

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

Year Ended
June 30, 2018

Financial
Statements and
Supplementary
Information

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BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

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INDEPENDENT AUDITORS' REPORT

December 26, 2018

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the *Battle Creek Tax Increment Finance Authority, a component unit of the City of Battle Creek, Michigan* (the "Authority") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority, as of June 30, 2018, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Rehmann Lobson LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Management's Discussion and Analysis

The Battle Creek Tax Increment Finance Authority (the "Authority") was established pursuant to Public Act 450 of 1980. The Authority is a component unit of the City of Battle Creek, Michigan, and presents this management discussion and analysis of its financial performance as an overview of financial activities for the fiscal year ended June 30, 2018.

Using this Annual Report

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The basic financial statements are comprised of the following:

- The statement of net position and governmental funds balance sheet presents information on all of the Authority's assets, liabilities and deferred inflow of resources, with the difference reported as net position/fund balance. Over time, increases or decreases in net position/fund balance may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- The statement of activities and governmental fund revenues, expenditures and changes in fund balances presents information showing how the Authority's net position/fund balance changed during the most recent fiscal year.
- The statement of revenues, expenditures, and changes in fund balance - budget and actual - general fund presents information showing the comparison of the Authority's actual revenues and expenditures to what was budgeted.
- The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

The net position of the Authority is summarized for the purpose of determining the overall fiscal position. As shown below, the Authority's assets exceeded liabilities by \$29,411,843 at the end of the fiscal year, of which \$22,049,676 was the investment in capital assets, leaving \$7,362,167 in unrestricted net position. The investment in capital assets increased by approximately \$6.1 million in the current year due to the SW Quad of Hill Brady and Skyline project. The Authority had an increase in capital project expenditures related to these projects which also increased capital assets.

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Management's Discussion and Analysis

A comparative analysis of the data is presented below:

	Net Position as of June 30,	
	2018	2017
Assets		
Current and other assets	\$14,912,162	\$23,082,962
Capital assets, net	<u>22,049,676</u>	<u>15,942,613</u>
Total assets	<u>36,961,838</u>	<u>39,025,575</u>
Liabilities		
Other liabilities	3,004,360	3,722,342
Long-term debt	<u>4,545,635</u>	<u>4,939,839</u>
Total liabilities	<u>7,549,995</u>	<u>8,662,181</u>
Net position		
Investment in capital assets	22,049,676	15,942,613
Unrestricted	<u>7,362,167</u>	<u>14,420,781</u>
Total net position	<u>\$29,411,843</u>	<u>\$30,363,394</u>

For the current year, net position decreased by \$951,551. This unfavorable change from the prior year is a result of the decrease in the state aid revenue through the personal property tax reimbursements in the current year. While total expenses as compared to the prior year decreased by \$843,988 due to a decrease in administrative services. The decrease in revenues of \$1,852,431 as compared to the lesser incremental decrease in expenses of \$843,988 as compared to prior year was the primary reason for the decrease to the Authority's net position of \$951,551.

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Management's Discussion and Analysis

	Changes in Net Position for the Year Ending June 30,	
	2018	2017
Revenues		
Program revenues:		
Charges for services	\$ 263,781	\$ 27,628
Capital grants and contributions	2,870,961	4,576,980
General revenues:		
Property taxes	1,486,153	1,885,897
Rents and leases	21,940	25,967
Unrestricted investment earnings	175,361	154,155
Total revenues	4,818,196	6,670,627
Total expenses	5,769,747	6,613,735
Change in net position	(951,551)	56,892
Net position, beginning of year	30,363,394	30,306,502
Net position, end of year	\$29,411,843	\$30,363,394

Governmental funds. As of the end of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$8,297,120 a decrease of \$7,320,451 from the prior year. This is a result of increased capital project expenditures in the current year related to the SW Quad of Hill Brady and Skyline project.

The fund balance of the Authority's general fund increased by \$525,469 during the current fiscal year. This is a result of additional state aid revenue through the personal property tax reimbursements.

General Fund Budgetary Highlights

The general fund original adopted budget reflected expenditures in excess of revenues and a use of fund balance of \$101,520. Mid-year budget adjustments were made to reflect an increase in the state aid revenue through the personal property tax reimbursements resulting in a budgeted increase in fund balance of \$1,213,656. Ultimately actual revenues were short of the budget (primarily in the intergovernmental line item) resulting in an increase to fund balance in the amount of \$525,469.

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Management's Discussion and Analysis

Capital Assets

The Authority had \$22,049,676 in capital assets at the end of the fiscal year. Capital assets include land, land improvements, buildings, and equipment with an original cost of more than \$10,000. Major outlays for capital assets are capitalized as projects are constructed or the assets are otherwise acquired and placed into service.

	2018	2017
Land	\$14,266,053	\$12,817,571
Construction in progress	6,206,785	2,068,490
Land improvements	1,536,461	998,839
Buildings	31,829	46,723
Equipment	8,548	10,990
Total	<u>\$22,049,676</u>	<u>\$15,942,613</u>

The Authority had an increase in capital assets of approximately \$6.1 million at the end of the fiscal year as a result of the construction in progress for the SW Quad of Hill Brady and Skyline project.

Long-term Debt

At the end of the current fiscal year, the Authority had general obligation bonds outstanding of \$4,555,000. General obligation bonds were issued to provide funds for the construction and acquisition of major capital assets. These bonds are outstanding with varying amounts of principal maturing until 2030.

	2018	2017
General obligation bonds		
2009 Limited tax bonds	\$ 2,495,000	\$ 2,675,000
2010 Limited tax bonds (hangar)	2,060,000	2,275,000
Total	<u>\$ 4,555,000</u>	<u>\$ 4,950,000</u>

Economic Factors

The Battle Creek Tax Increment Finance 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 2018, total community development expenses were \$5,572,127, which included \$51,390 of depreciation (a non-cash item).

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

■ Management's Discussion and Analysis

Contacting the Battle Creek Tax Increment Finance Authority

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

BASIC FINANCIAL STATEMENTS

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Statement of Net Position

June 30, 2018

	Governmental Activities
Assets	
Pooled cash and investments	\$ 10,319,759
Accounts receivable	895,701
Taxes receivable	458,322
Interest receivable	70,465
Loans receivables - due in more than one year	3,167,915
Capital assets not being depreciated	20,472,838
Capital assets being depreciated, net	<u>1,576,838</u>
Total assets	<u>36,961,838</u>
Liabilities	
Accounts payable and accrued liabilities	2,988,805
Accrued interest payable	15,555
Long-term debt:	
Due within one year	409,204
Due in more than one year	<u>4,136,431</u>
Total liabilities	<u>7,549,995</u>
Net position	
Investment in capital assets	22,049,676
Unrestricted	<u>7,362,167</u>
Total net position	<u>\$ 29,411,843</u>

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

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Statement of Activities

For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Capital Grants and Contributions	
Governmental activities				
Community development	\$ 5,572,127	\$ 263,781	\$ 2,870,961	\$ (2,437,385)
Interest on long-term debt	197,620	-	-	(197,620)
Total governmental activities	\$ 5,769,747	\$ 263,781	\$ 2,870,961	(2,635,005)
General revenues				
Property taxes				1,486,153
Rents and leases				21,940
Unrestricted investment earnings				175,361
Total general revenues				1,683,454
Change in net position				(951,551)
Net position, beginning of year				30,363,394
Net position, end of year				\$ 29,411,843

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

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Balance Sheet Governmental Funds June 30, 2018

	General	Debt Service	Airport Bonds
Assets			
Pooled cash and investments	\$ 3,269,791	\$ -	\$ 10,336
Accounts receivable	895,701	-	-
Taxes receivable	458,322	-	-
Interest receivable	70,465	-	-
Loans receivables - due in more than one year	3,167,915	-	-
Total assets	\$ 7,862,194	\$ -	\$ 10,336
Liabilities			
Accounts payable	\$ 2,801,512	\$ -	\$ -
Deferred inflows of resources			
Unavailable revenue:			
Property taxes	458,322	-	-
Loans receivable	3,167,915	-	-
Total deferred inflows of resources	3,626,237	-	-
Fund balances			
Committed for capital projects	-	-	10,336
Unassigned	1,434,445	-	-
Total fund balances	1,434,445	-	10,336
Total liabilities, deferred inflows of resources and fund balances	\$ 7,862,194	\$ -	\$ 10,336

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



Capital Projects	Total Governmental Funds
\$ 7,039,632	\$ 10,319,759
-	895,701
-	458,322
-	70,465
-	<u>3,167,915</u>
<u>\$ 7,039,632</u>	<u>\$ 14,912,162</u>
<u>\$ 187,293</u>	<u>\$ 2,988,805</u>
-	458,322
-	<u>3,167,915</u>
-	<u>3,626,237</u>
6,852,339	6,862,675
-	<u>1,434,445</u>
<u>6,852,339</u>	<u>8,297,120</u>
<u>\$ 7,039,632</u>	<u>\$ 14,912,162</u>

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BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2018

Fund balances - total governmental funds	\$ 8,297,120
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	20,472,838
Capital assets being depreciated, net	1,576,838
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current expenditures. Those assets (i.e., receivables) are offset by deferred inflows of resources in the governmental funds and, therefore, not included in fund balance.	
Unavailable taxes receivable	458,322
Unavailable loans receivable	3,167,915
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	(4,545,635)
Accrued interest payable on long-term debt	(15,555)
Net position of governmental activities	<u>\$ 29,411,843</u>

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

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

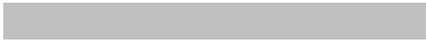
Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2018

	General	Debt Service	Airport Bonds
Revenues			
Property taxes	\$ 1,357,843	\$ -	\$ -
Intergovernmental	2,870,961	-	-
Rents and leases	-	-	-
Unrestricted investment earnings	175,361	-	-
Charges for services	263,781	-	-
Total revenues	4,667,946	-	-
Expenditures			
Community development	3,549,575	-	-
Debt service:			
Principal	-	215,000	180,000
Interest and fiscal charges	-	93,731	104,171
Total expenditures	3,549,575	308,731	284,171
Revenues over (under) expenditures	1,118,371	(308,731)	(284,171)
Other financing sources (uses)			
Transfers in	-	308,731	284,171
Transfers out	(592,902)	-	-
Total other financing sources (uses)	(592,902)	308,731	284,171
Net change in fund balances	525,469	-	-
Fund balances, beginning of year	908,976	-	10,336
Fund balances, end of year	\$ 1,434,445	\$ -	\$ 10,336

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



Capital Projects	Total Governmental Funds
\$ -	\$ 1,357,843
-	2,870,961
21,940	21,940
-	175,361
-	263,781
<hr/>	<hr/>
21,940	4,689,886
<hr/>	<hr/>
7,867,860	11,417,435
-	395,000
-	197,902
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7,867,860	12,010,337
<hr/>	<hr/>
(7,845,920)	(7,320,451)
<hr/>	<hr/>
-	592,902
-	(592,902)
<hr/>	<hr/>
-	-
<hr/>	<hr/>
(7,845,920)	(7,320,451)
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14,698,259	15,617,571
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\$ 6,852,339	\$ 8,297,120
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BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2018

Net change in fund balances - total governmental funds	\$ (7,320,451)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Acquisition/construction of capital assets	6,158,453
Depreciation expense	(51,390)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather deferred to subsequent fiscal years.	
Change in unavailable revenues related to taxes receivable	128,310
Governmental funds report loans to other component units of the reporting entity as an expenditure; however, in the statement of activities, those costs are eliminated and capitalized as long-term receivables.	
Loans made to other component units	13,245
Amounts repaid on loans	(275,000)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term debt in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of net position.	
Principal payments on long-term debt	395,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Change in accrued interest payable on long-term debt	<u>282</u>
Change in net position of governmental activities	<u>\$ (951,551)</u>

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

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 1,693,649	\$ 1,347,502	\$ 1,357,843	\$ 10,341
Intergovernmental	2,500,000	3,578,181	2,870,961	(707,220)
Unrestricted investment earnings	299,594	278,369	175,361	(103,008)
Charges for services	329,500	363,500	263,781	(99,719)
Total revenues	4,822,743	5,567,552	4,667,946	(899,606)
Expenditures				
Community development	4,331,361	3,760,994	3,549,575	(211,419)
Revenues over (under) expenditures	491,382	1,806,558	1,118,371	(688,187)
Other financing uses				
Transfers out	(592,902)	(592,902)	(592,902)	-
Change in fund balance	(101,520)	1,213,656	525,469	(688,187)
Fund balance, beginning of year	908,976	908,976	908,976	-
Fund balance, end of year	\$ 807,456	\$ 2,122,632	\$ 1,434,445	\$ (688,187)

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

NOTES TO FINANCIAL STATEMENTS

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

Government-wide and Fund Financial Statements

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. Governmental activities generally are financed through taxes and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues 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. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Notes to Financial Statements

Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Authority reports the following major governmental funds:

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

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

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

The *capital projects fund* accounts for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

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

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Notes to Financial Statements

Fund Balances

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance* is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Board. A formal resolution of the Board is required to establish, modify, or rescind a fund balance commitment. Assigned fund balances are neither restricted nor committed. The Board authorized City management to assign fund balance. Unassigned fund balance is the residual classification for the general fund.

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

Capital Assets

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

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

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

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

	Years
Land improvements	50
Buildings	25
Equipment	10

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Notes to Financial Statements

Deferred Outflows of Resources

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

Long-term Obligations

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

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

Deferred Inflows of Resources

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

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Notes to Financial Statements

Budgetary Information

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

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

For the year ended June 30, 2018, the Authority's general fund expenditures were within budget.

2. CASH AND INVESTMENTS

At year-end, the carrying amount of the Authority's pooled cash and investments, which were deposited entirely in the City's internal cash management pool, was \$10,319,759. Because it is infeasible to allocate risk to individual pool participants, aggregate cash and investment categorizations are presented in the City's financial statements.

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Notes to Financial Statements

3. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 12,817,571	\$ 1,448,482	\$ -	\$ -	\$ 14,266,053
Construction in progress	2,068,490	4,138,295	-	-	6,206,785
	<u>14,886,061</u>	<u>5,586,777</u>	<u>-</u>	<u>-</u>	<u>20,472,838</u>
Capital assets being depreciated:					
Land improvements	1,336,741	571,676	-	-	1,908,417
Buildings	315,845	-	-	-	315,845
Equipment	446,951	-	-	-	446,951
Total capital assets being depreciated	<u>2,099,537</u>	<u>571,676</u>	<u>-</u>	<u>-</u>	<u>2,671,213</u>
Less accumulated depreciation for:					
Land improvements	(337,902)	(34,054)	-	-	(371,956)
Buildings	(269,122)	(14,894)	-	-	(284,016)
Equipment	(435,961)	(2,442)	-	-	(438,403)
Total accumulated depreciation	<u>(1,042,985)</u>	<u>(51,390)</u>	<u>-</u>	<u>-</u>	<u>(1,094,375)</u>
Total capital assets being depreciated, net	<u>1,056,552</u>	<u>520,286</u>	<u>-</u>	<u>-</u>	<u>1,576,838</u>
Total capital assets, net	<u>\$ 15,942,613</u>	<u>\$ 6,107,063</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,049,676</u>

Depreciation expense in the amount of \$51,390 was reported in the community development function in the government-wide statement of activities.

At June 30, 2018, the Authority had outstanding commitments through a construction contract of approximately \$449,000 for building and equipment improvements.

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Notes to Financial Statements

4. LOANS RECEIVABLE

During the year ended June 30, 2008, the Authority approved a loan to the Battle Creek Brownfield Redevelopment Authority ("BCBRA"; a component unit of the City of Battle Creek, Michigan) in the total amount of \$3,530,000 to be used in accordance with a particular brownfield plan. As of June 30, 2018, \$694,377 was outstanding (\$2,560,708 had been drawn) on the authorized amount (no amount was drawn during the current year) and is included in the long-term receivable reported in the statement of net position. Future repayment from the BCBRA is based on its collection of tax increment revenues.

During the year ended June 30, 2010, the Authority approved a loan to the BCBRA in the total amount of \$5,500,000 to be used in accordance with another particular brownfield plan. As of June 30, 2018, \$2,473,538 had been drawn and is outstanding on the authorized amount and is also included in the long-term receivable reported in the statement of net position. Future repayment of this loan by the BCBRA is based on its collection of tax increment revenues.

Each of the above loans includes interest at 5% per annum. The total amount drawn by BCBRA on the loans through June 30, 2018 is \$5,034,246 (\$13,245 in the current year). As of June 30, 2018, \$1,866,331 has been paid on the loans resulting in a net balance of \$3,167,915 at June 30, 2018. No amount is presently reported as due within one year since repayment is based on the future collection of incremental tax revenues.

5. TRANSFERS

For the year ended June 30, 2018, interfund transfers are summarized as follows:

	Transfers Out
Transfers In	General
Debt service	\$ 308,731
Airport bonds	<u>284,171</u>
Totals	<u>\$ 592,902</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them and (2) 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.

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Notes to Financial Statements

6. LONG-TERM DEBT

Following is a summary of the Authority's debt outstanding as of June 30, 2018:

	Year of Maturity	Interest Rate	Original Amount	Outstanding Principal
General Obligation Bonds				
2009 Limited tax bonds	12/1/2028	3.00 - 4.30%	\$ 3,935,000	\$ 2,495,000
2010 Limited tax bonds (hangar)	6/1/2030	2.00 - 4.75%	3,585,000	<u>2,060,000</u>
				<u>\$ 4,555,000</u>

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

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

	Principal	Interest
2019	\$ 410,000	\$ 183,787
2020	325,000	169,316
2021	340,000	156,986
2022	350,000	143,839
2023	365,000	129,849
2024-2028	2,080,000	406,008
2029-2030	<u>685,000</u>	<u>35,113</u>
	<u>\$ 4,555,000</u>	<u>\$ 1,224,898</u>

Changes in Long-term Debt. Long-term liability activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 4,950,000	\$ -	\$ (395,000)	\$ 4,555,000	\$ 410,000
Less bond issuance discounts	<u>(10,161)</u>	<u>-</u>	<u>796</u>	<u>(9,365)</u>	<u>(796)</u>
	<u>\$ 4,939,839</u>	<u>\$ -</u>	<u>\$ (394,204)</u>	<u>\$ 4,545,635</u>	<u>\$ 409,204</u>

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Notes to Financial Statements

7. PROPERTY TAXES

Property tax revenue is derived pursuant to a tax increment financing agreement between the Authority and various applicable taxing districts. Real and personal property taxes are levied and attach as an enforceable lien on properties located within the boundaries of the tax increment financing district. The City 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 Battle Creek Tax Increment Finance Authority district to the extent that the current taxable value exceeds the base year taxable value. Renaissance zone property is tax abated property against which property taxes are not currently levied, but in the near future will return or revert to the ad valorem tax rolls. Similarly, industrial and commercial facility tax properties are abated personal property that receive up to a 50% reduction in the millage rate for a stated number of years as approved by the City of Battle Creek, Michigan (or applicable taxing jurisdiction).

The captured increments in taxable value for the 2017 levy are summarized as follows:

Ad valorem property	\$ 62,849,773
IFT*/CFT**/ Other property	<u>52,251,546</u>
Total	<u><u>\$115,101,319</u></u>

* Industrial Facility Tax

** Commercial Facility Tax

8. CONTINGENCIES

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



SUPPLEMENTARY INFORMATION

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Continuing Bond Disclosures (Unaudited)

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

Assessed Value as of December 31	Year of Tax Levy	Fiscal Year Ended June 30	Ad Valorem SEV		Ad Valorem TV	
			Amount	% Change	Amount	% Change
2016	2017	2018	\$ 82,356,184	-5.06%	\$ 79,625,099	-6.34%
2015	2016	2017	86,744,497	-37.71%	85,017,939	-38.88%
2014	2015	2016	139,269,155	2.31%	139,089,323	2.25%
2013	2014	2015	136,121,530	1.73%	136,027,637	1.77%
2012	2013	2014	133,808,353	-6.63%	133,662,882	-6.42%
2011	2012	2013	143,315,610	2.04%	142,831,246	2.09%
2010	2011	2012	140,456,959	-6.35%	139,913,722	-6.26%
2009	2010	2011	149,976,594	-3.71%	149,264,563	-3.70%
2008	2009	2010	155,759,428	-4.05%	154,998,062	-3.70%
2007	2008	2009	162,330,340	-7.95%	160,953,906	-7.89%

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	Commercial	Industrial	Total
2018	\$ 10,156,357	\$ 69,468,742	\$ 79,625,099
2017	9,931,597	75,086,342	85,017,939
2016	10,524,286	128,565,037	139,089,323
2015	12,741,620	123,286,017	136,027,637
2014	15,134,007	118,528,875	133,662,882
2013	16,765,363	126,065,883	142,831,246
2012	15,558,198	124,355,524	139,913,722
2011	14,226,748	135,037,815	149,264,563
2010	8,633,075	146,364,987	154,998,062
2009	7,203,220	153,750,686	160,953,906

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

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BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Continuing Bond Disclosures (Unaudited)

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

Fiscal Year Ended June 30	Real	Personal	Total
2018	\$ 54,549,418	\$ 25,075,681	\$ 79,625,099
2017	53,021,161	31,996,778	85,017,939
2016	52,029,712	87,059,611	139,089,323
2015	54,665,855	81,361,782	136,027,637
2014	53,835,599	79,827,283	133,662,882
2013	56,813,866	86,017,380	142,831,246
2012	57,040,919	82,872,803	139,913,722
2011	61,672,808	87,591,755	149,264,563
2010	64,145,081	90,852,981	154,998,062
2009	67,056,450	93,897,456	160,953,906

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

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

Fiscal Year Ended June 30	Real	Personal	Total
2018	\$ 18,550,392	\$ 34,760,516	\$ 53,310,908
2017	19,424,778	42,196,701	61,621,479
2016	20,646,502	111,453,701	132,100,203
2015	19,304,922	111,027,139	130,332,061
2014	26,064,354	98,794,626	124,858,980
2013	28,196,419	115,284,126	143,480,545
2012	26,521,613	121,779,255	148,300,868
2011	25,959,973	128,444,334	154,404,307
2010	24,162,493	145,800,236	169,962,729
2009	22,643,563	162,485,937	185,129,500

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

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BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Continuing Bond Disclosures (Unaudited)

5. Property Tax Collections

Fiscal Year Ended June 30	Taxes Levied	Collections to March 1	MBT Reimbursement	Total Collected
2018	\$ 1,413,591	\$ 1,354,888	\$ -	\$ 1,354,888
2017	2,015,970	1,885,239	-	1,885,239
2016	3,862,179	3,862,179	-	3,862,179
2015	4,896,858	4,896,858	-	4,896,858
2014	4,713,335	4,713,335	644,265	5,357,600
2013	5,002,634	5,002,634	837,365	5,839,999
2012	5,509,155	5,509,155	2,604,869	8,114,024
2011	5,622,324	5,622,324	3,860,229	9,482,553
2010	6,372,819	6,372,819	4,156,853	10,529,672
2009	6,548,404	6,546,758	3,452,900	9,999,658

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

Note - Starting in 2017 levied and collections to March 1 amounts are lower than prior year due to the State Reimbursement of Tax Incremental Finance Authority Personal Property Loss for Authorities with Increased Captured Loss.

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

Fiscal Year Ended June 30	City	B.C. & ISD Schools	County	State Education Tax
2018	9.6720	20.7327	4.0334	6.0000
2017	13.4310	20.7327	4.0334	6.0000
2016	12.3910	20.7327	4.0334	6.0000
2015	12.9980	20.7327	4.0334	6.0000
2014	13.3390	20.7327	4.0334	6.0000
2013	13.6180	20.7327	4.0334	6.0000
2012	13.6790	20.7327	4.0334	6.0000
2011	13.6790	20.7794	4.0334	6.0000
2010	13.7490	20.7794	4.0334	6.0000
2009	13.7850	20.7793	4.0334	6.0000

Note - Starting in 2018, the Authority's Board of Directors approved a 35% pass through of the City captured property tax to the community-wide economic development fund.

continued...

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Continuing Bond Disclosures (Unaudited)

7. Taxable Value of Twenty Largest Ad Valorem Taxpayers (Fiscal Year Ended June 30, 2018)

Taxpayer	Product or Service	Taxable Value	% of Taxable Value
1 Denso Manufacturing	Automotive parts	\$ 11,883,272	14.92%
2 TRMI Inc.	Automotive parts	5,909,501	7.42%
3 Marley Precision Inc.	Automotive parts	4,947,672	6.21%
4 Musashi Auto Parts	Automotive parts	4,412,734	5.54%
5 Il Stanley Co., Inc.	Automotive parts	3,477,897	4.37%
6 Agracel Inc.	Industrial developer	3,068,621	3.85%
7 VIB Inc.	Industrial printing	2,927,384	3.68%
8 WKW Erbsloeh North America Hold	Manufacturer	2,113,830	2.65%
9 Semco Energy Inc.	Natural gas utility	2,082,070	2.61%
10 Systex Products Corp.	Plastic manufacturer	2,074,222	2.60%
11 ASMO Manufacturing	Automotive parts	2,070,852	2.60%
12 Prairie Farms Dairy Inc.	Dairy products	2,034,745	2.56%
13 Dickman Road Associates LLC	Property management	1,998,033	2.51%
14 Duncan Aviation Inc.	Aviation	1,839,704	2.31%
15 Adient US LLC	Automotive seating	1,735,736	2.18%
16 Hi-Lex Corp.	Automotive parts	1,719,578	2.16%
17 Yorozu Automotive	Automotive parts	1,697,249	2.13%
18 Lotte USA Inc.	Automotive parts	1,602,764	2.01%
19 EPI Printers, Inc.	Printing	1,364,388	1.71%
20 Consumers Energy Co	Electric utility	1,279,847	1.61%
		<u>\$ 60,240,099</u>	<u>75.63%</u>

continued...

BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

Continuing Bond Disclosures (Unaudited)

8. Taxable Value of Twenty Largest IFT Taxpayers (Fiscal Year Ended June 30, 2018)

Taxpayer	Product or Service	Taxable Value	% of Taxable Value
1 Denso Manufacturing Michigan, Inc.	Automotive parts	\$ 15,454,954	28.99%
2 Toda America Inc.	Automotive parts	6,942,184	13.02%
3 Musashi Auto Parts	Automotive parts	6,750,072	12.66%
4 Il Stanley Company, Inc.	Automotive parts	4,854,415	9.11%
5 Dieomatic Inc.	Solar panels	3,988,513	7.48%
6 TRMI, Inc.	Electronic switches	3,191,475	5.99%
7 Roesler Metal Finishing	Metal finishing	2,438,434	4.57%
8 Geislinger Corp.	Molded parts	1,955,278	3.67%
9 Kellogg Company	Breakfast foods	1,005,454	1.89%
10 Prairie Farms Dairy Inc.	Dairy products	861,149	1.62%
11 ASMO Manufacturing	Automotive parts	818,505	1.54%
12 Advanced Special Tools Inc.	Specialty tools	698,200	1.31%
13 Pyper Products	Plastic injection molding	639,990	1.20%
14 Hi-Lex Corp	Automotive parts	574,482	1.08%
15 WKW Roof Rail Systems	Manufacturing	478,810	0.90%
16 Systex Products Corp.	Plastic moldings	404,204	0.76%
17 Bleistahl North America LP	Automotive parts	303,512	0.57%
18 Nexthermal Corporation	Heating elements	237,785	0.45%
19 EPI Printers, Inc.	Printing	191,940	0.36%
20 Advanced Plastic Manufacturing Inc.	Specialty tools	183,492	0.34%
		<u>\$ 51,972,848</u>	<u>97.51%</u>

concluded.