

KELLOGG ARENA FUND

Year Ended
June 30, 2015

Financial
Statements

KELLOGG ARENA FUND

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INDEPENDENT AUDITORS' REPORT

December 8, 2015

To the Honorable Mayor and
Members of the City Commission of the
City of Battle Creek, Michigan and
Management of the Kellogg Arena Fund
Battle Creek, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the *Kellogg Arena Fund, a special revenue fund of the City of Battle Creek, Michigan* (the "Arena Fund") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Arena's 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 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 auditors' 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 Arena 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 financial position of the Kellogg Arena Fund, as of June 30, 2015, and the changes in financial position and budgetary comparison for the Arena Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Reporting Entity

As discussed in Note 1, the financial statements present only the Kellogg Arena Fund and do not purport to, and do not present fairly, the financial position of the City of Battle Creek, Michigan and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2015, on our consideration of the Arena Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants, agreements and other matters. The purpose of that report is 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 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 Arena Fund's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rehmann Lohman LLC". The signature is fluid and cursive, with "Rehmann" and "Lohman" stacked vertically and "LLC" to the right.

FINANCIAL STATEMENTS

KELLOGG ARENA FUND

Balance Sheet

June 30, 2015

Assets

Cash and cash equivalents	\$ 164,674
Accounts receivable	70,890
Inventories	28,829
Prepaid items	<u>18,828</u>

Total assets	<u>\$ 283,221</u>
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Liabilities

Accounts payable and accrued liabilities	\$ 162,957
Unearned revenue	<u>82,529</u>

Total liabilities	<u>245,486</u>
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Fund balance

Nonspendable:	
Inventories	28,829
Prepaid items	18,828
Unassigned (deficit)	<u>(9,922)</u>

Total fund balance	<u>37,735</u>
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Total liabilities and fund balance	<u>\$ 283,221</u>
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The accompanying notes are an integral part of these financial statements.

KELLOGG ARENA FUND

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual

For the Year Ended June 30, 2015

	Original / Amended Budget	Actual	Over (Under) Budget
Revenues			
Events	\$ 669,256	\$ 596,274	\$ (72,982)
Concessions	269,836	288,883	19,047
Novelty	9,250	2,774	(6,476)
Bar	112,300	51,454	(60,846)
Grants	316,918	316,918	-
Other	23,000	48,016	25,016
Intergovernmental - Battle Creek Downtown Development Authority	300,000	300,000	-
Total revenues	1,700,560	1,604,319	(96,241)
Expenditures			
Operating	1,200,322	1,114,677	(85,645)
Building	548,768	515,715	(33,053)
Administrative	503,185	470,273	(32,912)
Reimbursements from City of Battle Creek	(594,580)	(593,576)	1,004
Total expenditures	1,657,695	1,507,089	(150,606)
Revenues over expenditures	42,865	97,230	54,365
Other financing sources			
Transfer from Kellogg Arena Endowment	-	15,000	15,000
Net change in fund balance	42,865	112,230	69,365
Fund deficit, beginning of year	(74,495)	(74,495)	-
Fund balance (deficit), end of year	\$ (31,630)	\$ 37,735	\$ 69,365

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

NOTES TO FINANCIAL STATEMENTS

KELLOGG ARENA FUND

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Kellogg Arena Fund (the “Arena Fund”), a special revenue fund of the City of Battle Creek, Michigan, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the fund’s accounting policies are described below.

Reporting Entity

These financial statements represent the financial condition and the results of operations of a special revenue fund of the City of Battle Creek, Michigan (the “City”) and are an integral part of that reporting entity. The Fund is not a component unit of the City or any other reporting entity.

The Fund is used to account for the activities of the Kellogg Arena, a City-owned public entertainment and recreation facility, which is managed and operated by the Cereal City Development Corporation (CCDC), a legally separate nonprofit organization, pursuant to an agreement with the City. CCDC is not a component unit of the City or any other reporting entity since it is not a unit or instrumentality of government.

Basis of Accounting

The City uses a special revenue fund (i.e., a separate accounting entity with a self-balancing set of accounts, using the modified-accrual basis of accounting and current financial resource measurement focus) to report the Fund’s financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions and activities.

Deposits

The Fund’s cash and cash equivalents consist of cash on hand and demand deposits.

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.

Receivables

Receivables consist primarily of fees and other such charges for services to third parties that rent the facilities for conventions, meetings and other events and are reported net of amounts estimated to be uncollectible. Management currently estimates that all receivables are collectible and, therefore, there is no allowance for uncollectible accounts.

Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method.

KELLOGG ARENA FUND

■ Notes to Financial Statements

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Revenue Recognition

Revenues from certain facility activities are recognized at the time the related events occur. Accordingly, advanced ticket sales and deposits paid by customers prior to the date of event are reported as unearned revenues.

Compensated Absences

Employees are permitted to accumulate earned but unused vacation. A liability for the value of unused vacation is reported in governmental funds only if they have matured, for example, as a result of employee resignations or terminations.

Fund Balance

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 Fund currently has no restricted fund balance; it also has no assigned fund balance as the City Commission has not yet given authority for the making of such assignments; assigned fund balances are neither restricted nor committed. Unassigned fund balance is a residual classification for only the City's general fund.

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

Budgetary Information

The Fund is under formal budgetary control and its budget is prepared on the same modified accrual basis used to reflect actual results. The Fund follows the City budget process in establishing the budgetary data reflected in the financial statements:

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

KELLOGG ARENA FUND

■ Notes to Financial Statements

2. ACCOUNTABILITY

The Arena Fund ended the year with a deficit unassigned fund balance of \$9,922.

3. DEPOSITS

At year-end, the carrying amount of the Fund's deposits was \$164,674 (total cash and cash equivalents of \$148,467 plus \$16,207 of petty cash) and the bank balance was \$159,532. As of year-end, none of the Fund's \$159,532 bank balance was uninsured.

4. RISK MANAGEMENT

The Fund is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Fund carries commercial insurance. The Fund has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

5. DEFINED CONTRIBUTION PENSION PLAN

The Fund has a defined contribution pension plan covering substantially all full-time employees who have completed one year of employment. The employer reserves the right to amend or terminate the plan at any time. The Fund contributes 3% of participating employees' annual compensation to the plan. There is no employee contribution requirement. Employer contributions for the year ended June 30, 2015 were \$19,960.

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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 8, 2015

To the Honorable Mayor and
Members of the City Commission of the
City of Battle Creek, Michigan and
Management of the Kellogg Arena Fund
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 *Kellogg Arena Fund, a special revenue fund of the City of Battle Creek, Michigan* (the "Arena Fund"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Arena Fund's financial statements, and have issued our report thereon dated December 8, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Arena Fund's 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 Arena Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Arena Fund'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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Arena Fund'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 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 Arena Fund'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.

Rehman Loham LLC