

BATTLE CREEK DOWNTOWN
DEVELOPMENT AUTHORITY
(A Component Unit of the
City of Battle Creek, Michigan)

Year Ended
June 30, 2017

Financial
Statements and
Supplementary
Information

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BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

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INDEPENDENT AUDITORS' REPORT

December 22, 2017

To the Board of Directors of the
Battle Creek Downtown Development Authority
City of Battle Creek, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the *Battle Creek Downtown Development Authority, a component unit of the City of Battle Creek, Michigan* (the "Authority") 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.

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, the business-type activities, and each major fund of the Authority, as of June 30, 2017, and the respective changes in financial position and cash flows, where applicable, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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 Downtown Development Authority's basic financial statements. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedules have 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 them.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

The Battle Creek Downtown Development Authority (the "Authority") was established March 6, 1979 pursuant to Public Act 197 of 1975. 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, 2017.

Using this Annual Report

This discussion and analysis is intended to serve as an introduction to some of the Authority's basic financial statements. The basic financial statements include the following (among others):

- The statement of net position presents information on all of the Authority's assets, deferred outflows of resources, and liabilities with the difference 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.
- The statement of revenues, expenditures and changes in fund balances - 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 liabilities exceeded its assets and deferred outflows of resources by \$30,627,826 at the end of the fiscal year, of which \$1,255,012 was restricted for loan commitments and lending activities. That leaves a deficit balance of \$31,882,838 in unrestricted net position.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

A comparative analysis of the data is presented below:

	Net Position					
	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Other assets	\$ 305,402	\$ 295,934	\$ 1,455,008	\$ 1,466,443	\$ 1,760,410	\$ 1,762,377
Deferred outflows of resources						
Deferred charge on refunding	2,067,774	1,206,272	-	-	2,067,774	1,206,272
Liabilities						
Other liabilities	300,694	503,804	199,996	199,996	500,690	703,800
Long-term debt	33,955,320	33,882,384	-	-	33,955,320	33,882,384
Total liabilities	34,256,014	34,386,188	199,996	199,996	34,456,010	34,586,184
Net position						
Restricted for loan commitments and lending activity	-	-	1,255,012	1,266,447	1,255,012	1,266,447
Unrestricted (deficit)	(31,882,838)	(32,883,982)	-	-	(31,882,838)	(32,883,982)
Total net position	\$ (31,882,838)	\$ (32,883,982)	\$ 1,255,012	\$ 1,266,447	\$ (30,627,826)	\$ (31,617,535)

When comparing the current fiscal year to the previous fiscal year, net position has increased by \$989,709.

	Change in Net Position					
	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Charges for services	\$ -	\$ -	\$ 4,595	\$ 29,687	\$ 4,595	\$ 29,687
Operating grants and contributions	1,670,097	-	14,875	-	1,684,972	-
General revenues:						
Property taxes	1,373,282	5,026,214	-	-	1,373,282	5,026,214
Rents and leases	45,138	-	-	-	45,138	-
Unrestricted investment earnings	5,017	43,298	3,443	-	8,460	43,298
Total revenues	3,093,534	5,069,512	22,913	29,687	3,116,447	5,099,199
Total expenses	2,092,390	2,350,451	34,348	191,315	2,126,738	2,541,766
Change in net position	1,001,144	2,719,061	(11,435)	(161,628)	989,709	2,557,433
Net position, beginning of year,	(32,883,982)	(35,603,043)	1,266,447	1,428,075	(31,617,535)	(34,174,968)
Net position, end of year	\$ (31,882,838)	\$ (32,883,982)	\$ 1,255,012	\$ 1,266,447	\$ (30,627,826)	\$ (31,617,535)

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

Total revenues decreased by \$2.03 million in the current fiscal year primarily as a result of a decrease in property tax revenues due to capture loss from a tax appeal settlement that resulted in a reduction in taxable value.

Long-term Debt

At the end of the current fiscal year, the Battle Creek Downtown Development Authority had total debt outstanding of \$33,245,000, along with \$710,320 of unamortized bond issuance premiums.

Economic Factors

Battle Creek Downtown Development Authority's 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 2017, community development expenses were \$364,234, which included support for the Kellogg Arena, downtown economic development costs, and administrative expenses.

Contacting the Battle Creek Downtown Development Authority

This financial report is designed to provide a general overview of the Battle Creek Downtown Development Authority's finances and to show accountability for the money it receives and expends. The financial statements are available on the City's website: 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.

BASIC FINANCIAL STATEMENTS

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BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Net Position

June 30, 2017

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 5,785	\$ 27,226	\$ 33,011
Investments	-	1,099,065	1,099,065
Accounts receivable	201,390	59,284	260,674
Taxes receivable	60,495	-	60,495
Interest receivable	35,232	1,732	36,964
Prepaid items	2,500	-	2,500
Loans receivable, net:			
Due within one year	-	106,637	106,637
Due in more than one year	-	161,064	161,064
Total assets	305,402	1,455,008	1,760,410
Deferred outflows of resources			
Deferred charge on refunding	2,067,774	-	2,067,774
Liabilities			
Accounts payable and accrued liabilities	71,294	199,996	271,290
Accrued interest payable	227,425	-	227,425
Unearned revenue	1,975	-	1,975
Long-term debt:			
Due within one year	1,327,064	-	1,327,064
Due in more than one year	32,628,256	-	32,628,256
Total liabilities	34,256,014	199,996	34,456,010
Net position			
Restricted for loan commitments and lending activity	-	1,255,012	1,255,012
Unrestricted (deficit)	(31,882,838)	-	(31,882,838)
Total net position	\$ (31,882,838)	\$ 1,255,012	\$ (30,627,826)

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

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Activities

For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Community development	\$ 364,372	\$ -	\$ 1,670,097	\$ 1,305,725
Interest on long-term debt	1,728,018	-	-	(1,728,018)
Total governmental activities	2,092,390	-	1,670,097	(422,293)
Business-type activities				
Revolving loans	34,348	4,595	14,875	(14,878)
Total	\$ 2,126,738	\$ 4,595	\$ 1,684,972	\$ (437,171)

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BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Activities

For the Year Ended June 30, 2017

	Governmental Activities	Business-type Activities	Total
Changes in net position			
Net expense	\$ (422,293)	\$ (14,878)	\$ (437,171)
General revenues:			
Property taxes	1,373,282	-	1,373,282
Rents and leases	45,138	-	45,138
Unrestricted investment earnings	5,017	3,443	8,460
Total general revenues	1,423,437	3,443	1,426,880
Change in net position	1,001,144	(11,435)	989,709
Net position, beginning of year	(32,883,982)	1,266,447	(31,617,535)
Net position, end of year	\$ (31,882,838)	\$ 1,255,012	\$ (30,627,826)

concluded.

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

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Balance Sheet Governmental Funds June 30, 2017

	General	Pipeline Bonds Debt Service	Total Governmental Funds
Assets			
Pooled cash and investments	\$ -	\$ 5,785	\$ 5,785
Accounts receivable	201,390	-	201,390
Taxes receivable	60,495	-	60,495
Interest receivable	35,232	-	35,232
Prepaid items	2,500	-	2,500
Total assets	\$ 299,617	\$ 5,785	\$ 305,402
Liabilities			
Accounts payable	\$ 71,294	\$ -	\$ 71,294
Unearned revenue	1,975	-	1,975
Total liabilities	73,269	-	73,269
Deferred inflows of resources			
Unavailable revenue - property taxes	60,495	-	60,495
Fund balances			
Nonspendable	2,500	-	2,500
Restricted for debt service	-	5,785	5,785
Unassigned	163,353	-	163,353
Total fund balances	165,853	5,785	171,638
Total liabilities, deferred inflows of resources and fund balances	\$ 299,617	\$ 5,785	\$ 305,402

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

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
June 30, 2017

Fund balances - total governmental funds	\$	171,638
Amounts reported for governmental activities in the statement of net position are different because:		
Deferred charges on refunding are not reported in the governmental funds, whereas they are capitalized and amortized for statement of net position.		2,067,774
The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows of resources in the governmental funds, and thus are not included in fund balance.		
Unavailable taxes receivable		60,495
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds payable		(33,245,000)
Accrued interest on bonds		(227,425)
Unamortized bond premium		<u>(710,320)</u>
Net position of governmental activities	\$	<u><u>(31,882,838)</u></u>

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

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2017

	General	Pipeline Bonds Debt Service	Total Governmental Funds
Revenues			
Property taxes	\$ 1,370,598	\$ -	\$ 1,370,598
Intergovernmental	1,670,097	-	1,670,097
Interest	5,017	-	5,017
Rents and leases	45,138	-	45,138
Total revenues	3,090,850	-	3,090,850
Expenditures			
Community and economic development	364,372	-	364,372
Debt service:			
Principal	-	1,345,000	1,345,000
Interest and fiscal charges	-	1,574,113	1,574,113
Total expenditures	364,372	2,919,113	3,283,485
Revenue over (under) expenditures	2,726,478	(2,919,113)	(192,635)
Other financing sources (uses)			
Issuance of refunding debt	-	22,260,000	22,260,000
Payment to refunding bond escrow agent	-	(21,905,297)	(21,905,297)
Transfers in	-	2,569,589	2,569,589
Transfers out	(2,569,589)	-	(2,569,589)
Total other financing sources (uses)	(2,569,589)	2,924,292	354,703
Net change in fund balances	156,889	5,179	162,068
Fund balances, beginning of year	8,964	606	9,570
Fund balances, end of year	\$ 165,853	\$ 5,785	\$ 171,638

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

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2017

Net change in fund balances - total governmental funds	\$ 162,068
Amounts reported for governmental activities in the statement of activities are different because:	
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term debt in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of net position.	
Principal payments on long-term debt	1,345,000
Proceeds from issuance of refunding bond	(22,260,000)
Payment to refunding bond escrow agent	21,905,297
Amortization of deferred charge on refunding	(343,795)
Amortization of bond issuance premium	142,064
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	2,684
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Change in accrued interest payable on bonds	<u>47,826</u>
Change in net position of governmental activities	<u><u>\$ 1,001,144</u></u>

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

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 3,271,322	\$ 1,331,646	\$ 1,370,598	\$ 38,952
Intergovernmental	1,572,109	1,670,097	1,670,097	-
Interest	5,000	500	5,017	4,517
Rents and leases	48,700	45,138	45,138	-
Total revenues	4,897,131	3,047,381	3,090,850	43,469
Expenditures				
Community development	145,631	366,050	364,372	(1,678)
Revenues over expenditures	4,751,500	2,681,331	2,726,478	45,147
Other financing uses				
Transfers out	(4,751,500)	(2,571,089)	(2,569,589)	(1,500)
Net change in fund balance	-	110,242	156,889	46,647
Fund balance, beginning of year	8,964	8,964	8,964	-
Fund balance, end of year	\$ 8,964	\$ 119,206	\$ 165,853	\$ 46,647

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

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Net Position

Revolving Loan Enterprise Fund

June 30, 2017

Assets

Current assets:

Cash and cash equivalents	\$ 27,226
Investments	1,099,065
Accounts receivable	59,284
Interest receivable	1,732
Current portion of loans receivable, net	<u>106,637</u>
Total current assets	<u>1,293,944</u>

Noncurrent assets -

Loans receivable, net of current portion	<u>161,064</u>
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Total assets 1,455,008

Liabilities, all current

Accounts payable	<u>199,996</u>
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Net position

Restricted for loan commitments and lending activity	<u><u>\$ 1,255,012</u></u>
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The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Revenues, Expenses and Changes in Fund Net Position

Revolving Loan Enterprise Fund

For the Year Ended June 30, 2017

Operating revenues	
Charges for services	\$ 4,595
Loan loss recovery	14,875
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Total operating revenues	19,470
Operating expenses	
Professional services	34,348
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Operating loss	(14,878)
Nonoperating revenues	
Investment earnings	3,443
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Change in net position	(11,435)
Net position, beginning of year	1,266,447
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Net position, end of year	\$ 1,255,012
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The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Cash Flows

Revolving Loan Enterprise Fund
For the Year Ended June 30, 2017

Cash flows from operating activities	
Loans collected from borrowers	\$ 19,833
Interest and fees on loans	4,691
Payments from Battle Creek Unlimited, Inc.	798
Administrative and other expenses paid	<u>(34,348)</u>
Net cash used in operating activities	<u>(9,026)</u>
Cash flows from investing activities	
Purchase of investments	(481,795)
Proceeds from sale of investments	201,488
Investment income received	<u>3,443</u>
Net cash used in investing activities	<u>(276,864)</u>
Net change in cash and cash equivalents	(285,890)
Cash and cash equivalents, beginning of year	<u>313,116</u>
Cash and cash equivalents, end of year	<u>\$ 27,226</u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (14,878)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Changes in assets and liabilities:	
Accounts receivable	798
Interest receivable	96
Loans receivable	<u>4,958</u>
Net cash used in operating activities	<u>\$ (9,026)</u>

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

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NOTES TO FINANCIAL STATEMENTS

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

These financial statements present the activities of the Battle Creek Downtown Development Authority (the "Authority"). The Authority was established March 6, 1979 pursuant to Public Act 197 of 1975. The primary purpose of the Authority is to revitalize and encourage economic activity in the downtown business district. The Authority's activities are primarily funded through tax increment financing, bonded debt and revolving loans.

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

The statements of net position and activities display information about the financial activities of the Authority. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the Authority's governmental and business-type activities. Governmental activities generally are financed through taxes and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for revolving loans.

The statement of activities presents a comparison between direct expenses and program revenues for the business-type activity of the Authority and for each function of the Authority's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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.

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. Property taxes and interest are considered to be susceptible to accrual. 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 DOWNTOWN DEVELOPMENT AUTHORITY

Notes to Financial Statements

The Authority reports the following major governmental funds:

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.

The *pipeline bonds debt service fund* is used to account for and report financial resources that are restricted or committed to expenditure for principal and interest.

The Authority reports the following major enterprise fund -

The *revolving loan enterprise fund* is used to account for loans made to local businesses.

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. The Authority currently has no assigned fund balance as the Board has not yet given authority for the making of such assignments; assigned fund balances are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund.

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

Capital Assets

The Authority has no capital assets for which it holds legal ownership. Infrastructure assets (e.g., roads, bridges, 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.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes to Financial Statements

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 government only has one item that qualifies for reporting in this category, which is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Long-term Obligations

In the government-wide financial statements, long-term debt is reported as a liability. Bond discounts 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.

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. The budget is legally adopted 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.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes to Financial Statements

2. CASH AND INVESTMENTS

The Authority’s cash and cash equivalents are considered to be cash on hand, demand deposits, short-term investments with original maturities of three months or less from the date of acquisition, and deposits in the City’s cash and investment pool.

State statutes authorize the Authority to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments. The Authority and City’s investment policies follow the State’s guidelines.

At year-end, the carrying amount of the Authority’s deposits in the City’s internal cash management pool was \$5,785. Because it is infeasible to allocate risk to individual component units or pool participants, aggregate cash and investment categorizations are presented in the City’s basic financial statements.

The Authority’s remaining deposits and investments, which are entirely recorded in the revolving loan fund (business-type activity), include the following:

Deposits	\$ 27,226
Investments	<u>1,099,065</u>
Total	<u>\$ 1,126,291</u>

Deposits

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure the Authority’s deposits may not be returned to it. As of June 30, 2017, the carrying amounts of the Authority’s deposits were \$27,226 and the bank balance was \$27,226. The full amount is FDIC insured.

Investments

At year end, the revolving loan fund’s investment balances were as follows:

	Fair Value	Rating
U.S. agencies	\$ 447,279	AA+ S&P
Municipal bonds	565,000	A- S&P
Money market funds	<u>86,786</u>	AAA S&P
	<u>\$ 1,099,065</u>	

Custodial Credit Risk - Investments. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the revolving loan fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Although uninsured and unregistered, the revolving loan fund investments are not exposed to custodial credit risk since the securities are held by the counterparty’s trust department in the revolving loan fund’s name.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes to Financial Statements

Concentration of Credit Risk. At June 30, 2017, the investment portfolio of the revolving loan fund was concentrated as follows:

Investment Type	Issuer	% of Portfolio
U.S. agencies	Federal National Mortgage Association	17.13%
	Federal Home Loan Mortgage Corporation	21.31%
	Government National Mortgage Association	2.25%
Municipal bonds	Michigan Municipal Bond Authority	51.41%
Money market funds	Fifth Third Securities	7.90%

Interest Rate Risk. As of June 30, 2017, the maturities of the revolving loan fund's investments were as follows:

Investment Type	Fair Value	Investments Maturities (fair value by years)			
		Less Than 1 Year	1-5 Years	6-10	More Than 10
U.S. agencies	\$ 447,279	\$ -	\$ -	\$ -	\$ 447,279
Municipal bonds	565,000	-	-	160,000	405,000
Money market funds	86,786	86,786	-	-	-
	<u>\$ 1,099,065</u>	<u>\$ 86,786</u>	<u>\$ -</u>	<u>\$ 160,000</u>	<u>\$ 852,279</u>

Fair Value. The revolving loan fund 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. These levels are determined by the revolving loan fund's investment manager, and are determined at the fund level based on a review of the investment's class, structure, and what kind of securities are held in funds. The investment manager will request the information from the fund manager, if necessary.

The revolving loan fund's recurring fair value measurements as of June 30, 2017 were related to its investments in government agency funds, municipal bonds, and money market funds. The investments in government agency funds and municipal bonds are valued using significant other observable inputs of the underlying securities and bonds (Level 2 inputs). The money market funds are valued using quoted prices in active markets (Level 1 inputs).

3. LOANS RECEIVABLE

The details of loans receivable outstanding as of June 30, 2017 are as follows:

Total loans outstanding	\$ 347,679
Less allowance for loan losses	<u>(79,978)</u>
Net loans outstanding	<u>\$ 267,701</u>

Of this amount, \$106,637 is expected to be collected within one year.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes to Financial Statements

4. TRANSFERS

For the year ended June 30, 2017, interfund transfers are summarized as follows:

Transfers In	Transfers Out
	General
Pipeline bonds debt service	<u>\$ 2,569,589</u>

Transfers into the debt service fund are used to move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due.

5. LONG-TERM DEBT

Following is a summary of the Authority's debt outstanding as of June 30, 2017:

	Interest Rate	Date of Maturity	Outstanding Principal
Limited tax general obligation bonds			
2008 downtown development refunding	5.0%	5/1/2022	\$ 7,310,000
2013 downtown development refunding	5.0%	5/1/2025	3,675,000
2017 downtown development refunding	2.836% - 3.984%	5/1/2034	<u>22,260,000</u>
Total limited tax general obligation bonds			<u>\$ 33,245,000</u>

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

Year Ending June 30,	Authority Obligation	
	Principal	Interest
2018	\$ 1,185,000	\$ 1,364,547
2019	1,340,000	1,305,297
2020	1,505,000	1,238,297
2021	1,590,000	1,163,047
2022	1,690,000	1,083,547
2023-2027	9,445,000	4,229,317
2028-2032	11,330,000	2,340,229
2033-2034	<u>5,160,000</u>	<u>309,088</u>
	<u>\$ 33,245,000</u>	<u>\$ 13,033,369</u>

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes to Financial Statements

Refunded Debt

During fiscal year 2017, the City issued \$22,260,000 of refunding bonds to partially advance refund \$20,700,000 of the 2008 downtown development refunding bonds to provide resources to purchase U.S. government securities that were placed in an irrevocable trust to generate resources for all future debt service payments. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities. The refunding resulted in a net loss of \$8,969,704 and an economic loss of \$437,880. The dissaving was allowed due to a decline in value and projected substantial use of fund balance. The refunding extends the year of maturity which in turn decreases the debt service expenditures in the near future.

Changes in Long-term Debt

Long-term liability activity for the year ended June 30, 2017, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 33,030,000	\$ 22,260,000	\$ (22,045,000)	\$ 33,245,000	\$ 1,185,000
Issuance premiums	852,384	-	(142,064)	710,320	142,064
	<u>\$ 33,882,384</u>	<u>\$ 22,260,000</u>	<u>\$ (22,187,064)</u>	<u>\$ 33,955,320</u>	<u>\$ 1,327,064</u>

6. PROPERTY TAXES

Property tax revenue is derived pursuant to a tax increment financing agreement between the Authority and 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 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 Downtown Development Authority district to the extent that the current taxable value exceeds the base year taxable value. The base year of initial properties was 1979, the inception date of the Authority. The base year on other properties is determined by the date of entry into the district; the Authority district was expanded in 1985, 1987 and 1993, and was reduced in 2000.

Renaissance zone property is tax abated property against which property taxes are not currently levied, but in the near future may 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, Michigan (or applicable taxing jurisdiction).

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes to Financial Statements

The captured increments in taxable value for the 2016 levy are summarized below:

Ad valorem property	\$ 44,817,899
IFT* / CFT** / other property	<u>4,756,765</u>
Total	<u>\$ 49,574,664</u>

* IFT - Industrial Facility Tax

** CFT - Commercial Facility Tax

7. 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 2017. 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 \$1.05 million in taxable value. The City and Authority are vigorously defending all litigation.

The Authority has filed various tax increment capture and personal property tax exemption loss forms with the Michigan Department of Treasury for their review and have received reimbursement. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. Any amounts which may be adjusted by the Department of Treasury cannot be determined at this time although the government expects such amounts, if any, to be immaterial.



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SUPPLEMENTARY INFORMATION

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Continuing Bond Disclosures (Unaudited)

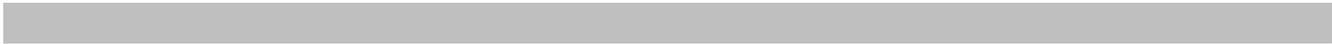
1. State Equalized Value (SEV) and Taxable Value (TV) of Ad Valorem Tax Roll

Assessed Value as of	Year of Tax Levy	Fiscal Year Ended	Ad Valorem SEV	
			December 31,	June 30,
			Amount	% Change
2015	2016	2017	\$ 210,078,194	-31.80%
2014	2015	2016	308,053,399	0.69%
2013	2014	2015	305,941,698	-1.06%
2012	2013	2014	309,216,375	-1.29%
2011	2012	2013	313,271,287	-2.84%
2010	2011	2012	322,432,246	-2.95%
2009	2010	2011	332,233,669	-3.22%
2008	2009	2010	343,277,363	10.49%
2007	2008	2009	310,687,476	1.02%
2006	2007	2008	307,542,425	-3.81%

Note - Tax Year 2016 is the first year for Eligible Manufacturing Personal Property Exemption per legislative action.

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

Fiscal Year Ended	Homestead			
	Residential	Agriculture	Commercial	Industrial
June 30,				
2017	\$ 8,175,733	\$ -	\$ 22,021,857	\$ 33,948,507
2016	8,587,134	-	22,858,332	131,717,181
2015	8,407,623	-	22,525,895	131,321,583
2014	8,354,061	-	18,819,482	129,906,757
2013	9,048,307	-	18,652,976	130,111,440
2012	9,523,796	-	19,044,320	134,949,930
2011	10,042,466	-	19,279,450	136,840,201
2010	10,051,578	-	18,296,458	143,316,212
2009	10,284,801	-	15,760,790	129,141,330
2008	10,321,623	-	251,355	-



Ad Valorem TV

Amount	% Change
\$ 201,662,381	-33.08%
301,356,020	0.05%
301,190,549	-0.74%
303,449,276	-0.82%
305,957,010	-2.37%
313,385,680	-1.68%
318,737,466	-2.27%
326,124,199	12.56%
289,733,792	-0.21%
290,332,561	2.19%

Non-Homestead

Residential	Commercial	Industrial	Total
\$ 7,250,523	\$ 55,048,340	\$ 75,217,421	\$ 201,662,381
6,954,462	56,513,117	74,725,794	301,356,020
7,283,692	57,198,866	74,452,890	301,190,549
7,544,110	57,193,504	81,631,362	303,449,276
7,428,078	59,315,986	81,400,223	305,957,010
7,192,250	61,049,642	81,625,742	313,385,680
7,702,316	62,896,208	81,976,825	318,737,466
8,114,642	63,191,315	83,153,994	326,124,199
7,423,407	56,768,585	70,354,879	289,733,792
7,008,419	76,524,757	196,226,407	290,332,561

continued...

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Continuing Bond Disclosures (Unaudited)

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

Fiscal Year Ended June 30,	Real	Personal	Total
2017	\$ 135,273,270	\$ 66,389,111	\$ 201,662,381
2016	136,919,762	164,436,258	301,356,020
2015	137,122,735	164,067,814	301,190,549
2014	139,718,189	163,731,087	303,449,276
2013	143,493,137	162,463,873	305,957,010
2012	145,766,488	167,619,192	313,385,680
2011	152,222,017	166,515,449	318,737,466
2010	154,054,943	172,069,256	326,124,199
2009	134,513,489	155,220,303	289,733,792
2008	131,211,762	159,120,799	290,332,561

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

Fiscal Year Ended June 30,	Real	Personal	Total
2017	\$ 10,891,863	\$ 2,706,002	\$ 13,597,865
2016	11,247,160	11,803,020	23,050,180
2015	11,380,799	12,718,056	24,098,855
2014	11,267,549	13,918,060	25,185,609
2013	10,445,996	15,346,973	25,792,969
2012	10,395,375	18,179,425	28,574,800
2011	3,844,597	17,454,949	21,299,546
2010	6,411,357	22,056,665	28,468,022
2009	14,945,099	27,788,914	42,734,013
2008	15,727,788	29,170,293	44,898,081

continued...

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Continuing Bond Disclosures (Unaudited)

5. Property Tax Collections

Fiscal Year Ended June 30,	Taxes Levied	Collections to March 1	MBT Reimbursement	Total Collected
2017	\$ 2,084,461	\$ 2,084,461	\$ -	\$ 2,084,461
2016	3,216,185	3,216,185	1,809,449	5,025,634
2015	3,328,965	3,328,965	1,797,567	5,126,532
2014	3,750,487	3,750,487	1,488,727	5,239,214
2013	3,507,220	3,507,220	1,855,085	5,362,305
2012	3,699,017	3,699,017	2,047,872	5,746,889
2011	3,740,618	3,740,618	2,149,027	5,889,645
2010	4,253,023	4,253,023	2,199,899	6,452,922
2009	4,360,392	4,360,392	2,557,159	6,917,551
2008	7,006,961	6,642,405	-	6,642,405

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

Note - Starting in 2017 levied and collections to March 1 amounts are lower than prior year due to capture loss in the current year.

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

Fiscal Year Ended June 30,	(1) City	(2) Schools	(1) State Education Tax	County
2017	15.4190	18.0000	6.0000	5.3779
2016	14.7360	18.0000	6.0000	5.3779
2015	14.7360	18.0000	6.0000	5.3779
2014	14.7360	18.0000	6.0000	5.3779
2013	14.7360	18.0000	6.0000	5.3779
2012	14.7360	18.0000	6.0000	5.3779
2011	14.4760	18.0000	6.0000	5.3779
2010	14.4760	18.0000	6.0000	5.3779
2009	14.4760	18.0000	6.0000	5.3779
2008	14.4760	18.0000	6.0000	5.3779

(1) Levied on homestead and non-homestead properties.

(2) Levied on non-homestead properties only.

continued...

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Continuing Bond Disclosures (Unaudited)

7. Taxable Value of Ten Largest Ad Valorem Taxpayers (Fiscal Year Ended June 30, 2017)

Taxpayer	Product or Service	Taxable Value	% of Taxable Value
1 Kellogg Company	Breakfast foods	\$76,423,394	37.90%
2 Kraft Foods Inc.	Breakfast foods	15,804,499	7.84%
3 Consumers Energy Co.	Electric utility	10,320,822	5.12%
4 Semco Energy Inc.	Natural gas utility	9,131,533	4.53%
5 Conagra Foods Inc.	Breakfast foods	4,743,285	2.35%
6 North Pointe Woods	Office building	4,617,663	2.29%
7 Trilogy Healthcare	Health care	3,234,580	1.60%
8 Fifth Third Bank	Banking	2,863,739	1.42%
9 Graham Group, The	Medical office building	2,766,425	1.37%
10 Somerset Capital Group LTD	Investing	2,078,264	1.03%
		<u>\$ 131,984,204</u>	<u>65.45%</u>

8. Taxable Value of Three Largest IFT Taxpayers (Fiscal Year Ended June 30, 2017)

Taxpayer	Product or Service	Taxable Value	% of Taxable Value
1 Cello-Foil Products, Inc.	Packaging	\$ 2,088,110	15.36%
2 Kellogg Company	Breakfast foods	1,796,811	13.21%
3 Covance Laboratories Inc.	Research and drug development	507,370	3.73%
		<u>\$ 4,392,291</u>	<u>32.30%</u>

concluded.