

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

Year Ended  
June 30, 2023

Financial  
Statements

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# BATTLE CREEK LOCAL DEVELOPMENT FINANCE AUTHORITY

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## INDEPENDENT AUDITORS' REPORT

December 22, 2023

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

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited the financial statements of the governmental activities and the major fund of the **Battle Creek Local Development Finance Authority, a component unit of the City of Battle Creek, Michigan** (the "Authority"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2023, and the respective changes in financial position 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.

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Independent Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.



In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Independent Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2023, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Authority's 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 Authority's internal control over financial reporting and compliance.

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# BATTLE CREEK LOCAL DEVELOPMENT FINANCE AUTHORITY

## Management's Discussion and Analysis

The Battle Creek Local Development Finance Authority (the "Authority") was established in April 2001 pursuant to Public Act 248 of 2000. The primary purpose of the Authority is to encourage technological development through the City of Battle Creek's SmartZone. 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, 2023.

### 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 balance 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 \$1,284,105 at the end of the fiscal year.

# BATTLE CREEK LOCAL DEVELOPMENT FINANCE AUTHORITY

## Management's Discussion and Analysis

A comparative analysis of the data is presented below:

	Net Position as of June 30,	
	2023	2022
<b>Assets</b>		
Current and other assets	\$ 433,633	\$ 1,186,556
<b>Liabilities</b>		
Long-term liabilities	1,550,000	1,700,000
Other liabilities	167,738	717,738
<b>Total liabilities</b>	<u>1,717,738</u>	<u>2,417,738</u>
<b>Net position</b>		
Unrestricted (deficit)	<u>\$ (1,284,105)</u>	<u>\$ (1,231,182)</u>

When comparing the current fiscal year to the previous fiscal year, net position has decreased by \$52,923. This is due to the expenditure of the remaining loan funds from the Battle Creek Tax Increment Financing Authority for the Watkins Road Improvement Project.

	Changes in Net Position for the Year Ending June 30,	
	2023	2022
<b>Total revenues</b>	\$ 186,180	\$ 331,574
<b>Total expenses</b>	<u>239,103</u>	<u>1,579,718</u>
<b>Change in net position</b>	(52,923)	(1,248,144)
Net position (deficit), beginning of year	<u>(1,231,182)</u>	<u>16,962</u>
<b>Net position (deficit), end of year</b>	<u>\$ (1,284,105)</u>	<u>\$ (1,231,182)</u>

### General Fund Budgetary Highlights

The general fund original adopted budget reflected a budgeted increase in fund balance of \$98,523. Mid-year budget adjustments were made to reflect an increase in the projected community development expenditures and an increase in property tax capture and investment earnings resulting in a final budgeted increase in fund balance of \$52,269. Ultimately, actual revenues were less than budgeted as a result of overcaptured revenues for Tax Years 2021-2023 being refunded to the jurisdictions. This resulted in a fund balance decrease for the fiscal year of \$202,923.

# BATTLE CREEK LOCAL DEVELOPMENT FINANCE AUTHORITY

## Management's Discussion and Analysis

### Long-term Debt

At the end of the current fiscal year, the Authority had total debt outstanding of \$1,550,000. The Authority has entered into a loan with the Battle Creek Tax Increment Finance Authority ("BCTIFA"; a component unit of the City of Battle Creek, Michigan) for the Watkins Road Improvement Project. No amount is presently reported as due within one year since repayment is based on the future collection of tax increment revenues. The repayment obligations include interest at 3% per annum.

### Economic Factors

The Battle Creek Local Development Finance Authority's expenses are governed by the laws of the State of Michigan. During 2023, the Authority expended \$192,603 for administration and upgrades to Watkins Road (the Watkins Road Improvement Project) that is servicing a new spec building and two other parcels with development potential.

### Contacting the Battle Creek Local Development Finance Authority

This financial report is designed to provide a general overview of the Battle Creek Local Development Finance Authority finances and to show accountability for the money it receives and expends. The financial statements can be found on the City's website: [www.battlecreekmi.gov](http://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 Revenue Services Director, P.O. Box 1717, Battle Creek, MI 49016-1717.

## **BASIC FINANCIAL STATEMENTS**

# BATTLE CREEK LOCAL DEVELOPMENT FINANCE AUTHORITY

## Statement of Net Position and Governmental Fund

Balance Sheet

June 30, 2023

	General	Adjustments	Statement of Net Position
<b>Assets</b>			
Pooled cash and investments	\$ 433,633	\$ -	\$ 433,633
<b>Liabilities</b>			
Accounts payable	\$ 167,738	-	167,738
Long-term liabilities - due in more than one year	-	1,550,000	1,550,000
<b>Total liabilities</b>	167,738	1,550,000	1,717,738
<b>Fund balance</b>			
Unassigned	265,895	(265,895)	-
<b>Total liabilities and fund balance</b>	\$ 433,633	1,284,105	1,717,738
<b>Net position</b>			
Unrestricted (deficit)		\$ (1,284,105)	\$ (1,284,105)

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

## BATTLE CREEK LOCAL DEVELOPMENT FINANCE AUTHORITY

### Statement of Activities and Governmental Fund Revenues,

Expenditures and Changes in Fund Balance  
For the Year Ended June 30, 2023

	General	Adjustments	Statement of Activities
<b>Revenues</b>			
Property taxes	\$ 162,458	\$ -	\$ 162,458
Unrestricted investment earnings	23,722	-	23,722
<b>Total revenues</b>	<u>186,180</u>	<u>-</u>	<u>186,180</u>
<b>Expenditures / expenses</b>			
Community development	192,603	-	192,603
Debt service:			
Principal	150,000	(150,000)	-
Interest and fiscal charges	46,500	-	46,500
<b>Total expenditures / expenses</b>	<u>389,103</u>	<u>(150,000)</u>	<u>239,103</u>
<b>Change in fund balance / net position</b>	(202,923)	150,000	(52,923)
<b>Fund balance / net position (deficit)</b>			
Beginning of year	<u>468,818</u>	<u>(1,700,000)</u>	<u>(1,231,182)</u>
<b>End of year</b>	<u>\$ 265,895</u>	<u>\$ (1,550,000)</u>	<u>\$ (1,284,105)</u>

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

## BATTLE CREEK LOCAL DEVELOPMENT FINANCE AUTHORITY

### Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund  
For the Year Ended June 30, 2023

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Property taxes	\$ 397,023	\$ 428,082	\$ 162,458	\$ (265,624)
Unrestricted investment earnings	1,000	12,900	23,722	10,822
<b>Total revenues</b>	<u>398,023</u>	<u>440,982</u>	<u>186,180</u>	<u>(254,802)</u>
<b>Expenditures</b>				
Community development	103,000	192,213	192,603	390
Debt service:				
Principal	150,000	150,000	150,000	-
Interest and fiscal charges	46,500	46,500	46,500	-
<b>Total expenditures</b>	<u>299,500</u>	<u>388,713</u>	<u>389,103</u>	<u>390</u>
<b>Net change in fund balance</b>	98,523	52,269	(202,923)	(255,192)
Fund balance, beginning of year	<u>468,818</u>	<u>468,818</u>	<u>468,818</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 567,341</u>	<u>\$ 521,087</u>	<u>\$ 265,895</u>	<u>\$ (255,192)</u>

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



## **NOTES TO FINANCIAL STATEMENTS**

# BATTLE CREEK LOCAL DEVELOPMENT FINANCE AUTHORITY

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

These financial statements present the activities of the Battle Creek Local Development Finance Authority (the "Authority"). The Authority was established in April 2001 pursuant to Public Act 248 of 2000. The primary purpose of the Authority is to encourage technological development through the City of Battle Creek's SmartZone. 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 fund balance sheet and the statement of activities and governmental fund revenues, expenditures and changes in fund balance. The major individual governmental fund is reported in a separate column in the aforementioned basic 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.

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.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue 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 accounted for and reported in another fund, if any.

# BATTLE CREEK LOCAL DEVELOPMENT FINANCE 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. 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 balances. 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. 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.

For the year ended June 30, 2023, the Authority incurred general fund expenditures in excess of the amounts appropriated for community development of \$390.

## 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 \$433,633 (primarily unspent loan funds which will be used to complete the Watkins Road Improvement Project). 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 LOCAL DEVELOPMENT FINANCE AUTHORITY

## Notes to Financial Statements

### 3. LONG-TERM LIABILITIES AND CONSTRUCTION COMMITMENTS

During the year ended June 30, 2022, 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 \$1,700,000 for the Watkins Road Improvement Project. Watkins Road is not owned by the Authority and thus the project is not capitalized. As of June 30, 2023, \$1,550,000 is outstanding. Accordingly, this balance is reported as long-term liabilities 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 3% per annum.

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



**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 22, 2023

To the Board of Directors of the  
Battle Creek Local Development Finance Authority  
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 governmental activities and the major fund of the **Battle Creek Local Development Finance Authority, a component unit of the City of Battle Creek, Michigan** (the "Authority"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 22, 2023.

#### **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 2023-001 that we consider to be a material weakness.



## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority'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 financial statements. 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*.

## **Battle Creek Local Development Finance Authority's Response to Finding**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Authority's response to the finding identified in our audit and described in the accompanying schedule of findings and responses. The Authority'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 Authority'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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# BATTLE CREEK LOCAL DEVELOPMENT FINANCE AUTHORITY

## Schedule of Findings and Responses

For the Year Ended June 30, 2023

### 2023-001 - Material Audit Adjustment

**Finding Type.** Material Weakness in Internal Controls over Financial Reporting

**Criteria.** Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

**Condition.** During our audit, we identified and proposed an adjustment (which was approved and posted by management) that was material to the Authority's financial statements. Accounts payable was initially overstated and property tax revenue was initially understated by \$62,689.

**Cause.** Internal controls did not detect all adjustments necessary to properly record year-end balances.

**Effect.** As a result of this condition, the Authority's financial statements were initially misstated by amounts that were material to the financial statements.

**Recommendation.** Management has already taken appropriate corrective action by reviewing and approving the proposed audit adjustments.

**View of Responsible Officials.** During the year ended June 30, 2023, the City's Assessor identified that a restatement of base values was needed. This restatement resulted in tax increment over capture by the LDFA. In attempting to refund these amounts to taxing jurisdictions, an invoice was voided on an incorrect date, causing the misstatement. Given that this was a one-time adjustment, management does not believe this issue will be repeated and will ensure better care that these accounts are properly reconciled at year end.

**Responsible Officials.** Revenue Services Director

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