

AUDIT WRAP-UP

For the Year Ended June 30, 2014



The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., City Commission and Fiscal Committee) and, if appropriate, management of the City and is not intended and should not be used by anyone other than these specified parties.

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December 15, 2014

Members of the Grand Rapids Downtown Development Authority
Grand Rapids, Michigan

Professional standards require us to communicate with you regarding matters related to the audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. The following documents various matters with respect to the wrap-up phase of the audit of the annual financial statements of the Grand Rapids Downtown Development Authority (the Authority) as of and for the year ended June 30, 2014, including a summary of our overall objectives for the audit, and the nature, scope and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the Authority's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters.

We are pleased to be of service to the Authority and will be happy to answer any questions you might have.

Respectfully,

BDO USA, LLP

Discussion Outline

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Status of Our Audit

We have completed our audit of the financial statements of the Authority for the year ended June 30, 2014. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

- The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications.
- We have issued an unmodified opinion on the financial statements dated December 10, 2014.
- Our responsibility for other information in documents containing the Authority's audited financial statements (e.g., Management's Discussion and Analysis) does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included and considered whether such information, or the manner of its presentation, was materially consistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- All records and information requested by BDO were freely available for our inspection.
- Management and other personnel provided full cooperation. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of Authority personnel throughout the course of our work.

Results of Our Audit

ACCOUNTING PRACTICES AND POLICIES

The Authority's significant accounting practices and policies are those included in Note 2 to the financial statements. These accounting practices and policies are appropriate, comply with generally accepted accounting principles and industry practice, were consistently applied, and are adequately described within Note 2 to the financial statements.

- There were no changes in significant accounting policies and practices during the year.

CORRECTED AND UNCORRECTED MISSTATEMENTS

There were corrected misstatements related to accounts and/or disclosures that we brought to the attention of management that might not have been detected except through the audit procedures performed.

There were no material uncorrected misstatements related to accounts and/or disclosures that we presented to management.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Authority for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the Authority’s internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Deficiency in 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.
Significant Deficiency	A deficiency or 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.
Material Weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit of the financial statements, we noted no material weaknesses.

Other Required Communications

Following is a summary of other required items, along with specific discussion points, as they pertain to the Authority:

Requirement	Discussion Points
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Planning communications.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of generally accepted accounting principles.
Disagreements with management	There were no disagreements with management on financial accounting and/or reporting matters and auditing procedures that, if not satisfactorily resolved, would cause a modification of our auditor's reports.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Other issues arising from the audit that auditor considers significant and relevant to those charged with governance	There are no other issues arising from the audit that we consider significant and relevant to those charged with governance.
Representations requested from management	Please refer to the management representation letter that is available from management.

Independence Communication

Our engagement letter to you dated March 5, 2014 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the Authority with respect to independence as agreed to by the Authority. Please refer to that letter for further information.

Significant Accounting and Reporting Matters

GASB STATEMENT NO. 68, AMENDS GASB 27 AND APPLIES TO PENSION PLANS THAT ARE QUALIFIED TRUSTS

- The Authority will be required to recognize net pension liability in full accrual statements.
- The liability will be equal to the total liability less plan net position.
- More expense will be recognized immediately than in the past.
- For modified accrual statements, the net pension liability is recognized to the extent it is liquidated with available expendable resources.
- Applies concepts of deferred inflows and outflows.
- There will be enhanced note disclosure and RSI schedules required by GASB 67.
- The pronouncement will be effective for the Authority for the year ending June 30, 2015.

GASB STATEMENT NO. 69, GOVERNMENT COMBINATIONS AND DISPOSALS OF GOVERNMENT OPERATIONS

- Applies to mergers, acquisitions or transfers of operations, but does not apply to the acquisition of another organization that continues to exist as a separate entity or acquisition of an equity interest in a separate entity.
- **Government merger** - is a combination of legally separate entities where no significant consideration is exchanged, and:
 - 1) Two or more governments cease to exist as legally separate entities and are combined to form one new government, or
 - 2) One or more legally separate governments cease to exist and their operations are absorbed into one or more continuing governments.
- **Government acquisition** - is a combination in which one government acquires another (or the operations of another) in exchange for significant consideration.
- **Transfer of operations** - is a government combination involving the operations of a government with no significant consideration exchanged.
- The pronouncement will be effective for the Authority for the year ending June 30, 2015.

GASB STATEMENT NO. 71, PENSION TRANSITION FOR CONTRIBUTIONS MADE SUBSEQUENT TO THE MEASUREMENT DATE

- The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68. *Accounting and Financial Reporting for Pensions*.
 - ✓ Issue relates to amounts associated with contributions, if any, made by a state or local government employer contributing to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.
 - ✓ This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.
- The pronouncement will be effective for the Authority for the year ending June 30, 2015.

Significant Accounting and Reporting Matters

GASB EXPOSURE DRAFTS, OTHER POSTEMPLOYMENT BENEFITS (OPEB)

- GASB has issued two exposure drafts that will require OPEB to be reported in the same manner as pensions will be reported. The Authority will be required to report their share of the net OPEB liability in full accrual statements.
- The expected effective date will be for years ending June 30, 2018.

UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS

- The Office of Management and Budget (OMB) recently issued Uniform Guidance for all entities that receive federal awards and will require the Authority to implement policy changes.
- The “Super Circular” combines OMB Circulars (A-87, A-102, A-133, etc.) into one document.
- New guidance is provided on Protected Personally Identifiable Information.
- There is a focus on internal controls that should be in compliance with the Green Book and COSO.
- There are changes to the procurement standards; there are now five methods of procurement, including a new “micro purchase” option.
- There are changes to indirect cost rates, including a 10% de minimis rate.
- Governments will be required to identify a Single Audit Accountable Official responsible for overseeing the Single Audit.
- The Single Audit threshold is increasing to \$750,000 along with other changes to audit requirements.
- The new requirements will be effective for any awards made or amended on or after December 26, 2014.
- We recommend you review the “Super Circular” to determine what changes you will need to make to policies and procedures. BDO has a resource page with links to the original document along with other useful information. The link is <http://nonprofitblog.bdo.com/index.php/resources/supercircular-resources/>.

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BDO USA, LLP is a national professional services firm providing assurance, tax, financial advisory, and consulting services to a wide range of publicly traded and privately held companies. We are guided by our core values: put people first; be exceptional: every day, every way; embrace change; empowerment through knowledge; and choose accountability.

Our culture and core values reflect how we manage our work, our relationships and ourselves.



For more than 100 years, we have provided quality service and leadership through the active involvement of our most experienced and committed professionals.

The firm serves clients through 49 offices and more than 400 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multinational clients through a global network of 1,264+ offices in 144 countries. For further information, please refer to <http://www.bdo.com>.

BDO commits significant resources to keep our professionals and our clients up to date on current and evolving technical, governance, industry, and reporting developments. Our thought leadership consists of quarterly email updates, publications, surveys, practice aids, and tools that span a broad spectrum of topics that impact financial reporting, as well as corporate governance. Our focus is not simply to announce changes in technical guidance, regulations or emerging business trends, but rather expound on how such changes may impact our clients' businesses. Through our various webinar series, we reach a broad audience and provide brief, engaging, just-in-time training that we make available in a variety of ways to meet the needs of your busy schedule. The following provides a sample of our offerings.

AC'SENSESM WEBINARS

An educational series designed to assist those charged with governance (e.g., Audit Committees) and financial executives in keeping up to date on the latest corporate governance, risk management and financial reporting developments. The program is multi-faceted and consists of complimentary CPE webinars, podcasts and archived self-study courses, covering both broad and specific topics of interest, publications and links to various BDO and external resources. Visit www.bdo.com/acsense.

BOARD REFLECTIONS

The **BDO Board Reflections** resource center includes BDO's proprietary studies, publications, practice aids, and educational programs to keep board members of both public and private companies up to date on emerging issues and trends to assist in fulfilling their corporate oversight responsibilities. The resource center contains customized information for the various committees of the board. For example, refer to our Effective Audit Committees in the Ever Changing Marketplace practical guide and related tools. Visit <http://www.bdo.com/library/boardreflections.aspx>.

Get to Know BDO

SIGNIFICANT ACCOUNTING AND REPORTING MATTERS

A quarterly digest of final and proposed financial accounting standards designed to help audit committees, boards and financial executives keep up to date on the latest corporate governance and financial reporting developments.

CLIENT ADVISORIES

Concise documents that provide timely commentary, analysis and insights on events and trends of interest to management and boards of directors.

TAX NEWSLETTERS AND ALERTS

Updates with respect to federal, state, local, expatriate, and international developments, along with other specific tax planning and strategy considerations including specific practice areas such as compensation and benefits, private client and individual filer services, transfer pricing, Foreign Account Tax Compliance Act, etc.

TECHNICAL RESEARCH TOOLS

BDO uses Accounting Research Manager™ (ARM) as a primary source of insightful interpretations on GAAP, GAAS and Securities and Exchange Commission rules. ARM is updated daily and is considered to be one of the timeliest and most comprehensive online databases of analytical interpretations of accounting, auditing and SEC matters. Access to ARM, and a number of other research tools, provides each professional the technical research capability to respond immediately to client-specific technical issues.

BDO KNOWS FLASH REPORTS

Briefs about select technical and regulatory developments and emerging issues are made immediately available to BDO professionals and to clients.

BDO KNOWS FINANCIAL REPORTING LETTERS

Publications containing more in-depth discussions and practical guidance on technical guidance affecting both public and private entities.

INDUSTRY NEWSLETTERS, ALERTS, REPORTS, PROPRIETARY STUDIES AND SURVEYS

A variety of publications depicting specific industry issues, emerging trends and developments.

Get to Know BDO

INDUSTRY EXPERIENCE

Industry experience has emerged at the top of the list of what businesses need and expect from their accountants and advisors. The power of industry experience is perspective - perspective we bring to help you best leverage your own capabilities and resources.

BDO's industry focus is part of who we are and how we serve our clients, and has been for over a century. We demonstrate our experience through knowledgeable professionals, relevant client work and participation in the industries we serve.

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