

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

Year Ended  
June 30, 2017

Financial  
Statements

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

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Basic Financial Statements	
Statement of Net Position	4
Statement of Revenues, Expenses and Changes in Fund Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements	8
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	13



**INDEPENDENT AUDITORS' REPORT**

December 20, 2017

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the enterprise funds of the *City of Battle Creek Direct Investment Funds Administered by Battle Creek Unlimited, Inc.* (the "Direct Investment Funds") (which consists of an enterprise fund of the City of Battle Creek, Michigan and an enterprise fund of the Battle Creek Downtown Development Authority, a component unit of the City of Battle Creek, Michigan) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Direct Investment Funds' basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Independent Auditor's Responsibility***

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

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

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

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise funds of the City of Battle Creek Direct Investment Funds Administered by Battle Creek Unlimited, Inc., as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Reporting Entity*

As discussed in Note 1, the financial statements present only the City of Battle Creek Direct Investment Funds Administered by Battle Creek Unlimited, Inc. and do not purport to, and do not present fairly, the financial position of either the City of Battle Creek, Michigan or the Battle Creek Downtown Development Authority, and the changes in their financial position and their cash flows for the year ended June 30, 2017, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Rehmann Lobson LLC*

## BASIC FINANCIAL STATEMENTS

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

**Statement of Net Position**

June 30, 2017

	<b>Economic Development Fund</b>	<b>Downtown Development Authority Revolving Loan Fund</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 30,223	\$ 27,226
Investments	6,351,226	1,099,065
Loans receivable, current portion, net	3,000,000	106,637
Accrued interest receivable on loans	8,235	1,732
Due from Battle Creek Unlimited, Inc.	-	59,284
	<hr/>	<hr/>
Total current assets	9,389,684	1,293,944
	<hr/>	<hr/>
Loans receivable, less current portion, net	67,500	161,064
	<hr/>	<hr/>
<b>Total assets</b>	<b>9,457,184</b>	<b>1,455,008</b>
	<hr/>	<hr/>
<b>Liabilities - current</b>		
Due to Battle Creek Unlimited, Inc.	29,669	-
Due to Battle Creek DDA	-	199,996
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>29,669</b>	<b>199,996</b>
	<hr/>	<hr/>
<b>Net position</b>		
Unrestricted	9,427,515	-
Restricted for loan commitments, minority lending and other lending activity	-	1,255,012
	<hr/>	<hr/>
<b>Total net position</b>	<b>\$ 9,427,515</b>	<b>\$ 1,255,012</b>
	<hr/> <hr/>	<hr/> <hr/>

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

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

**Statement of Revenues, Expenses and Changes in Fund Net Position**

For the Year Ended June 30, 2017

	Economic Development Fund	Downtown Development Authority Revolving Loan Fund
<b>Operating revenues</b>		
Income on loans	\$ 6,270	\$ 4,595
Loan loss recovery	-	14,875
	<hr/>	<hr/>
<b>Total operating revenues</b>	<b>6,270</b>	<b>19,470</b>
	<hr/>	<hr/>
<b>Operating expenses</b>		
Administration	97,500	32,500
Legal and consulting	117,741	1,553
Bad debts	64,693	-
Other operating costs	16,400	295
	<hr/>	<hr/>
<b>Total operating expenses</b>	<b>296,334</b>	<b>34,348</b>
	<hr/>	<hr/>
<b>Operating loss</b>	<b>(290,064)</b>	<b>(14,878)</b>
	<hr/>	<hr/>
<b>Nonoperating revenues (expenses)</b>		
Investment earnings	56,961	3,443
	<hr/>	<hr/>
<b>Change in net position</b>	<b>(233,103)</b>	<b>(11,435)</b>
	<hr/>	<hr/>
<b>Net position, beginning of year</b>	<b>9,660,618</b>	<b>1,266,447</b>
	<hr/>	<hr/>
<b>Net position, end of year</b>	<b>\$ 9,427,515</b>	<b>\$ 1,255,012</b>
	<hr/> <hr/>	<hr/> <hr/>

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

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

**Statement of Cash Flows**

For the Year Ended June 30, 2017

	Economic Development Fund	Downtown Development Authority Revolving Loan Fund
<b>Cash flows from (used in) operating activities</b>		
Loans collected from borrowers	\$ 150,000	\$ 19,833
Interest and fees on loans	19,075	4,691
Payment to Battle Creek Unlimited, Inc.	-	798
Loans made to borrowers	(67,500)	-
Administrative and other expenses paid	(215,362)	(34,348)
<b>Net cash used in operating activities</b>	<u>(113,787)</u>	<u>(9,026)</u>
<b>Cash flows from (used in) investing activities</b>		
Purchase of investments	(2,647,678)	(481,795)
Proceeds from sale of investments	1,937,468	201,488
Investment income received	56,961	3,443
<b>Net cash used in investing activities</b>	<u>(653,249)</u>	<u>(276,864)</u>
<b>Net change in cash and cash equivalents</b>	<u>(767,036)</u>	<u>(285,890)</u>
Cash and cash equivalents, beginning of year	<u>797,259</u>	<u>313,116</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 30,223</u>	<u>\$ 27,226</u>
<b>Reconciliation of operating loss to net cash used in operating activities</b>		
Operating loss	\$ (290,064)	\$ (14,878)
Change in assets and liabilities:		
Loans receivable	147,193	4,958
Accrued interest receivable on loans	12,805	96
Due from Battle Creek Unlimited, Inc.	-	798
Due to Battle Creek Unlimited, Inc.	16,279	-
<b>Net cash used in operating activities</b>	<u>\$ (113,787)</u>	<u>\$ (9,026)</u>

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

## NOTES TO FINANCIAL STATEMENTS

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

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

#### Reporting Entity

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

#### Basis of Accounting

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

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

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

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

**Notes to Financial Statements**

**Deposits and Investments**

The Direct Investment Funds' cash and cash equivalents consist of demand deposits. Investments are stated at fair value and consist of U.S. treasury notes, Michigan municipal bonds, a industrial bond, money market funds, a certificate of deposit and other U.S. government obligations.

State statutes authorize local governments to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

**Loans Receivable**

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

**Net Position**

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

**2. DEPOSITS AND INVESTMENTS**

**Deposits**

At year-end, the carrying amount and bank balance of the Economic Development Fund's deposits were \$30,223. Also at year-end, the carrying amount and bank balance of the DDA Revolving Loan Fund's deposits were \$27,226. Because it is infeasible to allocate risk to individual component units or pool participants, aggregate cash and investment categorizations are presented in the City's basic financial statements.

**Investments**

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

	Economic Development Fund	DDA Revolving Loan Fund
<b>Investments at fair value</b>		
U.S. agencies	\$ 2,010,181	\$ 447,279
Municipal bonds	3,275,000	565,000
Commercial bond	799,448	-
Certificate of deposit	251,637	-
Money market funds	14,960	86,786
<b>Total investments</b>	<u>\$ 6,351,226</u>	<u>\$ 1,099,065</u>

*Credit Risk.* The Direct Investment Funds' investments in debt securities of U.S. agencies are rated AA+, municipal bonds A-, commercial bond AA+ and money market funds AAA by Standard and Poor's. The certificate of deposit is not rated.

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

**Notes to Financial Statements**

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

*Concentration of Credit Risk.* At June 30, 2017, the investment portfolio of the two funds was concentrated as follows:

Investment Type	Issuer	% of Portfolio	
		Economic Development Fund	DDA Revolving Loan Fund
U.S. agencies	Federal National Mortgage Association	27.62%	17.13%
	Federal Home Loan Mortgage Corporation	3.99%	21.31%
	Government National Mortgage Association	0.03%	2.25%
Municipal bonds	Michigan Municipal Bond Authority	51.56%	51.41%
Industrial bond	Ford Motor Company, LLC	12.59%	0.00%
Certificate of deposit	Wells Fargo Bank	3.97%	0.00%
Money market funds	Fifth Third Securities	0.24%	7.90%

*Interest Rate Risk.* As of June 30, 2017, maturities of the City of Battle Creek's Direct Investment Funds investments in debt securities were as follows:

	Economic Development Fund				
	Less Than 1 Year	1-5 Years	6-10 Years	Over 10 Years	Total
U.S. agencies	\$ -	\$ -	\$ -	\$ 2,010,181	\$ 2,010,181
Municipal bonds	-	445,000	1,265,000	1,565,000	3,275,000
Industrial bond	-	-	-	799,448	799,448
Certificate of deposit	-	251,637	-	-	251,637
Money market funds	14,960	-	-	-	14,960
	<u>\$ 14,960</u>	<u>\$ 696,637</u>	<u>\$ 1,265,000</u>	<u>\$ 4,374,629</u>	<u>\$ 6,351,226</u>

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

**Notes to Financial Statements**

	Downtown Development Authority Revolving Loan Fund				
	Less Than 1 Year	1-5 Years	6-10 Years	Over 10 Years	Total
U.S. agencies	\$ -	\$ -	\$ -	\$ 447,279	\$ 447,279
Municipal bonds	-	-	160,000	405,000	565,000
Money market funds	86,786	-	-	-	86,786
	<u>\$ 86,786</u>	<u>\$ -</u>	<u>\$ 160,000</u>	<u>\$ 852,279</u>	<u>\$ 1,099,065</u>

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

*Fair Value Measurements.* The Direct Investment Funds categorize its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. These levels are determined by the Direct Investment Funds' investment manager, and are determined at the fund level based on a review of the investment's class, structure, and what kind of securities are held in funds. The investment manager will request the information from the fund manager, if necessary.

The Direct Investment Funds' recurring fair value measurements as of June 30, 2017 were related to its investments in government agency funds, municipal bonds, money market funds, certificate of deposit and a commercial bond. The money market funds and the certificate of deposit are valued using quoted prices in active markets (Level 1 inputs.) Government agency funds, municipal bonds and the industrial bond are valued using significant other observable inputs of the underlying securities and bonds (Level 2 inputs).

**3. LOANS OUTSTANDING**

Loans receivable outstanding as of June 30, 2017, are summarized as follows:

	Economic Development Fund	DDA Revolving Loan Fund
Total loans outstanding	\$ 3,067,500	\$ 347,679
Allowance for loan losses	-	(79,978)
Net loans outstanding	3,067,500	267,701
Less amount's expected to be collected within one year	<u>3,000,000</u>	<u>106,637</u>
Amount expected to be collected beyond one year	<u>\$ 67,500</u>	<u>\$ 161,064</u>

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

**■ Notes to Financial Statements**

The Economic Development Fund has a loan receivable outstanding of \$3,000,000 to one borrower which represents 98% of the total loans outstanding at June 30, 2017. This loan also represents 32% of the unrestricted net position of the Economic Development Fund at June 30, 2017.

The Economic Development Fund has \$3,500,000 of a loan commitment exercised prior to June 30, 2017.



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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the enterprise funds of the *City of Battle Creek Direct Investment Funds Administered by Battle Creek Unlimited, Inc.* (the "Direct Investment Funds") (which consists of an enterprise fund of the City of Battle Creek, Michigan and an enterprise fund of the Battle Creek Downtown Development Authority, a component unit of the City of Battle Creek, Michigan), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Direct Investment Funds' basic financial statements, and have issued our report thereon dated December 20, 2017.

#### Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Direct Investment Funds' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Direct Investment Funds' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Rehmann Lobson LLC". The signature is written in a cursive, flowing style.