

City of Jackson Downtown  
Development Authority

Year Ended  
June 30, 2021

Basic Financial  
Statements

**Rehmann**



# CITY OF JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

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## INDEPENDENT AUDITORS' REPORT

December 15, 2021

Board of Directors  
City of Jackson Downtown Development Authority  
Jackson, Michigan

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the *City of Jackson Downtown Development Authority* (the "Authority"), a component unit of the City of Jackson, Michigan, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the basic financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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.

### *Independent Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' 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 entity'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 entity'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.

Rehmann is an independent member of Nexia International.



675 Robinson Road, Jackson, MI 49203 517.787.6503

**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 the major fund of the City of Jackson Downtown Development Authority as of June 30, 2021, and the respective changes in financial position thereof, and the budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis identified in the table of contents 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2021, on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# CITY OF JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

## Management's Discussion and Analysis

The City of Jackson Downtown Development Authority (the "Authority") was established pursuant to Public Act 1975, as amended. The Authority presents this management's discussion and analysis of its financial performance as an overview of financial activities for the fiscal year ended June 30, 2021.

### Using this Annual Report

The discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The basic financial statements are comprised of the following:

- The *statement of net position and governmental fund balance sheet* presents information on all of the Authority's assets, liabilities and deferred inflows of resources, with the difference reported as net position / fund balance. Over time, increases or decreases in net position/ fund balance may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- The *statement of activities and governmental fund revenues, expenditures and change in fund balance* presents information showing how the Authority's net position / fund balance changed during the most recent fiscal year.
- The *statement of revenues, expenditures and change in fund balance – budget and actual* presents information showing the comparison of the Authority's actual revenues and expenditures to what was budgeted for its primary operating fund.
- The *notes to the basic financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

### Financial Analysis

The net position of the Authority is summarized for the purpose of determining the overall fiscal position. As shown below, the Authority's net position was \$168,421, all unrestricted. There was a decrease of \$11,558 in net position for the year ended June 30, 2021.



# CITY OF JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

## Management's Discussion and Analysis

A comparative analysis of the data is presented below:

	Net Position	
	2021	2020
<b>Assets</b>		
Cash and cash equivalents	\$ 241,655	\$ 168,485
Loans receivable	61,412	48,722
Interest receivable	-	73
<b>Total assets</b>	<b>303,067</b>	<b>217,280</b>
<b>Liabilities</b>		
Accounts payable	3,428	14,296
Accrued payroll	3,342	2,769
Unearned revenue	127,876	20,236
<b>Total liabilities</b>	<b>134,646</b>	<b>37,301</b>
<b>Total net position - unrestricted</b>	<b>\$ 168,421</b>	<b>\$ 179,979</b>

Revenues increased approximately \$82,000, and expenses increased by approximately \$91,000. These increases were largely due to the following factors:

- Gift certificate sales: while the DDA has sold downtown gift certificates for many years (redeemable at most downtown businesses), we received significant funding from Consumers Energy for 2 large programs during the 2020-2021 fiscal year. In addition, ancillary gift certificate sales also saw significant increases (both corporate and personal sales), as a result of both increased advertising from the Consumers Energy programs, and related to COVID-19 changes to workplace holiday gift giving.
- Events: COVID-19 required the cancellation of many downtown events, which caused both losses in revenue in some areas, but also increased revenue from unexpected sources (most notably, holiday promotions).

	Net Position	
	2021	2020
Total revenues	\$ 206,825	\$ 124,892
Total expenses	218,383	127,829
<b>Change in net position</b>	<b>(11,558)</b>	<b>(2,937)</b>
Net position, beginning of year	179,979	182,916
<b>Net position, end of year</b>	<b>\$ 168,421</b>	<b>\$ 179,979</b>

# CITY OF JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

## Management's Discussion and Analysis

### Budget

During 2021, total general fund revenues were \$221,072 which was more than the final amended budget for revenues by \$77,552. This is largely due to the increase in gift certificate sales, as previously discussed.

During 2021, total general fund operating expenditures were \$237,194 which was more than the final amended budget for expenditures of \$140,717. This is largely due to the increase in gift certificate reimbursements related to gift certificate sales, as previously discussed.

### Economic Factors and Next Year's Budget

The DDA is excited to offer our popular loan/grant programs in 2021-2022, due to increased funding/support from various sources. Programs offered include Façade Loan/Grants, Rehabilitation Grants (gap funding), and Sign Grants. Interest in these programs is quite strong, and we look forward to seeing significant dollars reinvested into downtown Jackson storefronts/businesses.

We continue operating the Grand River Farmers Market, an outdoor seasonal market featuring local farmers and vendors. We saw increased participating from both farmers/vendors and customers throughout the entire market season (June – October), and we are working to building on that momentum for the 2022 season. Participation in all state/federal assistance programs was up from previous years, including the Supplemental Nutrition Program (SNAP), Senior Project Fresh, Women-Infant-Children (WIC) Project Fresh, and the "Double Up Food Bucks" (DUFb) program.

As vaccination rates climbed, and restrictions were slowly lifted related to the COVID-19 pandemic, we began holding more DDA events (car shows, art walks, food truck events). These events, combined with new activities (Fall Festival, Christmas in the City) brought large numbers of people downtown to shop, eat, see great art, and enjoy our parks and public spaces. We look forward to adding new events to our schedule in 2022, while also growing some existing events into more robust family-friendly activities. While COVID-19 has forced the cancellation of many traditional DDA events, it has also provided a unique opportunity to analyze all DDA activities from both a community outreach and fiscal responsibility perspective. We look forward to continue making prudent choices in event planning in the coming year.

### Contacting the Jackson Downtown Development Authority

This financial report is designed to provide a general overview of the Jackson Downtown Development Authority finances and to show accountability for the money it receives and expends. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, 161 West Michigan Avenue, Jackson, MI 49201.

## **BASIC FINANCIAL STATEMENTS**

# CITY OF JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

## Statement of Net Position and Governmental Fund Balance Sheet

June 30, 2021

	General Fund	Adjustments	Statement of Net Position
<b>Assets</b>			
Cash and cash equivalents	\$ 241,655	\$ -	\$ 241,655
Loans receivable	61,412	-	61,412
<b>Total assets</b>	<u>\$ 303,067</u>	<u>-</u>	<u>303,067</u>
<b>Liabilities</b>			
Accounts payable	\$ 3,428	-	3,428
Accrued payroll	3,342	-	3,342
Unearned revenue	127,876	-	127,876
<b>Total liabilities</b>	134,646	-	<u>134,646</u>
<b>Deferred inflows of resources</b>			
Unavailable - loans receivable	33,050	(33,050)	
<b>Fund balance</b>			
Unassigned	135,371	(135,371)	
<b>Total liabilities, deferred inflows of resources and fund balance</b>	<u>\$ 303,067</u>		
<b>Net position - unrestricted</b>		<u>\$ 168,421</u>	<u>\$ 168,421</u>

The accompanying notes are an integral part of these financial statements.

## CITY OF JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

### Statement of Activities and Governmental Fund Revenues, Expenditures and Change in Fund Balance For the Year Ended June 30, 2021

	General Fund	Adjustments	Statement of Activities
<b>Revenues</b>			
Property taxes	\$ 89,075	\$ -	\$ 89,075
Interest	613	-	613
Events contributions	102,807	-	102,807
Business loan income	14,247	(14,247)	-
Miscellaneous	14,330	-	14,330
	<u>221,072</u>	<u>(14,247)</u>	<u>206,825</u>
<b>Total revenues</b>			
<b>Expenditures / expenses</b>			
Contractual services	73,343	-	73,343
Office supplies	1,045	-	1,045
Office equipment repair/replacement	148	-	148
Bank fees	1,958	-	1,958
Accounting and auditing	4,375	-	4,375
Telephone	1,276	-	1,276
Memberships, dues and fees	675	-	675
Conferences and travel	1,208	-	1,208
Special projects	95,406	-	95,406
Programs	38,949	-	38,949
Loan to business	18,811	(18,811)	-
	<u>237,194</u>	<u>(18,811)</u>	<u>218,383</u>
<b>Total expenditures / expenses</b>			
<b>Net change in fund balance / net position</b>	(16,122)	4,564	(11,558)
<b>Fund balance / net position</b>			
Beginning of year	<u>151,493</u>	<u>28,486</u>	<u>179,979</u>
<b>Fund balance / net position, end of year</b>	<u>\$ 135,371</u>	<u>\$ 33,050</u>	<u>\$ 168,421</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF JACKSON DOWNTOWN DEVELOPMENT AUTHORITY**

**Statement of Revenues, Expenditures and Change in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2021**  
**With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2020**

	2021				
	Original Budget	Amended Budget	Actual	Over (Under) Budget	2020 Actual
<b>Revenues</b>					
Property taxes	\$ 90,000	\$ 90,000	\$ 89,075	\$ (925)	\$ 90,825
Interest	500	500	613	113	1,315
Events contributions	51,020	51,020	102,807	51,787	33,282
Business loan income	-	-	14,247	14,247	5,717
Miscellaneous	2,000	2,000	14,330	12,330	950
<b>Total revenues</b>	<b>143,520</b>	<b>143,520</b>	<b>221,072</b>	<b>77,552</b>	<b>132,089</b>
<b>Expenditures</b>					
Contractual services	73,862	73,862	73,343	(519)	66,356
Office supplies	750	750	1,045	295	689
Office equipment repair/replacement	200	200	148	(52)	26
Bank fees	540	540	1,958	1,418	1,168
Accounting and auditing	5,000	5,000	4,375	(625)	6,168
Telephone	900	900	1,276	376	923
Memberships, dues and fees	1,200	1,200	675	(525)	625
Conferences and travel	3,100	3,100	1,208	(1,892)	1,429
Special projects	-	13,810	95,406	81,596	8,518
Programs	55,165	41,355	38,949	(2,406)	41,927
Loan to business	-	-	18,811	18,811	-
<b>Total expenditures</b>	<b>140,717</b>	<b>140,717</b>	<b>237,194</b>	<b>96,477</b>	<b>127,829</b>
<b>Net change in fund balance</b>	<b>2,803</b>	<b>2,803</b>	<b>(16,122)</b>	<b>(18,925)</b>	<b>4,260</b>
Fund balance, beginning of year	151,493	151,493	151,493	-	147,233
<b>Fund balance, end of year</b>	<b>\$ 154,296</b>	<b>\$ 154,296</b>	<b>\$ 135,371</b>	<b>\$ (18,925)</b>	<b>\$ 151,493</b>

The accompanying notes are an integral part of these financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

# CITY OF JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

The City of Jackson Downtown Development Authority (the "Authority") is a component unit of the City of Jackson, Michigan (the "City"), and is presented as a discrete component unit in the City's financial statements, as it is an integral part of that reporting entity. The City of Jackson appoints the Authority's Board of Directors, has the ability to significantly influence the Authority's operations, and it is financially accountable for the Authority.

Authorized under Act No. 197 Public Acts of 1975, the Authority's purpose is to revitalize the downtown business district. The Authority operates under the supervision of a Board of Directors (appointed by the City Council of the City of Jackson).

#### Government-wide and Fund Financial Statements

The Authority uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Position and Governmental Fund Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Change in Fund Balance. The major individual governmental fund is reported as a separate column in the aforementioned financial statements.

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Authority reports the general fund as the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those, if any, accounted for and reported in another fund.



# CITY OF JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Financial Statements

### *Unearned Revenue*

Unearned revenue consists of unredeemed gift certificates (\$99,514) and balances due to the Authority related to the façade improvement loans (\$28,362). The Authority has four façade improvement loans with local businesses. Payments are to be made in varying amounts by year if the improved property is sold or transferred. If sold/transferred in the first year the loan is to be repaid in full, 80% is to be repaid in year two, 60% in year three, 40% in year four, 20% in year five and after five years the borrower has no obligation to repay the loan.

### *Deferred Inflows of Resources*

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental fund reports unavailable revenues, which arises only under a modified accrual basis of accounting, from loans that are expected to be collected over ten years. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

### *Fund Equity*

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted fund balance*, if any, is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance*, if any, is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Board. A formal resolution of the Board is required to establish, modify, or rescind a fund balance commitment. The Authority currently has no nonspendable, restricted or committed fund balances. The Authority also has no *assigned fund balance* as the Board has not yet given authority for the making of such assignments; assigned fund balances are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund.

When the government incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed, assigned, and finally unassigned fund balance.

### *Budgetary Information*

The general fund is under formal budgetary control and its budget is prepared on the same modified accrual basis used to reflect actual results. In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures are shown on a natural classification basis, and the budgets are adopted and amended at the fund level.

During the year ended June 30, 2021, the Authority incurred expenditures of \$96,477 in excess of the amount appropriated.

# CITY OF JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Financial Statements

### 2. CASH AND CASH EQUIVALENTS

Following is a summary of deposit balances as of June 30, 2021:

<b>Statement of Net Position</b>	
Cash and cash equivalents	<u>\$ 241,655</u>
<b>Deposits</b>	
Petty cash	\$ 130
Deposits - held by the Authority	137,487
Deposits - Authority's portion of the City's pooled cash and investments	<u>104,038</u>
<b>Total</b>	<u>\$ 241,655</u>

All accounts are in the name of the Authority. Interest is recorded when deposits mature or is credited to the applicable account.

#### **Statutory Authority**

The Authority is authorized by Michigan law to invest surplus funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States Banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Cash and cash equivalents are in accordance with statutory authority.

**Custodial Credit Risk – Deposits.** For deposits, custodial credit risk is the risk, that in the event of a bank failure, the Authority's deposits may not be returned to the government. As of June 30, 2021, the Authority's bank balance of \$137,487 (total book balance was \$137,487) was insured by the FDIC.

# CITY OF JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Financial Statements

### 3. RECEIVABLES

The Authority has five loans outstanding with local businesses for a total of \$33,050. Payments of \$382, \$88, \$119, \$51, and \$224 are to be made monthly through June 30, 2022, February 7, 2025, October 1, 2025, December 1, 2025, and March 15, 2028, respectively, with a fixed interest rate of 4.5% 0.0%, 0.0%, 0.0%, and 0.0% per annum. Repayment of these loans is based on the ability by the businesses to generate revenues.

The Authority has four facade improvement loans with other local businesses for a total outstanding balance of \$28,362. Payments are to be made in varying amounts by year if the improved property is sold or transferred. If sold/transferred in the first year the loan is to be repaid in full, 80% is to be repaid in year two, 60% in year three, 40% in year four, 20% in year five and after five years the borrower has no obligation to repay the loan.

The total balance for the six loans as of June 30, 2021 is \$61,412 which is reported as loans receivable on the statement of net position.

	Original Amount	Loan Balance at June 30, 2021	Facade Improvement Loan Balance at June 30, 2021	Total Balance at June 30, 2021
<b>Loans receivable</b>				
Chilangos	\$ 27,004	\$ 382	\$ -	\$ 382
Chamber of Commerce	7,400	3,347	-	3,347
135 E Michigan, LLC	15,000	8,450	5,000	13,450
Lean Rocket Lab	9,250	2,732	5,000	7,732
159 West Michigan Avenue	33,811	18,139	15,000	33,139
Gold Land Realty (163 W. Pearl Street)	5,883	-	3,362	3,362
<b>Total loans receivable</b>	<b>\$ 98,348</b>	<b>\$ 33,050</b>	<b>\$ 28,362</b>	<b>\$ 61,412</b>

Of the \$33,050 of loans, the Authority does not expect to collect \$27,270 within one year. Additionally, the Authority does not expect any of the facade loans to be sold or transferred and as such, does not expect to collect any of the \$28,362 within one year.

### 4. PROPERTY TAXES

Property taxes for the Authority are levied each July 1, based on the assessed valuation of property located in the City of Jackson, as of the preceding December 31, the lien date. Property taxes are due on July 20, and are recognized in the fiscal year in which they are levied. The Authority levied property taxes of 1.9996 mills for the year ended June 30, 2021.

### 5. RELATED PARTY TRANSACTION

Of the Authority's cash and cash equivalents, deposits of \$100,942 are with an investment firm in which the Authority's Treasurer is a Regional Vice President. The Authority Board approved this deposit and it occurred before the Treasurer was a member of the Board.

# CITY OF JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Financial Statements

### 6. RECONCILIATION

Following is an explanation of the adjustments between the governmental funds balance sheet and the government-wide statement of net position, which reconciles the fund balance in the governmental fund with the net position of governmental activities:

<b>Fund balances - total governmental fund</b>	<b>\$ 135,371</b>
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Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows in the governmental fund, and thus are not included in fund balance.

Unavailable long-term loans receivable	<u>33,050</u>
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<b>Net position</b>	<b><u>\$ 168,421</u></b>
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Following is an explanation of the adjustments between the governmental funds statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities, which reconciles the net change in fund balance to the change in net position:

<b>Net change in fund balance</b>	<b>\$ (16,122)</b>
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Business loan repayments	(14,247)
New loan to business	<u>18,811</u>

<b>Change in net position</b>	<b><u>\$ (11,558)</u></b>
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### 7. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The pandemic has resulted in operational challenges for the Authority as it determines the impact on employees, vendors, and taxpayers, and the appropriate method for providing services. At this time, management does not believe that any ongoing negative financial impact related to the pandemic, if any, would be material to the Authority.

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

December 15, 2021

Board of Directors  
City of Jackson Downtown Development Authority  
Jackson, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the **City of Jackson Downtown Development Authority** (the "Authority"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 15, 2021.

#### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses, as item 2021-001 that we consider to be a material weakness.

Rehmann is an independent member of Nexia International.



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517.787.6503

## **Compliance and Other Matters**

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

### **City of Jackson Downtown Development Authority's Response to Finding**

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*Rehmann Lobson LLC*

# CITY OF JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

## **Schedule of Findings and Responses**

For the Year Ended June 30, 2021

### **SECTION II – FINANCIAL STATEMENT FINDINGS**

#### **2021-001 - Material Audit Adjustment / Controls over the Authority's Gift Certificate Program**

**Finding Type.** Material Weakness in Internal Control over Financial Reporting

**Criteria.** Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP). Additionally, management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Authority's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the Authority's unique circumstances.

**Condition.** During the audit, we identified and proposed a material audit adjustment (which was approved and posted by management) to adjust the Authority's general ledger to the appropriate balances.

**Cause.** This condition is the result of the lack of controls over the gift certificate program at the Authority. The Authority sells paper gift certificates that can be used at participating local businesses, however, there is no tracking mechanism.

**Effect.** As a result of this condition, revenue was initially overstated and unearned revenue was initially understated by \$99,514.

**Recommendation.** We recommend that the Authority implement a tracking system to ensure that the same gift certificate is not (1) used at multiple local business and (2) not requested for reimbursement multiple times by the same local business. Additionally, we recommend that at the time of sale of the gift certificates, the sale is recorded as unearned revenue and then the revenue (and corresponding reimbursement expense) is recorded at the time of reimbursement to the local business.

**View of Responsible Officials.** Our gift certificate program has grown by leaps and bounds these past two years, due to two significant factors:

1. Special programs aimed at providing matching funds to purchases; and,
2. Larger than expected corporate/personal purchases.

# CITY OF JACKSON DOWNTOWN DEVELOPMENT AUTHORITY

## **Schedule of Findings and Responses**

For the Year Ended June 30, 2021

As such, we brought to the attention of our auditors larger than expected revenues (sales) and expenses (reimbursements), as we wanted to proactive and collaborate in determining an appropriate course of action moving forward. Working with our auditors and our own board treasurer (also a CPA), we are building better internal controls to monitor the same and reimbursement of these certificates. These safeguards include:

1. Implementing a numbering system, which will begin in early 2022; and,
2. Analyzing the feasibility (from both a time and financial standpoint) of reimbursement tracking of specific certificates.

We have been tracking reimbursements of certificates from specific "special" programs since the summer of 2021, which made up the bulk of sales in 2020-2021 and are already representing significant sales in 2021-2022. Moving forward, we will continue tracking sales and reimbursements of certificates from these "special programs."

In addition, we will now be accounting for revenues and expenses in accordance with suggested best practices from our auditors, as a way to more accurately account for revenue and expenses both in our monthly financial reports and our balance sheet. Moving forward, we will analyze the feasibility of more specific reimbursement tracking.

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