

BATTLE CREEK BROWNFIELD
REDEVELOPMENT AUTHORITY
(A Component Unit of the
City of Battle Creek, Michigan)

Year Ended
June 30, 2017

Financial
Statements

BATTLE CREEK BROWNFIELD REDEVELOPMENT AUTHORITY

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INDEPENDENT AUDITORS' REPORT

December 22, 2017

To the Board of Directors of the
Battle Creek Brownfield Redevelopment Authority
City of Battle Creek, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the *Battle Creek Brownfield Redevelopment Authority, a component unit of the City of Battle Creek, Michigan* (the "Authority") as of and for the year ended June 30, 2017, 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 and the major fund of the Authority, as of June 30, 2017, and the respective changes in financial position 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.

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.

Rehmann Johnson LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

BATTLE CREEK BROWNFIELD REDEVELOPMENT AUTHORITY

Management's Discussion and Analysis

The Battle Creek Brownfield Redevelopment Authority (the “Authority”) was established January 20, 1998, pursuant to Public Act 381 of 1996. 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, 2017.

Using this Annual Report

This discussion and analysis is intended to serve as an introduction to the Authority’s basic financial statements. The basic financial statements are comprised of the following:

- The statement of net position and governmental fund balance sheet presents information on all of the Authority’s assets and liabilities, with the difference between the two reported as net position/fund balance. Over time, increases or decreases in net position/fund balance may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- The statement of activities and governmental fund revenues, expenditures and changes in fund balances presents information showing how the Authority’s net position/fund balance changed during the most recent fiscal year.
- The statement of revenues, expenditures and changes in fund balance - 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 assets by \$3,179,687 at the end of the current fiscal year.

A comparative analysis of the data is presented below:

	Net Position as of June 30,	
	2017	2016
Assets		
Current and other assets	<u>\$ 516,237</u>	<u>\$ 426,783</u>
Liabilities		
Accounts payable	266,254	271,163
Long-term debt - due in more than one year	<u>3,429,670</u>	<u>3,699,160</u>
Total liabilities	<u>3,695,924</u>	<u>3,970,323</u>
Net position		
Unrestricted (deficit)	<u><u>\$(3,179,687)</u></u>	<u><u>\$(3,543,540)</u></u>

BATTLE CREEK BROWNFIELD REDEVELOPMENT AUTHORITY

Management's Discussion and Analysis

When comparing the current fiscal year to the previous fiscal year, net position has increased by \$363,853.

	Changes in Net Position for the Year Ending June 30,	
	2017	2016
Total revenues	\$ 545,450	\$ 313,937
Total expenses	<u>181,597</u>	<u>453,017</u>
Change in net position	363,853	(139,080)
Net position, beginning of year	<u>(3,543,540)</u>	<u>(3,404,460)</u>
Net position, end of year	<u><u>\$ (3,179,687)</u></u>	<u><u>\$ (3,543,540)</u></u>

Net position increased by \$363,853 in the current fiscal year primarily as a result of additional state aid revenue through the personal property tax reimbursements.

Long-term Debt

At the end of the current fiscal year, the Battle Creek Brownfield Redevelopment Authority had total debt outstanding of \$3,429,670. The Authority has entered into loans with the Battle Creek Tax Increment Finance Authority ("BCTIFA"; a component unit of the City of Battle Creek, Michigan) to borrow up to \$9,030,000 for use with two brownfield projects. No amount is presently reported as due within one year since repayment is based on the future collection of incremental tax revenues. The repayment obligations include interest at 5% per annum.

Economic Factors

The Battle Creek Brownfield Redevelopment Authority's expenses are governed by the laws of the State of Michigan. During 2017, total operating expenses were \$7,248 primarily composed of costs in conjunction with the development of the ongoing brownfield redevelopment projects and total nonoperating expenses were \$174,349 attributable to interest and fiscal charges for debt service.

Contacting the City of Battle Creek Brownfield Redevelopment Authority

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

BATTLE CREEK BROWNFIELD REDEVELOPMENT AUTHORITY

Statement of Net Position and Governmental Fund Balance Sheet

June 30, 2017

	General	Adjustments	Statement of Net Position
Assets			
Pooled cash and investments	\$ 516,237	\$ -	\$ 516,237
Liabilities			
Accounts payable	\$ 266,254	-	266,254
Long-term debt - due in more than one year	-	3,429,670	3,429,670
Total liabilities	266,254	3,429,670	3,695,924
Fund balance			
Unassigned	249,983	(249,983)	-
Total liabilities and fund balance	\$ 516,237	(516,237)	-
Net position			
Unrestricted (deficit)		\$ (3,179,687)	\$ (3,179,687)

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

BATTLE CREEK BROWNFIELD REDEVELOPMENT AUTHORITY

Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances For the Year Ended June 30, 2017

	General	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 292,171	\$ -	\$ 292,171
Intergovernmental	252,676	-	252,676
Other	603	-	603
Total revenues	545,450	-	545,450
Expenditures / expenses			
Community development	7,248	-	7,248
Debt service:			
Principal	272,500	(272,500)	-
Interest and fiscal charges	174,349	-	174,349
Total expenditures / expenses	454,097	(272,500)	181,597
Revenues over expenditures/expenses	91,353	272,500	363,853
Other financing sources			
Loan proceeds	3,010	(3,010)	-
Change in fund balance / net position	94,363	269,490	363,853
Fund balances / net position			
Beginning of year	155,620	(3,699,160)	(3,543,540)
End of year	\$ 249,983	\$ (3,429,670)	\$ (3,179,687)

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

BATTLE CREEK BROWNFIELD REDEVELOPMENT AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 172,936	\$ 160,411	\$ 292,171	\$ 131,760
Intergovernmental	64,707	250,000	252,676	2,676
Other	5,000	5,000	603	(4,397)
Total revenues	242,643	415,411	545,450	130,039
Expenditures				
Community development	13,000	13,000	7,248	(5,752)
Debt service:				
Principal	-	272,500	272,500	-
Interest and fiscal charges	149,594	174,349	174,349	-
Total expenditures	162,594	459,849	454,097	(5,752)
Revenues over (under) expenditures	80,049	(44,438)	91,353	135,791
Other financing sources				
Loan proceeds	-	3,010	3,010	-
Net change in fund balance	80,049	(41,428)	94,363	135,791
Fund balance, beginning of year	155,620	155,620	155,620	-
Fund balance, end of year	\$ 235,669	\$ 114,192	\$ 249,983	\$ 135,791

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

NOTES TO FINANCIAL STATEMENTS

BATTLE CREEK BROWNFIELD REDEVELOPMENT AUTHORITY

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

These financial statements present the activities of the Battle Creek Brownfield Redevelopment Authority (the "Authority"). The Authority was established January 20, 1998, pursuant to Public Act 381 of 1996. The primary purpose of the Authority is to revitalize environmentally contaminated properties in the City of Battle Creek. The Authority's activities are primarily funded through tax increment financing.

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

As permitted by generally accepted accounting principles, the Authority uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the statement of net position and governmental funds balance sheet and the statement of activities and governmental fund revenues, expenditures and changes in fund balances. Major individual governmental funds are reported as separate columns in the aforementioned financial statements.

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. Property taxes are recognized as revenues in the year for which they are levied.

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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Authority reports a single major governmental fund - the general fund. The general fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for and reported in another fund, if any.

BATTLE CREEK BROWNFIELD REDEVELOPMENT AUTHORITY

Notes to Financial Statements

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 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 of Directors. A formal resolution of the Board is required to establish, modify, or rescind a fund balance commitment. The Authority currently has no nonspendable, restricted, or committed fund balance. The Authority also 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.

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. 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 for the Authority's funds.
- The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted and amended by the City Commission during the year.

For the year ended June 30, 2017, the Authority's general fund expenditures were within budget.

2. POOLED CASH AND INVESTMENTS

At year-end, the carrying amount of the Authority's pooled cash and investments, which were deposited entirely in the City's internal cash management pool, was \$516,237. 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.

BATTLE CREEK BROWNFIELD REDEVELOPMENT AUTHORITY

Notes to Financial Statements

3. LONG-TERM DEBT AND CONSTRUCTION COMMITMENTS

During the year ended June 30, 2008, the Authority entered into a loan with the Battle Creek Tax Increment Finance Authority ("BCTIFA"; a component unit of the City of Battle Creek, Michigan) to borrow up to \$3,530,000 for use with a particular brownfield project. As of June 30, 2017, the Authority had drawn \$2,560,708 on the authorized amount, and the current outstanding balance due is \$969,377. Accordingly, this balance is reported as a long-term debt in the statement of net position; no amount is presently reported as due within one year since repayment is based on the future collection of incremental tax revenues. The repayment obligation includes interest at 5% per annum. No draws were taken on this loan during the year ended June 30, 2017.

During the year ended June 30, 2010, the Authority entered into another loan with BCTIFA to borrow up to \$5,500,000 for use with another particular brownfield project. As of June 30, 2017, the Authority had drawn \$2,460,293 on the authorized amount; this amount is currently outstanding. Accordingly, this balance is reported as a long-term debt in the statement of net position; no amount is presently reported as due within one year since repayment is based on the future collection of incremental tax revenues. The repayment obligation includes interest at 5% per annum. Draws of \$3,010 were taken on this loan during the year ended June 30, 2017.

Each of the GASB 34 adjustments presented in the accompanying financial statements are related to recognizing the aforementioned borrowings and related transactions.

Following is a summary of the changes in the debt obligation and of the remaining amounts on the loan authorizations to the Authority:

	First Loan	Second Loan	Total
Beginning balance, July 1, 2016	\$ 1,241,877	\$ 2,457,283	3,699,160
Loan draws	-	3,010	3,010
Repayments	(272,500)	-	(272,500)
Ending balance June 30, 2017	<u>\$ 969,377</u>	<u>\$ 2,460,293</u>	<u>\$ 3,429,670</u>
Total loan authorization	\$ 3,530,000	\$ 5,500,000	\$ 9,030,000
Loan draws:			
Prior years	(2,560,708)	(2,457,283)	(5,017,991)
Current year	-	(3,010)	(3,010)
Remaining authorization	<u>\$ 969,292</u>	<u>\$ 3,039,707</u>	<u>\$ 4,008,999</u>

BATTLE CREEK BROWNFIELD REDEVELOPMENT AUTHORITY

■ Notes to Financial Statements

4. PROPERTY TAXES

Property tax revenue is derived pursuant to a tax increment financing agreement between the Authority and various 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 of Battle Creek 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.

5. TAX ABATEMENTS

The Authority received reduced property tax revenues during 2017 as a result of brownfield redevelopment agreements entered into by the Authority.

Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties. These agreements were entered into based upon the Brownfield Redevelopment Act, PA 381 of 1996, as amended. Under this Act, a government may create a brownfield redevelopment authority to develop and implement brownfield projects. Tax increment financing may be used as a tool for property redevelopment. The abatements amounted to \$35,409 in reduced Authority tax revenues for 2017.

