

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

Year Ended
June 30, 2023

Financial
Statements and
Other Information

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BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

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INDEPENDENT AUDITORS' REPORT

December 22, 2023

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

Report on the Audit of the Financial Statements

Opinions

We have audited the 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, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the Authority, as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Independent Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.



In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Independent Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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

Management is responsible for the other information included in the financial statements. The other information comprises the continuing bond disclosures but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2023, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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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, 2023.

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, liabilities, and deferred inflows of resources 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 balance sheet and statement of revenues, expenditures and changes in fund balances – governmental funds focuses on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources available* at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.
- 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 liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources by \$20,402,047 at the end of the fiscal year, of which \$1,235,668 was restricted for loan commitments and lending activities. That leaves a deficit balance of \$21,637,715 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	
	2023	2022	2023	2022	2023	2022
Assets						
Current and other assets	\$ 1,968,575	\$ 1,710,943	\$ 1,235,668	\$ 1,232,241	\$ 3,204,243	\$ 2,943,184
Deferred outflows of resources	847,066	969,275	-	-	847,066	969,275
Liabilities						
Long-term liabilities	24,188,968	25,928,452	-	-	24,188,968	25,928,452
Other liabilities	170,399	182,718	-	-	170,399	182,718
Total liabilities	24,359,367	26,111,170	-	-	24,359,367	26,111,170
Deferred inflows of resources	93,989	123,016	-	-	93,989	123,016
Net position						
Restricted for loan commitments and lending activity	-	-	1,235,668	1,232,241	1,235,668	1,232,241
Unrestricted (deficit)	(21,637,715)	(23,553,968)	-	-	(21,637,715)	(23,553,968)
Total net position	\$ (21,637,715)	\$ (23,553,968)	\$ 1,235,668	\$ 1,232,241	\$ (20,402,047)	\$ (22,321,727)

There was positive change in net position in the amount of \$1,919,680 in the current year and positive change in the amount of \$1,708,524 in the prior year. The positive change is higher in the current year due to an increase in investment earnings and a \$129,981 decline in expenses in the year as a result of a lack of capital expenditures. The Authority continued to fund central business district maintenance, a downtown police officer, support for the intermodal transportation center in the downtown, as well as economic development support for downtown businesses.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

	Change in Net Position					
	Governmental activities		Business-type activities		Total	
	2023	2022	2023	2022	2023	2022
Revenues						
Program revenues:						
Charges for services	\$ 41,300	\$ 30,233	\$ 33,212	\$ 33,154	\$ 74,512	\$ 63,387
Operating grants and contributions	2,859,263	2,934,269	-	-	2,859,263	2,934,269
General revenues:						
Property taxes	1,609,239	1,586,466	-	-	1,609,239	1,586,466
Unrestricted investment earnings (loss)	122,198	12,400	4,427	(8,058)	126,625	4,342
Total revenues	4,632,000	4,563,368	37,639	25,096	4,669,639	4,588,464
Total expenses	2,715,747	2,843,261	34,212	36,679	2,749,959	2,879,940
Change in net position	1,916,253	1,720,107	3,427	(11,583)	1,919,680	1,708,524
Net position, beginning of year	(23,553,968)	(25,274,075)	1,232,241	1,243,824	(22,321,727)	(24,030,251)
Net position, end of year	\$ (21,637,715)	\$ (23,553,968)	\$ 1,235,668	\$ 1,232,241	\$ (20,402,047)	\$ (22,321,727)

Governmental funds. As of the end of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$1,856,209 an increase of \$287,534 from the prior year. The majority of the change is the result of an increase in investment earnings in the current year.

Proprietary fund. The Authority's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

The net position of the revolving loan enterprise fund at the end of the year amounted to \$1,235,668 all of which is restricted for loan commitments and lending activity. The fund had an increase in total net position for the year of \$3,427.

General Fund Budgetary Highlights

The general fund original adopted budget reflected expenditures and transfers out in excess of revenues of \$390,030. Mid-year and year-end budget adjustments were made in response to changing needs for downtown special projects. The result of the year end budget adjustment was a final budgeted decrease in fund balance of \$140,030. Actual revenues were in excess of the budget (primarily related to property taxes and investment earnings) combined with expenditures less than the adjusted budget results in the increase of fund balance for the fiscal year of \$287,534.

Long-term Debt

At the end of the current fiscal year, the Authority had total debt outstanding of \$23,950,000, along with \$238,968 of unamortized bond issuance premiums.

The pipeline bonds debt service fund accounts for the repayment of the outstanding debt. Principal payments were \$1,620,000 during the current year.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

Economic Factors

The 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 2023, community development expenses were \$1,742,669, 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 Revenue Services Director, P.O. Box 1717, Battle Creek, MI 49016-1717.

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BASIC FINANCIAL STATEMENTS

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BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Net Position

June 30, 2023

	Governmental Activities	Business-type Activities	Total
Assets			
Pooled cash and investments	\$ 1,834,057	\$ -	\$ 1,834,057
Cash and cash equivalents	-	146,083	146,083
Investments	-	209,330	209,330
Interest receivable	37,087	761	37,848
Accounts receivable	3,442	330,355	333,797
Lease receivable:			
Due within one year	30,149	-	30,149
Due in more than one year	63,840	-	63,840
Loans receivable:			
Due within one year	-	98,600	98,600
Due in more than one year	-	450,539	450,539
Total assets	<u>1,968,575</u>	<u>1,235,668</u>	<u>3,204,243</u>
Deferred outflows of resources			
Deferred charge on refunding	<u>847,066</u>	<u>-</u>	<u>847,066</u>
Liabilities			
Accounts payable and accrued liabilities	14,935	-	14,935
Accrued interest payable	152,022	-	152,022
Unearned revenue	3,442	-	3,442
Bonds and other long-term liabilities:			
Due within one year	1,809,484	-	1,809,484
Due in more than one year	<u>22,379,484</u>	<u>-</u>	<u>22,379,484</u>
Total liabilities	<u>24,359,367</u>	<u>-</u>	<u>24,359,367</u>
Deferred inflows of resources			
Deferred lease amounts	<u>93,989</u>	<u>-</u>	<u>93,989</u>
Net position			
Restricted for loan commitments and lending activity	-	1,235,668	1,235,668
Unrestricted (deficit)	<u>(21,637,715)</u>	<u>-</u>	<u>(21,637,715)</u>
Total net position	<u>\$ (21,637,715)</u>	<u>\$ 1,235,668</u>	<u>\$ (20,402,047)</u>

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, 2023

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Community development	\$ 1,742,669	\$ 41,300	\$ 2,859,263	\$ 1,157,894
Interest on long-term liabilities	973,078	-	-	(973,078)
Total governmental activities	2,715,747	41,300	2,859,263	184,816
Business-type activities				
Revolving loans	34,212	33,212	-	(1,000)
Total	<u>\$ 2,749,959</u>	<u>\$ 74,512</u>	<u>\$ 2,859,263</u>	<u>\$ 183,816</u>

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BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Activities

For the Year Ended June 30, 2023

	Governmental Activities	Business-type Activities	Total
Changes in net position			
Net (expense) revenues	\$ 184,816	\$ (1,000)	\$ 183,816
General revenues:			
Property taxes	1,609,239	-	1,609,239
Unrestricted investment earnings	122,198	4,427	126,625
Total general revenues	1,731,437	4,427	1,735,864
Change in net position	1,916,253	3,427	1,919,680
Net position, beginning of year	(23,553,968)	1,232,241	(22,321,727)
Net position, end of year	<u>\$ (21,637,715)</u>	<u>\$ 1,235,668</u>	<u>\$ (20,402,047)</u>

concluded.

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

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Balance Sheet

Governmental Funds

June 30, 2023

	General	Pipeline Bonds Debt Service	Total Governmental Funds
Assets			
Pooled cash and investments	\$ 1,834,057	\$ -	\$ 1,834,057
Interest receivable	37,087	-	37,087
Accounts receivable	3,442	-	3,442
Lease receivable:			
Due within one year	30,149	-	30,149
Due in more than one year	63,840	-	63,840
Total assets	<u>\$ 1,968,575</u>	<u>\$ -</u>	<u>\$ 1,968,575</u>
Liabilities			
Accounts payable	\$ 14,935	\$ -	\$ 14,935
Unearned revenue	3,442	-	3,442
Total liabilities	18,377	-	18,377
Deferred inflows of resources			
Deferred lease amounts	93,989	-	93,989
Fund balances			
Unassigned	<u>1,856,209</u>	<u>-</u>	<u>1,856,209</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,968,575</u>	<u>\$ -</u>	<u>\$ 1,968,575</u>

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, 2023

Fund balances - total governmental funds	\$ 1,856,209
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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.	847,066
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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	(23,950,000)
Accrued interest on bonds payable	(152,022)
Unamortized bond premium	(238,968)
	<hr/>

Net position of governmental activities	<u><u>\$ (21,637,715)</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, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2023

	General	Pipeline Bonds Debt Service	Total Governmental Funds
Revenues			
Property taxes	\$ 1,609,239	\$ -	\$ 1,609,239
Intergovernmental - state	2,859,263	-	2,859,263
Unrestricted investment earnings	122,198	-	122,198
Rents and leases	41,300	-	41,300
Total revenues	<u>4,632,000</u>	<u>-</u>	<u>4,632,000</u>
Expenditures			
Community development	1,742,669	-	1,742,669
Debt service:			
Principal	-	1,620,000	1,620,000
Interest and fiscal charges	-	981,797	981,797
Total expenditures	<u>1,742,669</u>	<u>2,601,797</u>	<u>4,344,466</u>
Revenue over (under) expenditures	<u>2,889,331</u>	<u>(2,601,797)</u>	<u>287,534</u>
Other financing sources (uses)			
Transfers in	-	2,601,797	2,601,797
Transfers out	(2,601,797)	-	(2,601,797)
Total other financing sources (uses)	<u>(2,601,797)</u>	<u>2,601,797</u>	<u>-</u>
Net change in fund balances	287,534	-	287,534
Fund balances, beginning of year	<u>1,568,675</u>	<u>-</u>	<u>1,568,675</u>
Fund balances, end of year	<u>\$ 1,856,209</u>	<u>\$ -</u>	<u>\$ 1,856,209</u>

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, 2023

Net change in fund balances - total governmental funds	\$ 287,534
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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 bonds	1,620,000
Amortization of deferred charge on refunding	(122,209)
Amortization of bond issuance premium	119,484

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 on bonds payable	<u>11,444</u>
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Change in net position of governmental activities	<u>\$ 1,916,253</u>
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The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2023

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 1,536,578	\$ 1,536,578	\$ 1,609,239	\$ 72,661
Intergovernmental - state	2,847,454	2,847,454	2,859,263	11,809
Unrestricted investment earnings	5,000	5,000	122,198	117,198
Rents and leases	41,300	41,300	41,300	-
Total revenues	4,430,332	4,430,332	4,632,000	201,668
Expenditures				
Community development	2,218,565	1,968,565	1,742,669	(225,896)
Revenues over expenditures	2,211,767	2,461,767	2,889,331	427,564
Other financing uses				
Transfers out	(2,601,797)	(2,601,797)	(2,601,797)	-
Net change in fund balance	(390,030)	(140,030)	287,534	427,564
Fund balance, beginning of year	1,568,675	1,568,675	1,568,675	-
Fund balance, end of year	<u>\$ 1,178,645</u>	<u>\$ 1,428,645</u>	<u>\$ 1,856,209</u>	<u>\$ 427,564</u>

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, 2023

Assets

Current assets:

Cash and cash equivalents	\$	146,083
Investments		209,330
Interest receivable		761
Accounts receivable		60,344
Due from other governments		270,011
Current portion of loans receivable		98,600
Total current assets		<u>785,129</u>

Noncurrent assets -

Loans receivable, net of current portion		<u>450,539</u>
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Total assets

1,235,668

Net position

Restricted for loan commitments
and lending activity

\$ 1,235,668

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, 2023

Operating revenues

Charges for services	\$ 33,212
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Operating expenses

Professional services	<u>34,212</u>
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Operating loss	(1,000)
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Nonoperating expenses

Investment earnings	<u>4,427</u>
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Change in net position	3,427
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Net position, beginning of year	<u>1,232,241</u>
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Net position, end of year	<u><u>\$ 1,235,668</u></u>
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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, 2023

Cash flows from operating activities

Loans collected from borrowers	\$ 121,734
Interest and fees on loans	33,212
Payment received from other governments	344
Payment made to primary government	(8,255)
Administrative and other expenses paid	(34,578)

Net cash provided by operating activities

112,457

Cash flows from investing activities

Purchase of investments	(39,064)
Proceeds from sale of investments	32,094
Interest and dividends received	7,995

Net cash provided by investing activities

1,025

Net change in cash and cash equivalents

113,482

Cash and cash equivalents, beginning of year

32,601

Cash and cash equivalents, end of year

\$ 146,083

Reconciliation of operating loss to net cash provided by operating activities

Operating loss	\$ (1,000)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Changes in assets and liabilities:	
Interest receivable	(366)
Accounts receivable	344
Due from other governments	(8,255)
Loans receivable	121,734

Net cash provided by operating activities

\$ 112,457

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.

The fund financial statements provide information about the Authority's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide and proprietary funds 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.

Leases Receivable and Deferred Inflows of Resources

The Authority is a lessor for a noncancellable lease related to a building. The Authority recognizes a lease receivable and a deferred inflow of resources in the statement of net position and governmental funds financial statements.

At the commencement of a lease, the Authority initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for prepaid lease payments received at lease inception. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the Authority determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts. The Authority uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes to Financial Statements

The Authority monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable if certain changes occur that are expected to significantly affect the amount of the lease receivable.

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.

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 assets that applies to one or more future periods and will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority 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 premiums are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium.

In the fund financial statements, governmental fund types recognize bond premiums, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums 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.

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.

For the year ended June 30, 2023, the Authority's general fund expenditures were within budget.

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 \$1,834,057. 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 enterprise fund (business-type activity), include the following:

Deposits	\$ 146,083
Investments	<u>209,330</u>
Total	<u><u>\$ 355,413</u></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, 2023, the carrying amounts of the Authority's deposits were \$146,083 and the bank balance was \$146,083. The full amount is FDIC insured.

Investments

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

	Fair Value	Rating
U.S. agencies	\$ 80,341	AAA S&P
Money market fund	<u>128,989</u>	AAA S&P
	<u><u>\$ 209,330</u></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 enterprise 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 enterprise fund's name.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes to Financial Statements

Concentration of Credit Risk. At June 30, 2023, the investment portfolio of the revolving loan enterprise fund was concentrated as follows:

Investment Type	Issuer	% of Portfolio
U.S. agencies	Federal Home Loan Mortgage Corporation	29.11%
	Federal National Mortgage Association	9.27%
Money market fund	Fifth Third Securities	61.62%

Interest Rate Risk. As of June 30, 2023, the maturities of the revolving loan enterprise 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	\$ 80,341	\$ -	\$ -	\$ 19,406	\$ 60,935
Money market fund	128,989	128,989	-	-	-
	<u>\$ 209,330</u>	<u>\$ 128,989</u>	<u>\$ -</u>	<u>\$ 19,406</u>	<u>\$ 60,935</u>

Fair Value. The revolving loan enterprise 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 enterprise fund's recurring fair value measurements as of June 30, 2023 were related to its investments in government agency funds and a money market account. The money market account is valued using quoted prices in active markets (Level 1 inputs). The investments in government agency funds are valued using significant other observable inputs of the underlying securities and bonds (Level 2 inputs).

3. LEASES

The Authority is involved in an agreement as a lessor that qualifies as a long-term lease agreement. Below is a summary of the agreement. The agreement qualifies as long-term lease agreement as the Authority will not surrender control of the asset at the end of the term and the noncancelable term of the agreement surpasses one year. Total lease revenue for the year ended June 30, 2023 was \$33,200.

Asset Type	Remaining Term of Agreement
Building	3 years

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes to Financial Statements

4. LOANS RECEIVABLE

The details of loans receivable outstanding as of June 30, 2023 are as follows:

Total loans outstanding	<u>\$ 549,139</u>
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Of this amount, \$98,600 is expected to be collected within one year.

The revolving loan enterprise fund has \$500,000 of loan commitments at June 30, 2023.

5. INTERFUND TRANSFERS

For the year ended June 30, 2023, interfund transfers are summarized as follows:

	Transfers Out
Transfers In	General
Pipeline bonds debt service	<u>\$ 2,601,797</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.

6. LONG-TERM LIABILITIES

Following is a summary of the Authority's bonds outstanding as of June 30, 2023:

	Interest Rate	Date of Maturity	Outstanding Principal
Limited tax general obligation bonds			
2017 Downtown development refunding	2.836% - 3.984%	5/1/2034	\$ 21,690,000
2018 Downtown development refunding	2.000% - 5.000%	5/1/2025	<u>2,260,000</u>
Total limited tax general obligation bonds			<u>\$ 23,950,000</u>

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes to Financial Statements

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

Year Ending June 30,	Authority Obligation	
	Principal	Interest
2024	\$ 1,690,000	\$ 912,131
2025	1,760,000	839,413
2026	1,970,000	762,703
2027	2,040,000	697,023
2028	2,110,000	626,969
2029-2033	11,750,000	1,917,569
2034	2,630,000	104,779
	<u>\$ 23,950,000</u>	<u>\$ 5,860,587</u>

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2023, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 25,570,000	\$ -	\$ (1,620,000)	\$ 23,950,000	\$ 1,690,000
Issuance premiums	<u>358,452</u>	<u>-</u>	<u>(119,484)</u>	<u>238,968</u>	<u>119,484</u>
	<u>\$ 25,928,452</u>	<u>\$ -</u>	<u>\$ (1,739,484)</u>	<u>\$ 24,188,968</u>	<u>\$ 1,809,484</u>

7. 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 is available to pay current obligations.

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 2022 levy are summarized below:

Ad valorem property	\$ 36,204,914
IFT* / CFT** / other property	<u>524,228</u>
Total	<u><u>\$ 36,729,142</u></u>

* IFT - Industrial Facility Tax

** CFT - Commercial Facility Tax

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 2023. 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 \$527,000 in taxable value. The City is vigorously defending all litigation.

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OTHER 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 December 31,	Year of Tax Levy	Fiscal Year Ended June 30,	Ad Valorem SEV	
			Amount	% Change
2021	2022	2023	\$ 186,052,769	0.20%
2020	2021	2022	185,679,745	-1.20%
2019	2020	2021	187,941,077	-0.67%
2018	2019	2020	189,205,794	-2.28%
2017	2018	2019	193,626,913	-3.76%
2016	2017	2018	201,195,723	-4.23%
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%

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 June 30,	Homestead			
	Residential	Agriculture	Commercial	Industrial
2023	\$ 10,578,863	\$ -	\$ 13,205,989	\$ 13,117,757
2022	9,961,466	-	13,631,932	12,951,703
2021	9,705,550	-	15,834,309	14,598,713
2020	9,229,549	-	19,207,990	16,597,568
2019	8,725,950	-	21,298,401	21,434,123
2018	7,949,920	-	22,032,102	25,928,056
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



Ad Valorem TV	
Amount	% Change
\$ 170,134,744	0.04%
170,071,384	-2.95%
175,246,137	-0.99%
176,997,763	-3.16%
182,769,923	-3.59%
189,567,453	-6.00%
201,662,381	-33.08%
301,356,020	0.05%
301,190,549	-0.74%
303,449,276	-0.82%

Non-Homestead			
Residential	Commercial	Industrial	Total
\$ 7,153,462	\$ 54,787,278	\$ 71,291,395	\$ 170,134,744
7,053,326	57,445,584	69,027,373	170,071,384
6,871,708	58,331,511	69,904,346	175,246,137
6,863,911	55,866,387	69,232,358	176,997,763
6,971,761	56,166,183	68,173,505	182,769,923
7,465,451	55,854,549	70,337,375	189,567,453
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

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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
2023	\$ 128,990,759	\$ 41,143,985	\$ 170,134,744
2022	129,068,646	41,002,738	170,071,384
2021	130,947,931	44,298,206	175,246,137
2020	127,326,449	49,671,314	176,997,763
2019	128,031,469	54,738,454	182,769,923
2018	130,293,036	59,274,417	189,567,453
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

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

Fiscal Year Ended June 30,	Real	Personal	Total
2023	\$ 8,164,312	\$ -	\$ 8,164,312
2022	10,986,137	-	10,986,137
2021	9,650,162	102,731	9,752,893
2020	8,867,758	496,449	9,364,207
2019	9,109,542	1,523,330	10,632,872
2018	10,206,000	2,305,130	12,511,130
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

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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
2023	\$ 2,715,277	\$ 2,715,277	\$ -	\$ 2,715,277
2022	2,751,584	2,751,584	-	2,751,584
2021	1,665,194	1,665,194	-	1,665,194
2020	3,231,273	3,231,273	-	3,231,273
2019	1,693,578	1,693,578	-	1,693,578
2018	1,604,095	1,604,095	-	1,604,095
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

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

Note - Starting in 2017 the reduction in property tax collection was severely impacted by personal property tax reform.

Note - In 2020, amounts are higher than prior year due to receiving a \$1,488,727 reimbursement from the State for School TIF Revenue Decreases.

6. Captured Property Tax Rates

(per \$1,000 of value)

Fiscal Year Ended June 30,	(1) City	(2) Schools	(1) State Education Tax	County
2023	15.5030	18.0000	6.0000	5.3698
2022	15.7650	18.0000	6.0000	5.3779
2021	15.9340	18.0000	6.0000	5.3779
2020	15.9340	18.0000	6.0000	5.3779
2019	15.7490	18.0000	6.0000	5.3779
2018	15.7490	18.0000	6.0000	5.3779
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

(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, 2023)

Taxpayer	Product or Service	Taxable Value	% of Taxable Value
1 Kellogg Company	Breakfast foods	\$ 55,846,998	32.83%
2 Semco Energy Inc.	Natural gas utility	12,229,614	7.19%
3 Post Foods, LLC	Breakfast foods	10,920,920	6.42%
4 Consumers Energy Co.	Electric utility	6,922,355	4.07%
5 North Pointe Woods	Office building	4,476,456	2.63%
6 BC Equities LP	Real Estate Development	2,976,656	1.75%
7 Trilogy Healthcare	Health care	2,575,811	1.51%
8 Covance Laboratories Inc.	Food Research	2,540,606	1.49%
9 The Graham Group	Medical office building	2,339,495	1.38%
10 393 East Roosevelt Ave LR, LLC	Rehab Center	1,892,460	1.11%
		<u>\$ 102,721,371</u>	<u>60.38%</u>

8. Taxable Value of Three Largest IFT Taxpayers

(Fiscal Year Ended June 30, 2023)

Taxpayer	Product or Service	Taxable Value	% of Taxable Value
1 Shouldice Brothers Sheet Metal	Metal manufacturing	\$ 339,133	4.15%
2 Post Foods, LLC	Breakfast foods	148,233	1.82%
3 Cello Foil Products Inc.	Paper & Packaging	36,862	0.45%
		<u>\$ 524,228</u>	<u>6.42%</u>

concluded.

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

December 22, 2023

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 22, 2023.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.



Report on Compliance and Other Matters

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

Purpose of this Report

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

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