

# KELLOGG ARENA FUND

Year Ended  
June 30, 2017

Financial  
Statements

# KELLOGG ARENA FUND

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**INDEPENDENT AUDITORS' REPORT**

December 20, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the Arena Fund'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, 2017, 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 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. Our opinion is not modified with respect to this matter.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2017, 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 "Lehmann Johnson LLC". The signature is written in a cursive, flowing style.

## FINANCIAL STATEMENTS

# KELLOGG ARENA FUND

## Balance Sheet

June 30, 2017

### Assets

Cash and cash equivalents	\$ 114,677
Accounts receivable	84,477
Inventories	25,629
Prepaid items	20,867
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<b>Total assets</b>	<b>\$ 245,650</b>
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### Liabilities

Accounts payable and accrued liabilities	\$ 80,946
Due to Cereal City Development Corporation	74,528
Unearned revenue	5,071
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<b>Total liabilities</b>	<b>160,545</b>
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### Fund balance

Nonspendable:	
Inventories	25,629
Prepaid items	20,867
Committed	38,609
	<hr/>

<b>Total fund balance</b>	<b>85,105</b>
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<b>Total liabilities and fund balance</b>	<b>\$ 245,650</b>
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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, 2017

	Original Budget	Amended Budget	Actual	Over (Under) Budget
<b>Revenues</b>				
Events	\$ 391,535	\$ 391,535	\$ 371,297	\$ (20,238)
Concessions	245,690	245,690	134,362	(111,328)
Novelty	1,200	1,200	1,975	775
Bar	45,730	45,730	36,097	(9,633)
Other	6,860	6,860	23,105	16,245
<b>Total revenues</b>	<u>691,015</u>	<u>691,015</u>	<u>566,836</u>	<u>(124,179)</u>
<b>Expenditures</b>				
Parks and recreation	<u>1,080,867</u>	<u>1,160,867</u>	<u>1,019,632</u>	<u>(141,235)</u>
Revenues under expenditures	<u>(389,852)</u>	<u>(469,852)</u>	<u>(452,796)</u>	<u>17,056</u>
<b>Other financing sources</b>				
Transfer from Kellogg Arena Endowment	30,000	30,000	30,000	-
Transfer from City of Battle Creek	370,000	370,000	370,000	-
<b>Total other financing sources</b>	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>	<u>-</u>
<b>Net change in fund balance</b>	10,148	(69,852)	(52,796)	17,056
Fund balance, beginning of year	<u>137,901</u>	<u>137,901</u>	<u>137,901</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 148,049</u>	<u>\$ 68,049</u>	<u>\$ 85,105</u>	<u>\$ 17,056</u>

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 Arena Fund is not a component unit of the City or any other reporting entity.

The Arena 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 a component unit of the City.

#### 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 Arena 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 Arena 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 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.

### 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 Arena 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 City Commission. 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 Arena Fund is under formal budgetary control and its budget is prepared on the same modified accrual basis used to reflect actual results. The Arena 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. DEPOSITS

At year-end, the carrying amount of the Arena Fund's deposits was \$114,677 (total cash and cash equivalents of \$97,257 plus \$17,420 of petty cash) and the bank balance was \$98,870. As of year-end, none of the Arena Fund's \$98,870 bank balance was uninsured.

### 3. RISK MANAGEMENT

The Arena 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 Arena Fund carries commercial insurance. The Arena Fund has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past four fiscal years.

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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 20, 2017

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, 2017, 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 20, 2017.

#### 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.

*Rehmann Lobson LLC*