

KELLOGG ARENA FUND

Year Ended
June 30, 2018

Financial
Statements

KELLOGG ARENA FUND

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INDEPENDENT AUDITORS' REPORT

December 26, 2018

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, 2018, 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, 2018, 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 26, 2018, 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.

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FINANCIAL STATEMENTS

KELLOGG ARENA FUND

Balance Sheet

June 30, 2018

Assets

Cash and cash equivalents	\$ 88,466
Accounts receivable	84,884
Inventories	32,976
Prepaid items	17,802

Total assets \$ 224,128

Liabilities

Accounts payable and accrued liabilities	\$ 87,854
Due to Cereal City Development Corporation	62,328
Unearned revenue	2,900

Total liabilities 153,082

Fund balance

Nonspendable:	
Inventories	32,976
Prepaid items	17,802
Committed	20,268

Total fund balance 71,046

Total liabilities and fund balance \$ 224,128

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, 2018

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenues				
Events	\$ 355,500	\$ 455,500	\$ 338,364	\$ (117,136)
Concessions	204,000	204,000	122,113	(81,887)
Novelty	300	300	240	(60)
Bar	47,000	47,000	1,831	(45,169)
Grants	-	-	25,000	25,000
Other	20,500	20,500	21,740	1,240
Intergovernmental - Battle Creek Downtown Development Authority	370,000	370,000	370,000	-
Total revenues	997,300	1,097,300	879,288	(218,012)
Expenditures				
Parks and recreation	1,011,000	1,146,000	898,347	(247,653)
Revenues over (under) expenditures	(13,700)	(48,700)	(19,059)	29,641
Other financing sources				
Transfer from Kellogg Arena Endowment	15,000	15,000	5,000	(10,000)
Net change in fund balance	1,300	(33,700)	(14,059)	19,641
Fund balance, beginning of year	85,105	85,105	85,105	-
Fund balance, end of year	\$ 86,405	\$ 51,405	\$ 71,046	\$ 19,641

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 \$88,466 (total cash and cash equivalents of \$69,784 plus \$18,682 of petty cash) and the bank balance was \$70,866. As of year-end, all of the Arena Fund's \$70,866 bank balance was insured.

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 26, 2018

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, 2018, 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 26, 2018.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses, as item 2018-001 that we consider to be a material weakness.

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*.

Kellogg Arena Fund's Response to Findings

The Arena Fund's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Arena Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

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KELLOGG ARENA FUND

Schedule of Findings and Responses

For the Year Ended June 30, 2018

2018-001 - Segregation of Incompatible Duties and Procedures Not Being Performed

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Arena Fund's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

Condition. As is the case with many organizations of similar size, the Arena Fund lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

- Bank accounts are not being reconciled within 6 weeks after year-end. Additionally, there is currently no evidence or process in place to ensure an independent individual separate from the preparation of the bank reconciliation process review the monthly bank reconciliations for all accounts as indicated by initials and date.
- Inventory balances and count performed at year-end are not being properly reconciled and reviewed in a timely manner.
- The Arena Fund does not have a system in place to ensure that all manual journal entries and similar adjustments made to the Arena Fund's accounting records are reviewed and approved by an individual independent of the preparer. This review should be evidenced by initials and date.
- Cash receipts do not contain evidence of review and approval by an individual independent of the cash receipting process, and there is no signature by the individual accepting the deposit on the cash receipt listing or deposit slip.
- The Arena Fund maintains the accounting records for both the Kellogg Arena Fund and Cereal City Development Corporation (CCDC), a component unit of the City and not included in this report. The accounting for both the Arena Fund and CCDC are maintained in the same accounting system and not broken out until year-end for reporting purposes.

Cause. This condition is a result of the Arena Fund's limited resources, and the small size of its accounting staff. There has also been significant turnover within the administrative office during the year.

Effect. The Arena Fund is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely basis.

Recommendation. We recommend that the Arena Fund review their policies and procedures relating to bank reconciliations, manual journal entries, and inventory to ensure proper controls of review are in place and being followed. Evidence of all review, including initials and date, should be retained. Additionally, review and reconciliation of these areas need to be done in a timely manner. We also recommend documentation is retained to support the review and acceptance of cash receipts. Additionally, we recommend the Arena Fund separates out the activity of the Arena Fund and CCDC within the accounting system and maintains the accounting records separately throughout the year.

View of Responsible Officials. Management agrees with the proposed recommendations. Management recognizes that this limitation is a natural outgrowth of the small number of full-time staff, and applies its judgment in determining how best to allocate the Arena Fund's resources to provide an appropriate balance between sound internal controls and fiscal prudence. Management will require independent review of transactions and enhanced procedures to ensure accounting procedures are adhered to. Additionally, management has implemented an electronic receipting module for reporting and control enhancements. These changes will be implemented immediately.

