0	316.7	82.1
Other liabilities	73.0	53.0	58.3
Total Liabilities	389.8	372.7	147.6
Net Position:			
Net investment in capital assets	123.1	125.1	44.5
Unrestricted	(7.1)	(7.8)	(3.9)
Total Net Position	\$ 116.0	\$ 117.3	\$ 40.6

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

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

June 30, 2016 and 2015

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

The net position of the DDA decreased one percent. This decrease is due to cash received in previous years being used for programs during the year ended June 30, 2016. Cash decreased a great amount as it was spent on the construction of the new event center. 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, 2016, 2015, and 2014:

Table 2
Statements of Activities
For the Years Ended June 30, 2016, 2015, and 2014
(in millions of dollars)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Revenue:			
Program revenue	\$ 4.0	\$ 90.4	\$ 6.8
General revenue:			
Property taxes	28.8	22.7	20.8
Other revenue	<u>2.2</u>	<u>2.1</u>	<u>1.2</u>
Total Revenue	35.0	115.2	28.8
Expenses:			
Economic development	<u>36.3</u>	<u>38.5</u>	<u>34.2</u>
Net Increase (Decrease) in Net Position	(1.3)	76.7	(5.4)
Net Position, Beginning of Year	<u>117.3</u>	<u>40.6</u>	<u>46.0</u>
Net Position, End of Year	<u>\$ 116.0</u>	<u>\$ 117.3</u>	<u>\$ 40.6</u>

Program revenue returned to normal levels after a one-year increase due to event center construction. Property tax revenue increased during the year ended June 30, 2016 as taxable values continue to increase and some properties returned to the tax rolls.

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

June 30, 2016 and 2015

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

The following are highlights of the comparison of the DDA's general fund revenue and expenditures to its budget, as shown on page 51:

- The DDA received large reimbursements out of the bond issuances for the Catalyst Area Event Center project. In addition, the DDA holds title to the Kennedy Square Garage. The DDA receives lease revenue from the 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 small 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, 2016, the DDA held long-term, partially depreciated capital assets of \$305.6 million. This balance consisted primarily of various parcels of land and construction-in-progress of over \$270 million, as well as more than \$14.8 million invested in the Kennedy Garage and \$17.4 million in the 150 Michigan Garage. This activity is summarized in Note G to the financial statements.

The DDA had approximately \$55.7 million in previously issued bonds outstanding as of June 30, 2016, which is a decrease of seven percent from June 30, 2015. 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, 2016, a scheduled debt service payment was made, further decreasing the outstanding balance of the bonds. This activity is summarized in Note I 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 \$256.6 million as of June 30, 2016.

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

June 30, 2016 and 2015

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, 2016 and 2015

	Governmental Activities	
	2016	2015 (Restated)
Assets:		
Cash (Note B)	\$ 7,266,069	\$ 2,578,284
Investments (Note B)	131,961,066	282,407,221
Accounts and contracts receivable (no allowance considered necessary)	4,565,407	4,004,055
Property taxes receivable, net (Note F)	-0-	14,917
Notes, land contracts, and accrued interest receivable, net (Notes A, C, D, and E)	10,495,334	31,252,424
Property held for development (Note H)	18,732,500	23,991,777
Prepaid expenses	865,573	675,277
Capital assets (Note G):		
Nondepreciable capital assets	272,593,762	107,840,150
Depreciable capital assets, net	33,056,021	34,999,174
Total Assets	479,535,732	487,763,279
Deferred Outflows of Resources:		
Accumulated decrease in fair value of hedging derivatives (Note B)	26,277,559	2,256,391
Total Assets and Deferred Outflows of Resources	505,813,291	490,019,670
Liabilities:		
Accounts payable	2,242,078	1,189,226
Accrued interest payable	8,781,539	8,798,218
Due to other governmental agencies	-0-	18,000,000
Project costs payable	35,597,453	22,669,556
Escrow deposits payable (Note J)	22,680	65,238
Hedging derivatives - swap liability (Note B)	26,277,559	2,256,391
Long-term liabilities (Note I):		
Due or expected to be paid within one year	2,796,893	3,030,885
Due or expected to be paid in more than one year	314,049,975	316,670,584
Total Liabilities	389,768,177	372,680,098
Net Position:		
Net investment in capital assets	123,154,526	125,097,679
Unrestricted	(7,109,412)	(7,758,107)
Total Net Position	\$ 116,045,114	\$ 117,339,572

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2016 and 2015

	Governmental Activities	
	2016	2015
Expenses:		
Economic development program:		
Project costs	\$ 13,199,404	\$ 11,188,856
Administrative and operating expenses (Note A)	3,580,835	2,643,168
Interest expense	16,460,938	11,791,853
Professional fees	471,946	508,843
Provision for uncollectible loans and taxes (Notes E and F)	585,200	-0-
Bond issuance fees	-0-	10,404,916
Depreciation (Note G)	2,018,128	1,999,046
	36,316,451	38,536,682
Program Revenue:		
Economic development program	4,030,007	90,458,746
	(32,286,444)	51,922,064
General Revenue:		
Property taxes (Note F)	28,786,476	22,722,632
Other revenue	2,205,510	2,105,580
	30,991,986	24,828,212
	(1,294,458)	76,750,276
Net Increase (Decrease) in Net Position		
Net Position, Beginning of Year	117,339,572	40,589,296
	\$ 116,045,114	\$ 117,339,572
Net Position, End of Year		

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

BALANCE SHEETS - GOVERNMENTAL FUNDS

June 30, 2016

(With Comparative Totals as of June 30, 2015)

	2016				Total All Funds	
	General Fund	Special Revenue Fund	Debt Service Funds		2016	2015
			Stadium Fund	Other		
ASSETS						
Cash (Note B)	\$ 535,949	\$ 6,730,120	\$ -0-	\$ -0-	\$ 7,266,069	\$ 2,578,284
Investments (Note B)	3,298,724	13,438,279	110,898,292	4,325,771	131,961,066	282,407,221
Accounts and contracts receivable (no allowance considered necessary)	141,525	3,873,932			4,015,457	3,551,681
Property taxes receivable, net (Note F)					-0-	14,917
Notes, land contracts, and accrued interest receivable, net (Notes A, C, D, and E)		10,495,334			10,495,334	29,932,224
Property held for development (Note H)		18,732,500			18,732,500	23,991,777
Prepaid expenditures	146,973	718,600			865,573	675,277
Total Assets	\$ 4,123,171	\$ 53,988,765	\$ 110,898,292	\$ 4,325,771	\$ 173,335,999	\$ 343,151,381
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 84,744	\$ 2,065,704	\$ 91,630	\$ -0-	\$ 2,242,078	\$ 1,189,226
Accrued interest payable			5,173,954	3,607,585	8,781,539	8,798,218
Due to other governmental agencies					-0-	18,000,000
Project costs payable			35,597,453		35,597,453	22,669,556
Escrow deposits payable (Note J)		22,680			22,680	65,238
Maturing bonds contract payable (Note I)				718,186	718,186	951,328
Total Liabilities	84,744	2,088,384	40,863,037	4,325,771	47,361,936	51,673,566
Fund Balances:						
Nonspendable	146,973	29,946,434			30,093,407	54,599,278
Restricted		14,392,072			14,392,072	463,426
Committed		5,360,000			5,360,000	393,463
Assigned		2,201,875	70,035,255		72,237,130	233,384,323
Unassigned	3,891,454				3,891,454	2,637,325
Total Fund Balances	4,038,427	51,900,381	70,035,255	-0-	125,974,063	291,477,815
Total Liabilities and Fund Balances	\$ 4,123,171	\$ 53,988,765	\$ 110,898,292	\$ 4,325,771	\$ 173,335,999	\$ 343,151,381

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

BALANCE SHEETS - GOVERNMENTAL FUNDS

June 30, 2015

	General Fund	Special Revenue Fund	Debt Service Funds		Total All Funds
			Stadium Fund	Other	
ASSETS					
Cash (Note B)	\$ 88,800	\$ 2,489,484	\$ -0-	\$ -0-	\$ 2,578,284
Investments (Note B)	2,567,716	15,945,713	259,313,858	4,579,934	282,407,221
Accounts and contracts receivable (no allowance considered necessary)	31,065	3,520,616			3,551,681
Property taxes receivable, net (Note F)	14,917				14,917
Notes, land contracts, and accrued interest receivable, net (Notes A, C, D, and E)		29,932,224			29,932,224
Property held for development (Note H)		23,991,777			23,991,777
Prepaid expenditures	147,596	527,681			675,277
Total Assets	\$ 2,850,094	\$ 76,407,495	\$ 259,313,858	\$ 4,579,934	\$ 343,151,381
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 65,173	\$ 1,042,997	\$ 81,056	\$ -0-	\$ 1,189,226
Accrued interest payable			5,169,612	3,628,606	8,798,218
Due to other governmental agencies		18,000,000			18,000,000
Project costs payable			22,669,556		22,669,556
Escrow deposits payable (Note J)		65,238			65,238
Maturing bonds contract payable (Note I)				951,328	951,328
Total Liabilities	65,173	19,108,235	27,920,224	4,579,934	51,673,566
Fund Balances:					
Nonspendable	147,596	54,451,682			54,599,278
Restricted		463,426			463,426
Committed		393,463			393,463
Assigned		1,990,689	231,393,634		233,384,323
Unassigned	2,637,325				2,637,325
Total Fund Balances	2,784,921	57,299,260	231,393,634	-0-	291,477,815
Total Liabilities and Fund Balances	\$ 2,850,094	\$ 76,407,495	\$ 259,313,858	\$ 4,579,934	\$ 343,151,381

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

RECONCILIATIONS OF GOVERNMENTAL FUNDS BALANCE SHEETS TO STATEMENTS OF NET POSITION

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Total Fund Balances, Governmental Funds	\$ 125,974,063	\$ 291,477,815
<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	549,950	452,374
Land contract receivable	-0-	1,320,200
<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	272,593,762	107,840,150
Depreciable capital assets:		
Cost	53,178,221	53,103,246
Less: Accumulated depreciation	(20,122,200)	(18,104,072)
<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>(316,128,682)</u>	<u>(318,750,141)</u>
Total Net Position, Governmental Activities	<u>\$ 116,045,114</u>	<u>\$ 117,339,572</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, 2016
(With Comparative Totals for the Years Ended June 30, 2015)**

	2016				Total All Funds	
	General Fund	Special Revenue Fund	Debt Service Funds		2016	2015
			Stadium Fund	Other		
Revenue:						
Property taxes (Note F)	\$ 1,005,085	\$ 24,079,538	\$ -0-	\$ 3,701,853	\$ 28,786,476	\$ 22,722,632
Other revenue	2,156,232	3,969,667	12,042		6,137,941	92,537,247
Total Revenue	3,161,317	28,049,205	12,042	3,701,853	34,924,417	115,259,879
Expenditures:						
Current:						
Project costs		13,199,404			13,199,404	11,188,856
Administrative and operating expenses (Note A)	2,185,865	1,388,970	6,000		3,580,835	2,643,168
Interest expense		4,960,799	11,500,139		16,460,938	11,791,853
Professional fees	471,946				471,946	508,843
Provision for uncollectible loans and taxes (Notes E and F)		585,200			585,200	-0-
Bond issuance fees					-0-	10,404,916
Debt service (Note I)		79,606		3,701,853	3,781,459	21,400,381
Capital outlay (Note G)		74,975	164,753,612		164,828,587	100,328,680
Total Expenditures	2,657,811	20,288,954	176,259,751	3,701,853	202,908,369	158,266,697
Excess (Deficiency) of Revenue over Expenditures	503,506	7,760,251	(176,247,709)	-0-	(167,983,952)	(43,006,818)
Other Financing Sources (Uses):						
Issuance of loan and bond proceeds (Note I)			1,160,000		1,160,000	255,465,000
Repayment of land contract receivable		1,320,200			1,320,200	-0-
Interfund transfers	750,000	(14,479,330)	13,729,330		-0-	-0-
Net Increase (Decrease) in Fund Balances	1,253,506	(5,398,879)	(161,358,379)	-0-	(165,503,752)	212,458,182
Fund Balances, Beginning of Year	2,784,921	57,299,260	231,393,634	-0-	291,477,815	79,019,633
Fund Balances, End of Year	\$ 4,038,427	\$ 51,900,381	\$ 70,035,255	\$ -0-	\$ 125,974,063	\$ 291,477,815

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, 2015

	General Fund	Special Revenue Fund	Debt Service Funds		Total All Funds
			Stadium Fund	Other	
Revenue:					
Property taxes (Note F)	\$ 912,308	\$ 10,102,616	\$ -0-	\$ 11,707,708	\$ 22,722,632
Other revenue	2,067,304	7,916,108	82,553,835		92,537,247
Total Revenue	2,979,612	18,018,724	82,553,835	11,707,708	115,259,879
Expenditures:					
Current:					
Project costs		11,188,856			11,188,856
Administrative and operating expenses (Note A)	1,783,645	859,523			2,643,168
Interest expense		5,427,302	6,364,551		11,791,853
Professional fees	508,843				508,843
Bond issuance fees			10,404,916		10,404,916
Debt service (Note I)		9,692,673		11,707,708	21,400,381
Capital outlay (Note G)		33,200	100,295,480		100,328,680
Total Expenditures	2,292,488	27,201,554	117,064,947	11,707,708	158,266,697
Excess (Deficiency) of Revenue over Expenditures	687,124	(9,182,830)	(34,511,112)	-0-	(43,006,818)
Other Financing Sources (Uses):					
Issuance of loan proceeds (Note I)			255,465,000		255,465,000
Interfund transfers	750,000	(11,189,746)	10,439,746		-0-
Net Increase (Decrease) in Fund Balances	1,437,124	(20,372,576)	231,393,634	-0-	212,458,182
Fund Balances, Beginning of Year	1,347,797	77,671,836	-0-	-0-	79,019,633
Fund Balances, End of Year	\$ 2,784,921	\$ 57,299,260	\$ 231,393,634	\$ -0-	\$ 291,477,815

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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Net Increase (Decrease) in Fund Balances, Governmental Funds	\$(165,503,752)	\$ 212,458,182
<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	164,828,587	100,328,680
Depreciation expense	(2,018,128)	(1,999,046)
<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	549,950	452,374
Less:		
Accounts and contracts receivable in more than 60 days, beginning of year	(452,374)	(425,295)
<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	(1,320,200)	-0-
<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 loan and bond proceeds	(1,160,000)	(255,465,000)
Repayment of notes and bonds contract payable	<u>3,781,459</u>	<u>21,400,381</u>
Net Increase (Decrease) in Net Position, Governmental Activities	<u><u>\$ (1,294,458)</u></u>	<u><u>\$ 76,750,276</u></u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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.

Adoption of New Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board issued Statement of Governmental Accounting Standards (“SGAS”) No. 72, *Fair Value Measurement and Application*. SGAS No. 72 defines “fair value,” establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The DDA adopted the provisions of SGAS No. 72, effective July 1, 2015. As a result of implementing SGAS No. 72, the DDA has restated the balances of hedging derivatives and the accumulated decrease in the fair value of hedging derivatives as of June 30, 2015 from \$2,213,977 to \$2,256,391 in the accompanying financial statements. The implementation of SGAS No. 72 did not impact the DDA’s net position, changes in net position, fund balances, or changes in fund balances.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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

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.

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 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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

Basis of Presentation (continued)

Fund Financial Statements (continued)

Debt Service Funds

Stadium Fund

The stadium fund accounts for the servicing of obligations incurred for the construction of the new hockey stadium 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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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

Basis of Presentation (continued)

Fund Financial Statements (continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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

Basis of Accounting (continued)

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.

Administration

For the years ended June 30, 2016 and 2015, 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 and \$1,600,000 for the years ended June 30, 2016 and 2015, 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, 2016 or 2015.

Accounting for Notes and Land Contracts 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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

Accounting for Notes and Land Contracts Receivable (continued)

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.

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, 2016 and 2015 because none of the five specified events have occurred.

Interfund Transactions and Eliminations

Interfund transactions are recorded as a payable by the receiving fund and as a receivable by the advancing fund in the fund financial statements. All interfund transactions and balances have been eliminated in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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

Allowance for Doubtful Notes, Land Contracts, and Interest Receivable

The DDA charges notes, land contracts, and interest receivable to the allowance for doubtful notes, land contracts, and interest receivable when it is probable that a note or land contract 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, land contracts, and interest receivable. The DDA also includes in the allowance for doubtful notes, land contracts, 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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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

Fair Value Measurements (continued)

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.

Concentration of Credit Risk

During the years ended June 30, 2016 and 2015, the DDA utilized three vendors and two vendors, respectively, for purchases of \$6,335,830 and \$10,794,492, respectively, or 57 percent and 46 percent, respectively, of total purchases. No amounts were due to these vendors as of June 30, 2016 and 2015.

Downtown Events Center Project

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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

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
- Lower Woodward Initiative
- 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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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

Development Projects (continued)

- 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

Reclassifications

Certain reclassifications have been made to the accompanying financial statements as of, and for the year ended, June 30, 2015 to conform to classifications used as of, and for the year ended, June 30, 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.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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

Cash Deposits (continued)

As of June 30, 2016 and 2015, 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>2016</u>	<u>2015</u>
Carrying amount of deposits	\$ 7,266,069	\$ 2,578,284
Total bank balances	<u>\$ 7,725,018</u>	<u>\$ 4,138,796</u>
Uninsured and uncollateralized bank balances	<u>\$ 7,215,018</u>	<u>\$ 3,418,392</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, 2016 and 2015 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>
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
	<u>\$ 128,961,066</u>	<u>\$ 3,000,000</u>	<u>\$ -0-</u>	<u>\$ 131,961,066</u>
Liabilities:				
Hedging derivatives:				
Interest rate swap	\$ -0-	\$ 26,277,559	\$ -0-	\$ 26,277,559

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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>	
2015				
Assets:				
Investments at fair value:				
Money market funds	\$ 279,404,888	\$ -0-	\$ -0-	\$ 279,404,888
Repurchase agreements		3,002,333		3,002,333
	<u>\$ 279,404,888</u>	<u>\$ 3,002,333</u>	<u>\$ -0-</u>	<u>\$ 282,407,221</u>
Liabilities:				
Hedging derivatives:				
Interest rate swap	\$ -0-	\$ 2,256,391	\$ -0-	\$ 2,256,391

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, 2016 and 2015

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, 2016 or as of June 30, 2015, or for which credit risk or interest rate risk disclosures are required, are as follows:

	<u>2016</u>	<u>2015</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 26 days and 46 days for 2016 and 2015, respectively)	\$ 123,629,802	\$ 271,315,570
AAAm rating from Standard & Poor's:		
Federated Government Obligations Fund:		
Maturity date June 30, 2016	209,633	-0-
Maturity date June 30, 2015	-0-	4,002,034
JPMorgan U.S. Treasury Plus Money Market Fund (weighted average maturity of 31 days and 48 days for 2016 and 2015, respectively)	37,154	37,154
Unrated:		
Comerica Governmental Cash Investment Fund J (weighted average maturity of 32 days and 51 days for 2016 and 2015, respectively)	5,084,477	4,050,130

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 I) and to reduce the overall costs of its financings.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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, 2016 and 2015, as well as the notional amount as of June 30, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u> <u>(Restated)</u>
Governmental Activities:		
Hedging derivatives:		
Reported in deferred outflows of resources:		
Series 2014B interest rate swap:		
Fair value, beginning of year	\$ (2,256,391)	\$ -0-
Increase (decrease) in fair value	<u>(24,021,168)</u>	<u>(2,256,391)</u>
Fair Value, End of Year	<u>\$ (26,277,559)</u>	<u>\$ (2,256,391)</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, 2016 and 2015, the DDA had no net exposure to actual credit risk on its swap for its counterparty.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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

Interest Rate Swap (continued)

As of June 30, 2016 and 2015, 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.

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, 2016 and 2015, 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, 2016 or 2015.

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, 2016 and 2015 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

NOTE C - NOTES RECEIVABLE (CONTINUED)

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 entire amount is due 15 years from the completion date of the loan, or no later than August 30, 2016.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

NOTE C - NOTES RECEIVABLE (CONTINUED)

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.

1529 Broadway, L.L.C.

This is a promissory note, dated April 17, 2003, secured by a third mortgage and a corporate guarantee. Payments of interest only were due through May 1, 2005. Payments of principal and interest (at five percent per annum) were due monthly beginning June 1, 2005 and continuing through April 1, 2018. The loan was paid off in 2016.

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.

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 is interest-free, then accrues interest at five percent per annum, amortized over 15 years, with a balloon payment for the unpaid balance due in 10 years. 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

NOTE C - NOTES RECEIVABLE (CONTINUED)

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, but the borrower continues to make partial payments.

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. 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 payments, and the loan is expected to be paid off on June 1, 2021.

Lafer Building

This is a non-recourse loan. No payments are due until seven years from the date of closing, at which time payments of interest only will be due at the same rate as the interest rate on the first position debt. The principal balance will balloon and be due 9½ years after the date of closing.

Whitney Partners

This is a short-term note to aid in the redevelopment of the Whitney Building. Interest accrues at three percent per annum. Interest accrues, but payment was deferred through March 7, 2012. Payments of interest only commenced on April 7, 2012 and will continue through September 7, 2012. The loan was scheduled to mature on September 7, 2012, when all principal and deferred interest were due, but the borrower received an extension through March 2020. The borrower repaid the loan in full in August 2016.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

NOTE C - NOTES RECEIVABLE (CONTINUED)

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

Five 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 are due on this loan. The loan will be forgiven upon the completion of several covenants by the borrower.
- The DDA issued a loan for the renovation of the Book Cadillac Hotel; the loan is secured by a fourth position on the building. Contingent interest payments at five percent per annum are due based on available cash flow. A balloon payment is due at the end of the 30th year.
- The DDA issued a guaranty note, dated September 14, 2006, under U.S. Department of Housing and Urban Development (“HUD”) section 108, to fund the purchase of a non-managing member ownership interest of 99.99 percent in Michigan Magnet Fund J, L.L.C., which is being created to qualify as a community development entity to receive and invest HUD section 108 loan funds and other investment funds in a qualified business entity. Interest accrues at a rate equal to the rate payable by the City under a separate HUD section 108 loan guaranty entered into by the City. Interest only is payable semi-annually during the first seven years of the loan. After seven years, principal and interest are payable semi-annually. The outstanding balance was due in 2026. Due to negotiations between the City and the hotel’s management, this loan was reassigned to the City. Any payments received on the loan were due back to the City, so there was no net effect on the DDA’s financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

NOTE C - NOTES RECEIVABLE (CONTINUED)

Book Cadillac Hotel (continued)

- The DDA issued a guaranty note, dated May 7, 2008, under HUD section 108, to fund the purchase of a non-managing member ownership interest of 99.99 percent in J. Christopher Enterprises, which is being created to qualify as a community development entity to receive and invest HUD section 108 loan funds and other investment funds in a qualified business entity. Interest accrues at a rate equal to the rate payable by the City under a separate HUD section 108 loan guaranty entered into by the City. Interest only is payable semi-annually during the first seven years of the loan. After seven years, principal and interest are payable semi-annually. The outstanding balance was due in 2028. Due to negotiations between the City and the hotel's management, this loan was reassigned to the City. Any payments received on the loan were due back to the City, so there was no net effect on the DDA's financial statements.
- The DDA issued a separate 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 will be repaid from the excess proceeds from the sale of the condominiums. Based on current sales projections, the DDA expects to receive full principal payoff.

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, 2016 and 2015

NOTE C - NOTES RECEIVABLE (CONTINUED)

The outstanding balances on these notes receivable are as follows as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</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	300,000	560,000
400 Monroe Associates	2,933,399	3,003,918
Leland House Limited Partnership Company	979,648	979,648
KWA I, L.L.C.	3,900,000	3,900,000
1529 Broadway, L.L.C.	-0-	478,548
Seldom Blues, L.L.C.	225,309	237,300
Michigan Opera Garage	800,000	800,000
Au Bon Pain	139,814	139,814
Vincente III, L.L.C.	131,587	155,010
Lafer Building	420,000	420,000
Whitney Partners	1,000,000	1,000,000
Hudson Business Enterprises, Inc.	174,184	174,796
Book Cadillac Hotel:		
Book Cadillac remediation	5,800,000	5,800,000
Book Cadillac redevelopment	5,700,000	5,700,000
MMF J Investment Fund, L.L.C.	-0-	7,300,000
J. Christopher Enterprises:		
Investment loan	-0-	10,700,000
Short-term bridge loan	2,000,000	2,000,000
Adams and Park	184,563	191,160
	<u><u>\$ 29,895,674</u></u>	<u><u>\$ 48,747,364</u></u>

Accrued interest receivable on these notes receivable is \$2,751,659 as of June 30, 2016 and 2015.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

NOTE C - NOTES RECEIVABLE (CONTINUED)

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, 2016 and 2015, as well as the balances of these notes receivable that will be collected within one year as of June 30, 2016, cannot be readily determined.

See Note E for information on the allowance for doubtful notes, land contracts, and interest receivable.

NOTE D - LAND CONTRACT RECEIVABLE

The DDA entered into a land contract receivable with Woodward Center, L.L.C. Under this land contract, dated December 9, 1999 and amended February 13, 2001 and December 14, 2001, the DDA sold several parcels of land for loft developments. Payment on the contract was due in full on or before August 1, 2007. No interest was to be charged if payment was received in full by the due date. As a result of achieving certain goals documented in the land contract, the outstanding balance was reduced by \$500,000 during the year ended June 30, 2007. The maturity date was extended to January 2016, at which time the borrower paid the amount in full. The outstanding balance on this land contract receivable is \$-0- and \$1,320,200 as of June 30, 2016 and 2015, respectively.

This land contract receivable did not involve the sale of property held for development by the DDA; therefore, this receivable was not reflected in the fund financial statements, but was reflected in the government-wide financial statements.

See Note E for information on the allowance for doubtful notes, land contracts, and interest receivable.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

**NOTE E - ALLOWANCE FOR DOUBTFUL NOTES, LAND CONTRACTS,
AND INTEREST RECEIVABLE**

Notes, land contracts, and accrued interest receivable, and the related allowance for doubtful notes, land contracts, and interest receivable, are summarized as follows as of June 30, 2016 and 2015 in the government-wide statements of net position and in the government funds balance sheets:

	Government-Wide Statements of Net Position		Governmental Funds Balance Sheets	
	2016	2015	2016	2015
Notes receivable (see Note C)	\$ 29,895,674	\$ 48,747,364	\$ 29,895,674	\$ 48,747,364
Land contract receivable (see Note D)	-0-	1,320,200	-0-	-0-
Accrued interest receivable (see Note C)	2,751,659	2,751,659	2,751,659	2,751,659
	32,647,333	52,819,223	32,647,333	51,499,023
Less:				
Allowance for doubtful notes, land contracts, and interest receivable	(22,151,999)	(21,566,799)	(22,151,999)	(21,566,799)
	<u>\$ 10,495,334</u>	<u>\$ 31,252,424</u>	<u>\$ 10,495,334</u>	<u>\$ 29,932,224</u>

Changes in the allowance for doubtful notes, land contracts, and interest receivable are as follows for the years ended June 30, 2016 and 2015:

	2016	2015
Balance, beginning of year	\$ 21,566,799	\$ 56,213,998
Additions	585,200	-0-
Less:		
Recovery of notes receivable previously fully reserved	-0-	(332,794)
Write-off of uncollectible notes receivable	-0-	(34,314,405)
Balance, End of Year	<u>\$ 22,151,999</u>	<u>\$ 21,566,799</u>

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

NOTE F - 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. 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, 2016 and 2015.

NOTE G - CAPITAL ASSETS

Nondepreciable capital asset activity for the years ended June 30, 2016 and 2015 is as follows:

	<u>Land</u>	<u>Stadium Construction in Progress</u>	<u>Total</u>
Balance, July 1, 2014	\$ 7,544,670	\$ -0-	\$ 7,544,670
Acquisitions	39,356,000	60,939,480	100,295,480
Balance, June 30, 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

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

NOTE G – CAPITAL ASSETS (CONTINUED)

Depreciable capital asset activity for the years ended June 30, 2016 and 2015 is as follows:

	<u>Buildings</u>	<u>Equipment and Fixtures</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Cost:				
Balance, July 1, 2014	\$ 50,050,177	\$ 68,446	\$ 2,951,423	\$ 53,070,046
Acquisitions			33,200	33,200
Balance, June 30, 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
Accumulated Depreciation:				
Balance, July 1, 2014	\$ 14,464,562	\$ 64,690	\$ 1,575,774	\$ 16,105,026
Depreciation expense	1,668,339	3,756	326,951	1,999,046
Balance, June 30, 2015	16,132,901	68,446	1,902,725	18,104,072
Depreciation expense	1,668,340		349,788	2,018,128
Balance, June 30, 2016	\$ 17,801,241	\$ 68,446	\$ 2,252,513	\$ 20,122,200
Net Depreciable Capital Assets:				
Balance, June 30, 2015	\$ 33,917,276	\$ -0-	\$ 1,081,898	\$ 34,999,174
Balance, June 30, 2016	\$ 32,248,936	\$ -0-	\$ 807,085	\$ 33,056,021

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

NOTE H - PROPERTY HELD FOR DEVELOPMENT

As of June 30, 2016 and 2015, the DDA has acquired property for the development of the following projects that are not part of the DDA's regular operations:

	<u>2016</u>	<u>2015</u>
Paradise Valley Project	\$ 7,097,000	\$ 10,581,169
Riverfront Residential Project	8,700,000	8,700,000
Broadway	500,000	500,000
Capitol Park	-0-	1,775,108
Bates Avenue	1,500,000	1,500,000
Washington Boulevard	935,500	935,500
	<u><u>\$ 18,732,500</u></u>	<u><u>\$ 23,991,777</u></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. 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 I - LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2016 and 2015 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 TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

NOTE I - LONG-TERM LIABILITIES (CONTINUED)

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.

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.

Detroit Investment Fund

The DDA borrowed \$2,500,000 from the Detroit Investment Fund. Interest accrued at eight percent per annum. Principal and interest payments of \$23,891 were due monthly. A balloon payment of outstanding principal and interest was due on October 1, 2015. This note was repaid in full during the year ended June 30, 2015.

ShoreBank

The DDA borrowed \$9,864,000 from ShoreBank under a loan agreement dated November 26, 2008. Interest accrued at a variable annual rate of 3.25 percent over the prevailing LIBOR. Payments of \$32,880 in principal, plus accrued interest, were due monthly. A balloon payment of outstanding principal and interest was due on December 31, 2018. This note was repaid in full during the year ended June 30, 2015.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

NOTE I - LONG-TERM LIABILITIES (CONTINUED)**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 downtown events center. 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. As of June 30, 2016, the outstanding balances of Series 2014A and Series 2014B bonds were \$250,000,000 and \$6,625,000, respectively.

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

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	71,000,000
	<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	14,185,000
	<u>\$ 167,412,198</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

NOTE I - LONG-TERM LIABILITIES (CONTINUED)

Bonds Contract Payable (continued)

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, 2016 and 2015

NOTE I - LONG-TERM LIABILITIES (CONTINUED)

Long-term liability activity for the years ended June 30, 2016 and 2015 is as follows:

	Special Revenue Fund	Stadium Fund	Other Debt Service Fund	Total
	Contract Payable	Notes Payable	Bonds Contract Payable	Bond Discount
Balance, July 1, 2014	\$ 2,800,000	\$ 12,161,751	\$ -0-	\$ 74,321,421
Additions		255,465,000		89,283,172
Less: Repayments Amortization	(9,692,673)		(15,487,953)	(15,487,953)
			(133,923)	133,923
Balance, June 30, 2015	2,800,000	2,469,078	255,465,000	726,080
Additions			1,160,000	
Less: Repayments Amortization	(79,606)		(4,016,737)	(4,016,737)
			(81,742)	81,742
Balance, June 30, 2016	2,800,000	2,389,472	256,625,000	644,338
			55,676,734	55,032,396
Amounts Due Within One Year:				
June 30, 2015	\$ -0-	\$ 2,079,557	\$ -0-	\$ 1,016,737
June 30, 2016	\$ -0-	\$ 2,078,707	\$ -0-	\$ 782,234
			\$ 64,048	\$ 65,409
			\$ 718,186	\$ 951,328
			\$ 81,742	\$ 3,030,885
			\$ 316,846,868	\$ 2,796,893

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

NOTE I - 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, 2016:

	<u>Principal</u>	<u>Interest</u>	<u>Total Principal and Interest</u>	<u>Interest Rate Swap (Net)</u>
For the Years Ending June 30:				
2017	\$ 2,860,941	\$ 15,403,854	\$ 18,264,795	\$ -0-
2018	3,886,627	18,889,355	22,775,982	-0-
2019	4,920,730	25,956,012	30,876,742	538,293
2020	6,693,424	27,755,721	34,449,145	1,661,840
2021	12,446,723	26,945,000	39,391,723	7,937,350
2022-2026	88,092,243	122,582,807	210,675,050	48,456,999
2027-2031	115,595,151	82,854,691	198,449,842	65,675,151
2032-2036	96,249,256	50,121,413	146,370,669	50,329,256
2037-2041	72,512,566	32,249,272	104,761,838	11,532,566
2042-2046	107,608,545	13,424,724	121,033,269	13,868,545
	<u>\$ 510,866,206</u>	<u>\$ 416,182,849</u>	<u>\$ 927,049,055</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, 2016:

	<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 ended June 30:					
2017	\$ 2,078,707	\$ -0-	\$ -0-	\$ 782,234	\$ 2,860,941
2018	82,801			3,803,826	3,886,627
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
2022-2026	2,861,607	13,970,000	48,456,999	22,803,637	88,092,243
2027-2031		33,865,000	65,675,151	16,055,000	115,595,151
2032-2036		45,920,000	50,329,256		96,249,256
2037-2041		60,980,000	11,532,566		72,512,566
2042-2046		93,740,000	13,868,545		107,608,545
	<u>\$ 5,189,472</u>	<u>\$ 250,000,000</u>	<u>\$ 200,000,000</u>	<u>\$ 55,676,734</u>	<u>\$ 510,866,206</u>

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

NOTE I - LONG-TERM LIABILITIES (CONTINUED)

	<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>
Interest:					
For the years ended June 30:					
2017	\$ 6,993	\$ 10,312,500	\$ 208,207	\$ 4,876,154	\$ 15,403,854
2018	5,459	10,312,500	3,781,235	4,790,161	18,889,355
2019	4,024	10,312,500	10,961,707	4,677,781	25,956,012
2020	2,939	10,290,019	12,338,160	5,124,603	27,755,721
2021	1,837	10,258,566	12,237,008	4,447,589	26,945,000
2022-2026	721	50,046,769	52,414,791	20,120,526	122,582,807
2027-2031		45,098,109	35,196,639	2,559,943	82,854,691
2032-2036		36,865,950	13,255,463		50,121,413
2037-2041		25,888,500	6,360,772		32,249,272
2042-2046		11,189,269	2,235,455		13,424,724
	<u>\$ 21,973</u>	<u>\$ 220,574,682</u>	<u>\$ 148,989,437</u>	<u>\$ 46,596,757</u>	<u>\$ 416,182,849</u>

NOTE J - ESCROW DEPOSITS PAYABLE

As of June 30, 2016 and 2015, 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 K - 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 L – 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.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

NOTE L – 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, 2016, the DDA did not incur expenditures in excess of the amounts budgeted for any category.

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, 2016 and 2015

	2016				2015			
	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	\$ 1,005,085	\$ 155,085	\$ 850,000	\$ 850,000	\$ 912,308	\$ 62,308
Other revenue	1,671,000	1,671,000	2,156,232	485,232	981,000	981,000	2,067,304	1,086,304
Total Revenue	2,521,000	2,521,000	3,161,317	640,317	1,831,000	1,831,000	2,979,612	1,148,612
Expenditures:								
Current:								
Administrative and operating expenses	2,300,000	2,300,000	2,185,865	114,135	1,686,000	1,686,000	1,783,645	(97,645)
Professional fees	721,000	721,000	471,946	249,054	525,000	525,000	508,843	16,157
Total Expenditures	3,021,000	3,021,000	2,657,811	363,189	2,211,000	2,211,000	2,292,488	(81,488)
Excess (Deficiency) of Revenue over Expenditures	(500,000)	(500,000)	503,506	1,003,506	(380,000)	(380,000)	687,124	1,067,124
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	\$ 1,253,506	\$ 1,003,506	\$ 370,000	\$ 370,000	\$ 1,437,124	\$ 1,067,124

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, 2016 and 2015

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.