

BATTLE CREEK DOWNTOWN
DEVELOPMENT AUTHORITY
(A Component Unit of the
City of Battle Creek, Michigan)

Year Ended
June 30, 2015

Financial
Statements and
Supplementary
Information

This page intentionally left blank.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Statement of Net Position	9
Statement of Activities	10
Balance Sheet - Governmental Funds	12
Reconciliation of Fund Balances for Governmental Funds to Net Position of Governmental Activities	13
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	14
Reconciliation of Net Changes of Governmental Funds to Change in Net Position of Governmental Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	16
Statement of Net Position - Revolving Loan Enterprise Fund	17
Statement of Revenues, Expenses and Changes in Fund Net Position - Revolving Loan Enterprise Fund	18
Statement of Cash Flows - Revolving Loan Enterprise Fund	19
Notes to Financial Statements	22
Supplementary Information	
Continuing Bond Disclosures	30



This page intentionally left blank.

INDEPENDENT AUDITORS' REPORT

December 22, 2015

To the Board of Directors of the
Battle Creek Downtown Development Authority
City of Battle Creek, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the *Battle Creek Downtown Development Authority, a component unit of the City of Battle Creek, Michigan* (the "Authority") as of and for the year ended June 30, 2015, 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, the business-type activities, and each major fund of the Authority, as of June 30, 2015, and the respective changes in financial position and cash flows, where applicable, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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 Downtown Development Authority's basic financial statements. The supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules have 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 them.

Rehmann Lohman LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

The Battle Creek Downtown Development Authority (the "Authority") was established March 6, 1979 pursuant to Public Act 197 of 1975. 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, 2015.

Using this Annual Report

This discussion and analysis is intended to serve as an introduction to some of the Authority's basic financial statements. The basic financial statements include the following (among others):

- The statement of net position presents information on all of the Authority's assets, deferred outflows of resources, and liabilities with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- The statement of activities presents information showing how the Authority's net position changed during the most recent fiscal year.
- The statement of revenues, expenditures and changes in fund balances - 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 liabilities exceeded its assets and deferred outflows of resources by \$34,174,968 at the end of the fiscal year, of which \$1,428,075 was restricted for loan commitments/lending activities. That leaves a deficit balance of (\$35,603,043) in unrestricted net position.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

A comparative analysis of the data is presented below:

	Net Position					
	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Assets						
Other assets	\$ 294,088	\$ 1,626,164	\$ 1,628,071	\$ 1,350,882	\$ 1,922,159	\$ 2,977,046
Deferred outflows of resources						
Deferred charge on refunding	1,483,106	1,759,939	-	-	1,483,106	1,759,939
Liabilities						
Other liabilities	490,790	322,426	199,996	199,996	690,786	522,422
Long-term liabilities	36,889,447	39,731,511	-	-	36,889,447	39,731,511
Total liabilities	37,380,237	40,053,937	199,996	199,996	37,580,233	40,253,933
Net position (deficit):						
Restricted for loan commitments/ lending activity	-	-	1,428,075	1,414,804	1,428,075	1,414,804
Unrestricted deficit	(35,603,043)	(36,667,834)	-	-	(35,603,043)	(36,667,834)
Total net position (deficit)	\$(35,603,043)	\$(36,667,834)	\$ 1,428,075	\$ 1,414,804	\$(34,174,968)	\$(35,253,030)

When comparing the current fiscal year to the previous fiscal year, net position has increased by \$1,078,062.

	Change in Net Position					
	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Total revenues	\$ 4,661,383	\$ 5,883,983	\$ 46,123	\$ 39,803	\$ 4,707,506	\$ 5,923,786
Total expenses	3,596,592	4,028,829	32,852	22,447	3,629,444	4,051,276
Change in net position	1,064,791	1,855,154	13,271	17,356	1,078,062	1,872,510
Net position (deficit), beginning of year,	(36,667,834)	(38,522,988)	1,414,804	1,397,448	(35,253,030)	(37,125,540)
Net position (deficit), end of year	<u>\$(35,603,043)</u>	<u>\$(36,667,834)</u>	<u>\$ 1,428,075</u>	<u>\$ 1,414,804</u>	<u>\$(34,174,968)</u>	<u>\$(35,253,030)</u>

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

Long-term Debt

At the end of the current fiscal year, the Battle Creek Downtown Development Authority had total debt outstanding of \$35,895,000, along with \$994,447 of unamortized bond issuance premiums.

Economic Factors

Battle Creek Downtown Development Authority 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 2015, community development expenses were \$1,553,772, which included central business district maintenance, downtown partnership costs, and administrative expenses.

Contacting the Battle Creek Downtown Development Authority

This financial report is designed to provide a general overview of the Battle Creek Downtown Development Authority finances and to show accountability for the money it receives and expends. The financial statements are available on the City's web site: 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

This page intentionally left blank.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Net Position

June 30, 2015

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ -	\$ 73,275	\$ 73,275
Investments	-	1,073,767	1,073,767
Accounts receivable	199,996	37,939	237,935
Taxes receivable	56,931	-	56,931
Interest receivable	34,174	167,655	201,829
Other assets	2,987	-	2,987
Loans receivable, net:			
Due within one year	-	117,740	117,740
Due in more than one year	-	157,695	157,695
Total assets	294,088	1,628,071	1,922,159
Deferred outflows of resources			
Deferred charge on refunding	1,483,106	-	1,483,106
Liabilities			
Accounts payable and accrued liabilities	191,663	199,996	391,659
Accrued interest payable	299,127	-	299,127
Long-term liabilities:			
Due within one year	3,007,064	-	3,007,064
Due in more than one year	33,882,383	-	33,882,383
Total liabilities	37,380,237	199,996	37,580,233
Net position (deficit)			
Restricted for loan commitments, minority lending and lending activity	-	1,428,075	1,428,075
Unrestricted (deficit)	(35,603,043)	-	(35,603,043)
Total net position (deficit)	\$ (35,603,043)	\$ 1,428,075	\$ (34,174,968)

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

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Activities

For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue
		Charges for Services	
Governmental activities			
Community development	\$ 1,553,772	\$ 4,702	\$ (1,549,070)
Interest on long-term debt	2,042,820	-	(2,042,820)
Total governmental activities	3,596,592	4,702	(3,591,890)
Business-type activities			
Revolving loans	32,852	46,123	13,271
Total	\$ 3,629,444	\$ 50,825	\$ (3,578,619)

continued...

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Activities

For the Year Ended June 30, 2015

	Governmental Activities	Business-type Activities	Total
Changes in net position			
Net revenue (expense)	\$ (3,591,890)	\$ 13,271	\$ (3,578,619)
General revenues:			
Property taxes	4,597,809	-	4,597,809
Unrestricted investment earnings	58,872	-	58,872
Total general revenues	4,656,681	-	4,656,681
Change in net position	1,064,791	13,271	1,078,062
Net position (deficit), beginning of year	(36,667,834)	1,414,804	(35,253,030)
Net position (deficit), end of year	\$ (35,603,043)	\$ 1,428,075	\$ (34,174,968)

concluded.

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

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Balance Sheet

Governmental Funds

June 30, 2015

	General	Pipeline Bonds Debt Service	Capital Projects	Total Governmental Funds
Assets				
Pooled cash and investments	\$ -	\$ 606	\$ 40,907	\$ 41,513
Accounts receivable	199,996	-	-	199,996
Taxes receivable	56,931	-	-	56,931
Interest receivable	34,174	-	-	34,174
Prepaid items	2,987	-	-	2,987
Total assets	\$ 294,088	\$ 606	\$ 40,907	\$ 335,601
Liabilities				
Accounts payable	\$ 8,851	\$ -	\$ -	\$ 8,851
Due to other government	224,325	-	-	224,325
Total liabilities	233,176	-	-	233,176
Deferred inflows of resources				
Unavailable revenue - property taxes	57,231	-	-	57,231
Fund balances				
Nonspendable	2,987	-	-	2,987
Restricted for debt service	-	606	-	606
Committed for capital projects	-	-	40,907	40,907
Unassigned	694	-	-	694
Total fund balances	3,681	606	40,907	45,194
Total liabilities, deferred inflows of resources and fund balances	\$ 294,088	\$ 606	\$ 40,907	\$ 335,601

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

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
June 30, 2015

Fund balances - total governmental funds	\$	45,194
Amounts reported for governmental activities in the statement of net position are different because:		
Losses on refunding are not reported in the governmental funds, whereas they are capitalized and amortized for statement of net position.		1,483,106
The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows of resources in the governmental funds, and thus are not included in fund balance.		
Unavailable taxes receivable		57,231
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		(35,895,000)
Accrued interest on bonds		(299,127)
Unamortized bond premium		<u>(994,447)</u>
Net deficit of governmental activities	\$	<u><u>(35,603,043)</u></u>

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

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2015

	General	Pipeline Bonds Debt Service	Capital Projects	Total Governmental Funds
Revenues				
Property taxes	\$ 5,126,532	\$ -	\$ -	\$ 5,126,532
Interest	58,872	-	-	58,872
Rents and leases	3,600	-	-	3,600
Other	1,102	-	-	1,102
Total revenues	5,190,106	-	-	5,190,106
Expenditures				
Community development	1,553,772	-	-	1,553,772
Debt service:				
Principal	-	2,700,000	-	2,700,000
Interest and fiscal charges	-	1,930,550	-	1,930,550
Total expenditures	1,553,772	4,630,550	-	6,184,322
Revenue over (under) expenditures	3,636,334	(4,630,550)	-	(994,216)
Other financing sources (uses)				
Transfers in	-	4,630,550	-	4,630,550
Transfers out	(4,630,550)	-	-	(4,630,550)
Total other financing sources (uses)	(4,630,550)	4,630,550	-	-
Net change in fund balances	(994,216)	-	-	(994,216)
Fund balances, beginning of year	997,897	606	40,907	1,039,410
Fund balances, end of year	\$ 3,681	\$ 606	\$ 40,907	\$ 45,194

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

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2015

Net change in fund balances - total governmental funds	\$ (994,216)
Amounts reported for governmental activities in the statement of activities are different because:	
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Principal payments on long-term liabilities	2,700,000
Amortization of deferred loss on refunding	(276,833)
Amortization of bond issuance premium	142,064
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in unavailable taxes receivable	(528,723)
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 bonds	<u>22,499</u>
Change in net position of governmental activities	<u><u>\$ 1,064,791</u></u>

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

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 5,678,431	\$ 5,545,424	\$ 5,126,532	\$ (418,892)
Interest	70,000	60,000	58,872	(1,128)
Rents and leases	3,600	3,600	3,600	-
Other	-	-	1,102	1,102
Total revenues	5,752,031	5,609,024	5,190,106	(418,918)
Expenditures				
Community development	1,774,966	1,693,797	1,553,772	(140,025)
Revenues over expenditures	3,977,065	3,915,227	3,636,334	(278,893)
Other financing uses				
Transfers out	(4,630,050)	(4,630,550)	(4,630,550)	-
Net change in fund balance	(652,985)	(715,323)	(994,216)	(278,893)
Fund balance, beginning of year	997,897	997,897	997,897	-
Fund balance, end of year	\$ 344,912	\$ 282,574	\$ 3,681	\$ (278,893)

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

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Net Position

Revolving Loan Enterprise Fund

June 30, 2015

Assets

Current assets:

Cash and cash equivalents	\$ 73,275
Investments	1,073,767
Accounts receivable	37,939
Interest receivable	167,655
Current portion of loans receivable, net	<u>117,740</u>
Total current assets	1,470,376

Noncurrent assets -

Loans receivable, net of current portion	<u>157,695</u>
--	----------------

Total assets

1,628,071

Liabilities, all current

Accounts payable	<u>199,996</u>
------------------	----------------

Net position

Restricted for loan commitments, minority lending and other lending activity	<u><u>\$ 1,428,075</u></u>
---	----------------------------

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

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Revenues, Expenses and Changes in Fund Net Position

Revolving Loan Enterprise Fund

For the Year Ended June 30, 2015

Operating revenues	
Charges for services	\$ 30,133
Loan loss recovery	11,516
	<hr/>
Total operating revenues	41,649
Operating expenses	
Professional services	32,852
	<hr/>
Operating income	8,797
Nonoperating revenues	
Investment earnings	4,474
	<hr/>
Change in net position	13,271
Net position, beginning of year	1,414,804
	<hr/>
Net position, end of year	\$ 1,428,075
	<hr/> <hr/>

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

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Cash Flows

Revolving Loan Enterprise Fund
For the Year Ended June 30, 2015

Cash flows from operating activities	
Loans collected from borrowers	\$ 15,354
Interest and fees on loans	10,184
Administrative and other expenses paid	<u>(5,269)</u>
Net cash provided by operating activities	<u>20,269</u>
Cash flows from investing activities	
Purchase of investments	(1,124,801)
Proceeds from sale of investments	1,122,576
Investment income received	<u>4,474</u>
Net cash provided by investing activities	<u>2,249</u>
Net change in cash and cash equivalents	22,518
Cash and cash equivalents, beginning of year	<u>50,757</u>
Cash and cash equivalents, end of year	<u><u>\$ 73,275</u></u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 8,797
Adjustments to reconcile operating income to net cash provided by operating activities:	
Loan loss recovery	11,516
Changes in assets and liabilities:	
Accounts receivable	27,583
Loans receivable	(7,678)
Interest receivable	<u>(19,949)</u>
Net cash provided by operating activities	<u><u>\$ 20,269</u></u>

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

This page intentionally left blank.

NOTES TO FINANCIAL STATEMENTS

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

These financial statements present the activities of the Battle Creek Downtown Development Authority (the "Authority"). The Authority was established March 6, 1979 pursuant to Public Act 197 of 1975. The primary purpose of the Authority is to revitalize and encourage economic activity in the downtown business district. The Authority's activities are primarily funded through tax increment financing, bonded debt and revolving loans.

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. These statements distinguish between the Authority's governmental and business-type activities. Governmental activities generally are financed through taxes and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for revolving loans.

The statement of activities presents a comparison between direct expenses and program revenues for the business-type activity of the Authority and 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.

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.

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. Property taxes and interest are considered to be susceptible to accrual. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes to Financial Statements

The Authority reports the following major governmental funds:

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.

The *pipeline bonds debt service fund* is used to account for and report financial resources that are restricted or committed to expenditure for principal and interest.

The *capital projects fund* accounts for the acquisition of capital assets or construction of major capital projects.

The Authority reports the following major enterprise fund -

The *revolving loan enterprise fund* is used to account for loans made to local businesses.

Generally, the effect of interfund activity has been eliminated from the government-wide 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. The Authority currently has no assigned fund balance as the Board has not yet given authority for the making of such assignments; assigned fund balances are neither restricted nor committed. 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

The Authority has no capital assets for which it holds legal ownership. Infrastructure assets (e.g., roads, bridges, 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.

BATTLE CREEK DOWNTOWN DEVELOPMENT 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 government only has one item that qualifies for reporting in this category, which is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Long-term Obligations

In the government-wide financial statements, long-term debt is reported as a liability. Bond discounts 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. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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. The budget is legally adopted 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.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes to Financial Statements

2. CASH AND INVESTMENTS

The Authority’s cash and cash equivalents are considered to be cash on hand, demand deposits, short-term investments with original maturities of three months or less from the date of acquisition, and deposits in the City’s cash and investment pool.

State statutes authorize the Authority 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. The Authority and City’s investment policies follow the State’s guidelines.

At year-end, the carrying amount of the Authority’s deposits in the City’s internal cash management pool was (\$182,812). 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.

The Authority’s remaining deposits and investments, which are entirely recorded in the revolving loan fund (business-type activity), include the following:

Deposits	\$ 73,275
Investments	<u>1,073,767</u>
Total	<u><u>\$ 1,147,042</u></u>

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$73,275. The full amount is FDIC insured.

Investments

At year end, the revolving loan fund’s investment balances were as follows:

	Fair Value	Rating
U.S. agencies	\$ 879,032	Aa2 - Moody's
Municipal bonds	100,000	A2 - S&P
Money market funds	<u>94,735</u>	Not rated
	<u><u>\$ 1,073,767</u></u>	

The U.S. agencies and municipal bonds have maturity dates of over 10 years.

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

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes to Financial Statements

3. LOANS RECEIVABLE

The details of loans receivable outstanding as of June 30, 2015 are as follows:

Total loans outstanding	\$ 375,256
Less allowance for loan losses	<u>(99,821)</u>
Net loans outstanding	<u><u>\$ 275,435</u></u>

Of this amount, \$117,740 is expected to be collected within one year.

4. LONG-TERM DEBT

Following is a summary of the Authority's debt outstanding as of June 30, 2015:

	Interest Rate	Date of Maturity	Outstanding Principal
Limited tax general obligation bonds			
2008 downtown development refunding	5.0%	5/1/2022	\$ 32,220,000
2013 downtown development refunding	5.0%	5/1/2025	<u>3,675,000</u>
Total limited tax general obligation bonds			<u><u>\$ 35,895,000</u></u>

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

Year Ending June 30,	Authority Obligation	
	Principal	Interest
2016	\$ 2,865,000	\$ 1,794,750
2017	4,245,000	1,651,500
2018	4,485,000	1,439,250
2019	4,740,000	1,215,000
2020	5,005,000	978,000
2021-2025	<u>14,555,000</u>	<u>1,564,500</u>
	<u><u>\$ 35,895,000</u></u>	<u><u>\$ 8,643,000</u></u>

Changes in Long-term Debt

Long-term liability activity for the year ended June 30, 2015, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 38,595,000	\$ -	\$ (2,700,000)	\$ 35,895,000	\$ 2,865,000
Issuance premiums	<u>1,136,511</u>	<u>-</u>	<u>(142,064)</u>	<u>994,447</u>	<u>142,064</u>
	<u><u>\$ 39,731,511</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (2,842,064)</u></u>	<u><u>\$ 36,889,447</u></u>	<u><u>\$ 3,007,064</u></u>

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes to Financial Statements

5. PROPERTY TAXES

Property tax revenue is derived pursuant to a tax increment financing agreement between the Authority and 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 results in current receivables.

Except for property taxes captured from local schools that exceed contractual obligations, the Authority is entitled to all taxes levied on property within the Downtown Development Authority district to the extent that the current taxable value exceeds the base year taxable value. The base year of initial properties was 1979, the inception date of the Authority. The base year on other properties is determined by the date of entry into the district; the Authority district was expanded in 1985, 1987 and 1993, and was reduced in 2000.

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 (or applicable taxing jurisdiction).

The captured increments in taxable value for the 2014 levy are summarized below:

Ad valorem property	\$ 123,157,652
IFT* / CFT** / other property	<u>14,731,986</u>
Total	<u>\$ 137,889,638</u>

- * IFT - Industrial Facility Tax
- ** CFT - Commercial Facility Tax

6. CONTINGENCIES

The Authority is currently involved in various tax appeals pending before the Michigan Tax Tribunal. The appeals cover various commercial and industrial properties for 2015. Due to the large number of appeals currently before the Tribunal, the time frame for resolution of these matters is unknown at this time. An estimate of the Authority's maximum exposure is approximately \$24.48 million in taxable value. The City and Authority are vigorously defending all litigation.



This page intentionally left blank.

SUPPLEMENTARY INFORMATION

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Continuing Bond Disclosures (Unaudited)

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

Assessed Value as of	Year of	Fiscal Year Ended	Ad Valorem SEV	
			December 31,	Tax Levy
		June 30,	Amount	% Change
2013	2014	2015	\$ 305,941,698	-1.06%
2012	2013	2014	309,216,375	-1.29%
2011	2012	2013	313,271,287	-2.84%
2010	2011	2012	322,432,246	-2.95%
2009	2010	2011	332,233,669	-3.22%
2008	2009	2010	343,277,363	10.49%
2007	2008	2009	310,687,476	1.02%
2006	2007	2008	307,542,425	-3.81%
2005	2006	2007	301,572,694	3.69%
2004	2005	2006	290,842,381	-3.81%

2. Taxable Value (TV) of Ad Valorem Tax Roll by Use

Fiscal Year Ended	Homestead			
	Residential	Agriculture	Commercial	Industrial
June 30,				
2015	\$ 8,407,623	\$ -	\$ 22,525,895	\$ 131,321,583
2014	8,354,061	-	18,819,482	129,906,757
2013	9,048,307	-	18,652,976	130,111,440
2012	9,523,796	-	19,044,320	134,949,930
2011	10,042,466	-	19,279,450	136,840,201
2010	10,051,578	-	18,296,458	143,316,212
2009	10,284,801	-	15,760,790	129,141,330
2008	10,321,623	-	251,355	-
2007	9,029,803	-	333,469	-
2006	9,018,219	76,412	342,696	-



Ad Valorem TV

Amount	% Change
\$ 301,190,549	-0.74%
303,449,276	-0.82%
305,957,010	-2.37%
313,385,680	-1.68%
318,737,466	-2.27%
326,124,199	12.56%
289,733,792	-0.21%
290,332,561	2.19%
284,121,353	3.51%
274,494,992	-4.26%

Non-Homestead			
Residential	Commercial	Industrial	Total
\$ 7,283,692	\$ 57,198,866	\$ 74,452,890	\$ 301,190,549
7,544,110	57,193,504	81,631,362	303,449,276
7,428,078	59,315,986	81,400,223	305,957,010
7,192,250	61,049,642	81,625,742	313,385,680
7,702,316	62,896,208	81,976,825	318,737,466
8,114,642	63,191,315	83,153,994	326,124,199
7,423,407	56,768,585	70,354,879	289,733,792
7,008,419	76,524,757	196,226,407	290,332,561
6,672,684	67,903,175	200,182,222	284,121,353
5,864,652	68,556,358	190,636,655	274,494,992

continued...

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Continuing Bond Disclosures (Unaudited)

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

Fiscal Year Ended June 30,	Real	Personal	Total
2015	\$ 137,122,735	\$ 164,067,814	\$ 301,190,549
2014	139,718,189	163,731,087	303,449,276
2013	143,493,137	162,463,873	305,957,010
2012	145,766,488	167,619,192	313,385,680
2011	152,222,017	166,515,449	318,737,466
2010	154,054,943	172,069,256	326,124,199
2009	134,513,489	155,220,303	289,733,792
2008	131,211,762	159,120,799	290,332,561
2007	127,887,669	156,233,684	284,121,353
2006	127,840,001	146,654,991	274,494,992

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

Fiscal Year Ended June 30,	Real	Personal	Total
2015	\$ 11,380,799	\$ 12,718,056	\$ 24,098,855
2014	11,267,549	13,918,060	25,185,609
2013	10,445,996	15,346,973	25,792,969
2012	10,395,375	18,179,425	28,574,800
2011	3,844,597	17,454,949	21,299,546
2010	6,411,357	22,056,665	28,468,022
2009	14,945,099	27,788,914	42,734,013
2008	15,727,788	29,170,293	44,898,081
2007	15,083,781	23,675,939	38,759,720
2006	15,700,842	31,458,252	47,159,094

continued...

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Continuing Bond Disclosures (Unaudited)

5. Property Tax Collections

Fiscal Year Ended June 30,	Taxes Levied	Collections to March 1	MBT Reimbursement	Total Collected
2015	\$ 3,328,965	\$ 3,328,965	\$ 1,797,567	\$ 5,126,532
2014	3,750,487	3,750,487	1,488,727	5,239,214
2013	3,507,220	3,507,220	1,855,085	5,362,305
2012	3,699,017	3,699,017	2,047,872	5,746,889
2011	3,740,618	3,740,618	2,149,027	5,889,645
2010	4,253,023	4,253,023	2,199,899	6,452,922
2009 (2)	4,360,392	4,360,392	2,557,159	6,917,551
2008	7,006,961	6,642,405	-	6,642,405
2007 (1)	4,095,472	4,052,317	-	4,052,317
2006 (1)	3,880,299	3,366,709	-	3,366,709

- (1) 2007 and 2008 Levied and collected amounts are lower than prior years because of agricultural renaissance zone abatements.
- (2) Starting in 2009 levied and collections to March 1 amounts are lower than prior year due to industrial and commercial exemptions per legislative action.

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

Fiscal Year Ended June 30,	(1) City	(2) Schools	(1) State Education Tax	County
2015	14.7360	18.0000	6.0000	5.3779
2014	14.7360	18.0000	6.0000	5.3779
2013	14.7360	18.0000	6.0000	5.3779
2012	14.7360	18.0000	6.0000	5.3779
2011	14.4760	18.0000	6.0000	5.3779
2010	14.4760	18.0000	6.0000	5.3779
2009	14.4760	18.0000	6.0000	5.3779
2008	14.4760	18.0000	6.0000	5.3779
2007	14.4760	18.0000	6.0000	5.3779
2006	13.9210	18.0000	6.0000	5.3744

- (1) Levied on homestead and non-homestead properties.
- (2) Levied on non-homestead properties only.

continued...

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Continuing Bond Disclosures (Unaudited)

7. Taxable Value of Ten Largest Ad Valorem Taxpayers (Fiscal Year Ended June 30, 2015)

Taxpayer	Product or Service	Taxable Value	% of Taxable Value
1 Kellogg Company	Breakfast Foods	\$138,511,158	45.99%
2 Kraft Foods, Inc.	Breakfast Foods	38,751,760	12.87%
3 Conagra Foods, Inc.	Breakfast Foods	14,408,274	4.78%
4 Semco Energy, Inc.	Natural gas utility	9,344,445	3.10%
5 Consumers Energy Co.	Electric Utility	8,763,810	2.91%
6 North Pointe Woods	Office building	4,523,133	1.50%
7 Trilogy Healthcare	Health Care	3,204,144	1.06%
8 Cello-Foil Products, Inc.	Packaging	4,006,202	1.33%
9 Graham Group, The	Medical office building	2,733,422	0.91%
10 GHG-McCamly Plaza LLC	Hotel	2,000,000	0.66%
		<u>\$ 226,246,348</u>	<u>75.11%</u>

8. Taxable Value of Three Largest IFT Taxpayers (Fiscal Year Ended June 30, 2015)

Taxpayer	Product or Service	Taxable Value	% of Taxable Value
1 Kraft Foods, Post Division	Breakfast foods	\$ 7,837,976	32.52%
2 Kellogg Company	Breakfast foods	4,626,603	19.20%
3 Cello-Foil Products, Inc.	Packaging	2,910,381	12.08%
		<u>\$ 15,374,960</u>	<u>63.80%</u>

concluded.