

BATTLE CREEK TAX INCREMENT
FINANCE AUTHORITY
(A Component Unit of the
City of Battle Creek, Michigan)

Year Ended
June 30, 2015

Financial
Statements and
Supplementary
Information

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BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

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INDEPENDENT AUDITORS' REPORT

December 22, 2015

To the Board of Directors of the
Battle Creek Tax Increment Finance Authority
City of Battle Creek, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the *Battle Creek Tax Increment Finance Authority, a component unit of the City of Battle Creek, Michigan* (the "Authority") as of and for the year ended June 30, 2015, 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.

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. 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 Authority'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 governmental activities and each major fund of the Authority, as of June 30, 2015, and the respective changes in financial position thereof and the budgetary comparison for the general fund 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 listed 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 Information

Our audit was conducted for the purpose of forming opinions of the financial statements that collectively comprise the Battle Creek Tax Incremental Finance Authority's basic financial statements. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Lehmann Johnson LLC". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Management's Discussion and Analysis

The Battle Creek Tax Increment Finance Authority (the "Authority") was established pursuant to Public Act 450 of 1980. The Authority is a component unit of the City of Battle Creek, Michigan, and presents this management discussion and analysis of its financial performance as an overview of financial activities for the fiscal year ended June 30, 2015.

Using this Annual Report

This 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 funds balance sheet presents information on all of the Authority's assets, liabilities and deferred inflow 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 changes in fund balances presents information showing how the Authority's net position/fund balance changed during the most recent fiscal year.
- The statement of revenues, expenditures, and changes in fund balance - budget and actual - general fund presents information showing the comparison of the Authority's actual revenues and expenditures to what was budgeted.
- 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 assets exceeded liabilities by \$33,645,775 at the end of the fiscal year, of which \$13,674,829 was the net investment in capital assets, leaving \$19,970,946 in unrestricted net position.

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Management's Discussion and Analysis

A comparative analysis of the data is presented below:

	Net Position as of June 30,	
	2015	2014
Assets		
Current and other assets	\$27,839,382	\$29,283,694
Capital assets	<u>13,674,829</u>	<u>14,146,845</u>
Total assets	<u>41,514,211</u>	<u>43,430,539</u>
Liabilities		
Other liabilities	1,485,654	1,705,785
Long-term liabilities outstanding	<u>6,382,782</u>	<u>7,589,507</u>
Total liabilities	<u>7,868,436</u>	<u>9,295,292</u>
Net position		
Net investment in capital assets	13,674,829	14,146,845
Unrestricted	<u>19,970,946</u>	<u>19,988,402</u>
Total net position	<u>\$33,645,775</u>	<u>\$34,135,247</u>

When comparing the current fiscal year to the previous fiscal year, net position decreased by \$489,472.

	Changes in Net Position for the Year Ending June 30,	
	2015	2014
Total revenues	\$ 4,428,936	\$ 7,429,897
Total expenses	<u>4,918,408</u>	<u>5,004,697</u>
Change in net position	(489,472)	2,425,200
Net position, beginning of year	<u>34,135,247</u>	<u>31,710,047</u>
Net position, end of year	<u>\$33,645,775</u>	<u>\$34,135,247</u>

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Management's Discussion and Analysis

Capital Assets

The Authority had \$13,674,829 in capital assets at the end of the fiscal year (see below). Capital assets include land, land improvements, buildings, and equipment with an original cost of more than \$10,000. Major outlays for capital assets are capitalized as projects are constructed or the assets are otherwise acquired and placed into service. Also during 2015, the Authority transferred \$431,522 of capital assets to the City.

	2015	2014
Land	\$12,675,578	\$12,675,578
Construction in progress	-	431,522
Land improvements	879,622	902,930
Buildings	76,511	91,405
Equipment	43,118	45,410
Total	\$13,674,829	\$14,146,845

Long-term Debt

At the end of the current fiscal year, the Battle Creek Tax Increment Finance Authority had total debt outstanding of \$6,382,782. General obligation bonds were issued to provide funds for the construction and acquisition of major capital assets. These bonds are outstanding with varying amounts of principal maturing until 2030.

	2015	2014
General obligation bonds		
2009 Limited tax bonds	\$ 3,020,000	\$ 3,185,000
2010 Limited tax bonds (hangar)	2,680,000	2,875,000
Revenue bonds		
1997 Development refunding	545,000	1,300,000
Economic development loan payable		
2002 Loan	149,535	242,056

Economic Factors

The Battle Creek Tax Increment Finance Authority expenses are governed by the laws of the State of Michigan and bond indenture covenants. These laws and covenants determine how bond proceeds are spent and how and when debt retirement payments are made. During 2015, total community development expenses were \$4,614,296, which included \$57,587 of depreciation and \$431,522 for transfer of assets to the City (both non-cash items).

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Management's Discussion and Analysis

Contacting the Battle Creek Tax Increment Finance Authority

This financial report is designed to provide a general overview of the Battle Creek Tax Increment Finance Authority finances and to show accountability for the money it receives and expends. The financial statements can be found on the City's web site: www.battlecreekmi.gov. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Finance Director, P.O. Box 1717, Battle Creek, MI 49016-1717.

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BASIC FINANCIAL STATEMENTS

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Statement of Net Position and Governmental Funds Balance Sheet June 30, 2015

	General	Debt Service	Pipeline Bonds
Assets			
Pooled cash and investments	\$ 2,311,616	\$ -	\$ -
Taxes receivable	329,354	-	-
Interest receivable	97,952	-	-
Prepaid items	7,125	-	-
Advance to other governments	397,540	-	-
Long-term receivables - due in more than one year	-	-	-
Capital assets not being depreciated	-	-	-
Capital assets being depreciated, net	-	-	-
Total assets	\$ 3,143,587	\$ -	\$ -
Liabilities			
Accounts payable	\$ 1,459,892	\$ -	\$ -
Accrued interest payable	-	-	-
Long-term liabilities:			
Due within one year	-	-	-
Due in more than one year	-	-	-
Total liabilities	1,459,892	-	-
Deferred inflows of resources			
Unavailable revenue - property taxes	329,354	-	-
Fund balances			
Nonspendable:			
Prepaid items	7,125	-	-
Advance to primary government	397,540	-	-
Restricted for debt service	-	-	-
Committed for capital projects	-	-	-
Unassigned	949,676	-	-
Total fund balances	1,354,341	-	-
Total liabilities, deferred inflows of resources and fund balances	\$ 3,143,587	\$ -	\$ -

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

Airport Bonds	Capital Projects	Total Governmental Funds	Adjustments	Statement of Net Position
\$ 10,336	\$ 21,140,069	\$ 23,462,021	\$ -	\$ 23,462,021
-	-	329,354	-	329,354
-	-	97,952	-	97,952
-	-	7,125	-	7,125
-	-	397,540	-	397,540
-	-	-	3,545,390	3,545,390
-	-	-	12,675,578	12,675,578
-	-	-	999,251	999,251
<u>\$ 10,336</u>	<u>\$ 21,140,069</u>	<u>\$ 24,293,992</u>	<u>17,220,219</u>	<u>41,514,211</u>
\$ -	\$ 2,753	\$ 1,462,645	-	1,462,645
-	-	-	23,009	23,009
-	-	-	1,012,402	1,012,402
-	-	-	5,370,380	5,370,380
<u>-</u>	<u>2,753</u>	<u>1,462,645</u>	<u>6,405,791</u>	<u>7,868,436</u>
-	-	329,354	(329,354)	-
-	-	7,125	(7,125)	-
-	-	397,540	(397,540)	-
10,336	-	10,336	(10,336)	-
-	21,137,316	21,137,316	(21,137,316)	-
-	-	949,676	(949,676)	-
<u>10,336</u>	<u>21,137,316</u>	<u>22,501,993</u>	<u>(22,501,993)</u>	<u>-</u>
<u>\$ 10,336</u>	<u>\$ 21,140,069</u>	<u>\$ 24,293,992</u>		
Net position				
Net investment in capital assets			13,674,829	13,674,829
Unrestricted			19,970,946	19,970,946
Total net position			<u>\$ 33,645,775</u>	<u>\$ 33,645,775</u>

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances For the Year Ended June 30, 2015

	General	Debt Service	Pipeline Bonds
Revenues			
Property taxes	\$ 4,728,500	\$ -	\$ -
Intergovernmental	261,410	-	-
Interest earnings	557,463	-	-
Rents and leases	-	-	-
Other revenues	26,303	-	-
Total revenues	5,573,676	-	-
Expenditures/expenses			
Community development	3,266,380	-	-
Debt service:			
Principal	92,521	195,000	755,000
Interest and fiscal charges	12,468	111,244	67,100
Total expenditures/expenses	3,371,369	306,244	822,100
Revenues over (under) expenditures	2,202,307	(306,244)	(822,100)
Other financing sources (uses)			
Transfers in	-	306,244	822,100
Transfers out	(1,942,113)	-	-
Total other financing sources (uses)	(1,942,113)	306,244	822,100
Change in fund balances	260,194	-	-
Change in net position	-	-	-
Fund balances/net position			
Beginning of year	1,094,147	-	-
End of year	\$ 1,354,341	\$ -	\$ -

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



Airport Bonds	Capital Projects	Total Governmental Funds	Adjustments	Statement of Net Position
\$ -	\$ -	\$ 4,728,500	\$ (920,745)	\$ 3,807,755
-	6,720	268,130	(261,410)	6,720
-	-	557,463	-	557,463
-	30,695	30,695	-	30,695
-	-	26,303	-	26,303
-	37,415	5,611,091	(1,182,155)	4,428,936
-	875,900	4,142,280	472,016	4,614,296
165,000	-	1,207,521	(1,207,521)	-
119,696	-	310,508	(6,396)	304,112
284,696	875,900	5,660,309	(741,901)	4,918,408
(284,696)	(838,485)	(49,218)	(440,254)	(489,472)
284,696	529,073	1,942,113	(1,942,113)	-
-	-	(1,942,113)	1,942,113	-
284,696	529,073	-	-	-
-	(309,412)	(49,218)	49,218	-
-	-	-	(489,472)	(489,472)
10,336	21,446,728	22,551,211	11,584,036	34,135,247
<u>\$ 10,336</u>	<u>\$ 21,137,316</u>	<u>\$ 22,501,993</u>	<u>\$ 11,143,782</u>	<u>\$ 33,645,775</u>

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2015

	Budget (Original and Final)	Actual	Actual Over (Under) Final Budget
Revenues			
Property taxes	\$ 5,003,669	\$ 4,728,500	\$ (275,169)
Intergovernmental	205,499	261,410	55,911
Interest earnings	238,417	557,463	319,046
Other revenues	69,000	26,303	(42,697)
Total revenues	<u>5,516,585</u>	<u>5,573,676</u>	<u>57,091</u>
Expenditures			
Community development	3,577,784	3,266,380	(311,404)
Debt service:			
Principal	92,521	92,521	-
Interest and fiscal charges	12,468	12,468	-
Total expenditures	<u>3,682,773</u>	<u>3,371,369</u>	<u>(311,404)</u>
Revenues over expenditures	1,833,812	2,202,307	368,495
Other financing uses			
Transfers out	(1,412,941)	(1,942,113)	529,172
Change in fund balance	420,871	260,194	(160,677)
Fund balance, beginning of year	<u>1,094,147</u>	<u>1,094,147</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,515,018</u>	<u>\$ 1,354,341</u>	<u>\$ (160,677)</u>

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

NOTES TO FINANCIAL STATEMENTS

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

These financial statements present the activities of the Battle Creek Tax Increment Finance Authority (the "Authority"). The Authority was organized pursuant to Public Act 450 of 1980. The primary purpose of the Authority is to encourage economic activity in the Fort Custer Industrial Park Development District. The Authority's activities are primarily funded through tax increment financing and bonded debt.

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

Government-wide and Fund Financial Statements

As permitted by generally accepted accounting principles, 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 funds balance sheet and the statement of activities and governmental fund revenues, expenditures and changes in fund balances. Major individual governmental funds are reported as separate columns in the aforementioned basic 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.

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Notes to Financial Statements

Property taxes 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 following major governmental funds:

- General fund
- Debt service funds:
 - Debt service fund
 - Pipeline bonds fund
 - Airport bonds fund
- Capital projects fund

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

Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital projects Funds account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Balances

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* 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* 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. 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.

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Notes to Financial Statements

Capital Assets

Capital assets, which include property and equipment, are reported in the government-wide financial statements. The Authority defines capital assets as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, if any, are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Infrastructure assets (e.g., roads, curbs, sidewalks, storm sewers and similar items), along with water and wastewater subsystems, constructed by the Authority are not recorded as the Authority's capital assets, even though the Authority may be obligated to repay the debt issued to finance the related projects. Such capital assets become the property of the City when they are placed into service and, accordingly, are reported in the City's capital assets.

The Authority's capital assets are depreciated using the straight-line method over the following estimated useful lives:

	Years
Land improvements	50
Buildings	25
Equipment	10

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to one or more future periods and will not be recognized as an outflow of resources (expense/expenditure) until then. The City has no deferred outflows of resources at year-end.

Long-term Obligations

In the government-wide financial statements, long-term debt is reported as a liability. Bond discounts, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond discount.

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Notes to Financial Statements

In the fund financial statements, governmental fund types recognize bond discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and/or governmental funds balance sheet will sometime report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arises only under a modified accrual basis of accounting, from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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. The Authority follows the City budget process in establishing the budgetary data reflected in the financial statements:

- The Authority submits a proposed budget to the City Manager. After review and approval, the City Manager submits a recommended operating budget to the City Commission. Public hearings are held to obtain taxpayer comments. The budget is legally adopted at the fund level through a City Commission resolution prior to the beginning of the budgetary year for the Authority's funds.
- The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or amended by the City Commission during the year. Individual amendments were not material in relation to the original appropriations.

For the year ended June 30, 2015, the Authority incurred general fund expenditures in excess of the amounts appropriated for other financing uses transfers out of \$529,172.

2. CASH AND INVESTMENTS

At year-end, the carrying amount of the Authority's pooled cash and investments, which were deposited entirely in the City's internal cash management pool, was \$23,462,021. Because it is infeasible to allocate risk to individual pool participants, aggregate cash and investment categorizations are presented in the City's financial statements.

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Notes to Financial Statements

3. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 12,675,578	\$ -	\$ -	\$ 12,675,578
Construction in progress	431,522	-	(431,522)	-
	<u>13,107,100</u>	<u>-</u>	<u>(431,522)</u>	<u>12,675,578</u>
Capital assets being depreciated:				
Land improvements	1,165,421	-	-	1,165,421
Buildings	315,845	-	-	315,845
Equipment	429,858	17,093	-	446,951
Total capital assets being depreciated	<u>1,911,124</u>	<u>17,093</u>	<u>-</u>	<u>1,928,217</u>
Less accumulated depreciation for:				
Land improvements	(262,491)	(23,308)	-	(285,799)
Buildings	(224,440)	(14,894)	-	(239,334)
Equipment	(384,448)	(19,385)	-	(403,833)
Total accumulated depreciation	<u>(871,379)</u>	<u>(57,587)</u>	<u>-</u>	<u>(928,966)</u>
Total capital assets being depreciated, net	<u>1,039,745</u>	<u>(40,494)</u>	<u>-</u>	<u>999,251</u>
Total capital assets, net	<u><u>\$ 14,146,845</u></u>	<u><u>\$ (40,494)</u></u>	<u><u>\$ (431,522)</u></u>	<u><u>\$ 13,674,829</u></u>

Depreciation expense in the amount of \$57,587 was reported in the community development function in the government-wide statement of activities.

During 2015, the Authority transferred \$431,522 of capital assets to the City.

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Notes to Financial Statements

4. LONG-TERM RECEIVABLE

During the year ended June 30, 2008, the Authority approved a loan to the Battle Creek Brownfield Redevelopment Authority (BCBRA; a component unit of the City of Battle Creek) in the total amount of \$3,530,000 to be used in accordance with a particular brownfield plan. As of June 30, 2015, \$2,560,708 had been drawn on the authorized amount (no amount was drawn during the current year) and is included in the long-term receivable reported in the statement of net position. Future repayment from the BCBRA is based on its collection of tax increment revenues.

During the year ended June 30, 2010, the Authority approved a loan to the BCBRA in the total amount of \$5,500,000 to be used in accordance with another particular brownfield plan. As of June 30, 2015, \$2,303,513 had been drawn on the authorized amount and is also included in the long-term receivable reported in the statement of net position. Future repayment of this loan by the BCBRA is based on its collection of tax increment revenues.

Each of the above loans includes interest at 5% per annum. The total amount drawn by BCBRA on the loans through June 30, 2015 is \$4,864,221. As of June 30, 2015, \$1,318,831 (\$261,410 in the current year) has been paid on the loans resulting in a net balance of \$3,545,390 at June 30, 2015.

5. LONG-TERM DEBT

Following is a summary of the Authority's debt outstanding as of June 30, 2015:

	Interest Rate	Date of Maturity	Outstanding Principal
General Obligation Bonds			
2009 Limited tax bonds	3.00 - 4.30%	12/1/2028	\$ 3,020,000
2010 Limited tax bonds (hangar)	2.00 - 4.75%	6/1/2030	2,680,000
Revenue Bonds			
1997 Development refunding	5.00 - 5.25%	5/1/2016	545,000
Economic Development Loan Payable			
2002 Loan	6.00%	12/31/2016	<u>149,535</u>
			<u><u>\$ 6,394,535</u></u>

All debt is related to infrastructure or other capital assets for which the Authority does not hold title or ownership rights.

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Notes to Financial Statements

Annual debt service requirements to maturity for the Authority's debt are as follows:

	Principal	Interest
2016	\$ 1,013,198	\$ 253,105
2017	431,337	210,048
2018	395,000	196,903
2019	410,000	183,787
2020	325,000	169,316
2021-2025	1,835,000	645,378
2026-2030	1,985,000	226,417
	<u>\$ 6,394,535</u>	<u>\$ 1,884,954</u>

Changes in Long-term Debt. Long-term liability activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 6,060,000	\$ -	\$ (360,000)	\$ 5,700,000	\$ 370,000
Revenue bonds	1,300,000	-	(755,000)	545,000	545,000
Loans payable	242,056	-	(92,521)	149,535	98,198
Less bond issuance discounts	(12,549)	-	796	(11,753)	(796)
	<u>\$ 7,589,507</u>	<u>\$ -</u>	<u>\$ (1,206,725)</u>	<u>\$ 6,382,782</u>	<u>\$ 1,012,402</u>

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Notes to Financial Statements

6. PROPERTY TAXES

Property tax revenue is derived pursuant to a tax increment financing agreement between the Authority and various applicable taxing districts. Real and personal property taxes are levied and attach as an enforceable lien on properties located within the boundaries of the tax increment financing district. The City of Battle Creek bills and collects the taxes on behalf of the Authority. Delinquent taxes on ad valorem real property are purchased by Calhoun County. Property tax revenue is recognized when levied in the government-wide financial statements and in the fund financial statements to the extent that it results in current receivables.

Except for property taxes captured from local schools that exceed contractual obligations, the Authority is entitled to all taxes levied on property within the Battle Creek Tax Increment Finance Authority district to the extent that the current taxable value exceeds the base year taxable value. Renaissance zone property is tax abated property against which property taxes are not currently levied, but in the near future will return or revert to the ad valorem tax rolls. Similarly, industrial and commercial facility tax properties are abated personal property that receive up to a 50% reduction in the millage rate for a stated number of years as approved by the City of Battle Creek (or applicable taxing jurisdiction).

The captured increments in taxable value for the 2014 levy are summarized as follows:

Ad valorem property	\$111,954,535
IFT*/CFT**/ Other property	<u>128,766,432</u>
Total	<u><u>\$240,720,967</u></u>

* Industrial Facility Tax

** Commercial Facility Tax

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Notes to Financial Statements

7. ADJUSTMENTS

Following is an explanation of the adjustments between the governmental funds balance sheet and government-wide statement of net position, reconciling fund balances to net position:

Fund balances	\$ 22,501,993
Adjustments:	
Capital assets and long-term receivables are not current financial resources and therefore are not reported in the governmental funds:	
Property and equipment	14,603,795
Accumulated depreciation	(928,966)
Long-term receivables	3,545,390
Certain receivables are offset by deferred inflows in the governmental funds, and thus are not included in fund balance:	
Unavailable taxes receivable	329,354
Bonds payable and other long-term obligations are not due and payable in the current period and therefore not reported in the governmental funds:	(6,382,782)
Accrued interest payable on bonds is not recorded by governmental funds	<u>(23,009)</u>
Net position	<u><u>\$ 33,645,775</u></u>

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Notes to Financial Statements

Following is an explanation of the adjustments between the governmental funds statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities, which reconciles the net change in fund balances to the change in net position:

Net change in fund balances	\$ (49,218)
Adjustments:	
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Principal payments on long-term liabilities	1,207,521
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense	
Capital outlay expenditures	17,093
Depreciation expense	(57,587)
Loss on disposal/transfer of assets	(431,522)
Governmental funds report loans to other component units of the reporting entity as expenditure; however, in the statement of activities, those costs are eliminated and capitalized as long-term receivables:	
Amounts repaid on loans	(261,410)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in unavailable taxes receivable	(920,745)
The change in accrued interest expense on long-term obligations is not recorded by governmental funds but is reported under interest and fiscal charges for purpose of determining net position	
	<u>6,396</u>
Change in net position	<u>\$ (489,472)</u>

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Notes to Financial Statements

8. CONTINGENCIES

The Authority is currently involved in various tax appeals pending before the Michigan Tax Tribunal. The appeals cover various commercial and industrial properties for 2015. Due to the large number of appeals currently before the Tribunal, the time frame for resolution of these matters is unknown at this time. An estimate of the Authority's maximum exposure is approximately \$5.03 million in taxable value. The City is vigorously defending all litigation.



SUPPLEMENTARY INFORMATION

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Continuing Bond Disclosures (Unaudited)

1. State Equalized Value (SEV) and Taxable Value (TV) of Ad Valorem Tax Roll

Assessed Value as of December 31	Year of Tax Levy	Fiscal Year Ended June 30	Ad Valorem SEV		Ad Valorem TV	
			Amount	% Change	Amount	% Change
2013	2014	2015	\$ 136,121,530	1.73%	\$ 136,027,637	1.77%
2012	2013	2014	133,808,353	-6.63%	133,662,882	-6.42%
2011	2012	2013	143,315,610	2.04%	142,831,246	2.09%
2010	2011	2012	140,456,959	-6.35%	139,913,722	-6.26%
2009	2010	2011	149,976,594	-3.71%	149,264,563	-3.70%
2008	2009	2010	155,759,428	-4.05%	154,998,062	-3.70%
2007	2008	2009	162,330,340	-7.95%	160,953,906	-7.89%
2006	2007	2008	176,342,568	-0.47%	174,739,010	-0.36%
2005	2006	2007	177,171,368	4.82%	175,368,234	4.93%
2004	2005	2006	169,024,580	-3.19%	167,122,598	-3.01%

2. Taxable Value (TV) of Ad Valorem Tax Roll by Use

Fiscal Year Ended June 30	Commercial	Industrial	Total
2015	\$12,741,620	\$ 123,286,017	\$ 136,027,637
2014	15,134,007	118,528,875	133,662,882
2013	16,765,363	126,065,883	142,831,246
2012	15,558,198	124,355,524	139,913,722
2011	14,226,748	135,037,815	149,264,563
2010	8,633,075	146,364,987	154,998,062
2009	7,203,220	153,750,686	160,953,906
2008	7,434,568	167,304,442	174,739,010
2007	8,147,660	167,220,574	175,368,234
2006	8,664,241	158,458,357	167,122,598

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BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Continuing Bond Disclosures (Unaudited)

3. Taxable Value (TV) of Ad Valorem Tax Roll by Class

Fiscal Year Ended June 30	Real	Personal	Total
2015	\$54,665,855	\$ 81,361,782	\$ 136,027,637
2014	53,835,599	79,827,283	133,662,882
2013	56,813,866	86,017,380	142,831,246
2012	57,040,919	82,872,803	139,913,722
2011	61,672,808	87,591,755	149,264,563
2010	64,145,081	90,852,981	154,998,062
2009	67,056,450	93,897,456	160,953,906
2008	66,442,878	108,296,132	174,739,010
2007	65,967,408	109,400,826	175,368,234
2006	63,045,638	104,076,960	167,122,598

4. Taxable Value (TV) of the Industrial Facilities Tax Roll by Class

Fiscal Year Ended June 30	Real	Personal	Total
2015	\$19,304,922	\$ 111,027,139	\$ 130,332,061
2014	26,064,354	98,794,626	124,858,980
2013	28,196,419	115,284,126	143,480,545
2012	26,521,613	121,779,255	148,300,868
2011	25,959,973	128,444,334	154,404,307
2010	24,162,493	145,800,236	169,962,729
2009	22,643,563	162,485,937	185,129,500
2008	25,291,868	122,587,672	147,879,540
2007	23,161,715	110,748,687	133,910,402
2006	23,242,752	108,911,603	132,154,355

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BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Continuing Bond Disclosures (Unaudited)

5. Property Tax Collections

Fiscal Year Ended June 30	Taxes Levied	Collections to March 1	MBT Reimbursement	Total Collected
2015	\$ 4,896,858	\$ 4,896,858	\$ -	\$ 4,896,858
2014	4,713,335	4,713,335	644,265	5,357,600
2013	5,002,634	5,002,634	837,365	5,839,999
2012	5,509,155	5,509,155	2,604,869	8,114,024
2011	5,622,324	5,622,324	3,860,229	9,482,553
2010	6,372,819	6,372,819	4,156,853	10,529,672
2009	6,548,404	6,546,758	3,452,900	9,999,658
2008	10,760,561	10,591,596	-	10,591,596
2007	10,369,259	10,171,550	-	10,171,550
2006	9,998,865	9,881,842	-	9,881,842

Note - 2009 levied and collections to March 1 amounts are lower than prior year due to industrial and commercial exemptions per legislative action.

6. Captured Property Tax Rates (per \$1,000 of value)

Fiscal Year Ended June 30	City	B.C. & ISD Schools	County	State Education Tax	Willard Library
2015	12.9980	20.7327	4.0334	6.0000	-
2014	13.3390	20.7327	4.0334	6.0000	-
2013	13.6180	20.7327	4.0334	6.0000	-
2012	13.6790	20.7327	4.0334	6.0000	-
2011	13.6790	20.7794	4.0334	6.0000	-
2010	13.7490	20.7794	4.0334	6.0000	-
2009	13.7850	20.7793	4.0334	6.0000	-
2008	13.8900	20.7792	4.0334	6.0000	-
2007	13.9210	20.7792	4.0334	6.0000	-
2006	11.2300	20.7792	4.3080	6.0000	2.0000

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BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Continuing Bond Disclosures (Unaudited)

7. Taxable Value of Twenty Largest Ad Valorem Taxpayers (Fiscal Year Ended June 30, 2015)

Taxpayer	Product or Service	Taxable Value	% of Taxable Value
1 Denso Manufacturing	Automotive parts	\$ 25,158,454	18.50%
2 TRMI, Inc.	Automotive parts	15,151,448	11.14%
3 Musashi Auto Parts	Automotive parts	14,685,382	10.80%
4 Systex Products Corp.	Plastic manufacturer	5,513,769	4.05%
5 Il Stanley Co., Inc.	Automotive parts	4,987,163	3.67%
6 ASMO Manufacturing	Automotive parts	4,678,440	3.44%
7 EPI Printers, Inc.	Printing	3,385,741	2.49%
8 Hi-Lex Corp.	Automotive parts	3,322,944	2.44%
9 Agracel, Inc.	Industrial developer	3,245,773	2.39%
10 Toyota Tsusho America, Inc.	Automotive parts	3,118,028	2.29%
11 VIB Inc.	Industrial Printing	2,855,869	2.10%
12 Denso Air Systems Michigan, Inc.	Automotive parts	2,775,946	2.04%
13 Marley Precision, Inc.	Automotive parts	2,547,880	1.87%
14 Clyde Union, Inc.	Automotive parts	2,034,751	1.50%
15 Union Pump	Pump manufacturer	1,933,973	1.42%
16 Yorozu Automotive	Automotive parts	1,798,840	1.32%
17 Advanced Special Tools, Inc.	Specialty tools	1,759,914	1.29%
18 Johnson Control	Automotive parts	1,720,281	1.26%
19 Lotte USA, Inc.	Automotive parts	1,666,356	1.23%
20 Duncan Aviation Inc.	Aviation	1,479,499	1.09%
		<u>\$ 103,820,451</u>	<u>76.33%</u>

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BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Continuing Bond Disclosures (Unaudited)

8. Taxable Value of Twenty Largest IFT Taxpayers (Fiscal Year Ended June 30, 2015)

Taxpayer	Product or Service	Taxable Value	% of Taxable Value
1 Denso Manufacturing Michigan, Inc.	Automotive parts	\$ 55,128,256	42.30%
2 Musashi Auto Parts	Automotive parts	21,450,083	16.46%
3 Il Stanley Company, Inc.	Automotive parts	12,431,504	9.54%
4 TRMI, Inc.	Electronic switches	7,083,814	5.44%
5 Dieomatic, Inc.	Solar panel manufacturer	5,535,820	4.25%
6 Toda America, Inc.	Automotive parts	4,987,256	3.83%
7 Prairie Farms Dairy, Inc.	Dairy products	4,359,132	3.34%
8 Roesler Metal Finishing	Metal finishing	2,953,355	2.27%
9 Geislinger Corp.	Molded parts	2,595,558	1.99%
10 System Products Corp.	Plastic moldings	1,744,068	1.34%
11 Bleistahl North America LP	Automotive parts	1,410,907	1.08%
12 Hi-Lex Corp	Automotive parts	1,286,747	0.99%
13 Marley Precision Inc.	Automotive components	1,255,632	0.96%
14 Kellogg Company	Breakfast Foods	1,056,911	0.81%
15 EPI Printers, Inc.	Printing	995,676	0.76%
16 Denso Air Systems Michigan, Inc.	Automotive parts	959,572	0.74%
17 Advanced Special Tools, Inc.	Specialty tools	928,992	0.71%
18 Pyper Products	Plastic injection molding	886,624	0.68%
19 Advanced Plastic Manufacturing, Inc.	Specialty tools	652,745	0.50%
20 Franklin Iron & Metal Co, Inc.	Scrap recycling	238,429	0.18%
		<u>\$ 127,941,081</u>	<u>98.17%</u>

concluded.