

DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of The Atlanta
Development Authority, d/b/a Invest Atlanta)

Basic Financial Statements

June 30, 2017

(With Independent Auditor's Report Thereon)

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of The Atlanta Development Authority, d/b/a Invest Atlanta)

June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

**The Board of Directors of the
Downtown Development Authority
Atlanta, Georgia**

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the **Downtown Development Authority** (the "Authority"), a component unit of The Atlanta Development Authority, d/b/a Invest Atlanta, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's 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.

Auditor's 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 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 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Downtown Development Authority as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 6 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 November 28, 2017 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Atlanta, Georgia
November 28, 2017

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of The Atlanta Development Authority, d/b/a Invest Atlanta)
Management's Discussion and Analysis (Unaudited)
June 30, 2017

This section of the Downtown Development Authority (“DDA” or “the Authority”) annual financial report presents our discussion and analysis of DDA’s financial performance during the fiscal year ended June 30, 2017. Please read it in conjunction with the financial statements and accompanying notes.

Fiscal Year 2017 Selected Financial Highlights

- The assets of the Authority decreased approximately \$13.0 million for the fiscal year ended June 30, 2017. The primary components were a \$7.9 million decrease in restricted cash with the payment, from the restricted sinking fund, of the last amount due on the Authority’s Series 2009 Refunding Revenue Bonds (Underground Atlanta Project) and a decrease in the investment in direct financing lease and intergovernmental receivables with the City of Atlanta due to scheduled payments and the refunding of the Authority’s Series 2006 Bonds.
- The liabilities of the Authority decreased approximately \$9.3 million for the fiscal year ended June 30, 2017. The decrease is primarily related to scheduled principal reductions in bonds payable, with the largest being approximately \$7.9 million on the Series 2009 Bonds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority’s basic financial statements. The Authority’s basic financial statements consist of four components: management’s discussion and analysis (this section), government-wide financial statements, fund financial statements, and notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority’s finances, including information related to its component units.

The *statement of net position* presents information on all of the Authority’s assets, deferred outflows of resources, and liabilities, with the difference between these reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the Authority’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The government-wide financial statements can be found on pages 7 and 8 of this report.

Fund Financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The accompanying statements include two funds, one for the administrative fund and another for the blended component unit of the Authority. These funds are used to report the same functions presented as business-type activities in the government-wide financial statements, but show the activity in greater detail, presenting the activity of each of the funds and also presenting cash flow information. The fund financial statements can be found on pages 9-11 of this report.

DOWNTOWN DEVELOPMENT AUTHORITY
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Management's Discussion and Analysis (Unaudited)
June 30, 2017

Notes to the financial statements. The notes provide additional information essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 12-20 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the Authority, assets and deferred outflows of resources were less than liabilities by approximately \$860 thousand at the close of the fiscal year ended June 30, 2017. A summary of the net position is presented below.

Summary of the Authority's Business-type Activities Net Position
June 30, 2017 and June 30, 2016

	<u>2017</u>	<u>2016</u>
Assets:		
Current assets	\$ 3,813,461	\$ 11,658,484
Capital assets	-	1,676,657
Other non-current assets	<u>29,655,000</u>	<u>33,113,164</u>
Total assets	<u>33,468,461</u>	<u>46,448,305</u>
Defereed outflows of resources	<u>1,804,904</u>	<u>-</u>
Liabilities:		
Long-term liabilities	33,247,242	34,671,216
Other liabilities	<u>2,885,881</u>	<u>10,746,697</u>
Total liabilities	<u>36,133,123</u>	<u>45,417,913</u>
Net position (deficit):		
Investment in capital assets	-	1,676,657
Restricted for debt service	431,460	77,035
Restricted for redevelopment programs	850,542	947,492
Unrestricted	<u>(2,141,760)</u>	<u>(1,670,792)</u>
Total net position (deficit)	<u>\$ (859,758)</u>	<u>\$ 1,030,392</u>

The Authority's total assets equal approximately \$33.5 million as of the fiscal year ended June 30, 2017. The assets primarily consist of intergovernmental receivables from the City of Atlanta (95%) and restricted cash related to the AURA Bonds (both for debt service and programs) (4%).

The Authority's total liabilities equal approximately \$36.1 million as of the fiscal year ended June 30, 2017. The liabilities consist primarily of bonds payable (94%) related to the 2010 and 2017 AURA bonds.

The assets and liabilities decrease predominately due to scheduled payments on and a refunding of the bonds payable and the related receivables.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of The Atlanta Development Authority, d/b/a Invest Atlanta)
Management's Discussion and Analysis (Unaudited)
June 30, 2017

Summary of Changes in the Authority's Net Position
Fiscal Years Ended June 30, 2017 and June 30, 2016

	2017	2016
Revenues:		
Subsidy income received from the City of Atlanta	\$ 999,984	\$ 1,355,742
Parking garage income	1,449,060	918,774
Service, administration, and loan fees	834,308	-
Interest income	3,683	1,652
Total revenues	3,287,035	2,276,168
Expenses:		
Interest expense	1,766,194	2,119,229
Depreciation expense	-	120,388
Rent expense	23,684	54,029
Redevelopment program expense	100,161	1,087,031
Bond issuance costs	442,669	-
General and administrative	15,951	24,092
Total expenses	2,348,659	3,404,769
Payments from (to) Invest Atlanta	(692,000)	150,503
Loss on the sale of Underground Atlanta	(2,136,526)	-
Decrease in net position	(1,890,150)	(978,098)
Net position, beginning of fiscal year	1,030,392	2,008,490
Net position (deficit), end of fiscal year	\$ (859,758)	\$ 1,030,392

The Authority's revenues primarily consist of income received from the City of Atlanta for debt service payments related to certain bond issuances (30%). Compared to the prior fiscal year, this was a decrease of \$355,758 due to the decreased debt service requirements the City is required to fund. Parking garage and rental income represent 44% of total revenue. This was an increase of \$530,286 from the prior fiscal year. The service fees in 2017 were primarily made up of a \$692 thousand seller's fee received as part of the sale of Underground Atlanta. This amount was subsequently transferred by the Authority to Invest Atlanta. The Authority's expenses primarily consist of the following items: interest expense which decreased approximately \$353,000 as a result of the decreased debt service requirements and redevelopment expenses which decreased approximately \$1.0 million. The AURA issued bonds for redevelopment purposes in 2010 and has now used most of those proceeds on programs thus causing the large reduction in redevelopment expenses.

Capital Asset and Debt Administration

Capital assets. The Authority's capital assets consisted of leasehold improvements which were sold as part of the overall Underground Atlanta sale during the year ended June 30, 2017. See Note 5 to the financial statements for more information on capital assets.

DOWNTOWN DEVELOPMENT AUTHORITY
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Management's Discussion and Analysis (Unaudited)
June 30, 2017

Long Term Debt. At the end of the current fiscal year, the Authority had total long-term debt outstanding of approximately \$33.9 million. The Authority's debt reflects a net decrease of approximately \$9.8 million during the current fiscal year primarily as a result of debt reduction/principal payments in fiscal year 2017. See Note 6 to the financial statements for more information.

Activity for long term obligations of the Authority for the fiscal year ended June 30, 2017, which are reported in the Statement of Net Position, is summarized as follows:

Downtown Development Authority's Outstanding Debt

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2017</u>
Primary government:				
Bonds payable, 2006 DDA	\$ 18,041,424	\$ -	\$ 18,041,424	\$ -
Bonds payable, 2009 DDA	7,915,000	-	7,915,000	-
Bonds payable, 2010 AURA	17,285,000	-	1,220,000	16,065,000
Bonds payable, 2017 AURA	-	17,821,653	-	17,821,653
Promissory note payable	79,546	-	79,546	-
Total primary government	<u>\$ 43,320,970</u>	<u>\$ 17,821,653</u>	<u>\$ 27,255,970</u>	<u>\$ 33,886,653</u>

The Authority issues a significant amount of conduit debt which is not included in the Authority's Statement of Net Position but is disclosed in Note 7 to the financial statements. These liabilities are not included in the financial statements as they are limited obligations of the Authority issued on behalf of third parties who are primarily responsible for their repayment.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to the Chief Financial Officer, 133 Peachtree Street, NE, Suite 2900, Atlanta, GA 30303.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of The Atlanta Development Authority, d/b/a Invest Atlanta)
Statement of Net Position
June 30, 2017

Assets	<u>Business-type Activities</u>
Current assets:	
Cash and cash equivalents	\$ 411,923
Restricted cash and cash equivalents	1,282,002
Intergovernmental receivable from the City of Atlanta, current portion	2,119,536
Total current assets	<u>3,813,461</u>
Noncurrent assets:	
Intergovernmental receivable from the City of Atlanta	29,655,000
Total noncurrent assets	<u>29,655,000</u>
Total assets	<u>33,468,461</u>
Deferred Outflows of Resources	
Deferred loss on bond refunding	<u>1,804,904</u>
Liabilities	
Current liabilities:	
Accrued expenses	335,000
Accrued interest payable	535,881
Bonds and note payable, current portion	2,015,000
Total current liabilities	<u>2,885,881</u>
Noncurrent liabilities:	
Advances from Invest Atlanta	1,375,589
Bonds payable	31,871,653
Total noncurrent liabilities	<u>33,247,242</u>
Total liabilities	<u>36,133,123</u>
Net Position (Deficit)	
Restricted for debt service	431,460
Restricted for redevelopment programs	850,542
Unrestricted	(2,141,760)
Total net position (deficit)	<u>\$ (859,758)</u>

See the accompanying notes to the financial statement

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of The Atlanta Development Authority, d/b/a Invest Atlanta)
Statement of Activities
Fiscal Year ended June 30, 2017

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Business-type Activities	
Functions/Programs:				
Primary government				
Business-type activities:				
Economic development	\$ 5,177,185	\$ 2,283,368	\$ 999,984	\$ (1,893,833)
Total primary government activities	\$ 5,177,185	\$ 2,283,368	\$ 999,984	\$ (1,893,833)

General revenues:

Interest income	3,683
Total general revenues	3,683
Changes in net position	(1,890,150)
Net position, beginning of year	1,030,392
Net position (deficit), end of year	\$ (859,758)

See the accompanying notes to the financial statement

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of The Atlanta Development Authority, d/b/a Invest Atlanta)
Statement of Net Position
Proprietary Funds
June 30, 2017

	Business-type Activities		
	Enterprise Funds		
	Administrative Fund	Atlanta Urban Redevelopment Agency	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 335,692	\$ 76,231	\$ 411,923
Restricted cash and cash equivalents	10	1,281,992	1,282,002
Intergovernmental receivable from the City of Atlanta, current portion	-	2,119,536	2,119,536
Total current assets	<u>335,702</u>	<u>3,477,759</u>	<u>3,813,461</u>
Noncurrent assets:			
Intergovernmental receivable from the City of Atlanta	-	29,655,000	29,655,000
Total noncurrent assets	<u>-</u>	<u>29,655,000</u>	<u>29,655,000</u>
Total assets	<u>335,702</u>	<u>33,132,759</u>	<u>33,468,461</u>
Deferred Outflows of Resources			
Deferred loss on bond refunding		1,804,904	1,804,904
Liabilities			
Current liabilities:			
Accrued expenses	335,000	-	335,000
Accrued interest payable	-	535,881	535,881
Bonds and note payable, current portion	-	2,015,000	2,015,000
Total current liabilities	<u>335,000</u>	<u>2,550,881</u>	<u>2,885,881</u>
Noncurrent liabilities:			
Advances from Invest Atlanta	1,375,589	-	1,375,589
Bonds payable, noncurrent portion	-	31,871,653	31,871,653
Total noncurrent liabilities	<u>1,375,589</u>	<u>31,871,653</u>	<u>33,247,242</u>
Total liabilities	<u>1,710,589</u>	<u>34,422,534</u>	<u>36,133,123</u>
Net Position (Deficit)			
Restricted for debt service	10	431,450	431,460
Restricted for redevelopment programs	-	850,542	850,542
Unrestricted	(1,374,897)	(766,863)	(2,141,760)
Total net position (deficit)	<u>\$ (1,374,887)</u>	<u>\$ 515,129</u>	<u>\$ (859,758)</u>

See the accompanying notes to the financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of The Atlanta Development Authority, d/b/a Invest Atlanta)
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
Fiscal Year Ended June 30, 2017

	Business-type Activities		
	Enterprise Funds		
	Administrative	Atlanta Urban	
	Fund	Redevelopment	Total
		Agency	
Operating revenues:			
Parking garage income	\$ 1,449,060	\$ -	\$ 1,449,060
Service, administration, and loan fees	758,250	76,058	834,308
Subsidy income for debt service payments	-	999,984	999,984
Total operating revenues	<u>2,207,310</u>	<u>1,076,042</u>	<u>3,283,352</u>
Operating expenses:			
Interest expense	766,210	999,984	1,766,194
Rent expense	23,684	-	23,684
Redevelopment program expense	-	100,161	100,161
Bond issuance costs	-	442,669	442,669
General and administrative	15,948	3	15,951
Total operating expenses	<u>805,842</u>	<u>1,542,817</u>	<u>2,348,659</u>
Operating income (loss)	1,401,468	(466,775)	934,693
Non-operating revenue (expenses)			
Interest income on bank accounts	191	3,492	3,683
Payment to Invest Atlanta	(692,000)	-	(692,000)
Loss on sale of Underground Atlanta	(2,136,526)	-	(2,136,526)
Total non-operating revenues	<u>(2,828,335)</u>	<u>3,492</u>	<u>(2,824,843)</u>
Income (loss) before transfers	<u>(1,426,867)</u>	<u>(463,283)</u>	<u>(1,890,150)</u>
Transfers in	-	30,920	30,920
Transfers out	(30,920)	-	(30,920)
Change in net position	(1,457,787)	(432,363)	(1,890,150)
Net position (deficit) at beginning of year	<u>82,900</u>	<u>947,492</u>	<u>1,030,392</u>
Net position (deficit) at end of year	<u>\$ (1,374,887)</u>	<u>\$ 515,129</u>	<u>\$ (859,758)</u>

See the accompanying notes to the financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of The Atlanta Development Authority, d/b/a Invest Atlanta)
Statement of Cash Flows
Proprietary Funds
Fiscal Year Ended June 30, 2017

	Business-type Activities		
	Enterprise Funds		
	Administrative Fund	Atlanta Urban Redevelopment Agency	Total
Cash flows from operating activities:			
Receipts from third parties	\$ 2,537,310	\$ 76,058	\$ 2,613,368
Payments for programs	-	(100,164)	(100,164)
Payments to suppliers	(213,821)	-	(213,821)
Net cash provided by (used in) operating activities	<u>2,323,489</u>	<u>(24,106)</u>	<u>2,299,383</u>
Cash flows from noncapital financing activities:			
Principal reduction of Recovery Zone bonds	-	(1,220,000)	(1,220,000)
Repayment of bond principal related to revenue bonds issued on behalf of the City of Atlanta	(8,710,000)	-	(8,710,000)
Payments for interest on bonds	(765,406)	(928,206)	(1,693,612)
Proceeds from the issuance of bonds	-	15,605,000	15,605,000
Premium received on bond issuance	-	2,216,653	2,216,653
Payments to bond refunding escrow agent	-	(17,783,243)	(17,783,243)
Payments for bond issuance costs	-	(442,669)	(442,669)
Repayment of note principal	(79,546)	-	(79,546)
Payment of interest on notes	(804)	-	(804)
Receipt of funds from others to subsidize debt service payments	-	2,519,707	2,519,707
Advances from Invest Atlanta	15,797	-	15,797
Payments to Invest Atlanta	(692,000)	-	(692,000)
Other receipts	3,345	-	3,345
Net cash used in noncapital financing activities	<u>(10,228,614)</u>	<u>(32,758)</u>	<u>(10,261,372)</u>
Cash flows from investing activities:			
Receipts of interest on bank accounts	191	3,492	3,683
Net cash provided by investing activities	<u>191</u>	<u>3,492</u>	<u>3,683</u>
Net decrease in cash and cash equivalents	(7,904,934)	(53,372)	(7,958,306)
Cash and cash equivalents at beginning of fiscal year	8,240,636	1,411,595	9,652,231
Cash and cash equivalents at end of fiscal year	<u>\$ 335,702</u>	<u>\$ 1,358,223</u>	<u>\$ 1,693,925</u>
Reconciliation to Statement of Net Position			
Unrestricted cash and cash equivalents	\$ 335,692	\$ 76,231	\$ 411,923
Restricted cash and cash equivalents	10	1,281,992	1,282,002
Total cash and cash equivalents	<u>\$ 335,702</u>	<u>\$ 1,358,223</u>	<u>\$ 1,693,925</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 1,401,468	\$ (466,775)	\$ 934,693
Adjustment to reconcile operating loss to net cash provided by (used in) operating activities			
Interest payments reported in operating income (loss)	766,210	999,984	1,766,194
Bond issuance costs reported in operating income (loss)	-	442,669	442,669
Receipts for debt service reported in operating income (loss)	-	(999,984)	(999,984)
Change in assets and liabilities			
(Increase) decrease in:			
Prepaid items	23,684	-	23,684
Increase (decrease) in:			
Accrued expenses	335,000	-	335,000
Unearned revenue	(5,000)	-	(5,000)
Accrued interest payable	(197,873)	-	(197,873)
Net cash provided by (used in) operating activities	<u>\$ 2,323,489</u>	<u>\$ (24,106)</u>	<u>\$ 2,299,383</u>
Non-cash transfer of liabilities	\$ 17,316,599	\$ (17,316,599)	\$ -
Non-cash transfer of intergovernmental receivable	(17,347,519)	17,347,519	-

See the accompanying notes to the financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of The Atlanta Development Authority, d/b/a Invest Atlanta)
Notes to Financial Statements
June 30, 2017

(1) Summary of Significant Accounting Policies

(a) *The Financial Reporting Entity*

The Downtown Development Authority (“DDA” or “the Authority”) was created to promote the revitalization and redevelopment of the City of Atlanta’s central business district.

In 1997, the City created a new umbrella economic development agency, the Atlanta Development Authority, d/b/a Invest Atlanta (“Invest Atlanta”), which combined several existing economic development entities including DDA. Accordingly, DDA is considered to be a blended component unit of Invest Atlanta and its financial statements are included in the Invest Atlanta financial statements.

The Atlanta Urban Redevelopment Agency (“Agency”) was created to issue Recovery Zone Economic Development Bonds and, with those bond proceeds, provide financing for certain economic development projects within the Atlanta Urban Redevelopment Area as determined by the City of Atlanta. The Agency is considered to be a blended component unit of DDA as the governing body for both the DDA and the Agency are identical, the DDA is able to impose its will on the Agency, and management of the DDA has operational responsibility for the activities of the Agency. Separate financial information for this component unit may be obtained from the Chief Financial Officer, Invest Atlanta at 133 Peachtree Street, NE, Suite 2900, Atlanta, Georgia 30303.

(b) *Government-wide and Fund Financial Statements*

The Authority presents government-wide financial statements which are prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements (i.e. the statement of net position and the statement of activities) do not provide information by fund. Net position in the statement of net position is distinguished between amounts that are invested in capital assets, restricted for use by third parties or outside requirements, and unrestricted.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or benefit from the services provided by a given function or segment and include interest income on loans provided for economic development, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted interest income on investments and other items not properly included among program revenues are reported as general revenues.

In addition to the government-wide financial statements, the Authority has prepared separate financial statements for proprietary funds. These fund financial statements use the accrual basis of accounting and the economic resources measurement focus.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of The Atlanta Development Authority, d/b/a Invest Atlanta)
Notes to Financial Statements
June 30, 2017

(1) Summary of Significant Accounting Policies (Continued)

(c) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Interest income and service, administration, and loan fees are recognized as revenue when earned regardless of when the cash is received. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority reports the following major enterprise funds:

Administrative Fund – The Administrative Fund is used to record the receipt of income not directly pledged to the repayment of specific notes, bonds, or grant programs and the payment of expenses related to the Authority’s programmatic and administrative functions.

Atlanta Urban Redevelopment Agency – This fund is used to account for the financing of certain economic development projects within the Atlanta Urban Redevelopment Area as determined by the City of Atlanta.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund’s principal ongoing operations. The principal operating revenue of DDA and the Agency are parking garage and rental income, funds received from the City of Atlanta to cover debt service requirements, interest income, and other miscellaneous activity. Operating expenses for the enterprise funds include direct rent expense, interest expense, and general and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, then unrestricted resources as they are needed.

DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of The Atlanta Development Authority, d/b/a Invest Atlanta)
Notes to Financial Statements
June 30, 2017

(1) Summary of Significant Accounting Policies (Continued)

(d) Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Authority considers all short-term investment securities with original maturities of three months or less, local government investment pools, repurchase agreements, money market funds, and investment agreements under which funds can be withdrawn at any time without penalty to be cash equivalents. These cash equivalents are stated at fair value. Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants.

(e) Capital Assets

Capital assets are stated at cost. Depreciation on capital assets is calculated on the straight-line method over the estimated useful lives as follows:

Leasehold improvements	29 years
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Interest is capitalized during construction periods on proprietary fund assets financed with bonded debt. The amount of interest to be capitalized for debt with tax-exempt interest is calculated by offsetting interest expense incurred from the date of the borrowing until completion of projects with interest earned on invested proceeds over the same period. The amount of interest to be capitalized for debt with taxable interest is calculated at the average borrowing rate applied to costs incurred during the construction period. For the year ended June 30, 2017, there were no uncompleted projects and therefore, no interest to capitalize.

(f) Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. The Authority has one type of deferred outflow, a deferred charge (loss) on refunding resulting from the difference in carrying value of the refunded debt and its reacquisition price. This deferred loss will be amortized over the shorter life of the refunded or refunding bonds.

(g) Use of Estimates

The Authority's management has made a number of estimates and assumptions relating to the reporting of assets, deferred outflows of resources, and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses to prepare the financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ from these estimates.

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(2) Prepaid Items

In 1999, DDA signed a thirty-eight (38) year operating lease to rent the 3rd and 4th floors of the Block building for \$900,000. DDA paid the entire amount due under the lease at the time of signing. During the year ended June 30, 2017, the building, along with other property in the Underground Atlanta complex, was sold. The remaining prepaid rent balance of \$459,868 was written off during the year ended June 30, 2017 as a result of the sale.

(3) Deposits and Investments

Credit Risk. DDA is authorized to invest in obligations or investments as determined by its Board of Directors, subject to any agreement with bondholders and with applicable law. State statutes authorize DDA to invest in obligations of the state of Georgia or other states; obligations issued by the U.S. government; obligations fully insured or guaranteed by the U.S. government or by a government agency of the United States; obligations of any corporation of the U.S. government; prime banker’s acceptances; the local government investment pool established by state law; repurchase agreements; and obligations of other political subdivisions of the state of Georgia. As of June 30, 2017, DDA’s investment in the Fidelity Money Market Treasury Mutual Funds were rated AAAM.

At June 30, 2017, DDA had the following investments, which are classified as cash equivalents:

<u>Investment</u>	<u>WAM</u>	<u>Fair Value</u>
Fidelity Money Mkt Treasury Mutual Fund - Class I	41 days	\$ 1,282,002

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates may adversely affect an investment’s fair value. Since the price of a bond fluctuates with market interest rates, the risk that an investor faces is that the price of the bonds in a portfolio will decline if market interest rates rise. At June 30, 2017, interest rate risk is reported in the above table as “Weighted Average Maturity (WAM)” for each of the applicable investment classifications.

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(3) Deposits and Investments (Continued)

Fair Value Measurements. DDA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. DDA has the following recurring fair value measurements as of June 30, 2017:

<u>Investment</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Fidelity Money Market Mutual Fund - Class I	\$ 1,282,002	\$ -	\$ -	\$ 1,282,002

The mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those investments.

Custodial Credit Risk-Deposits. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of June 30, 2017, DDA had no bank balances exposed to custodial credit risk.

(4) Intergovernmental Receivable with the City of Atlanta

The Government Center Parking Deck was placed into operation in January 2008. The land and related building of the deck was leased to the City of Atlanta in a lease that qualified as a capital lease. The lease payments from the City of Atlanta equaled the debt service payments on the Series 2006 Revenue Bonds. During the year ended June 30, 2017, the liability for the 2006 Bonds and the related receivable from the City of Atlanta were transferred from the Authority to the Agency. Subsequently, the Agency refunded the Series 2006 Bonds with the Series 2017 Revenue Refunding Bonds and title to the Parking Deck was transferred to the City. As discussed in Note 6, the City of Atlanta entered into an intergovernmental agreement with the Agency and pledged to make all debt service payments on the Series 2017 Revenue Refunding Bonds. As a result, the Agency has recorded an intergovernmental receivable from the City for the full amount of the Series 2017 Bonds. At June 30, 2017, the balance of this receivable was \$15,605,000 plus \$104,536 in accrued interest.

On October 28, 2010, the Agency issued \$22,775,000 of Taxable Recovery Zone Economic Development Bonds (Series 2010) on behalf of the City of Atlanta to finance the costs of implementing the Urban Redevelopment Plan including certain costs in connection with (1) the acquisition, rehabilitation, and improvement of real property and buildings; (2) certain public transportation projects in the Urban Redevelopment Area; and (3) the acquisition and construction and installation of other related improvements of the Urban Redevelopment Plan. The principal and interest on the Series 2010 Bonds are special limited obligations of the Agency and shall be payable solely from moneys payable to the Agency by the City of Atlanta (see Note 6 for revenue bonds payable disclosure) under an intergovernmental arrangement. As of June 30, 2017, a net receivable of \$16,065,000 is recorded by the Agency as an intergovernmental receivable from the City of Atlanta.

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(5) Capital Assets

Capital assets activity for the fiscal year ended June 30, 2017 consists of the following:

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2017</u>
Capital assets being depreciated:				
Leasehold improvements	\$ 3,491,247	\$ -	\$ (3,491,247)	\$ -
Total capital assets being depreciated	<u>3,491,247</u>	<u>-</u>	<u>(3,491,247)</u>	<u>-</u>
Less accumulated depreciation				
Leasehold improvements	(1,814,590)	-	1,814,590	-
Total accumulated depreciation	<u>(1,814,590)</u>	<u>-</u>	<u>1,814,590</u>	<u>-</u>
Net capital assets	<u>\$ 1,676,657</u>	<u>\$ -</u>	<u>\$ (1,676,657)</u>	<u>\$ -</u>

During the year ended June 30, 2017, the building which included the leasehold improvements, along with other property in the Underground Atlanta complex, was sold. The leasehold improvements of \$1,676,657 were written off during the year ended June 30, 2017 as a result of the sale.

(6) Revenue Bonds and Notes Payable

In 2006, the Authority issued \$23,480,000 of Revenue Bonds (\$17,990,000, Series 2006A, and \$5,490,000, Series 2006B) for the purpose of acquiring land and building a five-story parking facility. This facility was leased to the City of Atlanta with the lease payments equal to the debt service payments on the bonds. During the year ended June 30, 2017, the liability for the 2006 Bonds and the related receivable from the City of Atlanta were transferred from the Authority to the Agency. Subsequently, the Agency refunded the 2006 Bonds with the Series 2017 Revenue Refunding Bonds as discussed below.

In 2009, the Authority issued \$52,790,000 of refunding revenue bonds (\$44,975,000, Series 2009A, and \$7,815,000, Series 2009B). The Series 2009A bonds were used to refund the principal of the City of Atlanta Series 2002, Variable Rate Refunding Revenue Bonds (Underground Atlanta Project). The Series 2009B bonds were issued for the purpose of paying (a) the termination fee in connection with an interest rate swap relating to the City of Atlanta's Series 2002 Bonds, (b) accrued interest on the City of Atlanta's Series 2002 Bonds, and (c) the costs of issuance of the Series 2009 Bonds. Commencing on July 1, 2009, interest is due semiannually on January 1 and July 1 of each fiscal year with varying interest rates ranging from 2% to 5%. The Series 2009A bonds matured and were fully paid on July 1, 2016 and the Series 2009B bonds matured in 2010.

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(6) Revenue Bonds and Notes Payable (Continued)

On October 28, 2010, the Agency issued \$22,775,000 of Taxable Recovery Zone Economic Development Bonds (Series 2010). The Series 2010 Bonds were used to finance the costs of implementing the Urban Redevelopment Plan including certain costs in connection with (1) the acquisition, rehabilitation, and improvement of real property and buildings; (2) certain public transportation projects in the Urban Redevelopment Area; and (3) the acquisition and construction and installation of other related improvements of the Urban Redevelopment Plan. Commencing on January 1, 2011, interest is due semiannually on January 1 and July 1 of each fiscal year with a fixed interest rate of 5.37%. Under an intergovernmental agreement with the City of Atlanta, all principal and interest payments are payable solely and only from the City's pledge to make debt service payments. The Agency has recorded a receivable from the City of Atlanta for all future debt service payments. Additionally, approximately 45% of each interest payment is subsidized by the Federal Government under the Build America Bonds and Recovery Zone Bonds. The Series 2010 Bonds mature on January 1, 2028. The balance due on the Series 2010 Bonds at June 30, 2017 is \$16,065,000.

On April 20, 2017, the Agency issued \$15,605,000 Revenue Refunding Bonds (Series 2017) for the purpose of refunding all outstanding Series 2006A and 2006B Bonds discussed above. The principal on the Series 2017 Bonds is due annually on December 1 until maturity on December 1, 2031 and interest is due semi-annually on June 1 and December 1. Under an intergovernmental agreement with the City of Atlanta, all principal and interest payments are secured solely from the City's pledge to make the required debt service payments. The Agency has recorded a receivable from the City of Atlanta for all future debt service payments. The balance due on the Series 2017 Bonds at June 30, 2017 is \$15,605,000.

The net proceeds of the Series 2017 Bonds were used to refund all of the outstanding Series 2006A Bonds and 2006B Bonds. At June 30, 2017, all refunded bonds had been paid and no defeased debt is outstanding. The refunding transaction will result in total debt service savings of \$2,927,907 with a present value, or economic gain, of \$2,381,757.

In December 2013, the Authority entered into a promissory note payable with a bank in the amount of \$458,857. This note was used to satisfy the balloon payment due on the Series 1999 Downtown Development Authority Revenue Bonds. Payments for principal and interest, at a rate of 4.75%, were due monthly and the note matured and was fully paid on December 1, 2016.

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(6) Revenue Bonds and Notes Payable (Continued)

Activity for the bonds payable for the fiscal year ended June 30, 2017 consists of the following:

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2017</u>	<u>Amount Due Within One Fiscal Year</u>
Primary government:					
Bonds payable, 2006 Downtown Development Authority Revenue Bonds	\$ 18,165,000	\$ -	\$ 18,165,000	\$ -	\$ -
Discount on 2006 Revenue Bonds	(123,576)	-	(123,576)	-	-
Bonds payable, 2009 Downtown Development Authority Refunding Revenue Bonds	7,915,000	-	7,915,000	-	-
Bonds payable, 2010 Atlanta Urban Redevelopment Agency Taxable Bonds	17,285,000	-	1,220,000	16,065,000	1,260,000
Bonds payable, 2017 Atlanta Urban Redevelopment Agency Taxable Refunding Bonds	-	15,605,000	-	15,605,000	755,000
Premium on 2017 Bonds	-	2,216,653	-	2,216,653	-
Promissory Note Payable	79,546	-	79,546	-	-
Total primary government	<u>\$ 43,320,970</u>	<u>\$ 17,821,653</u>	<u>\$ 27,255,970</u>	<u>\$ 33,886,653</u>	<u>\$ 2,015,000</u>

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(6) Revenue Bonds and Notes Payable (Continued)

Debt Service Requirements

Annual principal and interest requirements for the bonds payable are set forth below (dollar amounts in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2018	\$ 2,015	\$ 1,538	\$ 3,553
2019	2,115	1,405	3,520
2020	2,170	1,319	3,489
2021	2,225	1,222	3,447
2022	2,300	1,113	3,413
2023 - 2027	12,750	3,786	16,536
2028 - 2032	8,095	797	8,892
Totals	<u>\$ 31,670</u>	<u>\$ 11,180</u>	<u>\$ 42,850</u>
Add Premium on bonds	2,217		
Total outstanding bonds payable	<u>\$ 33,887</u>		

(7) Conduit Debt

DDA issues private activity tax exempt and taxable revenue bonds to private sector entities for projects located within the city limits of Atlanta. The bonds are secured by the property financed and are payable solely from payments received on the underlying promissory notes. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. DDA is not obligated in any manner for repayment of the bonds and does not report these as liabilities in the accompanying financial statements.

As the balance of conduit debt issued by DDA, at the time of the implementation of GASB Interpretation No. 2 in 1996, was not determinable, DDA discloses the aggregate original issue amount of the bonds issued as conduit debt to be \$247,718,400.

(8) Advances and Payments from Invest Atlanta

During the year ended June 30, 2017, the Authority received a seller's fee in the amount of \$692,000 as part of the sale of Underground Atlanta. This amount was subsequently transferred by the Authority to Invest Atlanta. At June 30, 2017, DDA owes the Atlanta Development Authority's Administrative Fund \$1,375,589, which was not expected to be repaid within one fiscal year, but will be repaid in future years.