

CEREAL CITY DEVELOPMENT CORPORATION

Year Ended
June 30, 2021

Financial
Statements

Rehmann

CEREAL CITY DEVELOPMENT CORPORATION

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INDEPENDENT AUDITORS' REPORT

December 21, 2021

Board of Directors
Cereal City Development Corporation
Battle Creek, Michigan

We have audited the accompanying financial statements of the **Cereal City Development Corporation** (a Michigan not-for-profit organization; the "Corporation"), a discretely presented component unit of the City of Battle Creek, Michigan, which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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 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 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 entity'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.

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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 Corporation as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance 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 21, 2021, on our consideration of the Corporation'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 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 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 Corporation's internal control over financial reporting and compliance.

Rehmann Lobson LLC

CEREAL CITY DEVELOPMENT CORPORATION

Statement of Financial Position

June 30, 2021

Assets

Current assets:

Cash and cash equivalents	\$	350,994
Accounts receivable		219,222
Inventories		19,048
Prepaid items		5,095

Total current assets 594,359

Property and equipment, net 36,326

Total assets \$ 630,685

Liabilities

Current liabilities:

Accounts payable	\$	104,363
Deferred revenue		16,835

Total liabilities 121,198

Net assets

Without donor restrictions 509,487

Total liabilities and net assets \$ 630,685

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

CEREAL CITY DEVELOPMENT CORPORATION

Statement of Activities

For the Year Ended June 30, 2021

Revenues and other support

Community and event revenue:

Events	\$ 10,969
Facility rental	92,373
Concessions	69,388
Grants	25,500
Paycheck Protection Program grant (Note 4)	304,263
Sponsorships	1,565
Contractual services	346,673
Local revenue - Battle Creek Downtown Development Authority	<u>370,000</u>

Total revenues and other support

1,220,731

Expenses

Program services:

Community and event services	331,931
Contractual services	346,673

Support services:

Management and general	<u>140,208</u>
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Total expenses

818,812

Change in net assets

401,919

Net assets without donor restrictions, beginning of year

107,568

Net assets without donor restrictions, end of year

\$ 509,487

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

CEREAL CITY DEVELOPMENT CORPORATION

Statement of Functional Expenses

For the Year Ended June 30, 2021

	Program Services		Support Services	
	Community and Event Services	Contractual Services	Management and General	Grand Total
Salaries and fringes	\$ 83,718	\$ 346,673	\$ 96,398	\$ 526,789
Training and travel	169	-	169	338
Advertising and promotion	8,043	-	-	8,043
Utilities	75,449	-	8,383	83,832
Small equipment	-	-	3,890	3,890
Licenses and fees	3,999	-	6,987	10,986
Equipment and building rental	3,460	-	-	3,460
Professional services	16,466	-	5,489	21,955
Dues and subscriptions	2,323	-	-	2,323
Contracted services	16,454	-	945	17,399
Communication	3,765	-	1,255	5,020
Insurance	14,567	-	4,856	19,423
Supplies	51,271	-	1,485	52,756
Maintenance	21,444	-	9,190	30,634
Depreciation	8,524	-	-	8,524
Miscellaneous	22,279	-	1,161	23,440
Total expenses	\$ 331,931	\$ 346,673	\$ 140,208	\$ 818,812

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

CEREAL CITY DEVELOPMENT CORPORATION

Statement of Cash Flows

For the Year Ended June 30, 2021

Cash flows from operating activities

Change in net assets	\$ 401,919
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	8,524
Paycheck Protection Program grant	(117,256)
Changes in operating assets and liabilities which provided (used) cash:	
Accounts receivable	(203,537)
Inventories	16,860
Prepaid items	5,937
Accounts payable	19,042
Deferred revenue	(6,220)

Net cash provided by operating activities 125,269

Cash flows used in investing activities

Purchase of property and equipment	(3,496)
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Net increase in cash and cash equivalents 121,773

Cash and cash equivalents, beginning of year 229,221

Cash and cash equivalents, end of year \$ 350,994

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

NOTES TO FINANCIAL STATEMENTS

CEREAL CITY DEVELOPMENT CORPORATION

Notes To Financial Statements

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Cereal City Development Corporation (the "Corporation") is a not-for-profit corporation organized in 1984. The Corporation was formed to attract a variety of events that contribute to the community's positive economic impact and quality of life, and assist with the economic development in the City of Battle Creek, Michigan (the "City"). Related to this mission, the Corporation manages and operates the Kellogg Arena, a City-owned public entertainment and recreation facility, pursuant to an agreement with the City.

Basis of Presentation

Net assets, support, revenues and gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions: Net assets available for general operations and not subject to donor (or certain grantor) restrictions. All of the Corporation's net assets are without donor restrictions.

Net Assets with Donor Restrictions: Net assets subject to donor - (or certain grantor) - imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both and are reported within net assets released from restrictions. The Corporation has no net assets with donor restrictions as of June 30, 2021 and 2020.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting year. Actual results could differ from those estimates. Significant estimates include, but are not limited to, useful lives of property and equipment and allocation of certain costs among programs.

CEREAL CITY DEVELOPMENT CORPORATION

Notes To Financial Statements

Cash and Cash Equivalents

The Corporation's cash and cash equivalents consist of cash on hand and demand deposits.

The Corporation maintains demand deposits in bank accounts which are insured by the Federal Deposit Insurance Corporation. Management believes the Corporation is not exposed to any significant interest rate or other financial risk on these deposits.

Contributions

The Corporation recognizes contributions when an unconditional promise to give is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. Support received from events and grants are recognized as contributions as the grantor does not receive commensurate value. The Corporation does not have any conditional promises to give.

Revenues from Contracts with Customers

The Corporation conducts events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event— the exchange component, and a portion represents a contribution to the Corporation. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of entertainment provided at events is measured at the actual cost to the Corporation. The contribution component is the excess of the gross proceeds over the fair value of the direct donor benefit. The direct costs of the events, which ultimately benefit the donor rather than the Corporation, are not significant. The performance obligation is delivery of the event, which is usually accompanied by a presentation. The event fee is set by the Corporation. FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requires allocation of the transaction price to the performance obligation(s). Accordingly, the Corporation separately presents the events revenue in its statements of activities. Event fees collected by the Corporation in advance of its delivery are initially recognized as liabilities (deferred revenue) and recognized as event revenue after delivery of the event.

CEREAL CITY DEVELOPMENT CORPORATION

Notes To Financial Statements

Grants Revenue

Grant awards are either recorded as contributions or exchange transactions based on criteria contained in the grant award:

Grant awards that are contributions: Grants that qualify as contributions are recorded as invoiced to the funding sources in accordance with the terms of the award and ASC Topic 958-605, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Revenue is recognized in the accounting period when the related allowable expenses or asset acquisition costs are incurred. Amounts received in excess of expenses or asset acquisitions are reflected as grant funds received in advance.

Grant awards that are exchange transactions: Exchange transactions are typically reimbursed based on a predetermined rate for services performed in accordance with the terms of the award and ASC Topic 606, *Revenue from Contracts with Customers*. The revenue is recognized when control of the promised goods or services is transferred to the customer (grantor) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. There were no grant awards that were considered exchange transactions during the year ended June 30, 2021.

Paycheck Protection Program (PPP) Grant

The Corporation recognized under the conditional grant model contributions of \$304,263 related to the PPP Loan in the current year. The Corporation has limited discretion on the conduct of the activity of the grant and recognizes support as it incurs qualifying expenses since forgiveness is expected. See note 4 for additional information.

Local Revenue - Battle Creek Downtown Development Authority

The local revenue from the Battle Creek Downtown Development Authority (the "Authority") is recorded as contributions by the Corporation. The Authority contributes the revenue annually to assist in the promotion of program events in the community. This is considered an unconditional contribution with no purpose or time restrictions and is reported as revenues without donor restrictions.

CEREAL CITY DEVELOPMENT CORPORATION

Notes To Financial Statements

Revenue From Contracts with Customers

Facility Rental Revenue (Exchange)

Facility rental revenue arises from rental of the Kellogg Arena for various events. This revenue is recognized as earned once the event is held. Amounts received prior to year end represent a contract liability and are included in deferred revenue in the accompanying statement of financial position. Deferred revenue represents a contract liability and totaled \$16,835 at June 30, 2021.

The following table provides information about significant changes in deferred revenue for the year ended June 30, 2021:

Deferred revenue, beginning of year	\$ 23,055
Revenue recognized that was included in deferred revenue at the beginning of year	(6,720)
Increase in deferred revenue due to cash received during the year	<u>500</u>
Deferred revenue, end of year	<u><u>\$ 16,835</u></u>

Concessions Revenue (Exchange)

The Corporation operates concession stands and a bar at the Kellogg Arena and Bailey Park, which sell food and beverages on a retail basis to customers. The performance obligation is the delivery of the good to the customer. The transaction price is established by the Corporation based on retail prices suggested by the suppliers. As each item is individually priced, no allocation of the transaction price is necessary. The Corporation recognizes revenue as the customer pays and takes possession of the merchandise.

Contractual Services Revenue (Exchange)

The Corporation acts as a managing agent for several of the City's facilities. As a part of this agreement, the Corporation receives revenue to maintain and operate the City's facilities and is able to use the facilities for various events held by the Corporation. Contractual services revenue is recognized ratably over the period the managing agent services are performed. Fees for these services are billed at the end of each month equal to the related compensation costs.

CEREAL CITY DEVELOPMENT CORPORATION

Notes To Financial Statements

Accounts Receivable

Accounts receivable 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. The receivables are all due within 30 days, there is no collateral required and the receivables do not have a financing component. Management currently estimates that all receivables are collectible and, therefore, there is no allowance for uncollectible accounts. Additionally, the Corporation has a receivable outstanding at year end in the amount of \$195,823 for the employee retention credit in relation to CARES Act funding. As of June 30, 2021 and 2020, accounts receivable totaled \$219,222 and \$15,685, respectively.

Inventories

Inventories are valued at the lower of cost using the first-in/first-out method, or net realizable value.

Prepaid Items

Payments to vendors for services that will benefit periods beyond the Corporation's fiscal year-end are recorded as prepaid items.

Property and Equipment and Depreciation

Property and equipment are recorded at cost or, if donated, at the fair value on the date of the gift. The Corporation capitalizes equipment purchased with a unit cost greater than \$1,000 and an estimated useful life of more than one year. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management reviews these assets for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 5 to 7 years.

Income Taxes

The Corporation is a not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is exempt from similar state and local taxes. Although the Corporation was granted income tax exemption by the Internal Revenue Service, such exemption does not apply to "unrelated business taxable income". The Corporation has been classified as not a private foundation.

CEREAL CITY DEVELOPMENT CORPORATION

Notes To Financial Statements

The Corporation analyzes its income tax filing positions in the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions, to identify potential uncertain tax positions. The Corporation concluded that there are no significant uncertain tax positions requiring recognition in the Corporation's financial statements. The Corporation does not expect the total amount of unrecognized tax benefits ("UTB") (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next twelve months. The Corporation does not have any amounts accrued for interest and penalties related to UTBs at June 30, 2021, and is not aware of any claims for such amounts by federal or state income tax authorities.

Subsequent Events

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2021, the most recent statement of financial position presented herein, through December 21, 2021, the issuance date of these financial statements. There were no such subsequent events noted.

Functional Allocation of Expenses

The cost of program and support services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. All costs with the exception of utilities are clearly identified and directly charged to the program or support services. Utility costs have been allocated among the program and support services based on an estimate of time and effort.

CEREAL CITY DEVELOPMENT CORPORATION

Notes To Financial Statements

Risk and Economic Uncertainties

The outbreak of a novel coronavirus ("COVID-19"), which the World Health Organization declared in March 2020 to be a pandemic, continues to spread throughout the United States of America and the globe. Many State Governors issued temporary Executive Orders that, among other stipulations, effectively prohibit in person work activities for most businesses and industries including nonprofit entities, having the effect of suspending or severely curtailing operations. The COVID-19 outbreak is disrupting and affecting the Corporation's normal activities. As a result, the Corporation secured borrowings in the amount of \$187,007 in the current year and \$187,000 in fiscal year 2020 through the Paycheck Protection Program ("PPP") obtained through the federal Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), which was enacted into law on March 28, 2020. See Note 4. The extent of the ultimate impact of the pandemic on the Corporation's operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on funders, program recipients, employees, vendors, and other constituents, all of which cannot be reasonably predicted at this time. While management reasonably expects the COVID-19 outbreak to negatively impact the Corporation's financial position, changes in net assets, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.

2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following as of June 30, 2021:

Financial assets:	
Cash and cash equivalents	\$ 350,994
Accounts receivable	<u>219,222</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 570,216</u></u>

As part of the Corporation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures and other obligations come due. The Corporation receives funding throughout the year to cover related expenses.

CEREAL CITY DEVELOPMENT CORPORATION

Notes To Financial Statements

3. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment as of June 30, 2021:

Machinery and equipment	\$ 50,974
Less accumulated depreciation	<u>(14,648)</u>
Property and equipment, net	<u>\$ 36,326</u>

4. PAYCHECK PROTECTION PROGRAM

In May 2020, the Corporation secured borrowings in the amount of \$187,000 through the Paycheck Protection Program ("PPP"), obtained through the federal Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). In fiscal year 2020, \$69,744 of this loan was recognized in revenue as it had been spent on eligible expenses and is expected to be fully forgiven in accordance with the CARES Act. The Corporation has applied for forgiveness and is awaiting approval from the financial institution. The remaining balance of \$117,256 was spent on eligible expenses in fiscal year 2021, and the Corporation has recognized this amount spent as revenue on the statement of activities.

In January 2021, the Corporation secured a second borrowing in the amount of \$187,007 through the PPP. The loan has a two year maturity and is subject to a 1.0% interest rate. The full amount of the loan has been spent on eligible expenses and is expected to be fully forgiven in accordance with the CARES Act. As such, the Corporation has recognized this loan as revenue on the statement of activities.

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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 21, 2021

Board of Directors
Cereal City Development Corporation
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 **Cereal City Development Corporation** (a not-for-profit organization; the "Corporation"), a discretely presented component unit of the City of Battle Creek, Michigan, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated December 21, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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 Corporation'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 Lobson LLC". The signature is written in a cursive, flowing style.