

CITY OF BATTLE CREEK DIRECT
INVESTMENT FUNDS ADMINISTERED BY
BATTLE CREEK UNLIMITED, INC.

Year Ended
June 30, 2015

Financial
Statements

CITY OF BATTLE CREEK DIRECT INVESTMENT FUNDS
ADMINISTERED BY BATTLE CREEK UNLIMITED, INC.

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statement of Net Position	4
Statement of Revenues, Expenses and Changes in Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements	8
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 <i>Government Auditing Standards</i>	9



INDEPENDENT AUDITORS' REPORT

December 22, 2015

To the Honorable Mayor and City Commissioners
of the City of Battle Creek and Direct Investment Fund Committee
of Battle Creek Unlimited, Inc.
City of Battle Creek, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the enterprise funds of the *City of Battle Creek Direct Investment Funds Administered by Battle Creek Unlimited, Inc.* (the "Direct Investment Funds") (which consists of an enterprise fund of the City of Battle Creek, Michigan and an enterprise fund of the Battle Creek Downtown Development Authority, a component unit of the City of Battle Creek, Michigan) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Direct Investment Funds 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 Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Direct Investment Fund'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise funds of the City of Battle Creek Direct Investment Funds Administered by Battle Creek Unlimited, Inc., as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Reporting Entity

As discussed in Note 1, the financial statements present only the City of Battle Creek Direct Investment Funds Administered by Battle Creek Unlimited, Inc. and do not purport to, and do not present fairly, the financial position of either the City of Battle Creek, Michigan or the Battle Creek Downtown Development Authority, and the changes in their financial position and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Rehmann Robson LLC

BASIC FINANCIAL STATEMENTS

**CITY OF BATTLE CREEK DIRECT INVESTMENT FUNDS
ADMINISTERED BY BATTLE CREEK UNLIMITED, INC.**

Statement of Net Position

June 30, 2015

	Economic Development Fund	Downtown Development Authority Revolving Loan Fund
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,453,654	\$ 73,275
Investments	2,089,395	1,073,767
Loans receivable, current portion, net	3,086,611	117,740
Accrued interest receivable on loans	19,692	167,655
Due from Battle Creek Unlimited, Inc.	-	60,000
	<hr/>	<hr/>
Total current assets	9,649,352	1,492,437
Loans receivable, less current portion, net	150,000	157,695
	<hr/>	<hr/>
Total assets	9,799,352	1,650,132
	<hr/>	<hr/>
Liabilities - current		
Due to Battle Creek Unlimited, Inc.	6,947	22,061
Due to Battle Creek DDA	-	199,996
	<hr/>	<hr/>
Total liabilities	6,947	222,057
	<hr/>	<hr/>
Net position		
Unrestricted	9,792,405	-
Restricted for loan commitments, minority lending and other lending activity	-	1,428,075
	<hr/>	<hr/>
Total net position	\$ 9,792,405	\$ 1,428,075
	<hr/> <hr/>	<hr/> <hr/>

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

**CITY OF BATTLE CREEK DIRECT INVESTMENT FUNDS
ADMINISTERED BY BATTLE CREEK UNLIMITED, INC.**

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2015

	Economic Development Fund	Downtown Development Authority Revolving Loan Fund
Operating revenues		
Income on loans	\$ 44,676	\$ 30,133
Loan loss recovery	-	11,516
	<hr/>	<hr/>
Total operating revenues	44,676	41,649
	<hr/>	<hr/>
Operating expenses		
Administration	97,500	32,500
Other operating costs	26,621	352
	<hr/>	<hr/>
Total operating expenses	124,121	32,852
	<hr/>	<hr/>
Operating (loss) income	(79,445)	8,797
Nonoperating revenues		
Investment earnings	11,027	4,474
	<hr/>	<hr/>
Change in net position	(68,418)	13,271
Net position, beginning of year	9,860,823	1,414,804
	<hr/>	<hr/>
Net position, end of year	\$ 9,792,405	\$ 1,428,075
	<hr/> <hr/>	<hr/> <hr/>

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

**CITY OF BATTLE CREEK DIRECT INVESTMENT FUNDS
ADMINISTERED BY BATTLE CREEK UNLIMITED, INC.**

Statement of Cash Flows

For the Year Ended June 30, 2015

	Economic Development Fund	Downtown Development Authority Revolving Loan Fund
Cash flows from (used in) operating activities		
Loans collected from borrowers	\$ 108,798	\$ 15,354
Interest and fees on loans	86,442	10,184
Payment to Battle Creek Unlimited, Inc.	2,270	5,522
Loans made to borrowers	(1,618,936)	-
Administrative and other expenses paid	(117,174)	(10,791)
Net cash provided by (used in) operating activities	<u>(1,538,600)</u>	<u>20,269</u>
Cash flows from (used in) investing activities		
Purchase of investments	(1,037,115)	(1,124,801)
Proceeds from sale of investments	6,661,516	1,122,576
Investment income received	11,027	4,474
Net cash provided by investing activities	<u>5,635,428</u>	<u>2,249</u>
Net change in cash and cash equivalents	4,096,828	22,518
Cash and cash equivalents, beginning of year	<u>356,826</u>	<u>50,757</u>
Cash and cash equivalents, end of year	<u>\$ 4,453,654</u>	<u>\$ 73,275</u>
Reconciliation of operating (loss) income to net cash provided by (used in) operating activities		
Operating (loss) income	\$ (79,445)	\$ 8,797
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:		
Loan loss recovery	-	11,516
Change in assets and liabilities:		
Loans receivable	(1,510,138)	(7,678)
Accrued interest receivable on loans	41,766	(19,949)
Due from Battle Creek Unlimited, Inc.	2,270	5,522
Due to Battle Creek Unlimited, Inc.	6,947	22,061
Net cash provided by (used in) operating activities	<u>\$ (1,538,600)</u>	<u>\$ 20,269</u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF BATTLE CREEK DIRECT INVESTMENT FUNDS ADMINISTERED BY BATTLE CREEK UNLIMITED, INC.

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Battle Creek Direct Investment Funds Administered by Battle Creek Unlimited, Inc. (the "Direct Investment Funds") consist of the Economic Development Fund, an enterprise fund of the City of Battle Creek, Michigan (the "City"), and the Downtown Development Authority Revolving Loan Fund, an enterprise fund of the Battle Creek Downtown Development Authority (the "DDA"), a component unit of the City of Battle Creek, Michigan. The Direct Investment Funds provide financing to businesses to create and retain jobs in the City and DDA district, respectively.

The net position of the Economic Development Fund is the property of the City of Battle Creek; the fund was originally created by an appropriation from the City. The net position of the Downtown Development Authority Revolving Loan Fund is the property of the DDA; the fund was originally created by a grant received by the DDA from the Miller Foundation. Both the City and DDA contract with Battle Creek Unlimited, Inc. to administer these funds.

The accounting policies of the Direct Investment Funds conform with generally accepted accounting principles as applicable to proprietary funds. A summary of significant accounting policies follows.

Reporting Entity

These financial statements present the financial position, changes in financial position and cash flows of an enterprise fund of the City and an enterprise fund of the DDA; both funds are an integral part of the respective reporting entities. The Direct Investment Funds are not a component unit of the City, DDA or any other reporting entity, as defined by the Governmental Accounting Standards Board (GASB).

Basis of Accounting

The Direct Investment Funds are separate accounting entities with a self-balancing set of accounts used to report financial position, changes in financial position and cash flows. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions and activities.

The Direct Investment Funds are operated as enterprise funds, which are used to account for those operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The operating revenues of the City of Battle Creek Direct Investment Funds Administered by Battle Creek Unlimited, Inc. include interest on loans, loan fees and other revenue. Operating expenses of the enterprise funds include administration, a loan loss provision/recovery and other operating costs. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF BATTLE CREEK DIRECT INVESTMENT FUNDS ADMINISTERED BY BATTLE CREEK UNLIMITED, INC.

Notes to Financial Statements

Deposits and Investments

The Direct Investment Funds' cash and cash equivalents consist of demand deposits. Investments are stated at fair value and consist of U.S. treasury notes and other U.S. government obligations.

State statutes authorize local governments 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.

Loans Receivable

Loans receivable consist of balances outstanding from borrowers and are reported net of amounts estimated to be uncollectible.

Net Position

Restricted net position, if any, represent amounts that are for approved loan applications or minority lending.

2. DEPOSITS AND INVESTMENTS

Deposits

At year-end, the carrying amount and bank balance of the Economic Development Fund's deposits were \$4,453,654. Also at year-end, the carrying amount and bank balance of the DDA Revolving Loan Fund's deposits were \$73,275. 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.

At year end, the fair value of the Direct Investment Funds' investment balances were as follows:

	Economic Development Fund	DDA Revolving Loan Fund
Investments at fair value		
U.S. agencies	\$ 997,458	\$ 879,032
Municipal bonds	-	100,000
Certificates of deposit	251,358	-
Money market funds	840,579	94,735
	<u>2,089,395</u>	<u>1,073,767</u>
Total investments	<u>\$ 2,089,395</u>	<u>\$ 1,073,767</u>

Credit Risk. All of the Direct Investment Funds' investments in debt securities of U.S. agencies and money market funds are rated Aa2 by Moody's Investor Services. The municipal bonds are rated A2 by Standard and Poors.

**CITY OF BATTLE CREEK DIRECT INVESTMENT FUNDS
ADMINISTERED BY BATTLE CREEK UNLIMITED, INC.**

Notes to Financial Statements

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Direct Investment Funds will not be able to recover the value of their investments or collateral securities that are in the possession of an outside party. Although uninsured and unregistered, the Direct Investment Funds' investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the Direct Investment Funds' name.

Concentration of Credit Risk. At June 30, 2015, the investment portfolio of the two funds was concentrated as follows:

Investment Type	Issuer	% of Portfolio	
		Economic Development Fund	DDA Revolving Loan Fund
U.S. agencies	Federal National Mortgage Association	26.44%	31.05%
	Federal Home Loan Mortgage Corporation	15.06%	38.89%
	Governmental Nation Mortgage Association	6.25%	11.92%
Municipal bonds	Michigan Municipal Bond Authority	0.00%	9.31%

Interest Rate Risk. As of June 30, 2015, maturities of the City of Battle Creek's Direct Investment Funds investments in debt securities were as follows:

	Economic Development Fund				DDA Revolving Loan Fund
	Less Than 1 Year	1-5 Years	Over 5 Years	Total	Over 10 Years
U.S. agencies	\$ 564,117	\$ -	\$ 433,341	\$ 997,458	\$ 879,032
Municipal bonds	-	-	-	-	100,000
	<u>\$ 564,117</u>	<u>\$ -</u>	<u>\$ 433,341</u>	<u>\$ 997,458</u>	<u>\$ 979,032</u>

None of the U.S. agencies securities are callable. The municipal bond was callable for the DDA Revolving Loan fund on July 1, 2015.

The Direct Investment Funds' investment policies are not more restrictive than the investment policies authorized by state statute as listed in Note 1.

**CITY OF BATTLE CREEK DIRECT INVESTMENT FUNDS
ADMINISTERED BY BATTLE CREEK UNLIMITED, INC.**

Notes to Financial Statements

3. LOANS OUTSTANDING

Loans receivable outstanding as of June 30, 2015, are summarized as follows:

	Economic Development Fund	DDA Revolving Loan Fund
Total loans outstanding	\$ 3,236,611	\$ 375,256
Allowance for loan losses	-	(99,821)
Net loans outstanding	3,236,611	275,435
Less amount's expected to be collected within one year	<u>3,086,611</u>	<u>117,740</u>
Amount expected to be collected beyond one year	<u>\$ 150,000</u>	<u>\$ 157,695</u>

The Economic Development Fund has a loan receivable outstanding of \$3,064,693 to one borrower which represents 95% of the total loans outstanding at June 30, 2015. This loan also represents 31% of the unrestricted net position of the Economic Development Fund at June 30, 2015.



**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, 2015

To the Honorable Mayor and City Commissioners
of the City of Battle Creek and Direct Investment Fund Committee
of Battle Creek Unlimited, Inc.
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 enterprise funds of the *City of Battle Creek Direct Investment Funds Administered by Battle Creek Unlimited, Inc.* (the "Direct Investment Funds") (which consists of an enterprise fund of the City of Battle Creek, Michigan and an enterprise fund of the Battle Creek Downtown Development Authority, a component unit of the City of Battle Creek, Michigan), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Direct Investment Funds' basic financial statements, and have issued our report thereon dated December 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Direct Investment Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Direct Investment Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Direct Investment Funds' 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Direct Investment Funds' 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 determination of financial statement amounts. 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 Direct Investment Funds' 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 "Rehmann Lohman LLC". The signature is written in a cursive, flowing style.