

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type [x] City [] Township [] Village [] Other		Local Government Name City of Battle Creek		County Calhoun	
Audit Date June 30, 2005		Opinion Date October 21, 2005		Date Accountant Report Submitted to State: December 15, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

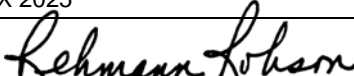
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | | | |
|-------------------------------------|-----|-------------------------------------|----|---|
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/> | No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/> | No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			

CITY OF BATTLE CREEK, MICHIGAN

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2005

Wayne D. Wiley
City Manager

Prepared by

Finance Department
James K. Ritsema, Finance Director

Independent Auditors

Rehmann Robson

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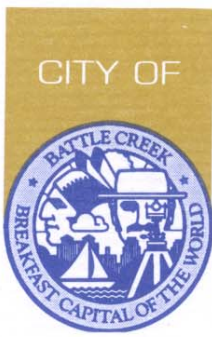
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INTRODUCTORY SECTION



BATTLE CREEK
CITY MANAGER

October 21, 2005

**To the Honorable Mayor, Members of the City Commission
and Citizens of the City of Battle Creek:**

State law requires that all local governments, subject to certain size criteria, publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Battle Creek for the fiscal year ended June 30, 2005.

This report consists of management's representations concerning the finances of the City of Battle Creek. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, City management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Rehmann Robson, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2005 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2005 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Battle Creek, incorporated as a City in 1859 and as a Home Rule City in 1913, is located in southwest Michigan, approximately 115 miles west of Detroit and 160 miles northeast of Chicago. It is the largest city in Calhoun County, encompassing an area of 44 square miles, with a current estimated population of 53,364. The City is well known as the breakfast food capital of the world.

The government has operated under the commission-manager form of government since 1961. Policymaking and legislative authorities are vested in the City Commission, which is comprised of nine members including the mayor. The governing council is responsible, among other things, for passing ordinances and resolutions, making public policy decisions, adopting the budget, appointing boards, commissions, and committees, approving contracts, authorizing real estate transactions, awarding bids, selling property, and hiring the government's manager and attorney. Four Commissioners are elected at-large for two-year terms and five Commissioners are elected from the five wards in the City, also serving two-year terms. The City Commission elects a Mayor and Vice-Mayor from among its members.

The City Manager is the chief administrative officer of the City and is appointed by and serves at the pleasure of the City Commission. The City Manager is responsible for carrying out the policies and ordinances of the City Commission, for overseeing the day-to-day operations of the government, and appointing government's department heads.

The City of Battle Creek provides a full range of services including: police and fire protection; the construction and maintenance of highways, streets and other infrastructure; wastewater treatment and disposal; water treatment and distribution; economic development; recreational activities; public transportation services and cultural events.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Battle Creek operates.

Local economy. The City's economy is diverse with industrial and commercial categories accounting for 48.8% of the 2005 taxable valuation. The remainder, primarily residential, provides area residents with convenient and affordable housing to take advantage of the City's industrial, commercial, cultural, educational and recreational opportunities. In addition to hosting breakfast food giants Kellogg Company and General Foods Corporation, the City has been quite successful in attracting other major industrial corporations, who have invested in excess of \$740 million in plant expansions and renovations over the past several years.

Long-term financial planning. The City of Battle Creek believes long-term financial planning has been and will continue to be an important component to ensure the City's fiscal health. The City Commission has identified economic development and downtown development as two of the highest priorities for the City over the next three years. Battle Creek Unlimited, a non-profit organization partnering with the City to perform economic development, continues to promote and develop the City's Fort Custer Industrial Park (FCIP) and the downtown in an effort to maintain and enhance the City's tax base.

Along with efforts to ensure a future growth in tax revenue, the City has developed a Capital Improvements Program to identify its long-term capital needs and ability to fund the program. Over the next six years, the City has identified over \$122 million in capital needs, with funding sources in place to meet those needs.

From an operational perspective, while the City enjoys a diverse, growing economy, as well as a growing property tax base, factors exist that may constrain the City's fiscal health. The increase in the assessed value of taxable property in the City continues to be constrained by the Headlee Amendment (which limits the annual increase in the State Equalized Value of real property) and the provisions of Proposal A (which limits increases in taxable property values to 5% or the rate of inflation, whichever is less). Taken together, these fiscal factors create a trend of ever-tightening budgets under which the City must operate.

Finally, along with constrained resources, the City faces increasing financial challenges with escalating costs of employee benefits, especially for medical and prescription drug insurance. These issues impose increasing burdens on the City's fiscal structure and pose a possible peril to the long-term stability of City finances. Greater revenue growth and/or cost containment measures will be explored to mitigate future stress on City finances.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Battle Creek for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. This was the sixth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the City of Battle Creek. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. Credit also must be given to the mayor and the governing council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Battle Creek's finances.

Wayne D. Wiley
City Manager

James K. Ritsema
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Battle Creek,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Zielke

President

Jeffrey R. Emer

Executive Director



City Commission

**City Manager
Wayne Wiley**

Assistant City Manager
Ken Tsuchiyama

**City Attorney
Clyde Robinson**



Fire Chief Larry Hausman	<ul style="list-style-type: none"> Administrative Battalion Chiefs Mark Lindauer & Jim Barney Fire Inspection & Prevention Rick Barnes & Ralph Britton Training Officer Tom Lockton 911 Dispatch Manager Jill Fish 	
Finance Director Jim Ritsema	<ul style="list-style-type: none"> Finance Services Manager Mark Haskins Revenue Services Group Manager/ City Assessor Judy Mudge Purchasing Agent Christine Jones 	<ul style="list-style-type: none"> Treasurer/Utility Billing Stan Chubinski Income Tax Administrator Mario Grestini Deputy Assessor Ken Buckelew
Employee Relations Director Russ Claggett	<ul style="list-style-type: none"> Risk Manager Ken Bell Human Resources Manager Paul Engels 	
Parks & Recreation Director Jeff Hovarter	<ul style="list-style-type: none"> Superintendent of Facilities Linn Kracht Recreation Superintendent Pete Baum Binder Park Golf Course Manager Ron Osborne Business Manager Kevin Smith 	
Chief Information Officer Dan Ryan	<ul style="list-style-type: none"> Information Systems Administrator Cindy Hale Special Projects Task Leader Marcia Wentworth 	
City Clerk Susan Bedsole	<ul style="list-style-type: none"> Deputy City Clerk Deidre Laser City Hall Customer Service Center 	
Assistant to the City Manager Michelle Reen	<ul style="list-style-type: none"> Print Shop, Mail Room, City Hall Maintenance Reprographics Manager Joe Kleczynski 	
Planning & Community Development Director Mike Buckley	<ul style="list-style-type: none"> Inspection Superintendent/Chief Building Official Kim Tuck Code Compliance Administrator Dennis McKinley Community Development Supervisor Al Giguere 	
Neighborhood and Community Services Director Cherise Brandell	<ul style="list-style-type: none"> Neighborhood Organizers NED Administrator Neighborhood Resource Center Coordinator Neighborhoods Code Compliance Officer 	
Utilities Director Ken Kohs	<ul style="list-style-type: none"> Records Manager Todd Gerber Water Superintendent Dave Rich Wastewater Superintendent Larry DeLong Environmental Program Coordinator Christine Kosmoswski 	
City Engineer Chris Dopp	<ul style="list-style-type: none"> Traffic Engineering Max Phares Streets and Parks Superintendent Jerome Clark 	
Transportation Director Greg Zanotti	<ul style="list-style-type: none"> Parking Systems Contractor: AMPCO Transit Manager Jerry Hutchison Airport Manager Larry Bowron Equipment Center/Fleet Management 	<ul style="list-style-type: none"> Assistant Transit Manager Rich Werner Airport Operations Manager James Canders
Police Chief David Headings	<ul style="list-style-type: none"> Grant Officer Kathy Schley Police Management Services Gary Hall Emergency Services Manager Jim Zoss Patrol Bureau Commander Jackie Hampton Investigative Services Commander Jim Saylor Internal Affairs Inspector Tim Hurtt 	<ul style="list-style-type: none"> Lt. Neal Vanderbilt Lt. Mike Sherzer Lt. Duane Knight Lt. Ray Felix

CITY OF BATTLE CREEK, MICHIGAN
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2005
List of Principal City Officials

Elected Officials

City Commission:

John K. Godfrey, Mayor
Tony L. Walker, Vice Mayor

Susan Baldwin
Mark A. Behnke
Peter M. Bilbia
Samuel H. Bullock III
Steve Franklin
Ryan Hersha
Nancy MacFarlane

Administration -- Appointed Officials and Senior Management

City ManagerWayne D. Wiley
Assistant City Manager.....Kenneth H. Tsuchiyama
Assistant to the City Manager..... Michelle A. Reen
City Attorney Clyde J. Robinson
City Clerk.....Susan E. Bedsole
City Treasurer Stanley J. Chubinski

Directors:

Finance Director James K. Ritsema
Employee Relations DirectorRussell W. Claggett
Chief of Police..... David Headings
Fire Chief..... Larry Hausman

FINANCIAL SECTION



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

October 21, 2005

Honorable Mayor and
Members of the City Commission
City of Battle Creek, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Battle Creek, Michigan*, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Battle Creek's management. 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 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Battle Creek, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the General Fund and Community Development Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2005, on our consideration of the City of Battle Creek, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, in a separately issued single audit report. 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* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3-14 and the Police and Fire Retirement System information on page 70 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Battle Creek's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION and ANALYSIS

Management's Discussion and Analysis

As management of the *City of Battle Creek, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-iv of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$372,802,118 (*net assets*). Of this amount, \$57,728,448 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$2,655,154.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$22,133,377, a decrease of \$3,185,901 in comparison with the prior year. Approximately 90 percent of this total amount, or \$19,685,728, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$7,309,377 or 16.6% of total general fund revenues and other financing sources.
- The City's total bonded debt decreased by \$2,835,000 during the current fiscal year; no new or refunding bonds were issued during the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, highways and streets, parks and recreation and community development. The business-type activities of the City include wastewater, water, public transit, solid waste collection and other enterprise operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also legally separate entities for which the City is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself. The Building Authority, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 15-17 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 22 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the community development special revenue fund, which are considered to be major funds. Data from the other 20 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 18-26 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its wastewater, water, public transit, solid waste collection and other operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its equipment maintenance, self-insurance, information management services and printing/reproduction services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the wastewater and water system fund and airport fund, which are considered to be major funds of the City. Conversely, all of the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 27-32 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 33-34 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37-69 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to a schedule concerning the City's progress in funding its obligation to provide pension benefits to its police and fire employees. Required supplementary information can be found on page 70 of this report.

The combining statements referred to earlier in connection with nonmajor funds are presented immediately following the required supplementary information. Combining and individual fund financial statements and schedules can be found on pages 71-104 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Battle Creek, assets exceeded liabilities by \$372,802,118 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (82.7 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment, systems and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Battle Creek's Net Assets

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 61,516,541	\$ 62,332,682	\$ 26,906,676	\$ 24,395,230	\$ 88,423,217	\$ 86,727,912
Capital assets	230,218,875	231,286,844	129,746,726	129,032,291	359,965,601	360,319,135
Total assets	<u>291,735,416</u>	<u>293,619,526</u>	<u>156,653,402</u>	<u>153,427,521</u>	<u>448,388,818</u>	<u>447,047,047</u>
Long-term liabilities outstanding	27,326,824	28,858,368	27,533,642	28,578,879	54,860,466	57,437,247
Other liabilities	14,521,554	11,601,326	6,204,680	2,077,489	20,726,234	13,678,815
Total liabilities	<u>41,848,378</u>	<u>40,459,694</u>	<u>33,738,322</u>	<u>30,656,368</u>	<u>75,586,700</u>	<u>71,116,062</u>
Net assets:						
Invested in capital assets, net						
of related debt	206,172,983	205,676,324	101,991,510	98,756,920	308,164,493	304,433,244
Restricted	6,909,177	11,246,239	-	-	6,909,177	11,246,239
Unrestricted	<u>36,804,878</u>	<u>35,763,556</u>	<u>20,923,570</u>	<u>24,014,233</u>	<u>57,728,448</u>	<u>59,777,789</u>
Total net assets	<u>\$ 249,887,038</u>	<u>\$ 252,686,119</u>	<u>\$ 122,915,080</u>	<u>\$ 122,771,153</u>	<u>\$ 372,802,118</u>	<u>\$ 375,457,272</u>

An additional portion of the City's net assets (1.8 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (15.5 percent or \$57,728,448) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's net assets decreased by \$2,655,154 during the current fiscal year as compared to a decrease of \$10,478,985 for the prior year. The current year decrease in net assets reflects the extent by which accrual basis expenses, including depreciation on governmental capital assets and infrastructure, exceed revenues. The change from the prior year results of nearly \$7.8 million reflects an increase in capital grants and contributions of \$5.8 million, increased income tax revenues through a reduction in personal exemptions, inflationary increases in property tax and other revenues, and concerted efforts to control the increases in expenses.

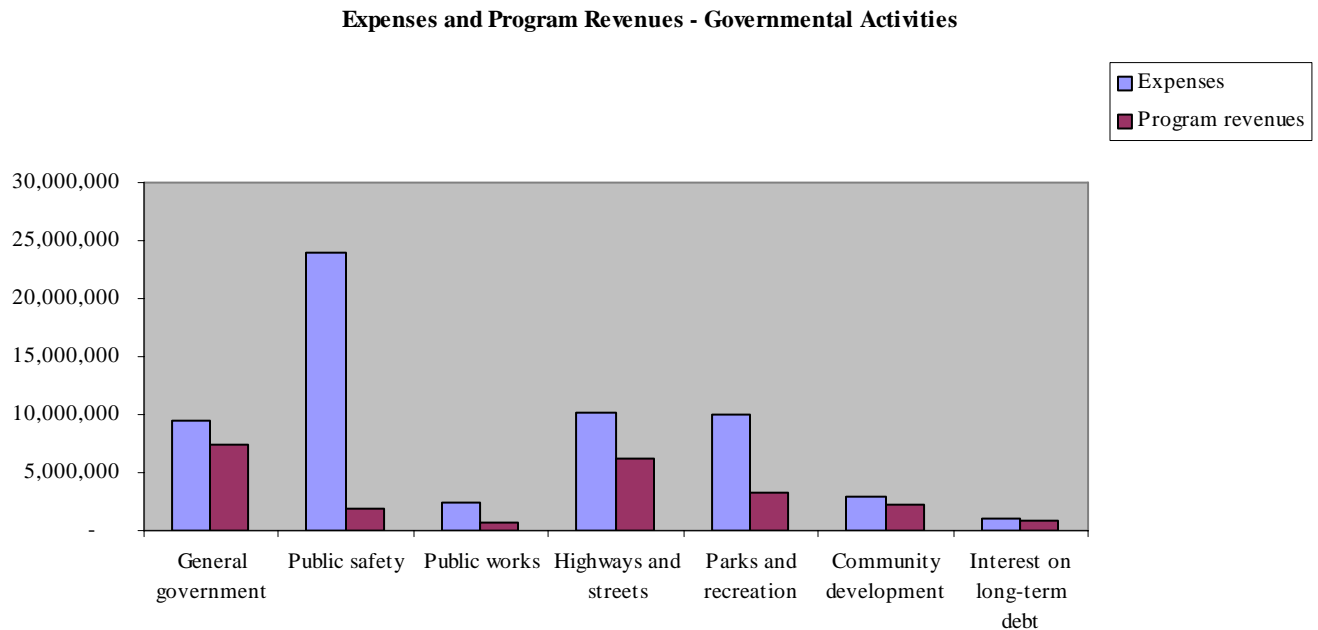
City of Battle Creek's Changes in Net Assets

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue:						
Program revenue:						
Charges for services	\$ 8,309,897	\$ 8,304,538	\$ 23,607,975	\$ 22,795,555	\$ 31,917,872	\$ 31,100,093
Operating grants and contributions	10,625,956	10,156,505	2,567,262	2,837,617	13,193,218	12,994,122
Capital grants and contributions	3,271,450	1,007,638	4,909,860	1,333,423	8,181,310	2,341,061
General revenue:						
Property taxes	13,579,207	12,764,779	-	-	13,579,207	12,764,779
Income taxes	13,942,683	12,679,119	-	-	13,942,683	12,679,119
Grants and contributions not restricted to specific programs	6,291,976	6,358,441	-	-	6,291,976	6,358,441
Other	1,716,088	1,894,373	379,185	(430,829)	2,095,273	1,463,544
Total revenue	<u>57,737,257</u>	<u>53,165,393</u>	<u>31,464,282</u>	<u>26,535,766</u>	<u>89,201,539</u>	<u>79,701,159</u>
Expenses:						
General government	8,251,417	8,285,242	-	-	8,251,417	8,285,242
Public safety	24,912,304	25,996,442	-	-	24,912,304	25,996,442
Public works	2,425,660	2,263,112	-	-	2,425,660	2,263,112
Highways and streets	10,253,704	10,799,830	-	-	10,253,704	10,799,830
Parks and recreation	10,103,614	6,879,916	-	-	10,103,614	6,879,916
Community development	2,871,471	2,834,085	-	-	2,871,471	2,834,085
Interest on long-term debt	1,099,030	1,130,642	-	-	1,099,030	1,130,642
Sewer	-	-	14,103,654	14,090,224	14,103,654	14,090,224
Water	-	-	7,225,258	7,196,409	7,225,258	7,196,409
Transit system	-	-	3,887,041	4,064,196	3,887,041	4,064,196
Solid waste collection	-	-	2,184,244	2,103,397	2,184,244	2,103,397
Other	-	-	4,539,296	4,536,649	4,539,296	4,536,649
Total expenses	<u>59,917,200</u>	<u>58,189,269</u>	<u>31,939,493</u>	<u>31,990,875</u>	<u>91,856,693</u>	<u>90,180,144</u>
Decrease in net assets before transfers	(2,179,943)	(5,023,876)	(475,211)	(5,455,109)	(2,655,154)	(10,478,985)
Transfers	(619,138)	(357,307)	619,138	357,307	-	-
Increase (decrease) in net assets	<u>(2,799,081)</u>	<u>(5,381,183)</u>	<u>143,927</u>	<u>(5,097,802)</u>	<u>(2,655,154)</u>	<u>(10,478,985)</u>
Net assets - beginning of year	<u>252,686,119</u>	<u>258,067,302</u>	<u>122,771,153</u>	<u>127,868,955</u>	<u>375,457,272</u>	<u>385,936,257</u>
Net assets - end of year	<u>\$ 249,887,038</u>	<u>\$ 252,686,119</u>	<u>\$ 122,915,080</u>	<u>\$ 122,771,153</u>	<u>\$ 372,802,118</u>	<u>\$ 375,457,272</u>

Governmental activities. Governmental activities decreased the City’s net assets by \$2,799,081 (as compared to a prior year decrease of \$5,381,183), causing the overall decrease of \$2,655,154. Key elements of this decrease and the change from the prior year are as follows:

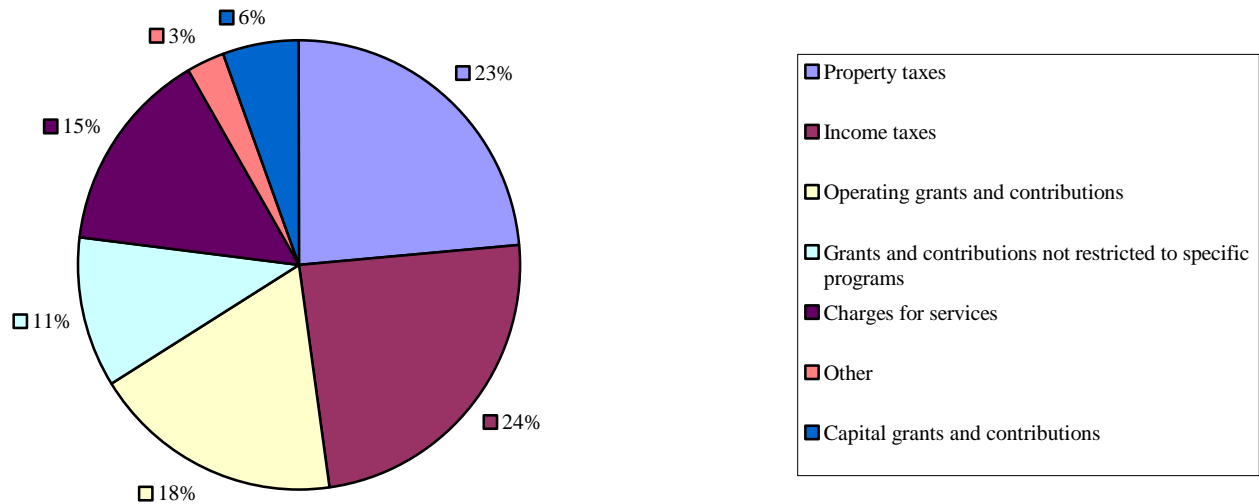
- No salary increases were made for fiscal 2004-05; despite this, expenses increase by \$1.7 million over the prior year.
- Income tax revenues increase by \$1.2 primarily because of a reduction in the deduction for personal exemptions.
- Capital grants and contributions increase by \$2.2 million primarily through a grant from a private foundation for renovations to Kellogg Arena.
- Inflationary increases in property tax revenues, charges for services, and operating grants.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities

Revenues by Source - Governmental Activities

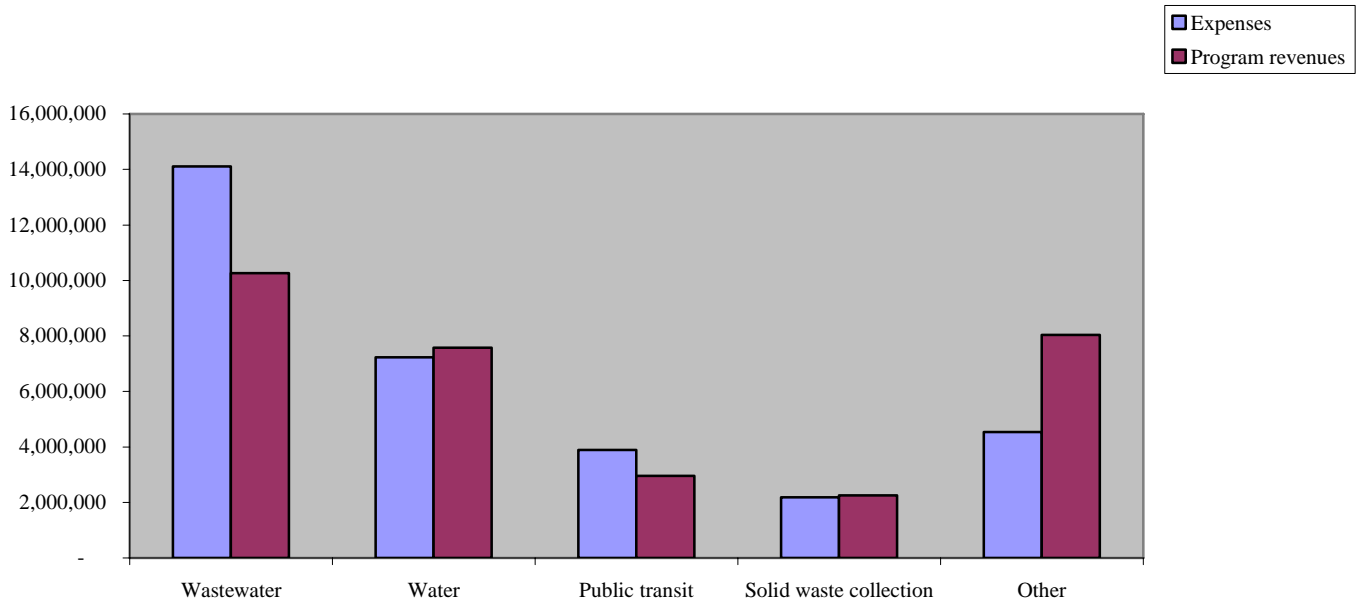


Business-type activities. Business-type activities increased the City's net assets by \$143,927 as compared to a decrease of \$5,097,802 the prior year. Key elements for this change include:

- Increase in capital grants and contributions if \$3.8 million to complete the new tower project at W.K. Kellogg Airport.
- Investment earnings improved by nearly \$810,000.
- Expenses declined slightly primarily because there were no salary increases for the current year.

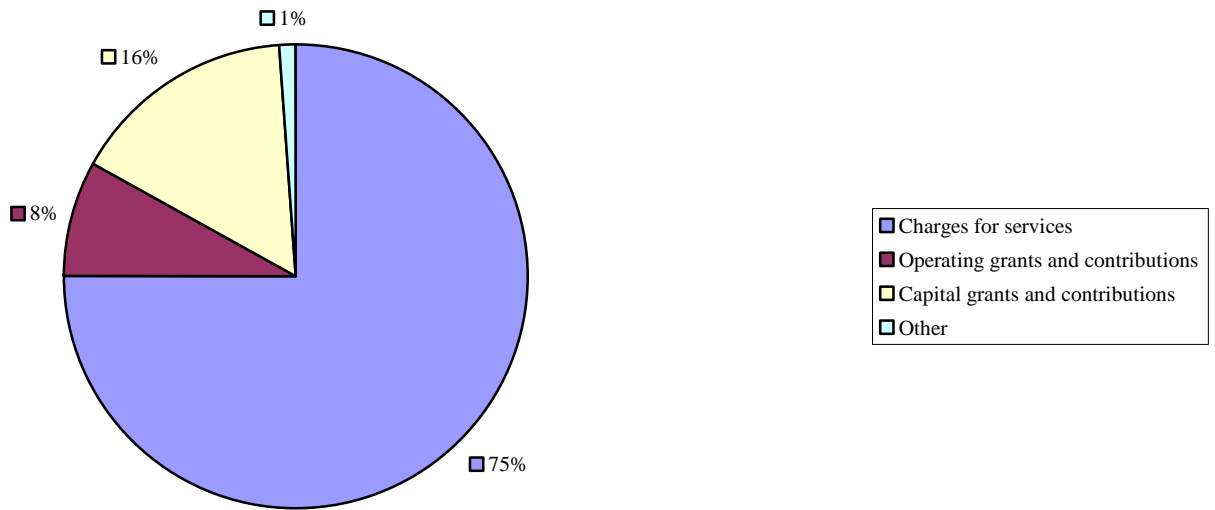
Expenses and Program Revenues - Business-type Activities

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities

Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$22,133,377, a decrease of \$3,185,901 in comparison with the prior year. Approximately 90% of this total amount (\$19,685,728) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed:

- to generate income for the support and maintenance of the youth center and Kellogg Arena (\$2,123,533); and
- for inventories, prepaid expenditures and encumbrances (\$324,116).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved undesignated fund balance of the general fund was \$7,309,377, while total fund balance was \$11,193,564. As a measure of the general fund's liquidity, it may be useful to compare unreserved undesignated fund balance to total general fund revenues. Unreserved undesignated fund balance represents 16.6 percent of total general fund revenues and other financing sources.

The fund balance of the City's general fund decreased by \$491,204 during the current fiscal year. This was a planned use of fund balance, but significantly less than the final budgeted decrease in fund balance of \$1,350,741.

The community development fund has no fund balance, which is the same as the previous year, since this is a grant-driven fund. Original budget estimates anticipated a greater level of activity than actually occurred; however, community development grant funds may be carried over to subsequent years.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the water and wastewater system fund at the end of the year amounted to \$12,574,895. The fund had a decrease in net assets for the year of \$3,705,658. Factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

The W.K Kellogg Airport had total net assets at the end of the year of \$6,912,171 with unrestricted net assets of \$108,212. For the year, the Airport had an increase in net assets of \$4,042,216 primarily because of governmental subsidies and capital contributions for the construction of a new tower.

General Fund Budgetary Highlights

Differences between the original and final amended budgets for expenditures were relatively minor. Changes between original and final budget balances result from the carryover of certain budget appropriations under the City's budgetary policies.

For the year, general fund budgetary estimates for revenues, expenditures and other financing sources and uses exceeded actual, resulting in a net decrease in fund balance that was \$1,313,202 less than anticipated in the final amended budget.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2005, amounted to \$359,965,601 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, system, vehicles and equipment, park facilities, roads, highways, and bridges. Net capital assets for governmental activities decreased 0.5%, and for business-type activities increased by 0.6%. Overall, total net capital assets for the City decreased 0.1%.

Major capital asset events during the current fiscal year included the following:

- Water and wastewater system improvements totaling \$3.1 million in the current year as part of completing \$14 million total project.
- Airport improvements and additions totaling \$3.9 million, including substantial completion of the new tower project.
- Current year infrastructure additions of over \$5.1 million.

City of Battle Creek's Capital Assets (net of depreciation)

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Land and land improvements	\$ 4,787,128	\$ 4,890,550	\$ 7,074,412	\$ 7,103,408	\$ 11,861,540	\$ 11,993,958
Buildings	33,433,540	34,167,707	27,619,591	25,211,888	61,053,131	59,379,595
Vehicles	2,756,465	2,665,783	944,406	1,021,159	3,700,871	3,686,942
Equipment	2,632,659	3,174,506	5,843,016	6,291,426	8,475,675	9,465,932
Systems	-	-	88,265,301	89,404,412	88,265,301	89,404,412
Infrastructure	186,609,083	186,388,297	-	-	186,609,083	186,388,297
Total	\$ 230,218,875	\$ 231,286,843	\$ 129,746,726	\$ 129,032,293	\$ 359,965,601	\$ 360,319,136

Additional information on the City's capital assets can be found in Note 3-D. on pages 52-53 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$50,025,000. Of this amount, \$26,890,000 is comprised of debt backed by the full faith and credit of the government. The remainder of the City’s bonded debt represents bonds secured solely by specified revenue sources.

City of Battle Creek’s Outstanding Debt
General Obligation and Revenue Bonds

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 22,375,000	\$ 23,790,000	\$ 4,515,000	\$ 4,820,000	\$ 26,890,000	\$ 28,610,000
Revenue bonds	-	-	23,085,000	24,200,000	23,085,000	24,200,000
Special assessment bonds	50,000	50,000	-	-	50,000	50,000
Total	<u>\$ 22,425,000</u>	<u>\$ 23,840,000</u>	<u>\$ 27,600,000</u>	<u>\$ 29,020,000</u>	<u>\$ 50,025,000</u>	<u>\$ 52,860,000</u>

The City’s total bonded debt decreased by \$2,835,000 (5.4 percent) during the current fiscal year, with no new or refunding bonds issued during the year.

The following chart depicts the City’s credit rating for the various outstanding debt and the different rating agencies:

	<u>Moody’s</u>	<u>S&P</u>	<u>Fitch</u>
Water and wastewater revenue bonds	A3	A	A+
General obligation limited tax bonds	A1	A+	AA-
General obligation unlimited tax bonds	A1	A+	nr

nr – not rated

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total state equalized valuation. The current debt limitation for the City is \$165,645,555 which is significantly in excess of the City’s outstanding general obligation debt.

Additional information on the City’s long-term debt can be found in Note 3-G. on pages 55-62 of this report.

Economic Factors and Next Year's Budgets and Rates

With the aid of a new long-term financial model, the following factors were considered in preparing the City's budget for the 2005-06 fiscal year:

- Developed budget within the context of the forecasted revenues and expenditures.
- Continued marginal growth in the City's income tax due to reduction in personal exemptions and job growth.
- No growth in state shared revenue.
- Limited growth in total controlled revenues.
- Inflationary trends in the region are comparable to national indices.

During the current fiscal year, unreserved undesignated fund balance in the general fund decreased by \$229,365 to \$7,309,377. The City has appropriated \$944,034 of general fund unreserved fund balance for spending in the 2005-06 fiscal year budget.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. 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, Michigan 49016-1717.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF BATTLE CREEK, MICHIGAN
Statement of Net Assets
June 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Pooled cash and investments	\$ 35,526,309	\$ 14,477,472	\$ 50,003,781	\$ 13,369,374
Receivables	17,611,824	11,089,829	28,701,653	5,772,498
Receivables, long term portion	7,656,155	-	7,656,155	-
Internal balances	84,981	(84,981)	-	-
Inventories, prepaid items and other assets	637,272	1,424,356	2,061,628	305,800
Capital assets not being depreciated	354,709	3,703,302	4,058,011	11,679,397
Capital assets being depreciated, net	229,864,166	126,043,424	355,907,590	614,034
Total assets	291,735,416	156,653,402	448,388,818	31,741,103
Liabilities				
Accounts payable and accrued expenses	13,694,535	4,985,703	18,680,238	248,035
Accrued interest payable	299,201	402,732	701,933	124,282
Unearned revenue	527,818	816,245	1,344,063	-
Long-term liabilities:				
Due within one year	1,958,092	1,606,161	3,564,253	1,694,555
Due in more than one year	25,368,732	25,927,481	51,296,213	63,621,419
Total liabilities	41,848,378	33,738,322	75,586,700	65,688,291
Net assets				
Invested in capital assets, net of related debt	206,172,983	101,991,510	308,164,493	7,502,270
Restricted for:				
Debt service	1,052,207	-	1,052,207	3,480,234
Capital projects	1,619,666	-	1,619,666	10,943,264
Endowment - nonexpendable	2,123,533	-	2,123,533	-
Endowment - expendable	1,560,154	-	1,560,154	-
Other purposes	553,617	-	553,617	1,506,321
Unrestricted (deficit)	36,804,878	20,923,570	57,728,448	(57,379,277)
Total net assets (deficit)	\$ 249,887,038	\$ 122,915,080	\$ 372,802,118	\$ (33,947,188)

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

CITY OF BATTLE CREEK, MICHIGAN
Statement of Activities
For the Year Ended June 30, 2005

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government					
Governmental activities:					
General government	\$ 8,251,417	\$ 2,697,742	\$ 2,742,764	\$ 1,747,092	\$ (1,063,819)
Public safety	24,912,304	1,842,771	35,786	-	(23,033,747)
Public works	2,425,660	344,638	337,073	-	(1,743,949)
Highways and streets	10,253,704	103	5,148,444	1,032,651	(4,072,506)
Parks and recreation	10,103,614	3,277,043	-	-	(6,826,571)
Community development	2,871,471	147,600	2,016,509	-	(707,362)
Interest on long-term debt	1,099,030	-	345,380	491,707	(261,943)
Total governmental activities	<u>59,917,200</u>	<u>8,309,897</u>	<u>10,625,956</u>	<u>3,271,450</u>	<u>(37,709,897)</u>
Business-type activities:					
Wastewater	14,103,654	10,265,249	-	-	(3,838,405)
Water	7,225,258	7,460,662	9,239	100,775	345,418
Public transit	3,887,041	392,458	2,558,023	-	(936,560)
Solid waste collection	2,184,244	2,249,615	-	-	65,371
Other	4,539,296	3,239,991	-	4,809,085	3,509,780
Total business-type activities	<u>31,939,493</u>	<u>23,607,975</u>	<u>2,567,262</u>	<u>4,909,860</u>	<u>(854,396)</u>
Total primary government	<u>\$ 91,856,693</u>	<u>\$ 31,917,872</u>	<u>\$ 13,193,218</u>	<u>\$ 8,181,310</u>	<u>\$ (38,564,293)</u>
Component units					
Community development	<u>\$ 11,645,382</u>	<u>\$ 79,808</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (11,565,574)</u>

Continued...

CITY OF BATTLE CREEK, MICHIGAN
Statement of Activities (Concluded)
For the Year Ended June 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (37,709,897)	\$ (854,396)	\$ (38,564,293)	\$ (11,565,574)
General revenues:				
Property taxes	13,579,207	-	13,579,207	18,207,129
Income taxes	13,942,683	-	13,942,683	-
Grants and contributions not restricted to specific programs	6,291,976	-	6,291,976	-
Unrestricted investment earnings	1,716,088	379,185	2,095,273	382,816
Transfers - internal activities	(619,138)	619,138	-	-
 Total general revenues and transfers	 34,910,816	 998,323	 35,909,139	 18,589,945
 Change in net assets	 (2,799,081)	 143,927	 (2,655,154)	 7,024,371
Net assets (deficit), beginning of year, as restated	252,686,119	122,771,153	375,457,272	(40,971,559)
Net assets (deficit), end of year	\$ 249,887,038	\$ 122,915,080	\$ 372,802,118	\$ (33,947,188)

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

FUND FINANCIAL STATEMENTS

CITY OF BATTLE CREEK, MICHIGAN

**Balance Sheet
Governmental Funds
June 30, 2005**

<u>ASSETS</u>	<u>General</u>	<u>Community Development</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Pooled cash and investments	\$ 10,805,741	\$ -	\$ 10,882,264	\$ 21,688,005
Receivables:				
Interest	353,270	-	69,896	423,166
Accounts	3,655,499	10,862	1,222,129	4,888,490
Special assessments	-	-	22,710	22,710
Grants	36,615	250,430	493,933	780,978
Loans	8,154,597	2,800,235	-	10,954,832
Inventories	9,452	-	-	9,452
Prepaid items	24,341	-	2,150	26,491
Interfund receivable	3,553,984	-	-	3,553,984
Other assets	-	-	21,080	21,080
	<hr/>	<hr/>	<hr/>	<hr/>
<u>TOTAL ASSETS</u>	<u>\$ 26,593,499</u>	<u>\$ 3,061,527</u>	<u>\$ 12,714,162</u>	<u>\$ 42,369,188</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ 4,783,005	\$ -	\$ 850,734	\$ 5,633,739
Accrued payroll	2,268,494	-	-	2,268,494
Retentions, deposits and other liabilities	163,608	5,386	337,958	506,952
Interfund payable	-	255,906	168,292	424,198
Deferred revenue	8,184,828	2,800,235	417,365	11,402,428
Total liabilities	<hr/>	<hr/>	<hr/>	<hr/>
	15,399,935	3,061,527	1,774,349	20,235,811
 Fund balances				
Reserved for:				
Inventories	9,452	-	-	9,452
Prepaid items	24,341	-	2,150	26,491
Encumbrances	108,863	-	179,310	288,173
Endowment	-	-	2,123,533	2,123,533
Unreserved:				
Designated for:				
Capital outlay and projects	1,291,315	-	-	1,291,315
Future departmental appropriations	1,506,182	-	-	1,506,182
Future departmental appropriations, reported in nonmajor capital projects funds	-	-	453,665	453,665
Subsequent year expenditures	944,034	-	-	944,034
Subsequent year expenditures, reported in nonmajor special revenue funds	-	-	1,143,871	1,143,871
Undesignated	7,309,377	-	-	7,309,377
Undesignated, reported in nonmajor:				
Special revenue funds	-	-	1,982,518	1,982,518
Debt service funds	-	-	1,052,207	1,052,207
Capital projects funds	-	-	2,442,405	2,442,405
Permanent funds	-	-	1,560,154	1,560,154
Total fund balances	<hr/>	<hr/>	<hr/>	<hr/>
	11,193,564	-	10,939,813	22,133,377
	<hr/>	<hr/>	<hr/>	<hr/>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 26,593,499</u>	<u>\$ 3,061,527</u>	<u>\$ 12,714,162</u>	<u>\$ 42,369,188</u>

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

CITY OF BATTLE CREEK, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2005

Fund balances - total governmental funds \$ 22,133,377

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	314,622,150
Deduct - accumulated depreciation	(86,939,107)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add - net assets of governmental internal service funds	8,523,296
Add - portion of internal service funds net operating loss attributed to business-type funds	84,981

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current expenditures. Those assets (i.e., receivables) are offset by deferred revenues in the governmental funds and, therefore, not included in fund balance.

Add - deferred special assessments	22,293
Add - loans receivable related to the sale of capital assets	8,115,597
Add - other loans receivable	2,819,235

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds, installment contracts and loans payable	(24,260,027)
Add - unamortized bond issuance costs	214,135
Add - receivable from other government for its share of bonds payable	8,131,241
Deduct - accrued interest on bonds, loans and leases payable	(299,201)
Deduct - compensated absences	(3,280,932)

Net assets of governmental activities \$ 249,887,038

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

CITY OF BATTLE CREEK, MICHIGAN
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	<u>General</u>	<u>Community Development</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenue				
Taxes	\$ 27,521,890	\$ -	\$ 12,685	\$ 27,534,575
Licenses and permits	1,166,882	-	-	1,166,882
Intergovernmental	7,701,623	1,634,046	6,931,654	16,267,323
Charges for services	2,522,682	-	2,137,015	4,659,697
Fines and forfeitures	213,890	-	-	213,890
Investment income	1,474,106	557	184,685	1,659,348
Other	1,849,970	135,971	3,686,328	5,672,269
Total revenue	<u>42,451,043</u>	<u>1,770,574</u>	<u>12,952,367</u>	<u>57,173,984</u>
Expenditures				
Current expenditures:				
General government	6,655,187	-	467,844	7,123,031
Public safety	23,855,387	-	1,383,744	25,239,131
Public works	2,068,952	-	-	2,068,952
Highway and streets	-	-	9,768,176	9,768,176
Parks and recreation	4,349,374	-	4,927,857	9,277,231
Community development	-	1,752,574	327,489	2,080,063
Unallocated	2,022,281	-	264,185	2,286,466
Debt service:				
Principal retirement	-	-	1,575,000	1,575,000
Interest	-	-	1,121,701	1,121,701
Capital outlay	-	-	92,816	92,816
Total expenditures	<u>38,951,181</u>	<u>1,752,574</u>	<u>19,928,812</u>	<u>60,632,567</u>
Revenue over (under) expenditures	<u>3,499,862</u>	<u>18,000</u>	<u>(6,976,445)</u>	<u>(3,458,583)</u>
Other financing sources (uses)				
Transfers in	942,459	-	10,025,852	10,968,311
Transfers out	(5,512,369)	(18,000)	(5,761,544)	(11,291,913)
Proceeds from sales of capital assets	578,844	-	17,440	596,284
Total other financing sources (uses)	<u>(3,991,066)</u>	<u>(18,000)</u>	<u>4,281,748</u>	<u>272,682</u>
Net change in fund balances	(491,204)	-	(2,694,697)	(3,185,901)
Fund balances, beginning of year, as restated	<u>11,684,768</u>	<u>-</u>	<u>13,634,510</u>	<u>25,319,278</u>
Fund balances, end of year	<u><u>\$ 11,193,564</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 10,939,813</u></u>	<u><u>\$ 22,133,377</u></u>

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

CITY OF BATTLE CREEK, MICHIGAN
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2005

Net change in fund balances - total governmental funds \$ (3,185,901)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	5,538,682
Deduct - depreciation expense	(6,395,008)

Revenues in the statement of activities that do not provide current resources are not reported as revenues in the funds, but rather are deferred to subsequent fiscal years.

Deduct - collections on special assessments	(88,401)
Deduct - collections on land contracts related to the sale of capital assets	(578,844)
Deduct - collections on loans made during prior years	(20,000)
Add - deferred revenues related to loans made during the current year	100,717

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 assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	1,575,000
Add - amortization of premiums on bonds	5,003
Deduct - amount received from other government for its share of bond principal	(453,029)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Add - net operating gain from governmental activities in internal service funds	907,969
Add - interest revenue from governmental internal service funds	123,343
Deduct - interest expense from governmental internal service funds	(2,284)
Add - transfers received in governmental internal service funds	504,320
Deduct - transfers made from governmental internal services funds	(799,856)

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.

Add - decrease in accrued interest payable on bonds	17,669
Deduct - increase in the accrual for compensated absences	(33,084)
Deduct - amortization of bond issuance costs	(15,377)

Change in net assets of governmental activities \$ (2,799,081)

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

CITY OF BATTLE CREEK, MICHIGAN
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2005

	Budget		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenue				
Taxes				
City income	\$ 12,825,000	\$ 12,825,000	\$ 13,942,683	\$ 1,117,683
Real estate	10,976,378	10,976,378	10,650,683	(325,695)
Personal property	1,914,518	1,914,518	1,982,856	68,338
Administration fees	849,750	849,750	821,023	(28,727)
Other	45,200	45,200	124,645	79,445
Total taxes	<u>26,610,846</u>	<u>26,610,846</u>	<u>27,521,890</u>	<u>911,044</u>
Licenses and permits	<u>1,083,905</u>	<u>1,093,578</u>	<u>1,166,882</u>	<u>73,304</u>
Intergovernmental				
State-Shared - Statutory	2,646,332	2,646,332	2,677,195	30,863
State-Shared - Constitutional	3,475,668	3,475,668	3,579,581	103,913
Other	<u>1,584,509</u>	<u>1,595,714</u>	<u>1,444,847</u>	<u>(150,867)</u>
Total intergovernmental	<u>7,706,509</u>	<u>7,717,714</u>	<u>7,701,623</u>	<u>(16,091)</u>
Charges for services				
Parks and recreation	1,743,853	1,744,628	1,570,464	(174,164)
Police services	762,050	791,925	720,770	(71,155)
Emergency dispatch	<u>300,637</u>	<u>300,637</u>	<u>231,448</u>	<u>(69,189)</u>
Total charges for services	<u>2,806,540</u>	<u>2,837,190</u>	<u>2,522,682</u>	<u>(314,508)</u>
Fines and forfeitures	<u>335,000</u>	<u>335,000</u>	<u>213,890</u>	<u>(121,110)</u>
Investment income	<u>1,817,115</u>	<u>1,817,115</u>	<u>1,474,106</u>	<u>(343,009)</u>
Other				
Rent and leases	208,554	208,554	196,151	(12,403)
Miscellaneous and other	519,024	694,711	715,582	20,871
Administrative reimbursements	<u>929,416</u>	<u>929,416</u>	<u>938,237</u>	<u>8,821</u>
Total other revenue	<u>1,656,994</u>	<u>1,832,681</u>	<u>1,849,970</u>	<u>17,289</u>
Total revenue	<u>42,016,909</u>	<u>42,244,124</u>	<u>42,451,043</u>	<u>206,919</u>

Continued...

CITY OF BATTLE CREEK, MICHIGAN
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual (Continued)
General Fund
For the Year Ended June 30, 2005

	Budget		Actual	Actual
	Original	Final		Over (Under) Final Budget
Expenditures				
General government				
Administration:				
Mayor and city commission	\$ 134,783	\$ 104,783	\$ 110,307	\$ 5,524
City clerk	209,400	256,858	288,908	32,050
City manager	614,864	625,131	617,002	(8,129)
Neighborhood partnership	141,409	141,409	107,763	(33,646)
Neighborhood code compliance	133,317	130,817	115,956	(14,861)
Employee relations	212,971	212,971	210,967	(2,004)
Human resources	312,829	311,498	272,186	(39,312)
Labor attorney	20,000	20,000	3,036	(16,964)
Legal department	629,608	635,346	620,812	(14,534)
Elections	126,365	157,685	160,181	2,496
Civil service	97,271	57,077	42,684	(14,393)
Total administration	<u>2,632,817</u>	<u>2,653,575</u>	<u>2,549,802</u>	<u>(103,773)</u>
Community development:				
City planning	600,891	656,717	618,359	(38,358)
Assessing	665,410	700,729	637,577	(63,152)
Inspection	547,537	540,454	505,822	(34,632)
Housing board of appeals	2,400	2,400	1,673	(727)
Intermodal facility	63,400	63,400	62,620	(780)
Total community development	<u>1,879,638</u>	<u>1,963,700</u>	<u>1,826,051</u>	<u>(137,649)</u>
Finance:				
Accounting	855,855	906,114	862,436	(43,678)
Purchasing	456,423	456,423	382,192	(74,231)
Treasurer's office	355,723	369,551	322,521	(47,030)
City hall	321,428	382,757	255,514	(127,243)
Income tax division	499,872	500,581	456,450	(44,131)
Total finance	<u>2,489,301</u>	<u>2,615,426</u>	<u>2,279,113</u>	<u>(336,313)</u>
District court	<u>-</u>	<u>400</u>	<u>221</u>	<u>(179)</u>
Total general government	<u>7,001,756</u>	<u>7,233,101</u>	<u>6,655,187</u>	<u>(577,914)</u>

Continued...

CITY OF BATTLE CREEK, MICHIGAN
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual (Continued)
General Fund
For the Year Ended June 30, 2005

	Budget		Actual	Actual
	Original	Final		Over (Under) Final Budget
Expenditures (continued)				
Public safety				
Police department:				
Administration	\$ 472,889	\$ 502,404	\$ 580,283	\$ 77,879
Crime lab	544,810	600,277	589,885	(10,392)
Investigation	1,179,103	1,360,746	1,347,130	(13,616)
Neighborhood enforcement	193,910	193,659	190,426	(3,233)
Special investigative unit	363,745	533,581	531,052	(2,529)
Management service	890,673	801,698	793,830	(7,868)
Patrol	8,513,376	8,441,268	8,387,938	(53,330)
Community service	734,334	684,191	678,469	(5,722)
Officer training	229,547	155,925	147,517	(8,408)
Detention center	159,996	154,699	154,276	(423)
Homeland security	-	-	-	-
Total police department	<u>13,282,383</u>	<u>13,428,448</u>	<u>13,400,806</u>	<u>(27,642)</u>
Fire department:				
Administration	649,585	805,292	805,316	24
Dispatch	1,888,186	1,908,131	1,834,235	(73,896)
Fire fighting	<u>8,211,334</u>	<u>8,066,876</u>	<u>7,702,586</u>	<u>(364,290)</u>
Total fire department	<u>10,749,105</u>	<u>10,780,299</u>	<u>10,342,137</u>	<u>(438,162)</u>
Civil defense	<u>109,655</u>	<u>108,476</u>	<u>112,444</u>	<u>3,968</u>
Total public safety	<u>24,141,143</u>	<u>24,317,223</u>	<u>23,855,387</u>	<u>(461,836)</u>
Public works				
Public works director	74,300	78,021	14,990	(63,031)
Street and storm sewers	816,144	726,144	614,623	(111,521)
Engineering	151,014	151,014	109,819	(41,195)
Street lighting	955,000	955,000	976,246	21,246
Outside service	<u>205,869</u>	<u>284,184</u>	<u>353,274</u>	<u>69,090</u>
Total public works	<u>2,202,327</u>	<u>2,194,363</u>	<u>2,068,952</u>	<u>(125,411)</u>

Continued...

CITY OF BATTLE CREEK, MICHIGAN
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual (Concluded)
General Fund
For the Year Ended June 30, 2005

	Budget		Actual	Actual
	Original	Final		Over (Under) Final Budget
Expenditures (concluded)				
Parks and recreation				
Administration	\$ 607,436	\$ 642,671	\$ 683,361	\$ 40,690
Parks, buildings and maintenance	889,170	1,274,429	1,167,705	(106,724)
Downtown maintenance	323,900	413,900	340,650	(73,250)
Sports	898,388	899,163	802,228	(96,935)
Youth center and water park	1,353,939	1,379,055	1,355,430	(23,625)
Total parks and recreation	<u>4,072,833</u>	<u>4,609,218</u>	<u>4,349,374</u>	<u>(259,844)</u>
Unallocated				
Retirement benefits	175,000	175,000	198,659	23,659
Data processing	1,015,619	1,015,619	1,015,619	-
Other	892,459	850,012	808,003	(42,009)
Total unallocated	<u>2,083,078</u>	<u>2,040,631</u>	<u>2,022,281</u>	<u>(18,350)</u>
Total expenditures	<u>39,501,137</u>	<u>40,394,536</u>	<u>38,951,181</u>	<u>(1,443,355)</u>
Revenue over (under) expenditures	<u>2,515,772</u>	<u>1,849,588</u>	<u>3,499,862</u>	<u>1,650,274</u>
Other financing sources (uses)				
Transfers in	783,842	1,097,926	942,459	(155,467)
Transfers out	(4,778,158)	(5,330,764)	(5,512,369)	(181,605)
Proceeds from sales of capital assets	578,844	578,844	578,844	-
Total other financing (uses)	<u>(3,415,472)</u>	<u>(3,653,994)</u>	<u>(3,991,066)</u>	<u>(337,072)</u>
Net change in fund balances	(899,700)	(1,804,406)	(491,204)	1,313,202
Fund balance, beginning of year	<u>11,684,768</u>	<u>11,684,768</u>	<u>11,684,768</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 10,785,068</u></u>	<u><u>\$ 9,880,362</u></u>	<u><u>\$ 11,193,564</u></u>	<u><u>\$ 1,313,202</u></u>

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

CITY OF BATTLE CREEK, MICHIGAN
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
Community Development Special Revenue Fund
For the Year Ended June 30, 2005

	Budget		Actual	Actual
	Original	Final		Over (Under)
				Final Budget
Revenues				
Intergovernmental revenue	\$1,767,000	\$ 2,871,484	\$ 1,634,046	\$ (1,237,438)
Interest	-	557	557	-
Loan collection and other	-	135,971	135,971	-
	<u>1,767,000</u>	<u>3,008,012</u>	<u>1,770,574</u>	<u>(1,237,438)</u>
Total revenues	1,767,000	3,008,012	1,770,574	(1,237,438)
Expenditures				
Community development	<u>1,804,753</u>	<u>3,027,812</u>	<u>1,752,574</u>	<u>(1,275,238)</u>
Revenues over (under) expenditures	(37,753)	(19,800)	18,000	37,800
Other financing sources (uses)				
Transfers out	<u>(5,200)</u>	<u>(20,200)</u>	<u>(18,000)</u>	<u>2,200</u>
Net change in fund balances	(42,953)	(40,000)	-	40,000
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances (deficit), end of year	<u><u>\$ (42,953)</u></u>	<u><u>\$ (40,000)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 40,000</u></u>

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

CITY OF BATTLE CREEK, MICHIGAN
Statement of Net Assets
Proprietary Funds
June 30, 2005

	<u>Business-type Activities - Enterprise Funds</u>				<u>Governmental Activities - Internal Service Funds</u>
	<u>Water and Wastewater System</u>	<u>W.K. Kellogg Airport</u>	<u>Other Enterprise Funds</u>	<u>Total</u>	
Assets					
Current assets:					
Pooled cash and investments	\$ 9,181,365	\$ 1,377,853	\$ 7,048,040	\$ 17,607,258	\$ 10,708,518
Receivables:					
Interest	69,054	13,238	42,675	124,967	50,470
Accounts	2,615,830	-	496,839	3,112,669	16,092
Special assessments	378,989	-	-	378,989	-
Grants	7,280	-	1,006,746	1,014,026	-
Loans, current portion	-	20,797	794,270	815,067	-
Inventories	1,241,293	-	183,013	1,424,306	281,353
Prepaid items	-	50	-	50	298,896
Total current assets	<u>13,493,811</u>	<u>1,411,938</u>	<u>9,571,583</u>	<u>24,477,332</u>	<u>11,355,329</u>
Noncurrent assets:					
Loans receivable, net	-	-	5,644,111	5,644,111	-
Capital assets, net	103,969,853	7,652,545	18,124,328	129,746,726	2,535,832
Unamortized bond issuance costs	221,574	-	-	221,574	-
Total noncurrent assets	<u>104,191,427</u>	<u>7,652,545</u>	<u>23,768,439</u>	<u>135,612,411</u>	<u>2,535,832</u>
Total assets	<u>117,685,238</u>	<u>9,064,483</u>	<u>33,340,022</u>	<u>160,089,743</u>	<u>13,891,161</u>
Liabilities					
Current liabilities:					
Accounts payable	249,028	550,511	3,116,318	3,915,857	-
Accrued payroll and compensated absences	324,201	39,092	103,417	466,710	200,209
Retentions, deposits and other liabilities	169,737	28,712	7,147	205,596	-
Accrued interest payable	318,515	11,449	72,768	402,732	-
Claims payable	-	-	-	-	5,085,141
Interfund payable	-	-	3,129,786	3,129,786	-
Unearned revenue	79,009	673,962	63,274	816,245	82,515
Lease payable, current portion	-	86,161	-	86,161	-
Bonds payable, current portion	1,200,000	-	320,000	1,520,000	-
Total current liabilities	<u>2,340,490</u>	<u>1,389,887</u>	<u>6,812,710</u>	<u>10,543,087</u>	<u>5,367,865</u>
Noncurrent liabilities:					
Advances from component unit	-	-	397,540	397,540	-
Lease payable	-	762,425	-	762,425	-
Bonds payable	21,203,903	-	4,182,727	25,386,630	-
Total noncurrent liabilities	<u>21,203,903</u>	<u>762,425</u>	<u>4,580,267</u>	<u>26,546,595</u>	<u>-</u>
Total liabilities	<u>23,544,393</u>	<u>2,152,312</u>	<u>11,392,977</u>	<u>37,089,682</u>	<u>5,367,865</u>
Net assets					
Invested in capital assets, net of related debt	81,565,950	6,803,959	13,621,601	101,991,510	2,535,832
Unrestricted	12,574,895	108,212	8,325,444	21,008,551	5,987,464
Total net assets	<u>\$ 94,140,845</u>	<u>\$ 6,912,171</u>	<u>\$ 21,947,045</u>	<u>\$ 123,000,061</u>	<u>\$ 8,523,296</u>

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

CITY OF BATTLE CREEK, MICHIGAN
Reconciliation of Net Assets on the Statement of
Net Assets for Enterprise Funds to Net Assets of
Business-type Activities on the Statement of Net Assets
June 30, 2005

Net assets - total enterprise funds \$ 123,000,061

Amounts reported for *business-type activities* in the statement of net assets are different because:

Internal service funds are used by management to charge the costs of certain services to individual governmental and business-type funds. The net revenue (expense) of the internal service funds are allocated to governmental and business-type activities.

Deduct - cumulative portion of internal service funds net operating loss attributed to business-type funds (84,981)

Net assets of business-type activities \$ 122,915,080

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

CITY OF BATTLE CREEK, MICHIGAN

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

Proprietary Funds

For the Year Ended June 30, 2005

	Business-type Activities - Enterprise Funds			Total	Governmental Activities - Internal Service Funds
	Water and Wastewater System	W.K. Kellogg Airport	Other Enterprise Funds		
Operating revenues					
Charges for services	\$ 17,366,311	\$ 635,330	\$ 4,825,927	\$ 22,827,568	\$ 17,527,536
Other	359,600	15,846	251,829	627,275	300,762
Total operating revenues	<u>17,725,911</u>	<u>651,176</u>	<u>5,077,756</u>	<u>23,454,843</u>	<u>17,828,298</u>
Operating expenses					
Personal services	7,701,567	676,640	2,912,095	11,290,302	2,454,282
Materials and supplies	1,089,516	114,996	793,144	1,997,656	1,546,080
Contractual and other	5,284,630	293,366	4,011,072	9,589,068	11,591,182
Depreciation	6,342,717	374,169	1,195,559	7,912,445	1,031,288
Total operating expenses	<u>20,418,430</u>	<u>1,459,171</u>	<u>8,911,870</u>	<u>30,789,471</u>	<u>16,622,832</u>
Operating income (loss)	<u>(2,692,519)</u>	<u>(807,995)</u>	<u>(3,834,114)</u>	<u>(7,334,628)</u>	<u>1,205,466</u>
Nonoperating revenues (expenses)					
Intergovernmental subsidies	110,014	4,003,085	2,558,023	6,671,122	-
Interest income	292,485	80,383	157,156	530,024	123,343
Interest expense	(1,076,638)	(35,675)	(278,244)	(1,390,557)	-
Gain (loss) on sale of capital assets	(56,962)	2,293	-	(54,669)	(2,284)
Total nonoperating revenues (expenses)	<u>(731,101)</u>	<u>4,050,086</u>	<u>2,436,935</u>	<u>5,755,920</u>	<u>121,059</u>
Income (loss) before contributions and transfers	<u>(3,423,620)</u>	<u>3,242,091</u>	<u>(1,397,179)</u>	<u>(1,578,708)</u>	<u>1,326,525</u>
Capital contributions	-	806,000	-	806,000	-
Transfers in	35,020	-	1,171,444	1,206,464	504,320
Transfers out	<u>(317,058)</u>	<u>(5,875)</u>	<u>(264,393)</u>	<u>(587,326)</u>	<u>(799,856)</u>
Change in net assets	<u>(3,705,658)</u>	<u>4,042,216</u>	<u>(490,128)</u>	<u>(153,570)</u>	<u>1,030,989</u>
Net assets, beginning of year	<u>97,846,503</u>	<u>2,869,955</u>	<u>22,437,173</u>	<u>123,153,631</u>	<u>7,492,307</u>
Net assets, end of year	<u>\$ 94,140,845</u>	<u>\$ 6,912,171</u>	<u>\$ 21,947,045</u>	<u>\$ 123,000,061</u>	<u>\$ 8,523,296</u>

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

CITY OF BATTLE CREEK, MICHIGAN
Reconciliation of the Statement of Revenues, Expenses
and Changes in Fund Net Assets of Enterprise Funds
to the Statement of Activities
For the Year Ended June 30, 2005

Change in net assets - total enterprise funds \$ (153,570)

Amounts reported for *business-type activities* in the statement of activities are different because:

Internal service funds are used by management to charge the costs of certain services to individual governmental and business-type funds. The net revenue (expense) of the internal service funds are allocated to governmental and business-type activities.

Add - net operating gain from internal service funds related to enterprise funds 297,497

Change in net assets of business-type activities \$ 143,927

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

CITY OF BATTLE CREEK, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water and Wastewater System	W.K. Kellogg Airport	Other Enterprise Funds	Total	
Cash flows from operating activities					
Receipts from customers and users	\$ 17,886,741	\$ 1,283,538	\$ 4,989,163	\$ 24,159,442	\$ -
Net loans (made) collected	-	2,293	(1,321,190)	(1,318,897)	-
Receipts from interfund services	-	-	-	-	17,828,298
Payments to suppliers	(4,870,308)	254,201	(4,417,179)	(9,033,286)	(12,231,430)
Payments to employees	(7,706,642)	(674,493)	(2,913,017)	(11,294,152)	(2,457,460)
Payments for interfund services	(1,425,862)	(109,706)	(161,920)	(1,697,488)	-
Net cash provided by (used in) operating activities	<u>3,883,929</u>	<u>755,833</u>	<u>(3,824,143)</u>	<u>815,619</u>	<u>3,139,408</u>
Cash flows from non-capital financing activities					
Transfers in	35,020	-	1,171,444	1,206,464	504,320
Transfers out	(317,058)	(5,875)	(264,393)	(587,326)	(799,856)
Intergovernmental subsidies	119,807	4,003,085	2,335,794	6,458,686	-
Net cash provided by (used in) non-capital financing activities	<u>(162,231)</u>	<u>3,997,210</u>	<u>3,242,845</u>	<u>7,077,824</u>	<u>(295,536)</u>
Cash flows from capital and related financing activities					
Proceeds from interfund borrowing	-	-	246,995	246,995	-
Proceeds of advances from component units	-	-	237,540	237,540	-
Principal and interest paid on debt	(2,185,539)	-	(588,670)	(2,774,209)	-
Principal and interest paid on capital lease	-	(85,047)	-	(85,047)	-
Purchase of capital assets	(3,145,130)	(3,560,214)	(854,668)	(7,560,012)	(821,931)
Receipts from loans receivable	-	2,293	-	2,293	-
Net cash provided by (used in) capital and related financing activities	<u>(5,330,669)</u>	<u>(3,642,968)</u>	<u>(958,803)</u>	<u>(9,932,440)</u>	<u>(821,931)</u>
Cash flows from investing activities					
Interest received on investments	291,357	67,145	167,135	525,637	111,947
Net increase (decrease) in cash and cash equivalents	(1,317,614)	1,177,220	(1,372,966)	(1,513,360)	2,133,888
Cash and cash equivalents					
Beginning of year	10,498,979	200,633	8,421,006	19,120,618	8,574,630
End of year	<u>\$ 9,181,365</u>	<u>\$ 1,377,853</u>	<u>\$ 7,048,040</u>	<u>\$ 17,607,258</u>	<u>\$ 10,708,518</u>

Continued...

CITY OF BATTLE CREEK, MICHIGAN
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended June 30, 2005

	<u>Business-type Activities - Enterprise Funds</u>				<u>Governmental Activities - Internal Service Funds</u>
	<u>Water & Wastewater System</u>	<u>W.K. Kellogg Airport</u>	<u>Other Enterprise Funds</u>	<u>Total</u>	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	\$ (2,692,519)	\$ (807,995)	\$ (3,834,114)	\$ (7,334,628)	\$ 1,205,466
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation	6,342,717	374,169	1,195,559	7,912,445	1,031,288
Amortization	113,762	-	949	114,711	-
Changes in assets and liabilities:					
Accounts receivable	79,139	-	(199,696)	(120,557)	640
Special assessments receivable	86,197	-	-	86,197	-
Loans receivable	-	2,293	(3,904,914)	(3,902,621)	-
Inventories	12,942	-	(28,707)	(15,765)	(36,238)
Prepaid items	1,040	117	-	1,157	17,674
Accounts payable	(34,095)	548,671	2,739,281	3,253,857	-
Accrued payroll/compensated absences	(5,075)	2,147	(922)	(3,850)	(3,178)
Retentions, deposits and other liabilities	(15,673)	4,069	3,210	(8,394)	-
Interfund payable	-	-	194,108	194,108	-
Unearned revenue	(4,506)	632,362	11,103	638,959	8,075
Claims payable	-	-	-	-	915,681
Net cash provided by (used in) operating activities	<u>\$ 3,883,929</u>	<u>\$ 755,833</u>	<u>\$ (3,824,143)</u>	<u>\$ 815,619</u>	<u>\$ 3,139,408</u>

Non-Cash Items:

As described in Note 1-D to the basic financial statements, the City maintains an investment pool for all funds. Accordingly, specific non-cash disclosures for changes in the fair value of investments in the proprietary funds are not determinable.

A capital lease in the amount of \$318,780 was entered into during the year and recorded in the W.K. Kellogg Airport enterprise fund.

Capital contributions of \$806,000 were received during the year in the W.K. Kellogg Airport enterprise fund.

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

CITY OF BATTLE CREEK, MICHIGAN
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Police and Fire Retirement System Trust Fund	Agency Funds
Assets		
Pooled cash and investments	\$ -	\$ 448,774
Cash and cash equivalents	2,631,519	-
Investments:		
U.S. treasuries	5,173,134	-
U.S. agencies	13,160,137	-
Domestic corporate securities	20,172,719	-
Domestic equities	42,688,839	-
International equities	13,479,534	-
Interest receivable	500,050	-
Pension contributions receivable	72,039	-
Delinquent taxes receivable	-	2,884,728
	97,877,971	\$ 3,333,502
Total assets	97,877,971	\$ 3,333,502
Liabilities		
Deposits and retentions payable	-	\$ 3,333,502
Net assets		
Held in trust for pension and postemployment healthcare benefits	\$ 97,877,971	

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

CITY OF BATTLE CREEK, MICHIGAN
Statement of Changes in Fiduciary Net Assets
Police and Fire Retirement System
For the Year Ended June 30, 2005

Additions

Investment income:		
Net realized and unrealized appreciation in fair value of investments	\$	2,070,822
Interest and dividends		3,146,148
Less investment expenses		<u>(864,063)</u>
Net investment income		<u>4,352,907</u>
Contributions:		
Employer		2,922,144
Employees		<u>998,222</u>
Total contributions		<u>3,920,366</u>
Total additions		<u>8,273,273</u>

Deductions

Pension benefit payments		5,473,100
Contribution refunds		41,858
Medical insurance premiums		1,531,645
Administrative expenses		<u>6,951</u>
Total deductions		<u>7,053,554</u>

Net additions (deductions) to net assets held in trust for benefit:

Employees' pension benefit:	\$ 1,593,284	
Postemployment healthcare benefit:	<u>(373,565)</u>	1,219,719
Net assets held in trust for benefits, beginning of year		<u>96,658,252</u>

Net assets held in trust for benefits, end of year

Reserved for employees' pension benefit	96,434,952	
Reserved for employees' postemployment healthcare benefit	<u>1,443,019</u>	<u>\$ 97,877,971</u>

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

**COMPONENT UNITS
FINANCIAL STATEMENTS**

CITY OF BATTLE CREEK, MICHIGAN
Combining Statement of Net Assets
Component Units
June 30, 2005

	Battle Creek Downtown Development Authority	Lakeview Downtown Development Authority	Battle Creek Tax Increment Financing Authority	Brownfield Redevelopment Authority	Local Development Finance Authority	Total
Assets						
Pooled cash and investments	\$ 5,892,243	\$ 212,345	\$ 7,241,871	\$ 21,359	\$ 1,556	\$ 13,369,374
Receivables, net	1,305,502	6,102	4,063,080	245	29	5,374,958
Prepaid items and other assets	305,800	-	-	-	-	305,800
Advance to primary government	-	-	397,540	-	-	397,540
Capital assets not being depreciated	-	-	11,679,397	-	-	11,679,397
Capital assets being depreciated, net	-	-	614,034	-	-	614,034
Total assets	7,503,545	218,447	23,995,922	21,604	1,585	31,741,103
Liabilities						
Accounts payable and accrued liabilities	245,726	-	-	-	-	245,726
Accrued interest payable	-	-	124,282	-	-	124,282
Other liabilities	-	-	2,309	-	-	2,309
Long-term liabilities:						
Due within one year	-	-	1,694,555	-	-	1,694,555
Due in more than one year	48,661,875	-	14,959,544	-	-	63,621,419
Total liabilities	48,907,601	-	16,780,690	-	-	65,688,291
Net assets						
Invested in capital assets, net of related debt	-	-	7,502,270	-	-	7,502,270
Restricted for debt service	3,480,000	-	234	-	-	3,480,234
Restricted for capital projects	-	46,648	10,896,616	-	-	10,943,264
Restricted for loan commitments and minority lending	1,506,321	-	-	-	-	1,506,321
Unrestricted (deficit)	(46,390,377)	171,799	(11,183,888)	21,604	1,585	(57,379,277)
Total net assets (deficit)	\$ (41,404,056)	\$ 218,447	\$ 7,215,232	\$ 21,604	\$ 1,585	\$ (33,947,188)

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

CITY OF BATTLE CREEK, MICHIGAN
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2005

	Battle Creek Downtown Development Authority	Lakeview Downtown Development Authority	Battle Creek Tax Increment Financing Authority	Brownfield Redevelopment Authority	Local Development Finance Authority	Total
Expenses						
Community development	\$ 2,551,574	\$ 1,792,485	\$7,297,612	\$ 2,211	\$ 1,500	\$ 11,645,382
Program revenues						
Charges for services	38,901	-	40,907	-	-	79,808
Net program expense	2,512,673	1,792,485	7,256,705	2,211	1,500	11,565,574
General revenues						
Property taxes	6,962,535	1,880,724	9,362,700	1,170	-	18,207,129
Unrestricted investment earnings	185,230	22,323	174,584	604	75	382,816
Total general revenues	7,147,765	1,903,047	9,537,284	1,774	75	18,589,945
Change in net assets	4,635,092	110,562	2,280,579	(437)	(1,425)	7,024,371
Net assets (deficit), beginning of year	(46,039,148)	107,885	4,934,653	22,041	3,010	(40,971,559)
Net assets (deficit), end of year	<u>\$ (41,404,056)</u>	<u>\$ 218,447</u>	<u>\$ 7,215,232</u>	<u>\$ 21,604</u>	<u>\$ 1,585</u>	<u>\$ (33,947,188)</u>

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

NOTES to the FINANCIAL STATEMENTS

CITY OF BATTLE CREEK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

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CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting Entity

The accompanying financial statements present the activities of the City of Battle Creek, Michigan (the “City” or “government”) and its five component units, legally separate organizations for which the City is financially accountable. The activities of the Building Authority are so intertwined with the City that it is, in substance, the same as the City and, therefore, is blended and reported as if it were part of the City. The other four component units are not so intertwined and, therefore, are discretely presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City. The component units each have a June 30 year-end.

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements Available</u>
Building Authority (BA); finances and constructs the City’s public buildings	City Commission appoints and may remove BA board	Not prepared
Downtown Development Authority (DDA); corrects and prevents deterioration in the downtown district, encourages historical preservation and promotes economic growth within the district	City Commission appoints and may remove DDA board and approves DDA budget	Finance Department in City Hall
Lakeview Downtown Development Authority (LDDA); promotes development of the Lakeview district	City Commission appoints and may remove LDDA board and approves LDDA budget	Finance Department in City Hall
Tax Increment Financing Authority (TIFA); administers the Fort Custer Industrial Park development district	City Commission appoints and may remove TIFA board and approves TIFA budget	Finance Department in City Hall
Brownfield Redevelopment Authority (BRA); administers brownfield redevelopment projects	City Commission appoints and may remove BRA Board and approves BRA budget	Finance Department in City Hall
Local Development Finance Authority (LDFA); encourages technological development through the City’s “SmartZone”	City Commission appoints and may remove LDFA Board and approves LDFA budget	Finance Department in City Hall

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

1-B. Basis of Presentation

Government-wide Financial Statements. The statements of net assets and activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the City's *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City'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. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines 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.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds and blended component units. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

General fund. This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Community development fund. This fund accounts for grants under the Housing and Community Development Act of 1974, as amended. The Act provides for a series of grants over a period of years to be used for various community development activities.

The City reports the following major enterprise funds:

Water and wastewater system fund. This fund accounts for the activities of the City's water distribution, water treatment, sewage disposal and sewage treatment systems.

W.K. Kellogg Airport fund. This fund accounts for the operations of the City-owned airport.

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

Additionally, the City reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt service funds. These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital projects funds. These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Permanent funds. These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs.

Enterprise funds. These funds account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Internal service funds. These funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. This includes machinery, equipment and building space management services; liability, auto, and workers' compensation self-insurance; information technology services; and printing, mailing and reproduction services.

Pension trust fund. This fund accounts for the activities of the Police and Fire Retirement System, which accumulates resources for retirement benefit payments to qualified employees.

Agency funds. These funds account for assets held for other governments in an agency capacity.

1-C. Measurement Focus / Basis of Accounting

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end, except for income tax revenue for which a 15-day collection period is used. Property taxes, franchise taxes, licenses and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues, subject to satisfying any grant program matching provisions.

All governmental and business-type activities and enterprise funds of the City follow private-sector standards of accounting and financial reported issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

1-D. Assets, Liabilities and Equity

Deposits and Investments

The City maintains an investment pool for all City funds. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "pooled cash and investments." The cash resources of the Police and Fire Retirement System Trust Fund are invested separately. The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government 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 State's Pension Investment Act, as amended, authorizes the pension trust fund to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

Unrealized appreciation or depreciation on pension trust fund investments due to changes in fair value are recognized each year.

Receivables and Payables

All trade and delinquent property tax receivables are shown net of an allowance for uncollectibles, as applicable.

Certain loans receivable in governmental funds consist of rehabilitation and redevelopment loans that are generally not expected or scheduled to be collected in the subsequent year.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *interfund receivables/payables* (i.e., the current portion of interfund loans) or *advances to/from other funds* (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as *internal balances*.

Inventories, Prepaid Items and Other Assets

All inventories are valued at cost using the first-in/first-out method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5-50
Buildings and building improvements	50
Public domain infrastructure	50
Water and wastewater system infrastructure	25-50
Vehicles	7-10
Office equipment	6-10
Machinery and equipment	3-10

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and compensatory time benefits, subject to certain limitations. Certain bargaining unit employees are also permitted to accumulate earned but unused sick leave. All vacation and compensatory time pay and 50 percent of sick leave are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while 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.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Fund balance designations represent tentative management plans that are subject to change.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2-A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year end, except for those approved by the City Commission for carry forward. The legal level of budgetary control is the fund level.

The City Commission requires the City Manager to submit an estimate of revenues and anticipated expenditures for the succeeding fiscal year in June. The City Manager is then authorized to assign and transfer budget amounts within each fund to the extent that the net total fund appropriation (which the City defines as gross authorized expenditures less related revenues that are specifically designated to fund those activities) is not exceeded. City Commission approval is required for any budgetary changes that result in an increase to net appropriations.

Formal budgetary integration is employed as a management control during the year. Supplemental appropriations were approved by the City Commission in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds or notes, the total of which was not significant in relation to the original budget appropriation valuations.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders or contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

2-B. Excess of Expenditures Over Appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the City were adopted on a fund level basis, although budget and actual information in the fund financial statements have been presented at a level of detail greater than the level of legal budgetary control.

During the year ended June 30, 2005, the City incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control in the following non-major special revenue funds:

	<u>Budget</u>	<u>Actual</u>	<u>Over Budget</u>
Kellogg Arena Fund	\$ 1,522,721	\$ 4,783,540	\$ 3,260,819

2-C. Deficit Fund Equity

The Binder Park golf course enterprise fund has an accumulated net asset deficit of \$133,477 at year end. A multi-year plan to eliminate the deficit has been developed by the City and approved by the State of Michigan.

NOTE 3 – DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

3-A. Deposits and Investments – Pooled Cash and Investments

Following is a reconciliation of deposit and investment balances (including both pooled cash and investments as well as pension trust fund balances; see Note 3-B) as of June 30, 2005:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Total</u>
Statement of Net Assets:			
Pooled cash and investments	\$ 50,003,781	\$ 13,369,374	\$ 63,373,155
Statement of Fiduciary Net Assets:			
Pooled cash and investments	448,774	-	448,774
Cash and cash equivalents (pension)	2,631,519	-	2,631,519
Investments (pension)	<u>94,674,363</u>	<u>-</u>	<u>94,674,363</u>
Total	<u>\$ 147,758,437</u>	<u>\$ 13,369,374</u>	<u>\$ 161,127,811</u>
Deposits and Investments:			
Bank deposits (checking accounts, savings accounts and CDs)			\$ 4,767,067
Investments in securities, mutual funds and similar vehicles (pool)			59,020,972
Investments in securities, mutual funds and similar vehicles (pension)			97,305,882
Cash on hand			<u>33,890</u>
Total			<u>\$ 161,127,811</u>

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

Custodial Credit Risk - Deposits. For deposits, custodial credit risk is the risk, that in the event of a bank failure, the City's deposits may not be returned to the government. As of June 30, 2005, \$4,571,007 of the City's total bank balance of \$5,071,007 (total book balance was \$4,767,067) was exposed to custodial credit risk as it was uninsured and uncollateralized.

The City's investment policy does not specifically address this risk, although the City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk - Investments. Following is a summary of the City's investments as of June 30, 2005:

U.S. treasuries	\$ 17,619,281
U.S. agencies	38,692,947
Money market	<u>2,708,744</u>
Total	<u>\$ 59,020,972</u>

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery *vs.* payment. As of June 30, 2005, none of the City's investments, excluding the money market accounts which are not subject to custodial credit risk, were exposed to risk since the securities are held in the City's name by the counterparty.

Credit Risk. As of June 30, 2005, all of the City's investments in securities of U.S. agencies were rated AAA by Standard & Poor's. The City also held investments in U.S. treasuries and money market mutual funds, which are not rated. All of the City's investments comply with its policy regarding the types of investments it may hold.

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

Concentration of Credit Risk. At June 30, 2005, the investment portfolio of U.S. agencies was concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% of Portfolio</u>
U.S. agencies	Federal National Mortgage Association	32.8%
	Federal Home Loan Bank	31.9%
	Federal Home Loan Mortgage Association	22.5%
	Federal Farm Credit Bank	12.8%

The City's investment policy does not address this risk.

Interest Rate Risk. As of June 30, 2005, maturities of the City's debt securities were as follows:

	<u>Investment Maturities (fair value by years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
U.S. treasuries	\$ 17,619,281	\$ 5,039,217	\$ 12,580,064	\$ -	\$ -
U.S. agencies	38,692,947	10,958,335	21,661,157	4,570,635	1,502,820
Total debt securities	<u>\$ 56,312,228</u>	<u>\$ 15,997,552</u>	<u>\$ 34,241,221</u>	<u>\$ 4,570,635</u>	<u>\$ 1,502,820</u>

Of the above balances, \$4,490,010 of U.S. agencies securities were callable.

The System's investment policy does not address interest rate risk.

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

3-B. Deposits, Investments and Securities Lending – Pension Trust Fund

The Police and Fire Retirement System Trust Fund (the “pension trust fund” or the “System”) deposits and investments are maintained separately from the City’s pooled cash and investments, and are subject to separate investment policies and state statutes. Accordingly, the required disclosures for the System’s deposits and investments are presented separately.

Deposits - The System does not maintain any checking or other demand/time deposit accounts. Amounts reported as cash and cash equivalents in the statement of plan net assets are composed entirely of short-term investments in money market accounts.

Investments - The Michigan Public Employees Retirement Systems’ Investment Act, Public Act 314 of 1965, as amended, authorizes the System to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The Retirement Board has the responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to assist in managing the System’s assets. All investment decisions are subject to Michigan law and the investment policy established by the Retirement Board.

The System’s investments are held in a bank-administered trust fund. Following is a summary of the System’s investments as of June 30, 2005:

Investments at fair value, as determined by quoted market price:	
U.S. treasuries	\$ 5,173,134
U.S. agencies:	
Not on securities loan	8,714,950
On securities loan	4,445,187
Domestic corporate securities:	
Not on securities loan	18,006,327
On securities loan	2,166,392
Domestic equities:	
Not on securities loan	32,928,043
On securities loan	9,760,796
International equities	<u>13,479,534</u>
Total investments	<u>\$ 94,674,363</u>

In addition to the above, the System has short-term investments of \$2,631,519 as of June 30, 2005 held entirely in money market funds.

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

Credit Risk. The System's investment policy provides that its investments in fixed income securities be limited to those rated BBB or better by a nationally recognized statistical rating organization. As of June 30, 2005, the System's investments in securities of U.S. agencies were all rated AAA by Standard & Poor's. The System's investments in corporate securities were rated by Standard & Poor's as follows:

AAA	\$	3,592,318
AA		1,132,091
A		10,589,877
BBB		4,555,436
BB		302,997
	\$	<u>20,172,719</u>

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy requires that investment securities be held in trust by a third-party institution in the System's name. As such, although uninsured and unregistered, the System's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the System's name.

Short-term investments in money market funds are not subject to custodial credit risk.

Concentration of Credit Risk. At June 30, 2005, the investment portfolio was concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% of Portfolio</u>
U.S. agencies	Federal National Mortgage Association	52.9%
	Federal Home Loan Mortgage Association	36.7%
	Federal Home Loan Bank	7.7%

The System's investment policy requires that the securities of any one company or government agency should not exceed 10% of the total fund and no more than 25% of the total fund should be invested in any one industry.

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

Interest Rate Risk. As of June 30, 2005, maturities of the System's debt securities were as follows:

	<u>Fair Value</u>	<u>Investment Maturities (fair value by years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
U.S. treasuries	\$ 5,173,134	\$ 904,068	\$ 3,117,583	\$ -	\$ 1,151,483
U.S. agencies	13,160,137	-	11,561,345	1,598,792	-
Domestic corporate securities	<u>20,172,719</u>	<u>1,992,880</u>	<u>13,490,683</u>	<u>4,432,829</u>	<u>256,327</u>
Total debt securities	<u>\$ 38,505,990</u>	<u>\$ 2,896,948</u>	<u>\$ 28,169,611</u>	<u>\$ 6,031,621</u>	<u>\$ 1,407,810</u>

Of the above balances, \$404,340 of U.S. agencies securities and \$343,403 of corporate securities were callable.

The System's investment policy provides that the maximum maturity for any single fixed income security is ten years and that the weighted average portfolio maturity may not exceed eight years.

Securities Lending. A contract approved by the System's Board, permits the System to lend its securities to broker-dealers and banks (borrowers) for collateral that will be returned for the same securities in the future. The System's custodial bank manages the securities lending program and receives cash as collateral. The collateral securities cannot be pledged or sold by the System unless the borrower defaults. Collateral cash is initially pledged at 100 percent of the fair value of the securities lent, and may not fall below 100 percent during the term of the loan. There are no restrictions on the amount of securities that can be loaned. Securities on loan at year-end are classified in the preceding schedule of custodial credit risk according to the category for the collateral received on the securities lent. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the System's custodian requires it to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are on loan.

3-C. Receivables

Receivables in the governmental activities are 62.2 percent loans, 30.6 percent accounts receivables, 4.4 percent grants receivable, 2.7 percent accrued interest, and 0.1 percent special assessments. Business-type activities receivables are 29.6 percent due from customers, 9.7 percent grants, 3.6 percent special assessments, 55.9 percent loans, and 1.2 percent accrued interest.

Accounts receivable of the General Fund are reported net of an allowance for uncollectible accounts of \$136,964.

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned	Total
Land contract payments not yet due (general fund)	\$ 8,115,597	\$ -	\$ 8,115,597
Community development loans not yet due (special revenue funds)	2,800,235	-	2,800,235
Other loans not yet due (general fund)	19,000	-	19,000
Special assessments not yet due (special revenue and permanent funds)	22,293	-	22,293
Customer deposits for future services/events (special revenue funds)	-	87,146	87,146
Payments received in advance	-	50,231	50,231
Grant drawdowns prior to meeting all eligibility requirements	-	307,926	307,926
	10,957,125	445,303	11,402,428
Deferred revenue reported by the government's internal service funds	-	82,515	82,515
	\$ 10,957,125	\$ 527,818	\$ 11,484,943

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

3-D. Capital Assets

Capital assets activity for the year ended June 30, 2005, was as follows:

Primary government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated -				
Land	\$ 324,709	\$ 30,000	\$ -	\$ 354,709
Capital assets, being depreciated:				
Land improvements	6,671,114	-	-	6,671,114
Buildings	48,847,109	221,203	-	49,068,312
Vehicles	6,093,244	754,188	-	6,847,432
Equipment	21,100,877	212,383	(1,442,171)	19,871,089
Infrastructure	240,959,815	5,142,839	-	246,102,654
Total capital assets being depreciated	323,672,159	6,330,613	(1,442,171)	328,560,601
Less accumulated depreciation for:				
Land improvements	(2,105,273)	(133,422)	-	(2,238,695)
Buildings	(14,679,402)	(955,370)	-	(15,634,772)
Vehicles	(3,427,461)	(663,506)	-	(4,090,967)
Equipment	(17,926,371)	(751,945)	1,439,886	(17,238,430)
Infrastructure	(54,571,518)	(4,922,053)	-	(59,493,571)
Total accumulated depreciation	(92,710,025)	(7,426,296)	1,439,886	(98,696,435)
Total capital assets, being depreciated, net	230,962,134	(1,095,683)	(2,285)	229,864,166
Governmental activities capital assets, net	\$ 231,286,843	\$ (1,065,683)	\$ (2,285)	\$ 230,218,875
Business-type activities				
Capital assets, not being depreciated -				
Land	\$ 3,703,302	\$ -	\$ -	\$ 3,703,302
Capital assets, being depreciated:				
Land improvements	6,817,491	181,300	(75,000)	6,923,791
Buildings	59,072,943	4,143,950	(7,802)	63,209,091
Vehicles	7,479,369	233,069	-	7,712,438
Equipment	16,917,190	464,110	(758,283)	16,623,017
Systems	154,349,228	3,662,492	(495,336)	157,516,384
Total capital assets being depreciated	244,636,221	8,684,921	(1,336,421)	251,984,721
Less accumulated depreciation for:				
Land improvements	(3,417,385)	(210,296)	75,000	(3,552,681)
Buildings	(33,861,055)	(1,736,247)	7,802	(35,589,500)
Vehicles	(6,458,210)	(309,822)	-	(6,768,032)
Equipment	(10,625,764)	(911,258)	757,021	(10,780,001)
Systems	(64,944,816)	(4,744,822)	438,555	(69,251,083)
Total accumulated depreciation	(119,307,230)	(7,912,445)	1,278,378	(125,941,297)
Total capital assets, being depreciated, net	125,328,991	772,476	(58,043)	126,043,424
Business-type activities capital assets, net	\$ 129,032,293	\$ 772,476	\$ (58,043)	\$ 129,746,726

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 66,148
Public safety	223,280
Public works, including depreciation of general infrastructure assets	5,221,223
Parks and recreation	884,357
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	1,031,288

Total depreciation expense - governmental activities **\$ 7,426,296**

Business-type activities:

Wastewater	\$ 4,675,915
Water	1,666,802
Public transit	525,370
Solid waste	1,484
Other	1,042,874

Discretely presented component units **Total depreciation expense - business-type activities** **\$ 7,912,445**

Activity for the TIFA for the year ended June 30, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated -				
Land	\$ 11,107,218	\$ 580,000	\$ (7,821)	\$ 11,679,397
Capital assets, being depreciated:				
Land improvements	587,500	-	-	587,500
Buildings	278,190	-	-	278,190
Equipment	302,712	-	-	302,712
Total capital assets being depreciated	1,168,402	-	-	1,168,402
Less accumulated depreciation for:				
Land improvements	(117,500)	(11,750)	-	(129,250)
Buildings	(111,277)	(11,129)	-	(122,406)
Equipment	(302,712)	-	-	(302,712)
Total accumulated depreciation	(531,489)	(22,879)	-	(554,368)
Total capital assets, being depreciated, net	636,913	(22,879)	-	614,034
Governmental activities capital assets, net	\$ 11,744,131	\$ 557,121	\$ (7,821)	\$ 12,293,431

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

3-E. Payables

Payables in the governmental activities are 44.9 percent vendors, 37.1 percent claims and 18.0 percent accrued payroll and compensated absences. Business-type activities payables are 10.6 percent accrued payroll and compensated absences, 85.6 percent vendors, and 3.8 percent deposits.

3-F. Interfund Receivables, Payables and Transfers

At June 30, 2005, the following amounts were payable to the General Fund:

Community development fund	\$ 255,906
Nonmajor governmental funds	168,292
Nonmajor enterprise funds	<u>3,129,786</u>
	<u><u>\$ 3,553,984</u></u>

The above balances generally resulted from a time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Also, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of Internal Service Funds.

For the year then ended, interfund transfers consisted of the following:

<u>Transfer out:</u>	<u>Transfer in:</u>						<u>Total</u>
	<u>General</u>	<u>Community Development Fund</u>	<u>Nonmajor Governmental</u>	<u>Water and Wastewater Fund</u>	<u>Nonmajor Enterprise</u>	<u>Internal Service Funds</u>	
General fund	\$ -	\$ -	\$ 4,411,097	\$ -	\$ 913,615	\$ 187,657	\$ 5,512,369
Community development fund	-	-	15,000	-	-	3,000	18,000
Nonmajor governmental funds	942,459	-	4,806,749	-	9,036	3,300	5,761,544
Water and wastewater fund	-	-	3,000	35,020	-	279,038	317,058
Airport fund	-	-	-	-	-	5,875	5,875
Nonmajor enterprise funds	-	-	-	-	248,793	15,600	264,393
Internal service funds	-	-	790,006	-	-	9,850	799,856
	<u>\$ 942,459</u>	<u>\$ -</u>	<u>\$ 10,025,852</u>	<u>\$ 35,020</u>	<u>\$ 1,171,444</u>	<u>\$ 504,320</u>	<u>\$ 12,679,095</u>

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

3-G. Long-term Debt

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years for the items listed below was \$33,675,000 for the primary government and \$3,940,000 for the discretely presented component units. During the year, no new general obligation bonds were issued.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 10 to 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities		
1997 building authority refunding	4.95% - 5.13%	\$10,950,000
2002 building authority limited tax	4.50% - 4.75%	8,935,000
2003 transportation fund bonds	2.00% - 3.25%	<u>2,490,000</u>
		<u>\$22,375,000</u>
Business-type activities		
1998 building authority - golf course	4.20% - 4.50%	\$ 3,010,000
1999 building authority refunding - airport	4.15% - 4.70%	<u>1,505,000</u>
		<u>\$ 4,515,000</u>
Discretely presented component units		
1997 general obligation limited tax	5.00%	<u>\$ 2,560,000</u>

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

Annual debt service requirements to maturity for general obligation bonds are as follows:

	<u>Governmental</u>		<u>Business-type</u>		<u>Component Units</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 1,465,000	\$ 1,031,208	\$ 320,000	\$ 198,585	\$ 310,000	\$ 119,885
2007	1,530,000	968,333	335,000	185,238	330,000	103,885
2008	1,600,000	902,433	350,000	171,070	345,000	87,010
2009	1,675,000	832,520	360,000	156,165	365,000	69,443
2010	1,750,000	758,925	385,000	140,625	385,000	50,875
2011-2015	7,550,000	2,602,261	1,385,000	466,995	825,000	41,875
2016-2020	5,345,000	1,022,806	1,125,000	213,750	-	-
2021-2022	1,460,000	104,975	255,000	11,475	-	-
	<u>\$ 22,375,000</u>	<u>\$ 8,223,461</u>	<u>\$ 4,515,000</u>	<u>\$ 1,543,903</u>	<u>\$ 2,560,000</u>	<u>\$ 472,973</u>

Revenue bonds. The City and its discretely presented component units also issue bonds where the income derived from the acquired or constructed assets is pledged to pay debt service. The original amount of revenue bonds issued in prior years for the items listed below was \$23,940,000 for the primary government and \$9,040,000 for the component units. During the year, revenue refunding bonds totaling \$55,265,000 were issued. Revenue bonds outstanding at year-end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type activities		
2001 water and wastewater system	4.00% - 4.63%	\$ 9,245,000
2003 water and wastewater refunding	2.00% - 5.00%	10,695,000
2004 water supply system refunding	2.00% - 3.50%	<u>3,145,000</u>
		<u>\$ 23,085,000</u>
Discretely presented component units		
1997 development refunding	4.85% - 5.25%	\$ 7,995,000
2004 development taxable adjustable rate refunding	Variable	<u>53,790,000</u>
		<u>\$ 61,785,000</u>

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

Revenue bond debt service requirements to maturity are as follows:

	Business-type		Component Units	
	Principal	Interest	Principal	Interest
2006	\$ 1,200,000	\$ 939,594	\$ 670,000	\$ 2,642,381
2007	1,235,000	905,741	675,000	3,059,364
2008	1,425,000	865,497	54,485,000	3,004,084
2009	1,465,000	818,550	730,000	302,040
2010	1,520,000	767,081	740,000	265,540
2011-2015	8,680,000	2,822,381	3,940,000	729,300
2016-2020	6,085,000	855,856	545,000	27,250
2021-2022	1,475,000	69,028	-	-
	<u>\$ 23,085,000</u>	<u>\$ 8,043,728</u>	<u>\$ 61,785,000</u>	<u>\$ 10,029,959</u>

Special Assessment Debt. The City also issues bonds to finance certain public improvements that benefit specific districts. These districts are special assessed, at least in part, for the cost of the improvements. Under Michigan law, the City is secondarily liable for repayment of these bonds. The original amount of special assessment bonds issued in prior years for the item listed below was \$250,000. No special assessment bonds were issued during the current year. Special assessment bonds outstanding at year-end are as follows:

Purpose	Interest Rates	Amount
Governmental activities		
1996 special assessment improvements	5.35%	<u>\$ 25,000</u>

Special assessment bond debt service requirements to maturity are as follows:

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2006	<u>\$ 25,000</u>	<u>\$ 1,337</u>

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

Installment Obligations. The government has entered into various long-term installment payment agreements. The original amount of installment obligations issued in prior years for the items listed below was \$1,290,000 for the primary government and \$8,690,000 for the discretely presented component unit. No new installment obligations were entered into during the current year. Installment obligations outstanding at year-end are as follows:

Purpose	Interest Rates	Amount
Governmental activities		
1996 fire fighting apparatus contract	5.00% - 5.10%	\$ 70,000
1998 fire fighting equipment contract	4.30% - 4.65%	<u>450,000</u>
		<u>\$ 520,000</u>
Discretely presented component unit		
1992 land contract	9.00%	<u>\$4,791,161</u>

Annual debt service requirements to maturity for installment obligations are as follows:

	Governmental Activities		Component Unit	
	Principal	Interest	Principal	Interest
2006	\$ 140,000	\$ 22,883	\$ 520,755	\$ 431,204
2007	145,000	16,600	567,622	384,337
2008	115,000	10,813	618,708	333,251
2009	120,000	5,580	674,392	277,567
2010	-	-	735,087	216,872
2011-2012	-	-	<u>1,674,597</u>	<u>229,315</u>
	<u>\$ 520,000</u>	<u>\$ 55,876</u>	<u>\$ 4,791,161</u>	<u>\$ 1,872,546</u>

Capital Lease. The government entered into three lease agreements for airport snow removal equipment. The original amounts of the lease obligations was \$967,501. Capital leases outstanding at year-end amounted to \$848,586.

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

Annual debt service requirements to maturity for the capital lease are as follows:

	Principal	Interest
2006	\$ 86,161	\$ 39,551
2007	90,160	35,552
2008	94,344	31,368
2009	98,724	26,988
2010	103,307	22,405
2011-2015	375,890	42,918
	\$ 848,586	\$ 198,782

Loans Payable. The government entered into two loan agreements with the State of Michigan in the aggregate amount of \$1,300,000 for the development of a new cereal museum in the City. Both loans are interest-free and subject to repayment on a lump-sum basis after 10 and 15 years, respectively. Accordingly, \$900,000 will be payable during the fiscal year ending June 30, 2006 and \$400,000 during the fiscal year ending June 30, 2013.

In addition, the TIFA (a discretely presented component unit) has borrowed from the Michigan Economic Development Corporation (MEDC) to fund certain economic development activities in the Fort Custer Industrial Park. The original amount of the loans as listed below was \$1,689,670. Loans outstanding at year-end are as follows:

Purpose	Interest Rates	Amount
Discretely presented component unit:		
Core communities loan	6.00%	\$ 867,637
Aviation and eLearning SmartZone	5.00%	440,301
		<u>\$1,307,938</u>

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

Annual debt service requirements to maturity for the MEDC loans are as follows:

	<u>Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 193,800	\$ 72,870
2007	204,106	62,565
2008	214,961	51,707
2009	64,723	40,266
2010	68,694	36,294
2011-2015	412,118	112,825
2016-2019	149,536	7,948
	<u>\$ 1,307,938</u>	<u>\$ 384,475</u>

While the City is ultimately obligated for the repayment of these loans, the TIFA (a discretely presented component unit) received and expended the loan proceeds and will be repaying the debt principal and interest. Accordingly, these loans payable are reported in the TIFA's financial statements.

Advance refunding. During the year, the City and DDA issued \$55,265,000 of downtown development taxable adjustable rate refunding bonds to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$47,820,000 fixed-rate bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the component unit column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$4,112,736. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt.

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

This advance refunding was undertaken to reduce future service payments and alleviate the adverse impact of a two-year agricultural renaissance zone tax abatement on the revenue stream that provides the financial resources for debt service payments. The refunded bonds, which mature serially through May 1, 2020, carry an average coupon rate of 5.1% and total debt service principal and interest through maturity of \$68,410,359. The taxable variable-rate refunding bonds, which mature May 1, 2008 and are intended to be refunded at that time with fixed-rate bonds (see *interest rate swap* disclosure), carry a nominal average coupon rate of 5.0% and total debt service principal and interest through maturity of \$65,079,804.

Interest Rate Swap. During the year ended June 30, 2005, the City and DDA entered into a forward starting interest rate swap agreement (the “Swap”) to modify interest rates on future outstanding debt. Beginning May 1, 2008, the Swap will be used to hedge \$55,265,000 of the Downtown Development Taxable Adjustable Rate Refunding Bonds, Series 2004. The stated maturity date of the Swap is May 1, 2022.

Under the terms of the Swap, the City/DDA will owe interest calculated at a fixed rate of 4.598% to the counterparty to the agreement, Goldman Sachs. In return, the counterparty will owe the City/DDA interest based on a variable rate equal to the Bond Market Association (BMA) index rate. Only the net difference in interest amounts will actually be exchanged between the parties. The City/DDA will continue to pay interest to the bondholders at the variable rate provided by the Bonds and, during the term of the Swap, will pay the difference between the fixed rate on the Swap and the BMA index rate.

To further hedge its position, the City/DDA purchased an interest rate cap and floor instrument from Merrill Lynch Capital Services to protect against significant fluctuations in market interest rates.

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

Changes in Long-Term Debt. Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Primary Government					
Governmental activities					
General obligation bonds	\$ 23,790,000	\$ -	\$ (1,415,000)	\$ 22,375,000	\$ 1,465,000
Special assessment bonds	50,000	-	(25,000)	25,000	25,000
Installment contracts	655,000	-	(135,000)	520,000	140,000
Loans payable	1,300,000	-	-	1,300,000	-
Compensated absences	3,247,848	2,441,408	(2,408,324)	3,280,932	328,092
Add (deduct) deferred amounts:					
For issuance costs	(229,511)	-	15,376	(214,135)	-
For issuance premiums	45,031	-	(5,004)	40,027	-
	\$ 28,858,368	\$ 2,441,408	\$ (3,972,952)	\$ 27,326,824	\$ 1,958,092
Business-type activities					
General obligation bonds	\$ 4,820,000	\$ -	\$ (305,000)	\$ 4,515,000	\$ 320,000
Revenue bonds	24,200,000	-	(1,115,000)	23,085,000	1,200,000
Capital leases	587,584	318,780	(57,778)	848,586	86,161
Add (deduct) deferred amounts:					
For issuance costs	(247,664)	-	26,090	(221,574)	-
For issuance discounts	(496,270)	-	60,159	(436,111)	-
For issuance premiums	667,785	-	(58,889)	608,896	-
On refunding	(952,557)	-	86,402	(866,155)	-
	\$ 28,578,878	\$ 318,780	\$ (1,364,016)	\$ 27,533,642	\$ 1,606,161
Component Units					
DDA					
Revenue bonds	\$ 47,820,000	\$ 55,265,000	\$ (49,295,000)	\$ 53,790,000	\$ -
Add (deduct) deferred amounts:					
For issuance costs	-	(1,357,264)	84,829	(1,272,435)	-
On refunding	-	(4,112,736)	257,046	(3,855,690)	-
	\$ 47,820,000	\$ 49,795,000	\$ (48,953,125)	\$ 48,661,875	\$ -
TIFA					
General obligation bonds	\$ 2,855,000	\$ -	\$ (295,000)	\$ 2,560,000	\$ 310,000
Revenue bonds	8,650,000	-	(655,000)	7,995,000	670,000
Land contracts	5,268,917	-	(477,756)	4,791,161	520,755
Loans payable	1,491,958	-	(184,020)	1,307,938	193,800
	\$ 18,265,875	\$ -	\$ (1,611,776)	\$ 16,654,099	\$ 1,694,555

For the governmental activities, compensated absences are generally liquidated by the general fund.

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

3-H. Segment Information – Enterprise Funds

The government issued revenue bonds to finance certain improvements to its water and wastewater system. Because the Water and Wastewater Fund, an individual fund that accounts entirely for the government's water and wastewater activities, is a segment and is reported as a major fund in the fund financial statements, segment disclosures herein are not required.

3-I. Endowments

Youth Center Endowment Permanent Trust Fund. For the year ended June 30, 2005, the net appreciation on investments of donor-restricted endowments was \$42,650. Under the terms of the endowment, and consistent with State statutes, the City is authorized based on a total-return policy to spend the net appreciation for the benefit of the youth center. At year-end, accumulated available net appreciation of \$388,327 is reported in unrestricted net assets; the non-expendable endowment balance is \$1,500,000.

Kellogg Arena Endowment Permanent Trust Fund. For the year ended June 30, 2005, the net appreciation on investments of donor-restricted endowments was \$23,396. Under the terms of the endowment, and consistent with State statutes, the City is authorized based on a total-return policy to spend the net appreciation for the benefit of the Kellogg Arena. At year-end, accumulated available net appreciation of \$176,767 is reported in unrestricted net assets; the non-expendable endowment balance is \$623,533.

NOTE 4 – OTHER INFORMATION

4-A. Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries, as well as medical, dental and death benefits provided to employees. The City has purchased commercial insurance for employee dental and life coverages, certain property and inland marine exposures, airport liability, liquor liability, and emergency medical treatment. The City's workers' compensation exposure is handled on a self-funded basis using a third-party administrator, with excess insurance for claims greater than a self-insured retention (SIR) of \$500,000 per occurrence (increases to \$600,000 as of July 1, 2005). As of July 1, 1986, the City's general and related liability insurance was allowed to expire; any occurrences prior to that date may be covered by liability policies previously in effect. The City now self-administers general liability and related exposures, utilizing excess liability insurance for losses greater than a SIR of \$1 million per occurrence and \$2 million in the aggregate, annually. The limits of the excess liability insurance have been as follows: \$15 million per occurrence effective September 1, 1999; \$5 million per occurrence effective October 1, 2002; then \$9 million per occurrence effective November 14, 2003.

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

Settled claims related to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Effective October 1, 2003, the City converted from a premium-based policy for employee medical coverage to a self-funded plan, with specific stop-loss insurance that limits claim expense to \$50,000 per contract (i.e., employee and dependents), annually. Aggregate stop-loss insurance limits annual losses to 120 percent of expected claims.

The City estimates its self-insured liability for workers' compensation, medical and comprehensive general liability claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are prepared by the City's Risk Management Department and recorded in the Self-Insurance Internal Service Fund. Changes in the estimated liability for the fiscal years ended June 30 were as follows:

	<u>2005</u>	<u>2004</u>
Estimated liability, beginning of year	\$ 4,169,460	\$ 3,388,096
Estimated claims incurred, including changes in estimates	10,284,947	7,075,177
Claim payments	<u>(9,369,266)</u>	<u>(6,293,813)</u>
Estimated liability, end of year	<u>\$ 5,085,141</u>	<u>\$ 4,169,460</u>

4-B. Property Taxes

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Calhoun County. Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the City for the 2004 levy, including industrial facilities and neighborhood enterprise zone properties, but net of renaissance zones, was \$1,507,119,589. The government's general operating tax rate for fiscal 2004-05 was 10.453 mills with an additional 2.547 mills for police and fire pension.

Property taxes for the DDA, LDDA, TIFA and BRA are derived from tax increment financing agreements with the various applicable taxing authorities. Under these arrangements, the DDA, LDDA and TIFA receive the property taxes levied on the increment of current taxable values over the base year values on those properties located within the established tax increment financing district.

Property taxes are recognized in the fiscal year in which they are levied.

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

4-C. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

4-D. Postemployment Benefits

The City provides health care benefits to certain full-time employees upon retirement, in accordance with labor agreements. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by police and fire participants and with contributions of varying amounts for other employees. The City purchases Medicare supplemental insurance for retirees eligible for Medicare.

Police and Fire. The obligation for police and fire personnel retiree health care is advance-funded through the Police and Fire Retirement System. At June 30, 2005, there were 209 active employees and 198 retirees eligible for benefits. During the year ended June 30, 2005, the City contributed \$1,097,265 to the Police and Fire Retirement System for retiree health care and the System paid \$1,531,645 for retiree health care costs. At June 30, 2005, net assets held in trust for police and fire postemployment health care benefits was \$1,443,019. Actuarial data for the health care benefits portion of the Police and Fire Retirement System is not presently available.

Other City Employees. For all other City employees, expenditures for postemployment health care benefits are recognized as the insurance premiums become due. During the year, 143 retirees were eligible, resulting in expenditures of approximately \$198,659.

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

4-E. Defined Benefit Pension Plans

Police and Fire Retirement System

The City of Battle Creek, Michigan Police and Fire Retirement System (the “System”) is a single-employer defined benefit pension plan that provides retirement, health, disability and death benefits to all full-time police and fire personnel of the City. The System is administered by the Retirement Board of the City of Battle Creek, Michigan Police and Fire Retirement System. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the System at 10 North Division Street, Battle Creek, MI 49014.

The financial statements of the System are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City’s contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values. Administrative costs are financed through investment earnings.

Plan members are required to contribute between 7.5% to 8.0% of their annual covered wages to the System for pension benefits, depending on the bargaining unit. The City is required to contribute such additional amounts as necessary, based on actuarial determinations, to provide assets sufficient to pay for member benefits. The City’s pension contribution to the System for the year ended June 30, 2005 amounted to 14.8% of annual covered payroll, an additional 8.9% of annual covered payroll was contributed by the City for retiree healthcare benefits (*see Note 4-D.*).

Plan benefit provisions were established and may be amended under the authority of City Ordinances. Contribution requirements were established and may be amended subject to collective bargaining agreements and approval by the System Retirement Board and City Commission.

The annual required contribution (ARC) for the year ended June 30, 2005 for pension was \$1,824,879. The ARC was made by the City. There was no net pension obligation at the beginning nor the end of the fiscal year.

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

The annual required contribution was determined as part of an actuarial valuation of the System as of June 30, 2003 using the entry age actuarial method. The actuarial assumptions included: (1) a rate of return on investments of 7.0% per year compounded annually; (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation; (3) additional projected salary increases ranging from 0.0% to 4.0% per year, depending on age and service, attributable to seniority/merit; and (4) the assumption that pension benefits will not increase after retirement. The unfunded actuarial accrual liability is being amortized as a level percentage of payroll on a perpetual basis over a period of 12 years. The actuarial value of assets is determined using techniques that smooth the effects of short-term market volatility over a five-year period. The date of the latest actuarial valuation was June 30, 2004.

Three-Year Trend Information (*pension only*)

Years Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2003	\$ 468,005	100%	\$ -
2004	1,268,053	100	-
2005	1,824,879	100	-

GASB Statement 25 required supplementary information is presented after the notes to the financial statements section of this report.

Municipal Employees Retirement System of Michigan

The City also participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

The City is required to contribute at an actuarially determined rate; the current rate is 12.99% of annual covered payroll. City employees are required to contribute 0.0% to 2.5% of their annual covered payroll, depending on the applicable bargaining unit. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, subject to collective bargaining agreements and depending on the MERS contribution program adopted by the City.

For the year ended June 30, 2005, the City's annual pension cost of \$2,503,415 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit.

The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation, was 25 years.

Three-Year Trend Information

<u>Annual Years Ended June 30,</u>	<u>Pension Cost (APC)</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
2003	\$2,186,283	100%	\$ -
2004	2,405,954	100	-
2005	2,503,415	100	-

CITY OF BATTLE CREEK, MICHIGAN

Notes To Financial Statements

Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded AAL (UAAL)	Funded Ratio Total	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
12/31/02	\$61,264,130	\$80,336,233	\$19,072,103	76%	\$18,842,104	101%
12/31/03	65,724,348	86,671,937	20,947,589	76%	18,909,696	111%
12/31/04	69,677,870	92,602,174	22,924,304	75%	18,588,796	123%

4-F. Restatements

The beginning fund balance of the general fund was increased by \$155,467 and beginning fund balance of the narcotics forfeiture special revenue fund was decreased by \$155,467 to properly reflect an expenditure transaction that should have been charged to the latter fund in the prior year.

Also, the beginning fund balance of the local street projects capital projects fund was reduced by \$473,715 to properly recognize prior year expenditures. As a result of this restatement, the beginning net assets of the governmental activities was also reduced by \$473,715.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BATTLE CREEK, MICHIGAN
Police and Fire Retirement System
Required Supplementary Information

Schedule of Funding Progress - Pension Only

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Over (Under) Funded AAL (OAAL/UAAL) (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	OAAL/UAAL as a % of Covered Payroll
6/30/1995	\$ 59,905,524	\$ 61,595,231	\$ (1,689,707)	97.3%	\$ 9,103,643	-18.6%
6/30/1996	65,885,237	66,859,894	(974,657)	98.5%	9,834,167	-9.9%
6/30/1997	72,134,308	71,456,325	677,983	100.9%	10,039,322	6.8%
6/30/1998	79,796,431	74,796,184	5,000,247	106.7%	9,813,441	51.0%
6/30/1999	87,617,793	78,285,848	9,331,945	111.9%	9,749,682	95.7%
6/30/2000	95,548,441	83,980,778	11,567,663	113.8%	11,235,312	103.0%
6/30/2001	101,190,705	87,909,496	13,281,209	115.1%	11,615,098	114.3%
6/30/2002	103,950,731	95,368,883	8,581,848	109.0%	11,907,553	72.1%
6/30/2003	103,655,770	100,346,606	3,309,164	103.3%	11,855,130	27.9%
6/30/2004	103,745,735	104,336,169	(590,434)	99.4%	12,114,360	-4.9%

Schedule of Employer Contributions - Pension Only

Year Ended June 30	Annual Required Contributions	Percentage Contributed
1996	\$ 1,451,506	100%
1997	1,672,926	100%
1998	1,908,106	100%
1999	1,337,217	100%
2000	1,059,179	100%
2001	732,366	100%
2002	622,566	100%
2003	468,005	100%
2004	1,268,053	100%
2005	1,824,879	100%

**COMBINING and INDIVIDUAL FUND FINANCIAL
STATEMENTS and SCHEDULES**

CITY OF BATTLE CREEK, MICHIGAN
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2005

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals</u>
<u>ASSETS</u>					
Assets					
Pooled cash and investments	\$ 3,254,574	\$ 1,041,186	\$ 2,923,418	\$ 3,663,086	\$ 10,882,264
Receivables:					
Interest	31,707	8,550	6,984	22,655	69,896
Accounts	1,222,129	-	-	-	1,222,129
Special assessments	-	11,465	-	11,245	22,710
Grants	484,422	-	9,511	-	493,933
Prepaid items	2,150	-	-	-	2,150
Other assets	21,080	-	-	-	21,080
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>TOTAL ASSETS</u>	<u>\$ 5,016,062</u>	<u>\$ 1,061,201</u>	<u>\$ 2,939,913</u>	<u>\$ 3,696,986</u>	<u>\$ 12,714,162</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable	\$ 850,734	\$ -	\$ -	\$ -	\$ 850,734
Retentions, deposits and other liabilities	294,115	-	43,843	-	337,958
Interfund payable	168,292	-	-	-	168,292
Deferred revenue	395,072	8,994	-	13,299	417,365
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>1,708,213</u>	<u>8,994</u>	<u>43,843</u>	<u>13,299</u>	<u>1,774,349</u>
Fund balances					
Reserved for prepaid items	2,150	-	-	-	2,150
Reserved for encumbrances	179,310	-	-	-	179,310
Reserved for endowment	-	-	-	2,123,533	2,123,533
Unreserved:					
Designated for:					
Future departmental appropriations	-	-	453,665	-	453,665
Subsequent year expenditures	1,143,871	-	-	-	1,143,871
Undesignated	1,982,518	1,052,207	2,442,405	1,560,154	7,037,284
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>3,307,849</u>	<u>1,052,207</u>	<u>2,896,070</u>	<u>3,683,687</u>	<u>10,939,813</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 5,016,062</u>	<u>\$ 1,061,201</u>	<u>\$ 2,939,913</u>	<u>\$ 3,696,986</u>	<u>\$ 12,714,162</u>

CITY OF BATTLE CREEK, MICHIGAN
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Nonmajor Governmental Funds
For the Year Ended June 30, 2005

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals</u>
Revenues					
Taxes	\$ -	\$ 12,685	\$ -	\$ -	\$ 12,685
Intergovernmental	6,594,581	-	337,073	-	6,931,654
Charges for services	2,137,015	-	-	-	2,137,015
Investment income	57,326	25,708	35,605	66,046	184,685
Other	2,200,010	1,365,832	21,368	99,118	3,686,328
	<u>10,988,932</u>	<u>1,404,225</u>	<u>394,046</u>	<u>165,164</u>	<u>12,952,367</u>
Expenditures					
Current expenditures:					
General government	467,844	-	-	-	467,844
Public safety	1,383,744	-	-	-	1,383,744
Highway and streets	5,524,048	-	4,244,128	-	9,768,176
Parks and recreation	4,927,857	-	-	-	4,927,857
Community development	327,489	-	-	-	327,489
Unallocated	-	-	-	264,185	264,185
Debt service:					
Principal	-	1,440,000	-	135,000	1,575,000
Interest	-	1,094,968	-	26,733	1,121,701
Capital outlay	-	-	92,816	-	92,816
	<u>12,630,982</u>	<u>2,534,968</u>	<u>4,336,944</u>	<u>425,918</u>	<u>19,928,812</u>
Revenues over (under) expenditures	<u>(1,642,050)</u>	<u>(1,130,743)</u>	<u>(3,942,898)</u>	<u>(260,754)</u>	<u>(6,976,445)</u>
Other financing sources (uses)					
Transfers in	3,618,849	1,141,325	5,040,948	224,730	10,025,852
Transfers out	(3,077,915)	-	(1,547,987)	(1,135,642)	(5,761,544)
Proceeds from sales of capital assets	17,440	-	-	-	17,440
	<u>558,374</u>	<u>1,141,325</u>	<u>3,492,961</u>	<u>(910,912)</u>	<u>4,281,748</u>
Net change in fund balances	<u>(1,083,676)</u>	<u>10,582</u>	<u>(449,937)</u>	<u>(1,171,666)</u>	<u>(2,694,697)</u>
Fund balances, beginning of year, as restated	<u>4,391,525</u>	<u>1,041,625</u>	<u>3,346,007</u>	<u>4,855,353</u>	<u>13,634,510</u>
Fund balances, end of year	<u><u>\$ 3,307,849</u></u>	<u><u>\$ 1,052,207</u></u>	<u><u>\$ 2,896,070</u></u>	<u><u>\$ 3,683,687</u></u>	<u><u>\$ 10,939,813</u></u>

CITY OF BATTLE CREEK, MICHIGAN
Combining Balance Sheet - Nonmajor Special Revenue Funds
June 30, 2005

	Major Street and Trunkline Maintenance	Local Street	Special Grants	HOME Program
<u>ASSETS</u>				
Assets				
Pooled cash and investments	\$ 1,005,310	\$ -	\$ -	\$ -
Receivables:				
Interest	12,680	15,595	-	-
Accounts	626,700	166,791	2,600	-
Grants	-	-	468,235	16,187
Prepaid items	-	-	-	-
Other assets	-	-	-	-
	<u>\$ 1,644,690</u>	<u>\$ 182,386</u>	<u>\$ 470,835</u>	<u>\$ 16,187</u>
<u>TOTAL ASSETS</u>				
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Retentions, deposits and other liabilities	522	-	4,525	-
Interfund payable	-	105,961	46,144	16,187
Deferred revenue	-	-	307,926	-
	<u>522</u>	<u>105,961</u>	<u>358,595</u>	<u>16,187</u>
Total liabilities				
Fund balances				
Reserved for prepaid items	-	-	-	-
Reserved for encumbrances	66,123	-	112,240	-
Unreserved:				
Designated for subsequent year expenditures	1,024,428	76,425	-	-
Undesignated	553,617	-	-	-
	<u>1,644,168</u>	<u>76,425</u>	<u>112,240</u>	<u>-</u>
Total fund balances				
	<u>\$ 1,644,690</u>	<u>\$ 182,386</u>	<u>\$ 470,835</u>	<u>\$ 16,187</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>				

Michigan Justice Training	Narcotics Forfeiture	Public Safety Communications	Kellogg Arena	Total
\$ 46,294	\$ 328,916	\$ 673,733	\$ 1,200,321	\$ 3,254,574
-	3,432	-	-	31,707
-	-	-	426,038	1,222,129
-	-	-	-	484,422
-	2,150	-	-	2,150
-	-	-	21,080	21,080
<u>\$ 46,294</u>	<u>\$ 334,498</u>	<u>\$ 673,733</u>	<u>\$ 1,647,439</u>	<u>\$ 5,016,062</u>
\$ -	\$ -	\$ -	\$ 850,734	\$ 850,734
-	289,068	-	-	294,115
-	-	-	-	168,292
-	-	-	87,146	395,072
-	289,068	-	937,880	1,708,213
-	2,150	-	-	2,150
-	947	-	-	179,310
-	30,100	12,918	-	1,143,871
46,294	12,233	660,815	709,559	1,982,518
<u>46,294</u>	<u>45,430</u>	<u>673,733</u>	<u>709,559</u>	<u>3,307,849</u>
<u>\$ 46,294</u>	<u>\$ 334,498</u>	<u>\$ 673,733</u>	<u>\$ 1,647,439</u>	<u>\$ 5,016,062</u>

CITY OF BATTLE CREEK, MICHIGAN
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance - Nonmajor Special Revenue Funds
For the Year Ended June 30, 2005

	Major Street and Trunkline Maintenance	Local Street	Special Grants	HOME Program
Revenues				
Intergovernmental	\$ 4,117,442	\$ 1,031,002	\$ 943,221	\$ 315,860
Charges for services	-	-	-	-
Interest	16,791	28,327	3,876	-
Contributions and donations	-	-	272,921	-
Loan collection (distribution) and other	17,112	-	127,010	11,629
Total revenues	<u>4,151,345</u>	<u>1,059,329</u>	<u>1,347,028</u>	<u>327,489</u>
Expenditures				
General government	-	-	423,415	-
Public safety	-	-	1,009,174	-
Highways and streets	2,873,674	2,650,374	-	-
Parks and recreation	-	-	144,317	-
Community development	-	-	-	327,489
Total expenditures	<u>2,873,674</u>	<u>2,650,374</u>	<u>1,576,906</u>	<u>327,489</u>
Revenues over (under) expenditures	<u>1,277,671</u>	<u>(1,591,045)</u>	<u>(229,878)</u>	<u>-</u>
Other financing sources (uses)				
Transfers in	-	1,731,983	116,866	-
Transfers out	(2,878,543)	(117,095)	(5,460)	-
Proceeds from sales of capital assets	-	-	17,440	-
Total other financing sources (uses)	<u>(2,878,543)</u>	<u>1,614,888</u>	<u>128,846</u>	<u>-</u>
Net change in fund balances	<u>(1,600,872)</u>	<u>23,843</u>	<u>(101,032)</u>	<u>-</u>
Fund balances, beginning of year, as restated	<u>3,245,040</u>	<u>52,582</u>	<u>213,272</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 1,644,168</u></u>	<u><u>\$ 76,425</u></u>	<u><u>\$ 112,240</u></u>	<u><u>\$ -</u></u>

Michigan Justice Training	Narcotics Forfeiture	Public Safety Communications	Kellogg Arena	Total
\$ 25,733	\$ 46,915	\$ 39,408	\$ 75,000	\$ 6,594,581
-	-	570,367	1,566,648	2,137,015
-	8,332	-	-	57,326
-	-	-	1,750,000	2,022,921
-	21,338	-	-	177,089
<u>25,733</u>	<u>76,585</u>	<u>609,775</u>	<u>3,391,648</u>	<u>10,988,932</u>
25,299	19,130	-	-	467,844
-	-	374,570	-	1,383,744
-	-	-	-	5,524,048
-	-	-	4,783,540	4,927,857
-	-	-	-	327,489
<u>25,299</u>	<u>19,130</u>	<u>374,570</u>	<u>4,783,540</u>	<u>12,630,982</u>
<u>434</u>	<u>57,455</u>	<u>235,205</u>	<u>(1,391,892)</u>	<u>(1,642,050)</u>
-	-	-	1,770,000	3,618,849
-	(76,817)	-	-	(3,077,915)
-	-	-	-	17,440
-	(76,817)	-	1,770,000	558,374
434	(19,362)	235,205	378,108	(1,083,676)
<u>45,860</u>	<u>64,792</u>	<u>438,528</u>	<u>331,451</u>	<u>4,391,525</u>
<u>\$ 46,294</u>	<u>\$ 45,430</u>	<u>\$ 673,733</u>	<u>\$ 709,559</u>	<u>\$ 3,307,849</u>

CITY OF BATTLE CREEK, MICHIGAN
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Final Budget and Actual - Nonmajor Special Revenue Funds
For the Year Ended June 30, 2005

	Major Street and Trunkline Maintenance Fund		
	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues			
Intergovernmental revenue	\$ 4,265,500	\$ 4,117,442	\$ (148,058)
Charges for services	-	-	-
Interest	75,000	16,791	(58,209)
Contributions and donations	-	-	-
Loan collection (distribution) and other	-	17,112	17,112
Total revenues	<u>4,340,500</u>	<u>4,151,345</u>	<u>(189,155)</u>
Expenditures			
General government	-	-	-
Public safety	-	-	-
Highways and streets	4,016,292	2,873,674	(1,142,618)
Parks and recreation	-	-	-
Community development	-	-	-
Total expenditures	<u>4,016,292</u>	<u>2,873,674</u>	<u>(1,142,618)</u>
Revenues over (under) expenditures	<u>324,208</u>	<u>1,277,671</u>	<u>953,463</u>
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	(2,761,383)	(2,878,543)	(117,160)
Proceeds from sales of capital assets	-	-	-
Total other financing sources (uses)	<u>(2,761,383)</u>	<u>(2,878,543)</u>	<u>(117,160)</u>
Net change in fund balances	(2,437,175)	(1,600,872)	836,303
Fund balances, beginning of year	<u>3,245,040</u>	<u>3,245,040</u>	<u>-</u>
Fund balances (deficits), end of year	<u><u>\$ 807,865</u></u>	<u><u>\$ 1,644,168</u></u>	<u><u>\$ 836,303</u></u>

Local Street Fund			Special Grants Fund		
Final Budget	Actual	Actual Over (Under) Final Budget	Final Budget	Actual	Actual Over (Under) Final Budget
\$ 1,008,000	\$ 1,031,002	\$ 23,002	\$ 2,169,293	\$ 943,221	\$ (1,226,072)
-	-	-	-	-	-
75,000	28,327	(46,673)	2,408	3,876	1,468
-	-	-	816,707	272,921	(543,786)
-	-	-	5,635	127,010	121,375
<u>1,083,000</u>	<u>1,059,329</u>	<u>(23,671)</u>	<u>2,994,043</u>	<u>1,347,028</u>	<u>(1,647,015)</u>
-	-	-	1,385,798	423,415	(962,383)
-	-	-	1,497,525	1,009,174	(488,351)
2,921,148	2,650,374	(270,774)	-	-	-
-	-	-	824,097	144,317	(679,780)
-	-	-	-	-	-
<u>2,921,148</u>	<u>2,650,374</u>	<u>(270,774)</u>	<u>3,707,420</u>	<u>1,576,906</u>	<u>(2,130,514)</u>
<u>(1,838,148)</u>	<u>(1,591,045)</u>	<u>247,103</u>	<u>(713,377)</u>	<u>(229,878)</u>	<u>483,499</u>
1,731,983	1,731,983	-	498,320	116,866	(381,454)
(234,756)	(117,095)	117,661	(5,460)	(5,460)	-
-	-	-	23,600	17,440	(6,160)
<u>1,497,227</u>	<u>1,614,888</u>	<u>117,661</u>	<u>516,460</u>	<u>128,846</u>	<u>(387,614)</u>
(340,921)	23,843	364,764	(196,917)	(101,032)	95,885
52,582	52,582	-	213,272	213,272	-
<u>\$ (288,339)</u>	<u>\$ 76,425</u>	<u>\$ 364,764</u>	<u>\$ 16,355</u>	<u>\$ 112,240</u>	<u>\$ 95,885</u>

Continued...

CITY OF BATTLE CREEK, MICHIGAN
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Final Budget and Actual - Nonmajor Special Revenue Funds (Continued)
For the Year Ended June 30, 2005

	HOME Program Fund		
	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues			
Intergovernmental revenue	\$ 983,714	\$ 315,860	\$ (667,854)
Charges for services	-	-	-
Interest	-	-	-
Contributions and donations	-	-	-
Loan collection (distribution) and other	-	11,629	11,629
	<u>983,714</u>	<u>327,489</u>	<u>(656,225)</u>
Total revenues	983,714	327,489	(656,225)
Expenditures			
General government	-	-	-
Public safety	-	-	-
Highways and streets	-	-	-
Parks and recreation	-	-	-
Community development	982,914	327,489	(655,425)
	<u>982,914</u>	<u>327,489</u>	<u>(655,425)</u>
Total expenditures	982,914	327,489	(655,425)
Revenues over (under) expenditures	<u>800</u>	<u>-</u>	<u>(800)</u>
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	(800)	-	800
Proceeds from sales of capital assets	-	-	-
	<u>(800)</u>	<u>-</u>	<u>800</u>
Total other financing sources (uses)	(800)	-	800
Net change in fund balances	-	-	-
Fund balances, beginning of year, as restated	-	-	-
Fund balances (deficits), end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Michigan Justice Training Fund			Narcotics Forfeiture Fund		
Final Budget	Actual	Actual Over (Under) Final Budget	Final Budget	Actual	Actual Over (Under) Final Budget
\$ 26,000	\$ 25,733	\$ (267)	\$ 32,000	\$ 46,915	\$ 14,915
-	-	-	-	-	-
-	-	-	-	8,332	8,332
-	-	-	-	-	-
-	-	-	40,000	21,338	(18,662)
<u>26,000</u>	<u>25,733</u>	<u>(267)</u>	<u>72,000</u>	<u>76,585</u>	<u>4,585</u>
26,000	25,299	(701)	107,336	19,130	(88,206)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>26,000</u>	<u>25,299</u>	<u>(701)</u>	<u>107,336</u>	<u>19,130</u>	<u>(88,206)</u>
-	434	434	(35,336)	57,455	92,791
-	-	-	-	-	-
-	-	-	(232,284)	(76,817)	155,467
-	-	-	-	-	-
-	-	-	(232,284)	(76,817)	155,467
-	434	434	(267,620)	(19,362)	248,258
<u>45,860</u>	<u>45,860</u>	<u>-</u>	<u>64,792</u>	<u>64,792</u>	<u>-</u>
<u>\$ 45,860</u>	<u>\$ 46,294</u>	<u>\$ 434</u>	<u>\$ (202,828)</u>	<u>\$ 45,430</u>	<u>\$ 248,258</u>

Continued...

CITY OF BATTLE CREEK, MICHIGAN
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Final Budget and Actual - Nonmajor Special Revenue Funds (Concluded)
For the Year Ended June 30, 2005

	Public Safety Communications		
	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues			
Intergovernmental revenue	\$ 29,064	\$ 39,408	\$ 10,344
Charges for services	408,000	570,367	162,367
Interest	-	-	-
Contributions and donations	-	-	-
Loan collection (distribution) and other	-	-	-
Total revenues	<u>437,064</u>	<u>609,775</u>	<u>172,711</u>
Expenditures			
General government	-	-	-
Public safety	437,064	374,570	(62,494)
Highways and streets	-	-	-
Parks and recreation	-	-	-
Community development	-	-	-
Total expenditures	<u>437,064</u>	<u>374,570</u>	<u>(62,494)</u>
Revenues over (under) expenditures	<u>-</u>	<u>235,205</u>	<u>235,205</u>
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Proceeds from sales of capital assets	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	235,205	235,205
Fund balances, beginning of year	<u>438,528</u>	<u>438,528</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 438,528</u></u>	<u><u>\$ 673,733</u></u>	<u><u>\$ 235,205</u></u>

Kellogg Arena Fund

<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
\$ 21,000	\$ 75,000	\$ 54,000
1,501,721	1,566,648	64,927
-	-	-
-	1,750,000	1,750,000
-	-	-
<u>1,522,721</u>	<u>3,391,648</u>	<u>1,868,927</u>
-	-	-
-	-	-
-	-	-
1,522,721	4,783,540	3,260,819
-	-	-
<u>1,522,721</u>	<u>4,783,540</u>	<u>3,260,819</u>
<u>-</u>	<u>(1,391,892)</u>	<u>(1,391,892)</u>
-	1,770,000	1,770,000
-	-	-
-	-	-
<u>-</u>	<u>1,770,000</u>	<u>1,770,000</u>
-	378,108	378,108
<u>331,451</u>	<u>331,451</u>	<u>-</u>
<u>\$ 331,451</u>	<u>\$ 709,559</u>	<u>\$ 378,108</u>

CITY OF BATTLE CREEK, MICHIGAN
Combining Balance Sheet - Nonmajor Debt Service Funds
June 30, 2005

	DPW Building	Building Authority Bonds	Special Assessment Debt Service	Michigan Transportation Fund Bonds Debt Service	Total
<u>ASSETS</u>					
Assets					
Pooled cash and investments	\$ 108	\$ 4,261	\$1,035,696	\$ 1,121	\$ 1,041,186
Interest receivable	1	33	8,507	9	8,550
Special assessments receivable	-	-	11,465	-	11,465
	<u>109</u>	<u>4,294</u>	<u>1,055,668</u>	<u>1,130</u>	<u>1,061,201</u>
<u>TOTAL ASSETS</u>					
 <u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Deferred revenue	\$ -	\$ -	\$ 8,994	\$ -	\$ 8,994
 Fund balances					
Unreserved, undesignated	109	4,294	1,046,674	1,130	1,052,207
	<u>109</u>	<u>4,294</u>	<u>1,055,668</u>	<u>1,130</u>	<u>1,061,201</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>					

CITY OF BATTLE CREEK, MICHIGAN
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance - Nonmajor Debt Service Funds
For the Year Ended June 30, 2005

	DPW Building	Building Authority Bonds	Special Assessment Debt Service	Michigan Transportation Fund Bonds Debt Service	Total
Revenues					
Special assessment collections	\$ -	\$ -	\$ 12,685	\$ -	\$ 12,685
Interest	2	103	25,576	27	25,708
Local sources	-	1,365,832	-	-	1,365,832
Total revenues	<u>2</u>	<u>1,365,935</u>	<u>38,261</u>	<u>27</u>	<u>1,404,225</u>
Expenditures					
Debt service:					
Principal retirement	360,000	775,000	25,000	280,000	1,440,000
Interest	<u>430,005</u>	<u>591,120</u>	<u>2,275</u>	<u>71,568</u>	<u>1,094,968</u>
Total expenditures	<u>790,005</u>	<u>1,366,120</u>	<u>27,275</u>	<u>351,568</u>	<u>2,534,968</u>
Revenues over (under) expenditures	(790,003)	(185)	10,986	(351,541)	(1,130,743)
Other financing sources					
Transfers in	<u>790,006</u>	<u>-</u>	<u>-</u>	<u>351,319</u>	<u>1,141,325</u>
Net change in fund balances	3	(185)	10,986	(222)	10,582
Fund balances, beginning of year	<u>106</u>	<u>4,479</u>	<u>1,035,688</u>	<u>1,352</u>	<u>1,041,625</u>
Fund balances, end of year	<u><u>\$ 109</u></u>	<u><u>\$ 4,294</u></u>	<u><u>\$ 1,046,674</u></u>	<u><u>\$ 1,130</u></u>	<u><u>\$ 1,052,207</u></u>

CITY OF BATTLE CREEK, MICHIGAN
Combining Balance Sheet - Nonmajor Capital Projects Funds
June 30, 2005

	<u>Major Street Projects</u>	<u>Local Street Projects</u>	<u>DPW Building Construction</u>	<u>Justice Center Construction</u>	<u>General Capital Improvement</u>	<u>Total</u>
<u>ASSETS</u>						
Assets						
Pooled cash and investments	\$ 171,089	\$ 1,475,901	\$ 201,620	\$ 6,072	\$ 1,068,736	\$ 2,923,418
Receivables:						
Interest	-	-	1,569	47	5,368	6,984
Grants	-	9,511	-	-	-	9,511
	<u>171,089</u>	<u>1,485,412</u>	<u>203,189</u>	<u>6,119</u>	<u>1,074,104</u>	<u>2,939,913</u>
<u>TOTAL ASSETS</u>	<u>\$ 171,089</u>	<u>\$ 1,485,412</u>	<u>\$ 203,189</u>	<u>\$ 6,119</u>	<u>\$ 1,074,104</u>	<u>\$ 2,939,913</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities						
Retentions, deposits and other liabilities	\$ 9,456	\$ 27,379	\$ -	\$ -	\$ 7,008	\$ 43,843
Fund balances						
Designated for future departmental appropriations	-	-	-	-	453,665	453,665
Unreserved, undesignated	161,633	1,458,033	203,189	6,119	613,431	2,442,405
	<u>161,633</u>	<u>1,458,033</u>	<u>203,189</u>	<u>6,119</u>	<u>1,067,096</u>	<u>2,896,070</u>
Total fund balances	161,633	1,458,033	203,189	6,119	1,067,096	2,896,070
	<u>161,633</u>	<u>1,458,033</u>	<u>203,189</u>	<u>6,119</u>	<u>1,067,096</u>	<u>2,896,070</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 171,089</u>	<u>\$ 1,485,412</u>	<u>\$ 203,189</u>	<u>\$ 6,119</u>	<u>\$ 1,074,104</u>	<u>\$ 2,939,913</u>

CITY OF BATTLE CREEK, MICHIGAN
Combining Statement of Revenue, Expenditures and
Changes in Fund Balance - Nonmajor Capital Projects Funds
For the Year Ended June 30, 2005

	Major Street Projects	Local Street Projects	DPW Building Construction	Justice Center Construction	General Capital Improvement	Total
Revenue						
Intergovernmental	\$ -	\$ 337,073	\$ -	\$ -	\$ -	\$ 337,073
Investment income	-	-	25,114	134	10,357	35,605
Other	103	1,265	20,000	-	-	21,368
Total revenue	103	338,338	45,114	134	10,357	394,046
Expenditures						
Highways and streets	962,399	3,147,790	-	-	133,939	4,244,128
Capital outlay	-	-	92,816	-	-	92,816
Total expenditures	962,399	3,147,790	92,816	-	133,939	4,336,944
Revenue over (under) expenditures	(962,296)	(2,809,452)	(47,702)	134	(123,582)	(3,942,898)
Other financing sources (uses)						
Transfers in	1,105,460	2,696,823	-	-	1,238,665	5,040,948
Transfers out	-	-	(1,500,000)	-	(47,987)	(1,547,987)
Total other financing sources	1,105,460	2,696,823	(1,500,000)	-	1,190,678	3,492,961
Net change in fund balances	143,164	(112,629)	(1,547,702)	134	1,067,096	(449,937)
Fund balances, beginning of year, as restated	18,469	1,570,662	1,750,891	5,985	-	3,346,007
Fund balances, end of year	\$ 161,633	\$ 1,458,033	\$ 203,189	\$ 6,119	\$ 1,067,096	\$ 2,896,070

CITY OF BATTLE CREEK, MICHIGAN
Combining Balance Sheet - Nonmajor Permanent Funds
June 30, 2005

	<u>Youth Center Endowment</u>	<u>Kellogg Arena Endowment</u>	<u>Special Project Reserves</u>	<u>Total</u>
<u>ASSETS</u>				
Assets				
Pooled cash and investments	\$ 1,873,850	\$ 792,122	\$ 997,114	\$ 3,663,086
Interest receivable	14,477	8,178	-	22,655
Special assessments receivable	-	-	11,245	11,245
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>TOTAL ASSETS</u>	<u>\$ 1,888,327</u>	<u>\$ 800,300</u>	<u>\$ 1,008,359</u>	<u>\$ 3,696,986</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Deferred revenue	\$ -	\$ -	\$ 13,299	\$ 13,299
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund balances				
Reserved:				
Youth Center	1,500,000	-	-	1,500,000
Kellogg Arena	-	623,533	-	623,533
Unreserved, undesignated	388,327	176,767	995,060	1,560,154
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	1,888,327	800,300	995,060	3,683,687
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 1,888,327</u>	<u>\$ 800,300</u>	<u>\$ 1,008,359</u>	<u>\$ 3,696,986</u>

CITY OF BATTLE CREEK, MICHIGAN
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance - Nonmajor Permanent Funds
For the Year Ended June 30, 2005

	<u>Youth Center Endowment</u>	<u>Kellogg Arena Endowment</u>	<u>Special Project Reserves</u>	<u>Total</u>
Revenues				
Investment income	\$ 42,650	\$ 23,396	\$ -	\$ 66,046
Other	-	-	99,118	99,118
Total revenues	<u>42,650</u>	<u>23,396</u>	<u>99,118</u>	<u>165,164</u>
Expenditures				
Unallocated	141,765	-	122,420	264,185
Debt service:				
Principal	-	-	135,000	135,000
Interest	-	-	26,733	26,733
Total expenditures	<u>141,765</u>	<u>-</u>	<u>284,153</u>	<u>425,918</u>
Revenues over (under) expenditures	<u>(99,115)</u>	<u>23,396</u>	<u>(185,035)</u>	<u>(260,754)</u>
Other financing sources (uses)				
Transfers in	-	-	224,730	224,730
Transfers out	-	(270,000)	(865,642)	(1,135,642)
Total other financing uses	<u>-</u>	<u>(270,000)</u>	<u>(640,912)</u>	<u>(910,912)</u>
Net change in fund balances	(99,115)	(246,604)	(825,947)	(1,171,666)
Fund balances, beginning of year	<u>1,987,442</u>	<u>1,046,904</u>	<u>1,821,007</u>	<u>4,855,353</u>
Fund balances, end of year	<u><u>\$ 1,888,327</u></u>	<u><u>\$ 800,300</u></u>	<u><u>\$ 995,060</u></u>	<u><u>\$ 3,683,687</u></u>

CITY OF BATTLE CREEK, MICHIGAN
Combining Statement of Net Assets - Nonmajor Enterprise Funds
June 30, 2005

	<u>Binder Park Golf Course</u>	<u>Automobile Parking System</u>	<u>FAA</u>	<u>Battle Creek Transit System</u>
Assets				
Current assets:				
Pooled cash and investments	\$ -	\$ 394,513	\$ 373,190	\$ -
Receivables:				
Interest	628	2,980	7	-
Accounts	-	66,271	-	-
Grants	-	-	-	1,006,746
Loans, current portion	-	-	-	-
Inventories	74,805	-	-	108,208
Total current assets	<u>75,433</u>	<u>463,764</u>	<u>373,197</u>	<u>1,114,954</u>
Noncurrent assets:				
Loans receivable, net	-	-	-	-
Capital assets, net	3,454,462	7,740,940	2,447,703	2,630,832
Unamortized bond issuance costs	-	-	-	-
Total noncurrent assets	<u>3,454,462</u>	<u>7,740,940</u>	<u>2,447,703</u>	<u>2,630,832</u>
Total assets	<u>3,529,895</u>	<u>8,204,704</u>	<u>2,820,900</u>	<u>3,745,786</u>
Liabilities				
Current liabilities:				
Accounts payable	-	55,567	-	-
Accrued payroll and compensated absences	2,742	-	-	87,491
Other liabilities	-	-	7,147	-
Accrued interest payable	54,950	-	16,676	-
Interfund payable	567,357	-	-	877,165
Deferred revenue	28,323	-	34,951	-
Current portion of bonds payable	135,000	-	185,000	-
Total current liabilities	<u>788,372</u>	<u>55,567</u>	<u>243,774</u>	<u>964,656</u>
Noncurrent liabilities -				
Advance from component unit	-	-	397,540	-
Bonds payable	2,875,000	-	1,307,727	-
Total liabilities	<u>3,663,372</u>	<u>55,567</u>	<u>1,949,041</u>	<u>964,656</u>
Net assets (deficit)				
Invested in capital assets, net of related debt	444,462	7,740,940	954,976	2,630,832
Unrestricted	<u>(577,939)</u>	<u>408,197</u>	<u>(83,117)</u>	<u>150,298</u>
Total net assets (deficit)	<u>\$ (133,477)</u>	<u>\$ 8,149,137</u>	<u>\$ 871,859</u>	<u>\$ 2,781,130</u>

<u>Solid Waste Collection</u>	<u>Economic Development</u>	<u>Fiber Conduit</u>	<u>Total</u>
\$ 139,237	\$ 6,141,100	\$ -	\$ 7,048,040
1,862	37,193	5	42,675
184,842	245,726	-	496,839
-	-	-	1,006,746
-	794,270	-	794,270
-	-	-	183,013
<u>325,941</u>	<u>7,218,289</u>	<u>5</u>	<u>9,571,583</u>
-	5,644,111	-	5,644,111
742	-	1,849,649	18,124,328
-	-	-	-
<u>742</u>	<u>5,644,111</u>	<u>1,849,649</u>	<u>23,768,439</u>
<u>326,683</u>	<u>12,862,400</u>	<u>1,849,654</u>	<u>33,340,022</u>
-	3,060,751	-	3,116,318
13,184	-	-	103,417
-	-	-	7,147
-	-	1,142	72,768
-	-	1,685,264	3,129,786
-	-	-	63,274
-	-	-	320,000
<u>13,184</u>	<u>3,060,751</u>	<u>1,686,406</u>	<u>6,812,710</u>
-	-	-	397,540
-	-	-	4,182,727
<u>13,184</u>	<u>3,060,751</u>	<u>1,686,406</u>	<u>11,392,977</u>
742	-	1,849,649	13,621,601
<u>312,757</u>	<u>9,801,649</u>	<u>(1,686,401)</u>	<u>8,325,444</u>
<u>\$ 313,499</u>	<u>\$ 9,801,649</u>	<u>\$ 163,248</u>	<u>\$ 21,947,045</u>

CITY OF BATTLE CREEK, MICHIGAN
Combining Statement of Revenues, Expenses and
Changes in Fund Net Assets - Nonmajor Enterprise Funds
For the Year Ended June 30, 2005

	<u>Binder Park Golf Course</u>	<u>Automobile Parking System</u>	<u>FAA</u>	<u>Battle Creek Transit System</u>
Operating revenues				
Charges for services	\$ 1,154,217	\$ 674,544	\$ 419,410	\$ 356,087
Other	7,591	150	-	36,371
Total operating revenues	<u>1,161,808</u>	<u>674,694</u>	<u>419,410</u>	<u>392,458</u>
				48,280
Operating expenses				463,761
Personal services	208,733	-	8,887	2,526,104
Materials and supplies	356,076	1,448	1,398	415,481
Contractual and other	334,434	954,445	125,503	461,297
Depreciation	138,762	353,590	139,567	525,370
Total operating expenses	<u>1,038,005</u>	<u>1,309,483</u>	<u>275,355</u>	<u>3,928,252</u>
Operating income (loss)	<u>123,803</u>	<u>(634,789)</u>	<u>144,055</u>	<u>(3,535,794)</u>
Non-operating revenues (expenses)				
Intergovernmental subsidies	-	-	-	2,558,023
Interest income	(7,191)	8,144	721	-
Interest expense	(132,627)	-	(73,245)	-
Total non-operating revenues (expenses)	<u>(139,818)</u>	<u>8,144</u>	<u>(72,524)</u>	<u>2,558,023</u>
Income (loss) before contributions and transfers	(16,015)	(626,645)	71,531	(977,771)
Transfers in	66,667	62,856	248,793	793,128
Transfers out	-	(1,000)	(249,593)	(4,500)
Change in net assets	50,652	(564,789)	70,731	(189,143)
Net assets (deficit), beginning of year	<u>(184,129)</u>	<u>8,713,926</u>	<u>801,128</u>	<u>2,970,273</u>
Net assets (deficit), end of year	<u>\$ (133,477)</u>	<u>\$ 8,149,137</u>	<u>\$ 871,859</u>	<u>\$ 2,781,130</u>

<u>Solid Waste Collection</u>	<u>Economic Development</u>	<u>Fiber Conduit</u>	<u>Total</u>
\$ 2,221,669	\$ -	\$ -	\$ 4,825,927
27,946	179,771	-	251,829
<u>2,249,615</u>	<u>179,771</u>	<u>-</u>	<u>5,077,756</u>
168,370	-	1	2,912,095
18,741	-	-	793,144
1,997,719	137,674	-	4,011,072
1,484	-	36,786	1,195,559
<u>2,186,314</u>	<u>137,674</u>	<u>36,787</u>	<u>8,911,870</u>
<u>63,301</u>	<u>42,097</u>	<u>(36,787)</u>	<u>(3,834,114)</u>
-	-	-	2,558,023
4,532	150,839	111	157,156
-	-	(72,372)	(278,244)
<u>4,532</u>	<u>150,839</u>	<u>(72,261)</u>	<u>2,436,935</u>
67,833	192,936	(109,048)	(1,397,179)
-	-	-	1,171,444
<u>(9,300)</u>	<u>-</u>	<u>-</u>	<u>(264,393)</u>
58,533	192,936	(109,048)	(490,128)
<u>254,966</u>	<u>9,608,713</u>	<u>272,296</u>	<u>22,437,173</u>
<u>\$ 313,499</u>	<u>\$ 9,801,649</u>	<u>\$ 163,248</u>	<u>\$ 21,947,045</u>

CITY OF BATTLE CREEK, MICHIGAN
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2005

	<u>Binder Park Golf Course</u>	<u>Automobile Parking System</u>	<u>FAA</u>	<u>Battle Creek Transit System</u>
Cash flows from operating activities				
Receipts from customers and users	\$ 1,172,911	\$ 608,423	\$ 419,410	\$ 392,458
Net loans (made) collected	-	-	-	-
Payments to suppliers and contractors	(648,346)	(898,917)	(114,218)	(614,794)
Payments to employees	(208,733)	-	(8,887)	(2,526,288)
Payments for interfund services	(79,095)	(1,409)	(8,524)	(59,662)
Net cash provided by (used in) operating activities	<u>236,737</u>	<u>(291,903)</u>	<u>287,781</u>	<u>(2,808,286)</u>
Cash flows from non-capital financing activities				
Transfers in	66,667	62,856	248,793	793,128
Transfers out	-	(1,000)	(249,593)	(4,500)
Intergovernmental subsidies	-	-	-	2,335,794
Net cash provided by (used in) non-capital financing activities	<u>66,667</u>	<u>61,856</u>	<u>(800)</u>	<u>3,124,422</u>
Cash flows from capital and related financing activities				
Proceeds from interfund borrowing	-	-	-	-
Proceeds of advances from component units	-	-	237,540	-
Principal and interest paid on long-term debt	(264,902)	-	(250,017)	-
Purchase of capital assets	(33,700)	(41,136)	(290,240)	(316,136)
Net cash provided by (used in) capital and related financing activities	<u>(298,602)</u>	<u>(41,136)</u>	<u>(302,717)</u>	<u>(316,136)</u>
Cash flows from investing activities				
Interest received on investments	(4,802)	9,021	714	-
Net increase (decrease) in pooled cash and investments	-	(262,162)	(15,022)	-
Pooled cash and investments, beginning of year	-	656,675	388,212	-
Pooled cash and investments, end of year	<u>\$ -</u>	<u>\$ 394,513</u>	<u>\$ 373,190</u>	<u>\$ -</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 123,803	\$ (634,789)	\$ 144,055	\$ (3,535,794)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	138,762	353,590	139,567	525,370
Amortization of bond issuance costs	-	-	949	-
Changes in assets and liabilities:				
Accounts receivable	-	(66,271)	-	-
Loans receivable	-	-	-	-
Inventories	(27,324)	-	-	(1,383)
Accounts payable	(10)	55,567	-	-
Accrued payroll and compensated absences	-	-	-	(184)
Retentions, deposits and other liabilities	-	-	3,210	-
Interfund payable	(9,597)	-	-	203,705
Deferred revenue	11,103	-	-	-
Net cash provided by (used in) operating activities	<u>\$ 236,737</u>	<u>\$ (291,903)</u>	<u>\$ 287,781</u>	<u>\$ (2,808,286)</u>

<u>Solid Waste Collection</u>	<u>Economic Development</u>	<u>Fiber Conduit</u>	<u>Total</u>
\$ 2,216,190	\$ 179,771	\$ -	\$ 4,989,163
-	(1,321,190)	-	(1,321,190)
(2,003,230)	(137,674)	-	(4,417,179)
(169,108)	-	(1)	(2,913,017)
(13,230)	-	-	(161,920)
<u>30,622</u>	<u>(1,279,093)</u>	<u>(1)</u>	<u>(3,824,143)</u>
-	-	-	1,171,444
(9,300)	-	-	(264,393)
-	-	-	2,335,794
<u>(9,300)</u>	<u>-</u>	<u>-</u>	<u>3,242,845</u>
-	-	246,995	246,995
-	-	-	237,540
-	-	(73,751)	(588,670)
-	-	(173,456)	(854,668)
<u>-</u>	<u>-</u>	<u>(212)</u>	<u>(958,803)</u>
3,053	158,936	213	167,135
24,375	(1,120,157)	-	(1,372,966)
114,862	7,261,257	-	8,421,006
<u>\$ 139,237</u>	<u>\$ 6,141,100</u>	<u>\$ -</u>	<u>\$ 7,048,040</u>
\$ 63,301	\$ 42,097	\$ (36,787)	\$ (3,834,114)
1,484	-	36,786	1,195,559
-	-	-	949
(33,425)	(100,000)	-	(199,696)
-	(3,904,914)	-	(3,904,914)
-	-	-	(28,707)
-	2,683,724	-	2,739,281
(738)	-	-	(922)
-	-	-	3,210
-	-	-	194,108
-	-	-	11,103
<u>\$ 30,622</u>	<u>\$ (1,279,093)</u>	<u>\$ (1)</u>	<u>\$ (3,824,143)</u>

CITY OF BATTLE CREEK, MICHIGAN
Combining Statement of Net Assets
Internal Service Funds
June 30, 2005

	<u>Equipment Center</u>	<u>Self- Insurance</u>	<u>Information Services</u>	<u>Reproduction</u>	<u>Total</u>
Assets					
Current assets:					
Pooled cash and investments	\$ 1,701,594	\$ 7,516,725	\$ 971,978	\$ 518,221	\$ 10,708,518
Interest receivable	-	50,470	-	-	50,470
Accounts receivable	-	16,092	-	-	16,092
Inventories	280,422	-	931	-	281,353
Prepaid items	-	288,515	10,381	-	298,896
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	1,982,016	7,871,802	983,290	518,221	11,355,329
Noncurrent assets:					
Capital assets, net	1,941,033	-	591,514	3,285	2,535,832
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	3,923,049	7,871,802	1,574,804	521,506	13,891,161
Liabilities					
Current liabilities:					
Accrued payroll and compensated absences	62,830	64,507	51,834	21,038	200,209
Deferred revenue	-	76,837	5,678	-	82,515
Claims payable	-	5,085,141	-	-	5,085,141
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	62,830	5,226,485	57,512	21,038	5,367,865
Net assets					
Invested in capital assets	1,941,033	-	591,514	3,285	2,535,832
Unrestricted	1,919,186	2,645,317	925,778	497,183	5,987,464
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total net assets	<u>\$ 3,860,219</u>	<u>\$ 2,645,317</u>	<u>\$ 1,517,292</u>	<u>\$ 500,468</u>	<u>\$ 8,523,296</u>

CITY OF BATTLE CREEK, MICHIGAN
Combining Statement of Revenues, Expenses
and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2005

	<u>Equipment Center</u>	<u>Self- Insurance</u>	<u>Information Services</u>	<u>Reproduction</u>	<u>Total</u>
Operating revenues					
Charges for services	\$ 4,253,966	\$ 11,611,906	\$ 1,293,117	\$ 368,547	\$ 17,527,536
Other	294,596	-	695	5,471	300,762
Total operating revenues	<u>4,548,562</u>	<u>11,611,906</u>	<u>1,293,812</u>	<u>374,018</u>	<u>17,828,298</u>
Operating expenses					
Personal services	1,251,553	287,406	697,143	218,180	2,454,282
Materials and supplies	1,289,179	8,532	135,793	112,576	1,546,080
Contractual and other	846,498	10,302,223	393,948	48,513	11,591,182
Depreciation	764,124	-	258,594	8,570	1,031,288
Total operating expenses	<u>4,151,354</u>	<u>10,598,161</u>	<u>1,485,478</u>	<u>387,839</u>	<u>16,622,832</u>
Operating income (loss)	<u>397,208</u>	<u>1,013,745</u>	<u>(191,666)</u>	<u>(13,821)</u>	<u>1,205,466</u>
Nonoperating revenues (expenses)					
Interest income	-	123,343	-	-	123,343
Gain (loss) on sale of capital assets	-	-	(2,284)	-	(2,284)
Total nonoperating revenues (expenses)	<u>-</u>	<u>123,343</u>	<u>(2,284)</u>	<u>-</u>	<u>121,059</u>
Income (loss) before transfers	397,208	1,137,088	(193,950)	(13,821)	1,326,525
Transfers in	-	-	419,525	84,795	504,320
Transfers out	<u>(797,256)</u>	<u>(2,150)</u>	<u>-</u>	<u>(450)</u>	<u>(799,856)</u>
Change in net assets	(400,048)	1,134,938	225,575	70,524	1,030,989
Net assets, beginning of year	<u>4,260,267</u>	<u>1,510,379</u>	<u>1,291,717</u>	<u>429,944</u>	<u>7,492,307</u>
Net assets, end of year	<u>\$ 3,860,219</u>	<u>\$ 2,645,317</u>	<u>\$ 1,517,292</u>	<u>\$ 500,468</u>	<u>\$ 8,523,296</u>

CITY OF BATTLE CREEK, MICHIGAN
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2005

	<u>Equipment Center</u>	<u>Self- Insurance</u>	<u>Information Services</u>	<u>Reproduction</u>	<u>Total</u>
Cash flows from operating activities					
Receipts from interfund services	\$ 4,548,562	\$ 11,611,906	\$ 1,293,812	\$ 374,018	\$ 17,828,298
Payments to suppliers/claimants	(2,171,915)	(9,357,135)	(541,291)	(161,089)	(12,231,430)
Payments to employees	(1,255,416)	(281,239)	(702,060)	(218,745)	(2,457,460)
Net cash provided by (used in) operating activities	<u>1,121,231</u>	<u>1,973,532</u>	<u>50,461</u>	<u>(5,816)</u>	<u>3,139,408</u>
Cash flows from non-capital financing activities					
Transfers in	-	-	419,525	84,795	504,320
Transfers out	(797,256)	(2,150)	-	(450)	(799,856)
Net cash provided by (used in) non-capital financing activities	<u>(797,256)</u>	<u>(2,150)</u>	<u>419,525</u>	<u>84,345</u>	<u>(295,536)</u>
Cash flows from capital and related financing activities					
Purchase of capital assets	(787,366)	-	(34,565)	-	(821,931)
Cash flows from investing activities					
Interest received on investments	-	111,947	-	-	111,947
Net increase (decrease) in pooled cash and investments	(463,391)	2,083,329	435,421	78,529	2,133,888
Pooled cash and investments, beginning of year	<u>2,164,985</u>	<u>5,433,396</u>	<u>536,557</u>	<u>439,692</u>	<u>8,574,630</u>
Pooled cash and investments, end of year	<u><u>\$ 1,701,594</u></u>	<u><u>\$ 7,516,725</u></u>	<u><u>\$ 971,978</u></u>	<u><u>\$ 518,221</u></u>	<u><u>\$ 10,708,518</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ 397,208	\$ 1,013,745	\$ (191,666)	\$ (13,821)	\$ 1,205,466
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation	764,124	-	258,594	8,570	1,031,288
Changes in assets and liabilities:					
Accounts receivable	-	640	-	-	640
Inventories	(36,238)	-	-	-	(36,238)
Prepaid items	-	27,681	(10,007)	-	17,674
Accrued payroll/compensated absences	(3,863)	6,167	(4,917)	(565)	(3,178)
Deferred revenue	-	9,618	(1,543)	-	8,075
Claims payable	-	915,681	-	-	915,681
Net cash provided by (used in) operating activities	<u><u>\$ 1,121,231</u></u>	<u><u>\$ 1,973,532</u></u>	<u><u>\$ 50,461</u></u>	<u><u>\$ (5,816)</u></u>	<u><u>\$ 3,139,408</u></u>

CITY OF BATTLE CREEK, MICHIGAN
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2005

	<u>Contractors' Retention</u>	<u>Delinquent Personal Property Taxes</u>	<u>Summer Property Tax Collection</u>	<u>Winter Property Tax Collection</u>	<u>Total</u>
Assets					
Pooled cash and investments	\$ 443,059	\$ 5,715	\$ -	\$ -	\$ 448,774
Delinquent taxes receivable	-	2,884,728	-	-	2,884,728
	<u>\$ 443,059</u>	<u>\$ 2,890,443</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,333,502</u>
Liabilities					
Deposits and retentions payable	<u>\$ 443,059</u>	<u>\$ 2,890,443</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,333,502</u>

CITY OF BATTLE CREEK, MICHIGAN
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2005

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
<u>CONTRACTOR'S RETENTION</u>				
Assets				
Pooled cash and investments	\$ 606,117	\$ 489,445	\$ 652,503	\$ 443,059
Liabilities				
Deposits and retentions payable	\$ 606,117	\$ 489,445	\$ 652,503	\$ 443,059
<u>DELINQUENT PERSONAL PROPERTY TAXES</u>				
Assets				
Pooled cash and investments	\$ 14,992	\$ 410,454	\$ 419,731	\$ 5,715
Delinquent taxes receivable	2,525,769	935,630	576,671	2,884,728
	<u>\$ 2,540,761</u>	<u>\$ 1,346,084</u>	<u>\$ 996,402</u>	<u>\$ 2,890,443</u>
Liabilities				
Deposits and retentions payable	\$ 2,540,761	\$ 1,346,084	\$ 996,402	\$ 2,890,443
<u>SUMMER PROPERTY TAX COLLECTION</u>				
Assets				
Pooled cash and investments	\$ -	\$ 46,645,429	\$ 46,645,429	\$ -
Liabilities				
Deposits and retentions payable	\$ -	\$ 46,645,429	\$ 46,645,429	\$ -

Continued...

CITY OF BATTLE CREEK, MICHIGAN
Combining Statement of Changes in Assets and Liabilities
Agency Funds (Concluded)
For the Year Ended June 30, 2005

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>WINTER PROPERTY</u>				
<u>TAX COLLECTION</u>				
Assets				
Pooled cash and investments	\$ -	\$ 25,348,527	\$ 25,348,527	\$ -
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities				
Deposits and retentions payable	\$ -	\$ 25,348,527	\$ 25,348,527	\$ -
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
 <u>TOTALS - ALL AGENCY FUNDS</u>				
Assets				
Pooled cash and investments	\$ 621,109	\$ 72,893,855	\$ 73,066,190	\$ 448,774
Delinquent taxes receivable	2,525,769	935,630	576,671	2,884,728
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ 3,146,878	\$ 73,829,485	\$ 73,642,861	\$ 3,333,502
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities				
Deposits and retentions payable	\$ 3,146,878	\$ 73,829,485	\$ 73,642,861	\$ 3,333,502
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

**CAPITAL ASSETS USED IN THE
OPERATION OF GOVERNMENTAL FUNDS**

CITY OF BATTLE CREEK, MICHIGAN
Schedule of Capital Assets Used in the Operation of Governmental Funds
By Source
June 30, 2005

Capital assets used in the operation of governmental funds

Land	\$ 323,001
Land improvements	6,671,114
Buildings and improvements	48,533,507
Machinery and equipment	10,111,957
Vehicles	<u>2,879,917</u>
Total capital assets used in the operation of governmental funds	<u><u>\$ 68,519,496</u></u>

Investment in general capital assets by source:

Funding prior to July 1, 1998	\$ 52,619,170
Funding subsequent to July 1, 1998:	
General fund	2,422,515
Special revenue funds	1,185,283
Capital projects funds	12,234,349
Proprietary funds	<u>58,179</u>
Total investment in capital assets used in the operation of governmental funds	<u><u>\$ 68,519,496</u></u>

This schedule presents only the capital asset balances related to governmental funds, excluding infrastructure. Accordingly, the capital assets reported in the internal service funds are also excluded from the above amounts. The capital assets of the internal service funds along with infrastructure are included as governmental activities in the statement of net assets.

CITY OF BATTLE CREEK, MICHIGAN

**Schedule of Changes in Capital Assets Used in the Operation of Governmental Funds By Function and Activity
For the Year Ended June 30, 2005**

Function and Activity	Balance July 1, 2004	Additions	Deletions	Reclass	Balance June 30, 2005
Municipal buildings and facilities					
City Hall	\$ 4,403,647	\$ -	\$ -	\$ -	\$ 4,403,647
Public Safety Building	2,911,283	141,029	-	-	3,052,312
Fire Stations:					
Station #1	2,772,263	-	-	-	2,772,263
Station #2	619,737	-	-	-	619,737
Station #3	392,437	-	-	-	392,437
Station #4	891,856	-	-	-	891,856
Station #5	401,327	-	-	-	401,327
Station #6	556,449	-	-	-	556,449
Maintenance	336,029	-	-	-	336,029
Old Hall of Justice	362,160	-	-	-	362,160
DPW Field Services	472,019	-	-	-	472,019
DPW Building	63,163	-	-	-	63,163
DPW Salt Storage	62,176	-	-	-	62,176
DPW Building (new)	12,292,528	12,375	-	-	12,304,903
City Hall Parking Lot	197,489	-	-	-	197,489
Riverwalk Parking Lot	681,480	-	-	-	681,480
Evidence Storage Building	305,466	88,931	-	-	394,397
Other properties	735,698	82,332	-	-	818,030
Parks and recreational facilities					
Bailey Park	5,879,356	-	-	-	5,879,356
Linear Park	4,421,021	-	-	-	4,421,021
Kellogg Arena	13,404,955	-	-	-	13,404,955
Ice Rink	2,003,434	-	-	-	2,003,434
Full Blast Center	11,369,476	71,175	-	-	11,440,651
Other parks and recreational facilities	2,588,205	-	-	-	2,588,205
	<u>68,123,654</u>	<u>395,842</u>	<u>-</u>	<u>-</u>	<u>68,519,496</u>
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 68,123,654</u>	<u>\$ 395,842</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,519,496</u>

This schedule presents only the capital asset balances related to governmental funds, excluding infrastructure. Accordingly, the capital assets reported in the internal service funds are also excluded from the above amounts. The capital assets of the internal service funds along with infrastructure are included as governmental activities in the statement of net assets.

CITY OF BATTLE CREEK, MICHIGAN
Schedule of Capital Assets Used in the Operation of Governmental Funds By Function and Activity
June 30, 2005

Function and Activity	Land		Land Improvements		Buildings and Improvements		Machinery and Equipment		Vehicles		Total
Municipal buildings and facilities											
City Hall	\$ 3,267	\$ 27,566	\$ 1,120,196	\$ 3,252,618	\$ -	\$ -	\$ 4,403,647				
Public Safety Building	1,089	-	1,591,686	1,459,537	-	-	3,052,312				
Fire Stations:											
Station #1	2,644	-	1,327,398	39,834	1,402,387	-	2,772,263				
Station #2	1,763	-	299,184	16,830	301,960	-	619,737				
Station #3	1,763	-	209,434	15,741	165,499	-	392,437				
Station #4	1,763	-	248,125	103,697	538,271	-	891,856				
Station #5	1,763	-	89,562	11,502	298,500	-	401,327				
Station #6	1,763	-	392,798	-	161,888	-	556,449				
Maintenance	1,763	-	213,309	120,957	-	-	336,029				
Old Hall of Justice	1,089	-	361,071	-	-	-	362,160				
DPW Field Services	7,605	-	397,352	67,062	-	-	472,019				
DPW Building	-	-	63,163	-	-	-	63,163				
DPW Salt Storage	1,901	-	60,275	-	-	-	62,176				
DPW Building (new)	-	-	12,024,909	279,994	-	-	12,304,903				
City Hall Parking Lot	1,089	57,680	-	138,720	-	-	197,489				
Riverwalk Parking Lot	12,972	668,508	-	-	-	-	681,480				
Evidence Storage Building	-	-	373,887	20,510	-	-	394,397				
Other properties	108,025	-	498,963	199,630	11,412	-	818,030				
Parks and recreational facilities											
Bailey Park	17,102	1,496,339	3,342,243	1,023,672	-	-	5,879,356				
Linear Park	-	4,421,021	-	-	-	-	4,421,021				
Kellogg Arena	-	-	12,439,248	965,707	-	-	13,404,955				
Ice Rink	14,260	-	1,491,880	497,294	-	-	2,003,434				
Full Blast Center	37,786	-	10,612,456	790,409	-	-	11,440,651				
Other parks and recreational facilities	103,594	-	1,376,368	1,108,243	-	-	2,588,205				
	<u>\$ 323,001</u>	<u>\$ 6,671,114</u>	<u>\$ 48,533,507</u>	<u>\$ 10,111,957</u>	<u>\$ 2,879,917</u>	<u>\$ 68,519,496</u>					

This schedule presents only the capital asset balances related to governmental funds, excluding infrastructure. Accordingly, the capital assets reported in the internal service funds are also excluded from the above amounts. The capital assets of the internal service funds along with with infrastructure are included as governmental activities in the statement of net assets.

COMPARATIVE SCHEDULES OF
BONDED INDEBTEDNESS

CITY OF BATTLE CREEK, MICHIGAN
Comparative Schedule of Bonded Indebtedness - Primary Government
June 30, 2005

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Principal Outstanding</u>	
				<u>June 30, 2005</u>	<u>June 30, 2004</u>
<u>Enterprise Funds</u>					
<u>Revenue Bonds:</u>					
1993 Water Supply System Revenue Refunding Bonds					
Date of issue - October 21, 1993					
Amount of issue - \$5,750,000					
(maturities after 9/1/04 advance refunded)					
	4.700	9/1/2004	\$ 425,000	\$ -	\$ 425,000
1996 Water Supply System					
Date of issue - November 1, 1996					
Amount of issue - \$12,430,000					
(maturities after 9/1/04 advance refunded)					
	4.900	9/1/2004	\$ 275,000	\$ -	\$ 275,000
2001 Water & Wastewater System					
Date of issue- December 1, 2001					
Amount of issue- \$10,000,000					
	4.000	9/1/2004	\$ 380,000	\$ -	\$ 380,000
	4.000	9/1/2005	395,000	395,000	395,000
	4.125	9/1/2006	405,000	405,000	405,000
	4.500	9/1/2007	420,000	420,000	420,000
	4.500	9/1/2008	435,000	435,000	435,000
	4.500	9/1/2009	450,000	450,000	450,000
	4.500	9/1/2010	465,000	465,000	465,000
	4.500	9/1/2011	485,000	485,000	485,000
	4.500	9/1/2012	505,000	505,000	505,000
	4.500	9/1/2013	525,000	525,000	525,000
	4.500	9/1/2014	550,000	550,000	550,000
	4.500	9/1/2015	570,000	570,000	570,000
	4.500	9/1/2016	600,000	600,000	600,000
	4.500	9/1/2017	625,000	625,000	625,000
	4.500	9/1/2018	655,000	655,000	655,000
	4.500	9/1/2019	685,000	685,000	685,000
	4.625	9/1/2020	720,000	720,000	720,000
	4.625	9/1/2021	755,000	755,000	755,000
				<u>9,245,000</u>	<u>9,625,000</u>

Continued...

CITY OF BATTLE CREEK, MICHIGAN
Comparative Schedule of Bonded Indebtedness - Primary Government (Continued)
June 30, 2005

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Principal Outstanding</u>	
				<u>June 30, 2005</u>	<u>June 30, 2004</u>
<u>Enterprise Funds (continued)</u>					
<u>Revenue Bonds: (concluded)</u>					
2003 Water & Wastewater System Refunding					
Date of issue- March 27, 2003					
Amount of issue- \$10,795,000					
	2.000	9/1/2004	\$ 35,000	\$ -	\$ 35,000
	2.000	9/1/2005	320,000	320,000	320,000
	2.000	9/1/2006	330,000	330,000	330,000
	2.375	9/1/2007	495,000	495,000	495,000
	2.750	9/1/2008	505,000	505,000	505,000
	3.000	9/1/2009	520,000	520,000	520,000
	4.000	9/1/2010	535,000	535,000	535,000
	4.000	9/1/2011	1,170,000	1,170,000	1,170,000
	4.000	9/1/2012	1,225,000	1,225,000	1,225,000
	5.000	9/1/2013	1,285,000	1,285,000	1,285,000
	5.000	9/1/2014	1,360,000	1,360,000	1,360,000
	5.000	9/1/2015	1,440,000	1,440,000	1,440,000
	5.000	9/1/2016	1,510,000	1,510,000	1,510,000
				10,695,000	10,730,000
2004 Water and Wastewater System Revenue Refunding Bond:					
Date of issue - June 1, 2004					
Amount of issue - \$3,145,000					
	2.000	9/1/2005	\$ 485,000	\$ 485,000	\$ 485,000
	2.500	9/1/2006	500,000	500,000	500,000
	2.750	9/1/2007	510,000	510,000	510,000
	3.000	9/1/2008	525,000	525,000	525,000
	3.250	9/1/2009	550,000	550,000	550,000
	3.500	9/1/2010	575,000	575,000	575,000
				3,145,000	3,145,000
				\$ 23,085,000	\$ 24,200,000

Continued...

CITY OF BATTLE CREEK, MICHIGAN
Comparative Schedule of Bonded Indebtedness - Primary Government (Continued)
June 30, 2005

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Principal Outstanding</u>	
				<u>June 30, 2005</u>	<u>June 30, 2004</u>
<u>Enterprise Funds (concluded)</u>					
<u>General Obligation Bonds:</u>					
1998 Building Authority Bonds - Golf Course					
Date of issue - 12/1/98					
Amount of issue - \$3,500,000					
	4.200%	2/1/2004	\$ 130,000	\$ -	\$ 130,000
	4.200%	2/1/2005	135,000	135,000	135,000
	4.200%	2/1/2006	140,000	140,000	140,000
	4.200%	2/1/2007	145,000	145,000	145,000
	4.200%	2/1/2008	150,000	150,000	150,000
	4.200%	2/1/2009	160,000	160,000	160,000
	4.200%	2/1/2010	165,000	165,000	165,000
	4.250%	2/1/2011	170,000	170,000	170,000
	4.350%	2/1/2012	180,000	180,000	180,000
	4.400%	2/1/2013	190,000	190,000	190,000
	4.500%	2/1/2014	195,000	195,000	195,000
	4.500%	2/1/2015	205,000	205,000	205,000
	4.500%	2/1/2016	215,000	215,000	215,000
	4.500%	2/1/2017	225,000	225,000	225,000
	4.500%	2/1/2018	235,000	235,000	235,000
	4.500%	2/1/2019	245,000	245,000	245,000
	4.500%	2/1/2020	255,000	255,000	255,000
				3,010,000	3,140,000
1999 Building Authority Refunding Bonds - Airport Hangar					
Date of issue - 2/11/99					
Amount of issue - \$2,465,000					
	4.050	4/1/2005	\$ 175,000	\$ -	\$ 175,000
	4.150	4/1/2006	185,000	185,000	185,000
	4.250	4/1/2007	195,000	195,000	195,000
	4.300	4/1/2008	205,000	205,000	205,000
	4.400	4/1/2009	210,000	210,000	210,000
	4.500	4/1/2010	225,000	225,000	225,000
	4.600	4/1/2011	235,000	235,000	235,000
	4.700	4/1/2012	250,000	250,000	250,000
				1,505,000	1,680,000
Total Enterprise Funds general obligation bonds				\$ 4,515,000	\$ 4,820,000

Continued...

CITY OF BATTLE CREEK, MICHIGAN
Comparative Schedule of Bonded Indebtedness - Primary Government (Continued)
June 30, 2005

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Principal Outstanding</u>	
				<u>June 30, 2005</u>	<u>June 30, 2004</u>
<u>Governmental</u>					
<u>General Obligation Bonds:</u>					
1997 Refunding Bonds - Justice Center Complex					
Date of issue - 12/1/97					
Amount of issue - \$14,640,000					
	5.000	4/1/2005	\$ 775,000	\$ -	\$ 775,000
	5.000	4/1/2006	815,000	815,000	815,000
	5.000	4/1/2007	860,000	860,000	860,000
	5.000	4/1/2008	910,000	910,000	910,000
	4.950	4/1/2009	960,000	960,000	960,000
	5.050	4/1/2010	1,015,000	1,015,000	1,015,000
	5.150	4/1/2011	1,070,000	1,070,000	1,070,000
	5.125	4/1/2012	1,135,000	1,135,000	1,135,000
	5.125	4/1/2013	600,000	600,000	600,000
	5.125	4/1/2014	635,000	635,000	635,000
	5.000	4/1/2015	675,000	675,000	675,000
	5.000	4/1/2016	715,000	715,000	715,000
	5.000	4/1/2017	755,000	755,000	755,000
	5.000	4/1/2018	805,000	805,000	805,000
				10,950,000	11,725,000
2002 Bldg Auth- Limited Tax					
Date of issue- 3/1/02					
Amount of issue- \$10,000,000					
	4.500	3/1/2005	\$ 360,000	\$ -	\$ 360,000
	4.500	3/1/2006	365,000	365,000	365,000
	4.500	3/1/2007	380,000	380,000	380,000
	4.500	3/1/2008	395,000	395,000	395,000
	4.500	3/1/2009	410,000	410,000	410,000
	4.600	3/1/2010	425,000	425,000	425,000
	4.600	3/1/2011	445,000	445,000	445,000
	4.600	3/1/2012	465,000	465,000	465,000
	4.600	3/1/2013	485,000	485,000	485,000
	4.600	3/1/2014	505,000	505,000	505,000
	4.625	3/1/2015	530,000	530,000	530,000
	4.625	3/1/2016	555,000	555,000	555,000
	4.625	3/1/2017	585,000	585,000	585,000
	4.625	3/1/2018	610,000	610,000	610,000
	4.625	3/1/2019	645,000	645,000	645,000
	4.750	3/1/2020	675,000	675,000	675,000
	4.750	3/1/2021	710,000	710,000	710,000
	4.750	3/1/2022	750,000	750,000	750,000
				8,935,000	9,295,000

Continued...

CITY OF BATTLE CREEK, MICHIGAN
Comparative Schedule of Bonded Indebtedness - Primary Government (Continued)
June 30, 2005

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Principal Outstanding</u>	
				<u>June 30, 2005</u>	<u>June 30, 2004</u>
Governmental (continued)					
<u>General Obligation Bonds: (concluded)</u>					
2003 Michigan Transportation Fund bonds					
Date of issue - 6/30/03					
Amount of issue - \$3,070,000					
	2.000	3/1/2005	\$ 280,000	\$ -	\$ 280,000
	2.000	3/1/2006	285,000	285,000	285,000
	2.000	3/1/2007	290,000	290,000	290,000
	2.250	3/1/2008	295,000	295,000	295,000
	2.500	3/1/2009	305,000	305,000	305,000
	2.750	3/1/2010	310,000	310,000	310,000
	3.000	3/1/2011	325,000	325,000	325,000
	3.125	3/1/2012	335,000	335,000	335,000
	3.250	3/1/2013	345,000	345,000	345,000
				2,490,000	2,770,000
			Total Governmental general obligation bonds	\$ 22,375,000	\$ 23,790,000
1996 Special Assessment Bonds					
Date of issue - July 1, 1996					
Amount of issue - \$250,000					
	5.300	1/1/2005	\$ 25,000	\$ -	\$ 25,000
	5.350	1/1/2006	25,000	25,000	25,000
			Total Governmental special assessment bonds	\$ 25,000	\$ 50,000

Continued...

CITY OF BATTLE CREEK, MICHIGAN
Comparative Schedule of Bonded Indebtedness - Primary Government (Concluded)
June 30, 2005

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Principal Outstanding</u>	
				<u>June 30, 2005</u>	<u>June 30, 2004</u>
<u>Governmental (concluded)</u>					
<u>Installment Purchase Contracts:</u>					
1996 Fire Fighting Apparatus					
Date of issue - December 12, 1996					
Amount of issue - \$295,000					
	4.900	8/1/2004	\$ 35,000	\$ -	\$ 35,000
	5.000	8/1/2005	35,000	35,000	35,000
	5.100	8/1/2006	35,000	35,000	35,000
				70,000	105,000
1998 Fire Fighting Equipment					
Date of issue - December 15, 1998					
Amount of issue - \$995,000					
	3.650	1/1/2005	\$ 100,000	\$ -	\$ 100,000
	3.650	1/1/2006	105,000	105,000	105,000
	3.650	1/1/2007	110,000	110,000	110,000
	3.650	1/1/2008	115,000	115,000	115,000
	3.650	1/1/2009	120,000	120,000	120,000
				450,000	550,000
				\$ 520,000	\$ 655,000

CITY OF BATTLE CREEK, MICHIGAN
Comparative Schedule of Bonded Indebtedness - Component Units
June 30, 2005

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Principal outstanding	
				June 30, 2005	June 30, 2004
General Obligation Bonds:					
1997 G.O. Limited Tax Development Refunding Bond:					
Date of issue - 11/01/97					
Amount of issue - \$3,940,000					
	5.000	9/1/2004	\$ 295,000	\$ -	\$ 295,000
	5.000	9/1/2005	310,000	310,000	310,000
	5.000	9/1/2006	330,000	330,000	330,000
	5.000	9/1/2007	345,000	345,000	345,000
	5.000	9/1/2008	365,000	365,000	365,000
	5.000	9/1/2009	385,000	385,000	385,000
	5.000	9/1/2010	400,000	400,000	400,000
	5.000	9/1/2011	425,000	425,000	425,000
				\$ 2,560,000	\$ 2,855,000
Total general obligation bonds					
Revenue Bonds:					
1997 Development Refunding Bonds:					
Date of issue - 11/01/97					
Amount of issue - \$50,195,000					
(advance refunded 9/8/04)					
	4.750	5/1/2005	\$ 2,855,000	\$ -	\$ 2,855,000
	6.000	5/1/2006	2,870,000	-	2,870,000
	6.000	5/1/2007	2,215,000	-	2,215,000
	5.000	5/1/2008	2,715,000	-	2,715,000
	5.000	5/1/2009	2,785,000	-	2,785,000
	5.100	5/1/2010	2,950,000	-	2,950,000
	5.200	5/1/2011	3,110,000	-	3,110,000
	5.250	5/1/2012	3,760,000	-	3,760,000
	5.000	5/1/2013	3,690,000	-	3,690,000
	5.000	5/1/2014	3,605,000	-	3,605,000
	5.000	5/1/2015	3,520,000	-	3,520,000
	5.000	5/1/2016	3,420,000	-	3,420,000
	5.000	5/1/2017	3,325,000	-	3,325,000
	5.125	5/1/2018	3,245,000	-	3,245,000
	5.125	5/1/2019	3,145,000	-	3,145,000
	5.125	5/1/2020	610,000	-	610,000
				-	47,820,000

Continued...

CITY OF BATTLE CREEK, MICHIGAN
Comparative Schedule of Bonded Indebtedness - Component Units (Continued)
June 30, 2005

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Principal outstanding	
				June 30, 2005	June 30, 2004
Revenue Bonds: (concluded)					
1997 Development Refunding Bonds					
Date of issue - 11/01/97					
Amount of issue - \$9,040,000					
	4.750	5/1/2005	\$ 655,000	\$ -	\$ 655,000
	4.850	5/1/2006	670,000	670,000	670,000
	4.900	5/1/2007	675,000	675,000	675,000
	5.000	5/1/2008	695,000	695,000	695,000
	5.000	5/1/2009	730,000	730,000	730,000
	5.100	5/1/2010	740,000	740,000	740,000
	5.200	5/1/2011	775,000	775,000	775,000
	5.250	5/1/2012	800,000	800,000	800,000
	5.000	5/1/2013	840,000	840,000	840,000
	5.000	5/1/2014	770,000	770,000	770,000
	5.000	5/1/2015	755,000	755,000	755,000
	5.000	5/1/2016	545,000	545,000	545,000
				7,995,000	8,650,000
2004 Development Taxable Adjustable Rate Refunding Bonds					
Date of issue - 9/08/04					
Amount of issue - \$55,265,000					
	variable	11/1/2007	\$ 1,115,000	\$ 1,115,000	\$ -
	variable	5/1/2008	52,675,000	52,675,000	-
				53,790,000	-
				\$ 61,785,000	\$ 56,470,000

Continued...

CITY OF BATTLE CREEK, MICHIGAN
Comparative Schedule of Bonded Indebtedness - Component Units (Concluded)
June 30, 2005

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Principal outstanding</u>	
				<u>June 30, 2005</u>	<u>June 30, 2004</u>
Land Contract:					
1992 Land Contract - City of Battle Creek					
Date of issue - 08/18/92					
Amount of issue - \$8,690,000					
	9.000	6/30/2005	\$ 477,756	\$ -	\$ 477,756
	9.000	6/30/2006	520,755	520,755	520,755
	9.000	6/30/2007	567,622	567,622	567,622
	9.000	6/30/2008	618,708	618,708	618,708
	9.000	6/30/2009	674,392	674,392	674,392
	9.000	6/30/2010	735,087	735,087	735,087
	9.000	6/30/2011	801,245	801,245	801,245
	9.000	6/30/2012	873,352	873,352	873,352
				\$ 4,791,161	\$ 5,268,917
Total land contract				\$ 4,791,161	\$ 5,268,917

STATISTICAL SECTION

Table 1

CITY OF BATTLE CREEK, MICHIGAN
Government-wide Revenues by Source - Unaudited
Last Ten Fiscal Years Ended June 30 (1)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Program revenues										
Charges for services	\$ 31,917,872	\$ 31,100,093	\$ 30,937,498	\$ 28,536,907	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Operating grants/contributions	13,193,218	12,994,122	13,932,584	13,821,210	-	-	-	-	-	-
Capital grants/contributions	8,181,310	2,341,061	1,691,444	3,079,493	-	-	-	-	-	-
General revenues										
Property taxes	13,579,207	12,764,779	12,375,964	12,123,163	-	-	-	-	-	-
Income taxes	13,942,683	12,679,119	11,664,194	11,268,853	-	-	-	-	-	-
Grants and contributions not restricted to specific programs	6,291,976	6,358,441	7,077,172	7,748,643	-	-	-	-	-	-
Unrestricted investment earnings	2,095,273	1,463,544	4,561,471	3,255,995	-	-	-	-	-	-
Gain (loss) on sale of capital assets	-	-	554	202,937	-	-	-	-	-	-
	\$ 89,201,539	\$ 79,701,159	\$ 82,240,881	\$ 80,037,201	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Government-wide Expenses by Function - Unaudited
Last Ten Fiscal Years Ended June 30 (1)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
General government	\$ 8,251,417	\$ 8,285,242	\$ 8,990,324	\$ 10,112,306	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	24,912,304	25,996,442	24,497,814	22,079,365	-	-	-	-	-	-
Public works	2,425,660	2,263,112	2,612,061	2,147,763	-	-	-	-	-	-
Highways and streets	10,253,704	10,799,830	9,916,209	9,428,177	-	-	-	-	-	-
Parks and recreation	10,103,614	6,879,916	7,212,347	6,621,368	-	-	-	-	-	-
Community development	2,871,471	2,834,085	2,959,850	2,917,730	-	-	-	-	-	-
Interest on long-term debt	1,099,030	1,130,642	1,171,284	913,762	-	-	-	-	-	-
Wastewater	14,103,654	14,090,224	13,587,398	12,621,533	-	-	-	-	-	-
Water	7,225,258	7,196,409	7,112,747	7,066,844	-	-	-	-	-	-
Public transit	3,887,041	4,064,196	4,046,023	3,860,075	-	-	-	-	-	-
Solid waste collection	2,184,244	2,103,397	2,068,331	2,138,649	-	-	-	-	-	-
Other enterprise	4,539,296	4,536,649	3,944,100	3,509,952	-	-	-	-	-	-
	\$ 91,856,693	\$ 90,180,144	\$ 88,118,488	\$ 83,417,524	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(1) The City implemented GASB Statement No. 34 as of and for the fiscal year ended June 30, 2002. Accordingly, data prior to fiscal 2001-02 is not available.

CITY OF BATTLE CREEK, MICHIGAN
General Governmental Revenue by Source (1) - Unaudited
Last Ten Fiscal Years Ended June 30,

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Income taxes	\$ 13,942,683	\$ 12,679,119	\$ 11,664,194	\$ 11,268,853	\$ 12,816,147	\$ 13,175,710	\$ 13,106,057	\$ 12,773,076	\$ 11,425,562	\$ 11,644,431
Property taxes	13,591,892	12,790,559	12,458,369	12,124,480	12,062,629	11,580,675	11,339,692	11,030,082	10,908,757	10,428,331
Licenses and permits	1,166,882	1,020,676	1,106,290	1,139,760	1,159,829	1,102,395	1,149,311	909,554	761,952	687,049
Intergovernmental	16,267,323	16,029,559	17,264,191	16,936,207	15,994,041	14,881,845	15,036,558	15,217,030	13,637,893	13,277,220
Charges for services	4,659,697	5,057,747	5,078,612	4,998,638	3,399,540	3,406,102	3,199,131	2,810,421	816,319	661,839
Fines and forfeitures	213,890	227,640	269,554	271,352	314,206	291,643	331,828	353,938	357,636	272,044
Investment income	1,659,348	1,842,748	2,569,257	2,186,307	2,321,779	2,814,628	2,490,931	2,433,035	2,075,948	2,516,527
Other	5,672,269	3,649,270	3,798,753	3,817,817	3,540,096	2,992,563	4,160,814	4,039,367	4,120,003	3,509,023
	\$ 57,173,984	\$ 53,297,318	\$ 54,209,220	\$ 52,743,414	\$ 51,608,267	\$ 50,245,561	\$ 50,814,322	\$ 49,566,503	\$ 44,104,070	\$ 42,996,464

General Governmental Expenditures by Function (1) - Unaudited
Last Ten Fiscal Years Ended June 30,

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Current expenditures:										
General government	\$ 7,123,031	\$ 7,023,203	\$ 7,711,674	\$ 8,547,701	\$ 6,943,680	\$ 8,076,320	\$ 7,284,862	\$ 6,444,438	\$ 5,831,330	\$ 5,827,489
Public safety	25,239,131	25,598,627	24,293,085	22,028,962	21,080,470	21,389,862	20,815,711	20,188,292	18,101,786	16,887,510
Public works	2,068,952	1,956,879	2,113,230	2,084,977	2,003,783	2,185,530	2,162,846	2,436,406	1,722,350	1,678,406
Highway and streets	9,768,176	10,409,523	8,888,758	8,098,240	4,308,684	3,631,821	4,153,923	3,829,679	4,098,117	3,289,206
Parks and recreation	9,277,231	5,862,541	6,212,707	5,732,642	4,552,923	5,547,823	5,113,834	6,860,737	3,518,284	3,008,359
Community development	2,080,063	2,133,178	2,440,178	2,384,841	2,541,710	1,671,874	2,400,630	1,928,748	2,420,446	1,598,466
Unallocated	2,286,466	2,069,015	2,084,948	2,107,582	1,791,237	1,287,802	1,050,544	725,711	3,442,121	2,969,324
Capital outlay	92,816	595,425	8,673,391	3,349,551	125,943	847,075	729,289	1,191,917	503,310	893,880
Debt service:										
Principal retirement	1,575,000	1,535,000	1,205,000	1,040,000	1,196,000	1,428,000	1,911,454	1,678,331	1,642,884	1,343,850
Interest	1,121,701	1,161,539	1,187,343	759,139	782,931	922,237	1,145,775	1,105,816	1,245,466	1,319,867
	\$ 60,632,567	\$ 58,344,930	\$ 64,810,314	\$ 56,133,635	\$ 45,327,361	\$ 46,988,344	\$ 46,768,868	\$ 46,390,075	\$ 42,526,094	\$ 38,816,357

(1) Includes general, special revenue and debt service funds through June 30, 2001; all governmental funds thereafter.

Table 3

CITY OF BATTLE CREEK, MICHIGAN
Property Taxes Levied and Collected - Unaudited
Last Ten Fiscal Years

(1) Fiscal Year Ended June 30,	(2) Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	(3) Delinquent Tax Collections	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy
2005	\$ 18,605,060	\$ 17,672,508	94.99%	\$ 932,552	\$ 18,605,060	100.00%
2004	17,185,570	16,258,858	94.61%	926,712	17,185,570	100.00%
2003	16,268,282	15,315,963	94.15%	952,319	16,268,282	100.00%
2002	15,627,580	14,556,663	93.15%	1,070,917	15,627,580	100.00%
2001	14,444,440	13,472,398	93.27%	972,042	14,444,440	100.00%
2000	13,848,196	13,113,769	94.70%	734,427	13,848,196	100.00%
1999	13,053,529	12,112,586	92.79%	940,943	13,053,529	100.00%
1998	12,779,511	12,166,087	95.20%	613,424	12,779,511	100.00%
1997	12,092,972	11,509,315	95.17%	583,657	12,092,972	100.00%
1996	11,666,107	11,107,809	95.21%	558,291	11,666,100	100.00%

(1) Property taxes are levied July 1 of the current fiscal year based on taxable property values as of the preceding December 31. Unpaid property taxes become delinquent as of September 1 of the current fiscal year. The City's delinquent real property taxes are purchased by the Calhoun County Delinquent Tax Revolving Fund. Uncollected personal property taxes must be collected by the City Treasurer.

(2) Includes real and personal property taxes.

(3) Includes settlement from Calhoun County Delinquent Tax Revolving for purchase of delinquent real property taxes.

Table 4

**CITY OF BATTLE CREEK, MICHIGAN
Taxable Value of Property (1) - Unaudited
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Tax Year	Valued as of December 31,	Real Property	Personal Property	(2) Commercial Facilities	(2) Industrial Facilities	(2) Neighborhood Enterprise Zone	Total
2005	2004	2003	\$ 1,015,204,594	\$ 343,558,652	\$ -	\$ 154,053,988	\$ 876,253	\$ 1,513,693,487
2004	2003	2002	978,470,914	351,059,132	-	146,248,110	865,870	1,476,644,026
2003	2002	2001	925,948,123	329,676,688	-	185,519,689	878,061	1,442,022,561
2002	2001	2000	881,764,954	311,885,594	-	193,004,493	850,235	1,387,505,276
2001	2000	1999	822,394,550	289,680,550	-	240,160,900	812,450	1,353,048,450
2000	1999	1998	769,378,890	295,866,950	-	293,250,150	774,750	1,359,270,740
1999	1998	1997	729,698,620	268,354,400	-	348,992,425	687,925	1,347,733,370
1998	1997	1996	696,971,736	266,251,392	356,450	318,030,675	665,125	1,282,275,378
1997	1996	1995	662,952,216	234,136,300	483,175	303,273,175	508,375	1,201,353,241
1996	1995	1994	641,680,827	216,912,200	1,469,805	316,448,775	434,305	1,176,945,912

(1) Property taxes are levied July 1 of the succeeding fiscal year based on assessed values as of December 31.

(2) Represents current values of tax abated properties.

Table 5

CITY OF BATTLE CREEK, MICHIGAN
Ad Valorem Property Values by Use - Unaudited
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Tax Year	Valued as of December 31,	State Equalized Values					Total
			Agriculture	Commercial	Industrial	Residential	Personal	
2005	2004	2003	\$ 4,201,519	\$ 269,706,394	\$ 138,124,983	\$ 791,562,049	\$ 345,022,818	\$ 1,548,617,763
2004	2003	2002	3,537,271	255,680,235	133,252,535	764,461,270	351,059,132	1,507,990,443
2003	2002	2001	3,150,902	244,155,529	117,325,103	723,350,246	329,701,700	1,417,683,480
2002	2001	2000	3,377,081	240,132,810	110,100,490	688,337,470	311,885,594	1,353,833,445
2001	2000	1999	3,056,150	229,154,450	94,153,850	639,225,300	289,680,550	1,255,270,300
2000	1999	1998	2,735,000	208,581,350	93,033,350	589,502,553	297,740,200	1,191,592,453
1999	1998	1997	2,397,800	196,880,550	69,600,650	548,963,328	268,354,400	1,086,196,728
1998	1997	1996	2,507,700	182,264,550	67,877,350	501,478,060	266,251,392	1,020,379,052
1997	1996	1995	1,896,050	166,599,900	67,078,050	461,901,650	234,136,300	931,611,950
1996	1995	1994	1,981,100	162,819,300	65,489,900	435,886,670	216,912,200	883,089,170

CITY OF BATTLE CREEK, MICHIGAN
Property Tax Rates (1) - Unaudited
Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Levied July 1,	City of Battle Creek		Battle Creek Public Schools	State Education Tax	Calhoun Intermediate School District		Kellogg Community College	District Library	County	Totals	
		Operating	Debt			Pension	Non-Homestead				Homestead	
2005	2004	10.4530	-	2.5470	6.0000	6.2057	6.2057	3.7106	2.0000	6.3713	57.2876	39.2876
2004	2003	10.1430	-	2.8570	5.0000	6.2057	6.2057	3.7106	2.0000	6.6513	56.5676	38.5676
2003	2002	11.3200	-	1.6800	6.0000	6.0674	6.0674	3.7106	2.0000	6.6713	57.4493	39.4493
2002	2001	11.1230	-	1.8770	6.0000	6.0694	6.0694	3.7106	2.0000	7.1961	57.9761	39.9761
2001	2000	10.9120	0.2270	1.8610	6.0000	6.0760	6.0760	3.7128	2.0000	7.2129	58.0017	40.0017
2000	1999	10.2470	0.4030	2.3500	6.0000	6.1022	6.1022	3.7128	2.0000	7.2129	58.0279	40.0279
1999	1998	9.8760	0.3020	2.8530	6.0000	6.1022	6.1022	3.7239	1.6000	7.2319	57.6890	39.6890
1998	1997	9.8760	0.4230	2.9680	6.0000	6.1022	6.1022	2.8739	1.6000	7.3819	57.2250	39.2250
1997	1996	9.8760	0.4750	3.1450	6.0000	6.1022	6.1022	2.8739	1.6000	7.4119	56.4840	38.4840
1996	1995	9.8760	0.2510	3.0470	6.0000	6.1022	6.1022	2.8739	1.6000	6.6619	55.4120	37.4120

(2)

(1) Per \$1,000 of equalized value.

(2) Approximately 2/3 of the City's taxable value is contained in Battle Creek School District. Four other school districts overlap into the geographical boundaries of the City. The millage rates for these other school districts are approximately equivalent to Battle Creek School District's.

(2) Passage of Proposal A in 1994 reduced operating millage for Michigan public schools to 18 mills for non-homestead properties and exempted homestead properties. Both homestead and non-homestead properties are subject to the State Education Tax of 6 mills as well as any debt service levy.

Table 7

CITY OF BATTLE CREEK, MICHIGAN
Ratio of Net General Bonded Debt to Assessed Value
and Net Bonded Debt Per Capita - Unaudited
Last Ten Fiscal Years

Fiscal Year Ended June 30,	(1) Population	(2) Taxable Value	(3) Gross Bonded Debt	(4) Less Debt Service Fund Amounts	(5) Less Self- Supporting Portions	Net Bonded Debt	Ratio of	
							Net Bonded Debt per Capita	Net Bonded Debt to Taxable Value
2005	53,364	\$ 1,513,693,487	\$ 26,890,000	\$ 4,403	\$ 4,515,000	\$ 22,370,597	1.48%	\$ 419
2004	53,364	1,476,644,026	28,610,000	4,585	4,820,000	23,785,415	1.61%	446
2003	53,364	1,442,022,561	30,290,000	4,452	5,115,000	25,170,548	1.75%	472
2002	53,364	1,387,505,276	29,095,000	4,662	5,935,000	23,155,338	1.67%	434
2001	53,364	1,353,048,450	20,605,000	4,651	6,785,000	13,815,349	1.02%	259
2000	53,699	1,359,270,740	22,015,000	17,236	7,309,000	14,688,764	1.08%	274
1999	53,496	1,347,733,370	23,825,000	17,447	8,091,000	15,716,553	1.17%	294
1998	53,496	1,282,275,378	22,855,000	17,654	5,714,458	17,122,888	1.34%	320
1997	53,069	1,201,353,241	25,170,000	16,140	7,467,493	17,686,367	1.47%	333
1996	52,976	1,176,945,912	28,215,000	20,052	9,216,609	18,978,339	1.61%	358

(1) From U.S. Census Bureau.

(2) From Table 4.

(3) Amounts include general obligation bonds of the primary government.

(4) Represents amounts available for repayment of general obligation bonds.

(5) Represents amounts, if any, that are being repaid from proprietary funds.

Table 8

CITY OF BATTLE CREEK, MICHIGAN
Computation of Legal Debt Margin - Unaudited
June 30, 2005

State Equalized Value - ad valorem property		\$ 1,507,990,443
State Equalized Value - tax abated property:		
Industrial Facilities		147,597,778
Neighborhood Enterprise Zone		<u>867,332</u>
Total State Equalized Value (SEV)		<u><u>\$ 1,656,455,553</u></u>
Legal debt limit (10% of SEV)		\$ 165,645,555
Outstanding debt subject to limitation	\$ 115,685,000	
Less exempt obligations	<u>(33,670,000)</u>	
		<u>82,015,000</u>
Legal debt margin		<u><u>\$ 83,630,555</u></u>
Debt subject to limitation as a percent of SEV		<u><u>4.95%</u></u>

Table 9

**CITY OF BATTLE CREEK, MICHIGAN
Computation of Direct and Overlapping Bonded Debt - Unaudited**

	(1) Net Debt Outstanding	Percentage Applicable to City of Battle Creek	Amount Applicable to City of Battle Creek
Direct:			
City issued bonded debt (2)	\$ 22,760,000	100.00%	\$ 22,760,000
Overlapping:			
Calhoun County	555,000	42.62%	236,541
Climax-Scotts School District	8,625,752	3.92%	338,129
Lakeview School District	53,265,000	100.00%	53,265,000
Pennfield School District	35,975,000	2.52%	906,570
Harper Creek School District	54,263,708	0.67%	363,567
Kellogg Community College	14,550,000	42.63%	6,202,665
Willard District Library	2,575,000	63.78%	1,642,335
			<u>62,954,807</u>
Total direct and overlapping debt			<u><u>\$ 85,714,807</u></u>

(1) Excludes self-supporting debt.

(2) Excludes discretely presented component unit.

Source: City of Battle Creek and Municipal Advisory Council of Michigan.

Table 10

CITY OF BATTLE CREEK, MICHIGAN
Ratio of Annual Debt Service Expenditures
for General Bonded Debt to Total
General Governmental Expenditures - Unaudited
Last Ten Fiscal Years

Fiscal Year Ended June 30,	(1) Annual Debt Service	(2) Total General Governmental Expenditures	Ratio
2005	\$ 2,156,125	\$ 60,632,567	3.56%
2004	2,158,489	58,344,930	3.70%
2003	2,147,097	64,810,314	3.31%
2002	1,355,357	56,133,635	2.41%
2001	1,630,800	45,327,361	3.60%
2000	1,844,834	46,988,344	3.93%
1999	2,073,229	46,768,868	4.43%
1998	1,942,864	46,390,075	4.19%
1997	1,982,683	42,526,094	4.66%
1996	1,768,720	38,816,357	4.56%

(1) Represents amounts on general obligation bonds of the primary government.

(2) Includes general, special revenue and debt service funds through 6/30/01;
includes all governmental funds thereafter.

Table 11

CITY OF BATTLE CREEK, MICHIGAN
Twenty Largest Property Taxpayers - Unaudited
June 30, 2005

Taxpayer	Principal Product or Service	(1) Total Taxable Valuation	Percentage of Total Taxable Valuation
Kellogg Company	Breakfast foods	\$ 148,165,319	9.79%
Denso Manufacturing Michigan, Inc.	Automotive parts	99,328,023	6.56%
Kraft Foods, Post Division	Breakfast foods	54,068,016	3.57%
Technical Auto Parts	Automotive parts	32,545,640	2.15%
II Stanley Company, Inc	Automotive parts	23,077,305	1.52%
Consumers Energy	Electric utility	17,723,359	1.17%
Ralcorp Holdings, Inc	Breakfast foods	17,123,381	1.13%
TRMI INC (FKA TokaiRika USA Inc.)	Automotive Parts	14,270,037	0.94%
Yorozu Automotive North America	Automotive parts	13,011,447	0.86%
Semco Energy, Inc.	Natural gas utility	12,393,526	0.82%
Lakeview Delaware	Regional shopping mall	11,895,347	0.79%
Michigan Carton & Paperboard	Paper mill	10,551,530	0.70%
New AMI Inc (AKA Asmo)	Automotive parts	8,476,237	0.56%
EPI Printers, Inc.	Printing	8,129,838	0.54%
Waldorf Corporation	Paper mill	7,925,450	0.52%
Hi-Lex Corporation	Mechanical control cables	7,370,065	0.49%
Cello-Foil Products Inc.	Packaging	6,940,129	0.46%
System Products Corp.	Plastic moldings	6,699,410	0.44%
Regency Oakbrook LTD	Apartment complex	6,384,032	0.42%
Johnson Control (AKA American Fibril Inc.)		6,289,281	0.42%
		<u>\$ 512,367,372</u>	<u>34.70%</u>

(1) Includes ad valorem and tax abated properties.

SOURCE: City of Battle Creek

Table 12

CITY OF BATTLE CREEK, MICHIGAN
Thirty Largest Employers - Unaudited
June 30, 2005

Company	Principal Product or Service	Number of Employees
Denso Manufacturing Michigan, Inc.	Automotive parts	2,900
Kellogg Company	Breakfast foods	1,700
Federal Center	Government	1,600
Battle Creek Health System	Medical services	1,500
Battle Creek Public Schools	Education (K-12)	1,250
Veterans Administration Medical Center	Medical services	1,150
Kraft Foods, Post Division	Breakfast foods	780
II Stanley Company, Inc	Automotive parts	750
Meijer Inc.	Retail	700
Felpausch Food Centers	Retail	700
City of Battle Creek	Government	650
Duncan Aviation	Aircraft refurbishing	580
TRMI INC	Electronic switches	560
Calhoun County	Government	520
Kellogg Community College	Higher education	500
Canadian National	Railroad	500
Lakeview School District	Education (K-12)	485
Technical Auto Parts	Automotive parts	425
EPI Printers, Inc.	Printing	400
Koyo Corporation	Metal sales and fabrication	390
Hi-Lex Corporation	Mechanical control cables	380
Yorozu Automotive North America	Automotive parts	375
Michigan Air National Guard	Government	300
System Products Corporation	Automotive parts	280
Harper Creek Community Schools	Education (K-12)	264
United Steel & Wire	Carts/Rack Manufacturing	250
Yorozu Automotive North America	Automotive parts	240
WKKF	Foundation	220
Pennfield Schools	Education	220
Rock-Tenn Co.	Paper Products	200

SOURCE: Battle Creek Unlimited

Table 13

CITY OF BATTLE CREEK, MICHIGAN
Water and Wastewater System Revenue Bond Coverage - Unaudited
Last Ten Fiscal Years

Fiscal Year Ended June 30,	(1) Gross Revenue	(2) Operating Expenses	Net Revenue Available for Debt Service	(3) Total Debt Service Requirement	Coverage
2005	\$ 18,128,410	\$ 14,075,713	\$ 4,052,697	\$ 2,039,225	1.99
2004	16,753,042	13,741,506	3,011,536	1,575,436	1.91
2003	18,914,844	13,409,060	5,505,784	1,447,312	3.80
2002 (5)	18,059,421	12,834,705	5,224,716	1,452,305	3.60
2001	6,285,322	4,639,956	1,645,366	1,428,910	1.15
2000	6,385,001	5,203,838	1,181,163	1,437,565	0.82
1999	6,234,314	5,083,581	1,150,733	1,299,578	0.89
1998	6,424,672	4,321,163	2,103,509	1,278,816	1.64
1997	6,088,858	4,117,807	1,971,051	830,258	2.37
1996	5,009,441	3,528,326	1,481,115	602,832	2.46

(1) Includes operating revenue, investment income and transfers from tax increment financing authorities. Such transfers will continue through the year ended June 30, 2011.

(2) Excludes depreciation expense.

(3) Includes revenue bonds only.

(4) Represents the point in time at which payments began on the 1993 Revenue Bonds and the noncallable portion of the 1990 Revenue Bonds.

(5) Effective 7-1-01, the water and wastewater systems were legally combined; therefore, amounts prior to 2001-02 are for the water fund only.

Table 14

CITY OF BATTLE CREEK, MICHIGAN
Number of Water System Customers by User Class - Unaudited
Last Ten Fiscal Years

Type of User	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
In-City										
Residential	15,144	15,123	15,173	15,164	15,150	15,132	15,004	15,001	14,901	14,959
Commercial (1)	1,753	1,792	1,770	1,759	1,747	1,749	1,762	1,777	1,755	1,745
Industrial	163	161	165	166	157	159	159	155	156	162
	17,060	17,076	17,108	17,089	17,054	17,040	16,925	16,933	16,812	16,866
Outside City										
Emmett Township	765	763	761	746	744	705	701	708	706	710
Bedford Township (2)	512	434	425	432	435	437	435	37	33	31
Springfield City	Bulk	Bulk	Bulk	Bulk	Bulk	Bulk	Bulk	Bulk	Bulk	Bulk
Pennfield Township	Bulk	Bulk	Bulk	Bulk	Bulk	Bulk	Bulk	Bulk	Bulk	Bulk
	1,277	1,197	1,186	1,178	1,179	1,142	1,136	745	739	741
Totals	18,337	18,273	18,294	18,267	18,233	18,182	18,061	17,678	17,551	17,607

(1) This class includes commercial and governmental users.

(2) Increase in 1999 applicable to Orchard Park addition.

Table 15

CITY OF BATTLE CREEK, MICHIGAN
Water System Customers by User Class as a Percent of Total - Unaudited
Last Ten Fiscal Years

Type of User	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
In-City										
Residential	82.59%	82.76%	82.94%	83.01%	83.09%	83.23%	83.07%	84.86%	84.90%	84.96%
Commerical	9.56%	9.81%	9.68%	9.63%	9.58%	9.62%	9.76%	10.05%	10.00%	9.91%
Industrial	0.89%	0.88%	0.90%	0.91%	0.86%	0.87%	0.88%	0.88%	0.89%	0.92%
	93.04%	93.45%	93.52%	93.55%	93.53%	93.72%	93.71%	95.79%	95.79%	95.79%
Outside City										
Emmett Township	4.17%	4.18%	4.16%	4.08%	4.08%	3.88%	3.88%	4.00%	4.02%	4.03%
Bedford Township	2.79%	2.38%	2.32%	2.36%	2.39%	2.40%	2.41%	0.21%	0.19%	0.18%
Springfield City	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Pennfield Township	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	6.96%	6.55%	6.48%	6.45%	6.47%	6.28%	6.29%	4.21%	4.21%	4.21%
Totals	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Table 16

CITY OF BATTLE CREEK, MICHIGAN
Water System Revenues by User Class - Unaudited
Last Ten Fiscal Years

Type of User	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
In-City										
Residential	\$2,988,206	\$2,778,890	\$2,756,443	\$2,533,362	\$2,231,146	\$2,094,201	\$2,016,205	\$2,024,363	\$1,982,567	\$1,537,278
Commercial (1)	2,107,130	2,029,994	1,900,080	1,843,640	1,624,460	1,601,871	1,440,049	1,574,481	1,440,832	1,302,480
Industrial	1,534,992	1,569,500	1,620,398	1,427,598	1,312,635	1,401,659	1,526,993	1,694,215	1,482,808	1,235,646
	6,630,328	6,378,384	6,276,921	5,804,600	5,168,241	5,097,731	4,983,247	5,293,059	4,906,207	4,075,404
Outside City										
Emmett Township (2)	-	-	-	-	-	90,242	246,737	251,065	203,017	206,334
Bedford Township (2)	-	-	-	-	-	37,527	46,608	6,564	5,708	4,106
Springfield City	257,382	230,142	309,120	255,990	220,169	280,166	242,485	201,044	240,309	115,529
Pennfield Township	25,819	25,272	25,724	22,819	22,461	25,736	34,487	53,477	56,395	36,921
	283,201	255,414	334,844	278,809	242,630	433,671	570,317	512,150	505,429	362,890
Totals	\$6,913,529	\$6,633,798	\$6,611,765	\$6,083,409	\$5,410,871	\$5,531,402	\$5,553,564	\$5,805,209	\$5,411,636	\$4,438,294

(1) This class includes commercial and governmental users.

(2) Effective 11/1/99, Emmett and Bedford Townships residential revenues are included above in In-City Residential.

Table 17

CITY OF BATTLE CREEK, MICHIGAN
Water System Revenues by User Class as a Percent of Total Revenue - Unaudited
Last Ten Fiscal Years

Type of User	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
In-City										
Residential	43.22%	41.89%	41.69%	41.64%	41.23%	37.86%	36.30%	34.87%	36.64%	34.64%
Commercial (1)	30.48%	30.60%	28.74%	30.31%	30.02%	28.96%	25.93%	27.12%	26.62%	29.35%
Industrial	22.20%	23.66%	24.51%	23.47%	24.26%	25.34%	27.50%	29.18%	27.40%	27.84%
	95.90%	96.15%	94.94%	95.42%	95.52%	92.16%	89.73%	91.18%	90.66%	91.82%
Outside City										
Emmett Township (2)	0.00%	0.00%	0.00%	0.00%	0.00%	1.63%	4.44%	4.32%	3.75%	4.65%
Bedford Township (2)	0.00%	0.00%	0.00%	0.00%	0.00%	0.68%	0.84%	0.11%	0.11%	0.09%
Springfield City	3.72%	3.47%	4.68%	4.21%	4.07%	5.07%	4.37%	3.46%	4.44%	2.60%
Pennfield Township	0.37%	0.38%	0.39%	0.38%	0.42%	0.47%	0.62%	0.92%	1.04%	0.83%
	4.10%	3.85%	5.06%	4.58%	4.48%	7.84%	10.27%	8.82%	9.34%	8.18%
Totals	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

(1) This class includes commercial and governmental users.

(2) Effective 11/1/99, Emmett and Bedford Townships residential revenues are included above in In-City Residential.

Table 18

CITY OF BATTLE CREEK, MICHIGAN
Water System Sales Volume by User Class (Cubic Feet) - Unaudited
Last Ten Fiscal Years

Type of User	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
In-City										
Residential	135,354,475	137,407,639	147,477,690	143,389,790	145,687,089	150,082,516	151,173,776	144,442,234	143,915,251	137,682,987
Commercial (1)	108,753,474	112,195,110	121,130,023	114,554,365	115,717,957	125,688,340	130,291,866	123,655,135	124,884,532	127,552,745
Industrial	121,679,350	130,801,446	145,025,970	133,214,879	143,979,786	190,579,000	203,600,381	215,465,319	208,973,000	198,642,903
	365,787,299	380,404,195	413,633,683	391,159,034	405,384,832	466,349,856	485,066,023	483,562,688	477,772,783	463,878,635
Outside City										
Emmett Township	4,195,427	15,309,213	15,601,835	15,683,365	13,664,074	13,313,430	13,132,364	13,402,305	13,583,653	13,050,243
Bedford Township	4,560,943	3,778,467	3,640,246	3,868,998	3,808,655	3,562,447	3,522,107	306,639	267,159	202,066
Springfield City	21,277,255	21,227,255	21,616,262	20,611,891	21,051,942	30,787,488	26,646,743	22,092,761	26,440,601	24,068,484
Pennfield Township	3,165,700	3,099,600	3,418,800	2,882,400	2,911,900	3,431,500	4,598,300	7,130,229	7,519,281	7,625,181
	33,199,325	43,414,555	44,277,143	43,046,654	41,436,571	51,094,865	47,899,514	42,931,934	47,810,694	44,945,974
Totals	398,986,624	423,818,730	457,910,826	434,205,688	446,821,403	517,444,721	532,965,537	526,494,622	525,583,477	508,824,609

(1) This class includes commercial and governmental users.

Table 19

CITY OF BATTLE CREEK, MICHIGAN
Water System Sales Volume by User Class as a Percent of Total Sales (Cubic Feet) - Unaudited
Last Ten Fiscal Years

Type of User	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
In-City										
Residential	33.92%	32.42%	32.21%	33.02%	32.61%	29.00%	28.36%	27.43%	27.38%	27.06%
Commercial	27.26%	26.47%	26.45%	26.38%	25.90%	24.29%	24.45%	23.49%	23.76%	25.07%
Industrial	30.50%	30.86%	31.67%	30.68%	32.22%	36.83%	38.20%	40.92%	39.76%	39.04%
	91.68%	89.76%	90.33%	90.09%	90.73%	90.13%	91.01%	91.85%	90.90%	91.17%
Outside City										
Emmett Township	1.05%	3.61%	3.41%	3.61%	3.06%	2.57%	2.46%	2.55%	2.58%	2.56%
Bedford Township	1.14%	0.89%	0.79%	0.89%	0.85%	0.69%	0.66%	0.06%	0.05%	0.04%
Springfield City	5.33%	5.01%	4.72%	4.75%	4.71%	5.95%	5.00%	4.20%	5.03%	4.73%
Pennfield Township	0.79%	0.73%	0.75%	0.66%	0.65%	0.66%	0.86%	1.35%	1.43%	1.50%
	8.32%	10.24%	9.67%	9.91%	9.27%	9.87%	8.99%	8.15%	9.10%	8.83%
Totals	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Table 20

**CITY OF BATTLE CREEK, MICHIGAN
Water Pumped and Sold (Cubic Feet) - Unaudited
Last Ten Fiscal Years**

Fiscal Year Ended June 30	Water Pumped	Percent Increase (Decrease)	Water Sold	Percent Increase (Decrease)	Water Sold as a % of Water Pumped
2005	505,578,877	-1.92%	465,858,819	9.92%	92.14%
2004	515,498,663	-5.79%	423,818,730	-7.45%	82.22%
2003	547,204,560	2.25%	457,910,826	5.46%	83.68%
2002	535,185,830	-1.60%	434,205,688	-2.82%	81.13%
2001	543,913,102	-12.02%	446,821,403	-16.16%	82.15%
2000	593,451,872	-8.06%	517,444,721	-1.72%	87.19%
1999	618,247,326	2.17%	532,965,537	1.40%	86.21%
1998	645,486,631	6.67%	526,494,622	0.17%	81.57%
1997	605,137,701	4.82%	525,583,477	3.29%	86.85%
1996	577,338,235	0.19%	508,824,609	-3.11%	88.13%

Table 21

CITY OF BATTLE CREEK, MICHIGAN
Water Revenue and Usage - Major Customers - Unaudited
Fiscal Year Ended June 30, 2005

Company	Product or Service	Consumption (Cu. Ft.)	% of Total	Revenue	% of Total
Kellogg (Plant)	Breakfast foods	37,056,200	8.74%	\$ 433,558	7.13%
Kraft Foods, Post Division	Breakfast foods	29,815,995	7.04%	348,847	5.73%
Denso Manufacturing Michigan, Inc.	Auto Parts	11,234,999	2.65%	40,490	0.67%
Battle Creek Health System	Medical services	5,561,000	1.31%	59,085	0.97%
Cello-Foil Products Inc.	Food Packaging	2,946,405	0.70%	35,383	0.58%
Johnson Controls	Automotive parts	1,510,342	0.36%	13,089	0.22%
City of Battle Creek - WWTP	Government	4,015,499	0.95%	49,273	0.81%
Michigan Carton & Paperboard	Paper mill	10,350,079	2.44%	125,718	2.07%
Community Hospital	Hospital	3,392,888	0.80%	50,790	0.83%
Ralcorp Holdings, Inc	Breakfast foods	4,564,800	1.08%	42,528	0.70%
Kellogg (Research)	Breakfast Cereal	2,955,400	0.70%	41,286	0.68%
Rock-Tenn/Waldorf Corp	Paperboard	2,548,000	0.60%	35,195	0.58%
US Gov't Federal Center	Government	2,478,580	0.58%	37,272	0.61%
Calhoun County Justice Center	Jail/Courts	2,366,200	0.56%	31,203	0.51%
VA Laundry	Laundry	1,960,300	0.46%	24,844	0.41%
Rolling Hills Mobile Home Park	Mobile Homes	2,059,500	0.49%	27,953	0.46%
Kellogg (Headquarters)	Breakfast Cereal	1,340,500	0.32%	19,043	0.31%
McCamly Plaza Hotel	Hotel	1,449,100	0.34%	22,095	0.36%
II Stanley	Automotive Parts	1,538,400	0.36%	24,151	0.40%
Gallaher Laundry	Laundry	1,175,700	0.28%	15,931	0.26%
Totals		130,319,887	30.75%	\$ 1,477,734	24.29%

Table 22

CITY OF BATTLE CREEK, MICHIGAN
Current Water Rates (Effective July 1, 2001) - Unaudited

Monthly Water Commodity Charge (1) (Fiscal Year Ending June 30)						
	2002	2003	2004	2005	2006	
<u>Inside City</u>						
0 to 4,410,000	\$ 0.96	\$ 1.01	\$ 1.06	\$ 1.11	\$ 1.17	
4,410,001 to 11,000,000	0.47	0.49	0.51	0.54	0.57	
Over 11,000,000	0.70	0.74	0.78	0.82	0.86	
<u>Outside City (bulk rate)</u>						
Pennfield Township	0.80	0.81	0.82	0.83	0.84	
Springfield City (4)	1.37	1.37	1.37	1.37	1.37	

Monthly Readiness-to-Serve Charge (2) (Fiscal Year Ending June 30)						
	2002	2003	2004	2005	2006	
<u>Inside City</u>						
3/4" or less	\$ 5.52	\$ 5.80	\$ 6.09	\$ 6.39	\$ 6.71	
1"	9.38	9.86	10.35	10.86	11.41	
1.5"	19.32	20.30	21.32	22.37	27.49	
2"	36.98	38.86	40.80	42.81	44.96	
3"	82.80	87.00	91.35	95.85	100.65	
4"	149.04	156.60	164.43	172.53	181.17	
6"	331.20	348.00	365.40	383.40	402.60	
8"	552.00	580.00	609.00	639.00	671.00	
10"	910.80	957.00	1,004.85	1,054.35	1,107.15	
12" (5)						

Monthly Fire Sprinkler Charges (3) (Fiscal Year Ending June 30)						
	2002	2003	2004	2005	2006	
<u>Inside City</u>						
2"	\$ 4.13	\$ 4.33	\$ 4.55	\$ 4.78	\$ 5.01	
3"	6.75	7.09	7.44	7.81	8.20	
4"	9.75	10.24	10.75	11.29	11.85	
6"	18.00	18.90	19.85	20.84	21.88	
8"	33.00	34.65	36.38	38.20	40.11	
10"	49.50	51.98	54.57	57.30	60.17	

(1) Rate per 100 cubic feet.

(2) Rate based on meter size; Outside City rates are set by contract.

(3) Rate based on connection size; Outside City rates are set by contract.

(4) Currently in negotiations.

(5) To be calculated at time of permit.

Table 23

CITY OF BATTLE CREEK, MICHIGAN
Number of Wastewater System Customers by User Class - Unaudited
Last Ten Fiscal Years

Type of User	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
In-City										
Residential	16,296	16,288	16,304	16,382	16,383	16,388	16,389	16,408	14,901	14,959
Commercial (1)	1,748	1,744	1,753	1,760	1,740	1,748	1,758	1,766	1,755	1,745
Industrial	147	145	142	141	144	145	144	143	156	162
	18,191	18,177	18,199	18,283	18,267	18,281	18,291	18,317	16,812	16,866
Outside City										
Emmett Township	1,774	1,779	1,781	1,740	1,708	1,696	1,700	1,697	706	710
Bedford Township (2)	563	565	559	564	564	570	577	23	33	31
Springfield City	Bulk	Bulk	Bulk	Bulk	Bulk	Bulk	Bulk	Bulk	Bulk	Bulk
Pennfield Township	Bulk	Bulk	Bulk	Bulk	Bulk	Bulk	Bulk	Bulk	Bulk	Bulk
	2,337	2,344	2,340	2,304	2,272	2,266	2,277	1,720	739	741
Totals	20,528	20,521	20,539	20,587	20,539	20,547	20,568	20,037	17,551	17,607

(1) This class includes commercial and governmental users.

(2) Increase in 1999 applicable to Orchard Park addition.

Table 24

CITY OF BATTLE CREEK, MICHIGAN
Wastewater System Customers by User Class as a Percent of Total - Unaudited
Last Ten Fiscal Years Ended June 30, 2005

Type of User	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
In-City										
Residential	79.38%	79.37%	79.38%	79.57%	79.77%	79.76%	79.68%	81.89%	84.90%	84.96%
Commerical	8.52%	8.50%	8.53%	8.55%	8.47%	8.51%	8.55%	8.81%	10.00%	9.91%
Industrial	0.72%	0.71%	0.69%	0.68%	0.70%	0.71%	0.70%	0.71%	0.89%	0.92%
	88.62%	88.58%	88.61%	88.81%	88.94%	88.97%	88.93%	91.42%	95.79%	95.79%
Outside City										
Emmett Township	8.64%	8.67%	8.67%	8.45%	8.32%	8.25%	8.27%	8.47%	4.02%	4.03%
Bedford Township	2.74%	2.75%	2.72%	2.74%	2.75%	2.77%	2.81%	0.11%	0.19%	0.18%
Springfield City	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Pennfield Township	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	11.38%	11.42%	11.39%	11.19%	11.06%	11.03%	11.07%	8.58%	4.21%	4.21%
Totals	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Table 25

CITY OF BATTLE CREEK, MICHIGAN
Wastewater System Revenues by User Class - Unaudited
Last Ten Fiscal Years

Type of User	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
In-City										
Residential	\$2,811,084	\$2,772,893	\$2,709,184	\$2,660,562	\$2,736,605	\$2,822,317	\$2,944,037	\$2,947,902	\$1,982,567	\$1,537,278
Commercial (1)	1,941,987	2,011,039	2,091,895	4,004,457	2,203,387	4,637,862	4,756,430	4,682,374	1,440,832	1,302,480
Industrial	3,731,951	3,609,226	3,814,617	2,092,277	4,089,700	2,166,179	2,210,909	2,174,556	1,482,808	1,235,646
	8,485,022	8,393,158	8,615,696	8,757,296	9,029,692	9,626,358	9,911,376	9,804,832	4,906,207	4,075,404
Outside City										
Emmett Township (2)	623,282	574,372	565,512	581,042	474,961	548,813	525,324	533,130	203,017	206,334
Bedford Township (2)	172,512	173,777	156,851	163,932	381,230	379,931	394,547	404,770	5,708	4,106
Springfield City	379,616	335,050	373,633	358,720	344,925	360,560	357,106	354,650	240,309	115,529
Pennfield Township	380,497	386,898	365,038	373,633	150,557	160,551	151,382	282,236	56,395	36,921
	1,555,907	1,470,097	1,461,034	1,477,327	1,351,673	1,449,855	1,428,359	1,574,786	505,429	362,890
Totals	\$10,040,929	\$9,863,255	\$10,076,730	\$10,234,623	\$10,381,365	\$11,076,213	\$11,339,735	\$11,379,618	\$5,411,636	\$4,438,294

(1) This class includes commercial and governmental users.

(2) Effective 11/1/99, Emmett and Bedford Townships residential revenues are included above in In-City Residential.

Table 26

CITY OF BATTLE CREEK, MICHIGAN
Wastewater System Revenues by User Class as a Percent of Total Revenue - Unaudited
Last Ten Fiscal Years

Type of User	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
In-City										
Residential	28.00%	28.11%	26.89%	26.00%	26.36%	25.48%	25.96%	25.91%	36.64%	34.64%
Commercial (1)	19.34%	20.39%	20.76%	39.13%	21.22%	41.87%	41.94%	41.15%	26.62%	29.35%
Industrial	37.17%	36.59%	37.86%	20.44%	39.39%	19.56%	19.50%	19.11%	27.40%	27.84%
	84.50%	85.10%	85.50%	85.57%	86.98%	86.91%	87.40%	86.16%	90.66%	91.82%
Outside City										
Emmett Township (2)	6.21%	5.82%	5.61%	5.68%	4.58%	4.95%	4.63%	4.68%	3.75%	4.65%
Bedford Township (2)	1.72%	1.76%	1.56%	1.60%	3.67%	3.43%	3.48%	3.56%	0.11%	0.09%
Springfield City	3.78%	3.40%	3.71%	3.50%	3.32%	3.26%	3.15%	3.12%	4.44%	2.60%
Pennfield Township	3.79%	3.92%	3.62%	3.65%	1.45%	1.45%	1.33%	2.48%	1.04%	0.83%
	15.50%	14.90%	14.50%	14.43%	13.02%	13.09%	12.60%	13.84%	9.34%	8.18%
Totals	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

(1) This class includes commercial and governmental users.

(2) Effective 11/1/99, Emmett and Bedford Townships residential revenues are included above in In-City Residential.

Table 27

CITY OF BATTLE CREEK, MICHIGAN
Wastewater System Eight Year History of Volumes - Unaudited

Fiscal Year Ended June 30,	Total Customers	Total Annual Amount of Sewer Treatment Sold (000's Gallons)	Total Annual Amount of Sewer Treated (000's Gallons)
2005	21,231	4,287	3,556
2004	20,521	3,874	3,506
2003	20,539	4,071	3,441
2002	20,587	3,412	3,881
2001	20,539	3,518	3,928
2000	20,547	3,685	4,030
1999	20,568	3,982	4,747
1998	20,037	3,944	4,604

Table 28

CITY OF BATTLE CREEK, MICHIGAN
Wastewater System Sales Volume by User Class (Cubic Feet) - Unaudited
Last Ten Fiscal Years

Type of User	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
In-City										
Residential	131,328,642	123,417,582	125,022,045	123,915,476	130,375,450	128,255,231	128,282,507	126,422,885	143,915,251	137,682,987
Commercial (1)	89,980,088	92,006,080	96,810,569	95,602,782	95,565,835	97,735,031	99,577,990	98,953,998	124,884,532	127,552,745
Industrial	32,845,680	36,464,788	36,522,291	36,753,185	46,069,410	53,078,482	59,575,931	63,146,659	208,973,000	198,642,903
	254,154,410	251,888,450	258,354,905	256,271,443	272,010,695	279,068,744	287,436,428	288,523,542	477,772,783	463,878,635
Outside City										
Emmett Township	27,922,982	25,851,285	25,479,003	26,255,880	23,782,984	24,401,981	22,817,233	23,995,129	13,583,653	13,050,243
Bedford Township	8,592,872	7,251,759	6,967,764	6,945,184	7,460,413	6,957,095	6,991,208	2,552,162	267,159	202,066
Springfield City	17,822,333	17,822,333	17,191,832	16,500,091	17,133,860	18,318,679	18,648,271	18,708,921	26,440,601	24,068,484
Pennfield Township	19,054,950	18,974,550	18,841,131	17,263,203	16,211,301	16,676,437	17,311,150	17,272,255	7,519,281	7,625,181
	73,393,137	69,899,927	68,479,730	66,964,358	64,588,558	66,354,192	65,767,862	62,528,467	47,810,694	44,945,974
Totals	327,547,547	321,788,377	326,834,635	323,235,801	336,599,253	345,422,936	353,204,290	351,052,009	525,583,477	508,824,609

(1) This class includes commercial and governmental users.

Table 29

CITY OF BATTLE CREEK, MICHIGAN
Wastewater System Sales Volume by User Class as a Percent of Total Sales (Cubic Feet) - Unaudited
Last Ten Fiscal Years Ended June 30, 2005

Type of User	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
In-City										
Residential	40.09%	38.35%	38.25%	38.34%	38.73%	37.13%	36.32%	36.01%	27.38%	27.06%
Commercial	27.47%	28.59%	29.62%	29.58%	28.39%	28.29%	28.19%	28.19%	23.76%	25.07%
Industrial	10.03%	11.33%	11.17%	11.37%	13.69%	15.37%	16.87%	17.99%	39.76%	39.04%
	77.59%	78.28%	79.05%	79.28%	80.81%	80.79%	81.38%	82.19%	90.90%	91.17%
Outside City										
Emmett Township	8.52%	8.03%	7.80%	8.12%	7.07%	7.06%	6.46%	6.84%	2.58%	2.56%
Bedford Township	2.62%	2.25%	2.13%	2.15%	2.22%	2.01%	1.98%	0.73%	0.05%	0.04%
Springfield City	5.44%	5.54%	5.26%	5.10%	5.09%	5.30%	5.28%	5.33%	5.03%	4.73%
Pennfield Township	5.82%	5.90%	5.76%	5.34%	4.82%	4.83%	4.90%	4.92%	1.43%	1.50%
	22.41%	21.72%	20.95%	20.72%	19.19%	19.21%	18.62%	17.81%	9.10%	8.83%
Totals	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Table 30

CITY OF BATTLE CREEK, MICHIGAN
Wastewater Revenue and Usage - Major Customers - Unaudited
Fiscal Year Ended June 30, 2005

Company	Product or Service	Consumption (Cu. Ft.)	% of Total	Revenue	% of Total
Kellogg (Plant)	Breakfast foods	38,015,500	11.61%	\$ 1,411,529	14.31%
Kraft Foods/Post Division	Breakfast foods	30,531,195	9.49%	648,051	6.57%
Denso Mnftg. Michigan, Inc.	Automotive parts	11,234,999	3.49%	104,419	1.06%
Michigan Carton & Paperboard	Paper mill	10,350,079	3.22%	657,030	6.66%
Battle Creek Health Systems	Hospital	5,561,000	1.73%	112,236	1.14%
Ralcorp Holdings, Inc	Breakfast foods	4,564,800	1.42%	44,795	0.45%
Rock-Tenn/Waldorf Corp	Paperboard	2,548,000	0.79%	305,641	3.10%
Federal Center	Government	2,478,580	0.77%	62,663	0.64%
Calhoun Co. Justice Center	Jail/Courts	2,366,200	0.74%	48,029	0.49%
Kellogg - Research	Research	2,313,200	0.72%	49,734	0.50%
V.A. Laundry	Laundry Services	1,960,300	0.61%	40,634	0.41%
V. A. Hospital	Hospital	1,896,700	0.59%	40,482	0.41%
Johnson Controls	Heating & Venting	1,510,342	0.47%	32,635	0.33%
McCamlly Plaza Hotel	Hotel	1,454,200	0.45%	31,425	0.32%
Bedford Hills MHP	Mobile home park	1,221,699	0.38%	38,093	0.39%
Gallagher Laundry	Laundry services	1,175,700	0.37%	20,310	0.21%
River Oaks Apartments	Housing	1,173,950	0.36%	33,679	0.34%
Innkeepers of Battle Creek	Hotel	984,600	0.31%	21,110	0.21%
Totals		121,341,044	37.71%	\$ 3,702,495	37.54%

(1) Consumption measured in Cubic Feet (M3).

Table 31

CITY OF BATTLE CREEK, MICHIGAN
Largest Wastewater Customers

Fiscal Year Ended June 30,	Kellogg Company		Michigan Carton & Paperboard		Kraft Foods/Post Division	
	Consumption	Revenue	Consumption	Revenue	Consumption	Revenue
2005	48,468,841	\$ 1,225,508	27,942,722	\$ 657,030	25,366,208	\$ 648,051
2004	48,347,026	1,185,451	#REF!	#REF!	24,533,913	593,986
2003	47,185,600	482,405	12,210,800	114,110	40,534,399	428,411
2002	51,283,300	489,581	9,257,700	95,413	37,645,952	380,223
2001	57,428,950	493,595	11,948,000	113,754	32,090,000	304,788
2000	82,290,550	590,816	12,778,000	120,647	30,355,000	289,448
1999	107,261,870	628,962	14,560,173	135,949	29,566,000	304,073
1998	115,139,000	622,540	15,000,000	140,916	34,264,000	308,958

Consumption measured in Cubic Feet (M3).

Table 32

**CITY OF BATTLE CREEK, MICHIGAN
Current Wastewater Rates (From 7/1/98 to 06/30/05) - Unaudited**

Monthly Sewer Commodity Charge (1)

<u>Meter Size</u>	<u>Rate Per 100 Cubic Feet</u>		
	<u>Inside City</u>	<u>Emmett Twp.</u>	<u>Bedford Twp.</u>
All sewer purchased	\$ 2.13	\$ 2.24	\$ 2.33

Monthly Readiness-to-Serve Charge

<u>Meter Size</u>	<u>Inside City</u>	<u>Outside City</u>
5/8"	\$ 1.45	\$ 1.45
3/4"	1.45	1.45
1"	2.00	2.00
1.5"	3.40	3.40
2"	4.90	4.90
3"	11.20	11.20
4"	19.00	19.00
6"	37.55	37.55
8"	56.10	56.10
10"	75.50	75.50
12"	88.00	88.00
16"	117.75	117.75

Residential customers without water meters assume consumption of 750 cubic feet per month.

Table 33

**CITY OF BATTLE CREEK, MICHIGAN
Demographic Data - Building Permits (1)**

	2005	2004	2003	2002	2001	2000	1999
Commerical and Industrial							
Number of Permits	128	295	55	149	629	775	742
Dollar Value	\$52,294,223	\$23,522,835	\$22,380,651	\$23,662,696	\$15,835,886	\$27,121,490	\$19,339,399
Residential							
Number of Permits	163	354	1378	887	393	439	599
Dollar Value	\$7,721,934	\$15,166,842	\$14,779,379	\$24,164,114	\$15,835,886	\$27,121,490	\$39,896,953
Totals							
Number of Permits	291	649	1,433	1,036	1,022	1,214	1,341
Dollar Value	\$60,016,157	\$38,689,677	\$37,160,030	\$47,826,810	\$31,671,772	\$54,242,980	\$59,236,352

(1) Data based on calendar year, except current year which is through September 30.

SOURCE: City of Battle Creek

Table 34

CITY OF BATTLE CREEK, MICHIGAN
Demographic Data - General Housing Characteristics (1)

	<u>Number of Units</u>
Total housing units	23,525
Occupied housing units	21,348
Owner-occupied housing units	14,044
Renter-occupied housing units	7,304
For seasonal, recreational or occasional use	104
Specified owner-occupied housing units:	
Less than \$50,000	3,438
\$50,000 to \$99,999	5,770
\$100,000 to \$149,999	2,232
\$150,000 to \$199,999	829
\$200,000 to \$299,999	476
\$300,000 to \$499,999	187
\$500,000 to \$999,999	30
\$1,000,000 or more	0
	12,962
	12,962

SOURCE: 2000 Census

Table 35

CITY OF BATTLE CREEK, MICHIGAN
Demographic Data - Retail Sales and Buying Power

Retail Sales (in thousands)	<u>City of Battle Creek</u>		<u>State of Michigan</u>		<u>United States</u>	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Food	\$ 98,278	9.4%	\$ 14,597,321	11.1%	\$ 489,332,034	13.1%
Restaurants	80,458	7.7%	11,676,049	8.9%	357,906,000	9.6%
General merchandise	268,700	25.7%	21,583,094	16.4%	483,234,307	13.0%
Furniture and appliance	34,086	3.3%	6,295,129	4.8%	197,767,823	5.3%
Automotive	196,501	18.8%	33,012,826	25.1%	889,259,170	23.9%
Other	366,802	35.1%	44,337,071	33.7%	1,307,492,696	35.1%
Total	\$ 1,044,825	100.0%	\$ 131,501,490	100.0%	\$ 3,724,992,030	100.0%

Estimated Effective Household Buying Income
% of Household Range

<u>E.H.B.I. Range</u>	<u>City of Battle Creek</u>	<u>State of Michigan</u>	<u>United States</u>
Under \$19,999	28.4%	20.4%	22.3%
\$20,000 - \$34,999	26.8%	22.9%	23.2%
\$35,000 - \$49,999	19.0%	19.7%	19.5%
\$50,000 and Over	25.8%	37.0%	35.0%
Median EHBI	\$ 31,845	\$ 39,070	\$ 38,035
Average EHBI	\$ 38,458	\$ 49,393	\$ 48,798

(2) EHBI = Effective Household Buying Income.

SOURCE: "Survey of Buying Power"; Sales and Marketing Management Magazine; September 30, 2003

Table 36

CITY OF BATTLE CREEK, MICHIGAN
Demographic Data - Unadjusted Employment Data - 1998-2003

	2005(1)	2004	2003	2002	2001	2000	1999	1998
City of Battle Creek								
Employed	25,818	25,164	24,779	24,191	24,573	24,726	25,125	24,650
Unemployed	<u>2,136</u>	<u>2,227</u>	<u>2,224</u>	<u>1,843</u>	<u>1,610</u>	<u>1,277</u>	<u>1,300</u>	<u>1,200</u>
Total labor force	<u>27,954</u>	<u>27,391</u>	<u>27,003</u>	<u>26,034</u>	<u>26,183</u>	<u>26,003</u>	<u>26,425</u>	<u>25,850</u>
Percent unemployed	<u>7.6%</u>	<u>8.1%</u>	<u>8.2%</u>	<u>7.1%</u>	<u>6.1%</u>	<u>4.9%</u>	<u>4.9%</u>	<u>4.6%</u>
State of Michigan (in thousands)								
Employed	4,742	4,719	4,674	4,691	4,886	4,989	4,950	4,837
Unemployed	<u>345</u>	<u>356</u>	<u>368</u>	<u>310</u>	<u>271</u>	<u>183</u>	<u>194</u>	<u>194</u>
Total labor force	<u>5,087</u>	<u>5,075</u>	<u>5,042</u>	<u>5,001</u>	<u>5,157</u>	<u>5,172</u>	<u>5,144</u>	<u>5,031</u>
Percent unemployed	<u>6.8%</u>	<u>7.0%</u>	<u>7.3%</u>	<u>6.2%</u>	<u>5.3%</u>	<u>3.5%</u>	<u>3.8%</u>	<u>3.9%</u>

(1) June 2004 Average

SOURCE: Michigan Department of Career Development

Table 37

CITY OF BATTLE CREEK, MICHIGAN
Demographic Data - Employment by Category & Industry

	City of Battle Creek		State of Michigan	
	# of Workers	% of Total Workers	# of Workers	% of Total Workers
<u>Occupation</u>				
Management, professional and related occupations	6,156	26.7%	1,459,767	31.5%
Service occupations	4,233	18.4%	687,336	14.8%
Sales and office occupations	5,873	25.4%	1,187,015	25.5%
Farming, fishing and forestry occupations	24	0.1%	21,120	0.5%
Construction, extraction and maintenance occupations	1,517	6.6%	425,291	9.2%
Production, transportation and material moving occupations	5,249	22.8%	856,932	18.5%
Total	23,052	100.0%	4,637,461	100.0%
<u>Industry</u>				
Agriculture, forestry, fishing, hunting and mining	27	0.1%	49,496	1.1%
Construction	902	3.9%	278,079	6.0%
Manufacturing	5,656	24.5%	1,045,651	22.5%
Wholesale trade	526	2.3%	151,656	3.3%
Retail trade	2,598	11.3%	550,918	11.9%
Transportation, warehousing and utilities	1,074	4.7%	191,799	4.1%
Information	326	1.4%	98,887	2.1%
Finance, insurance, real estate, and rental/leasing	1,009	4.4%	246,633	5.3%
Professional services	1,326	5.8%	371,119	8.0%
Educational, health and social services	4,733	20.5%	921,395	19.9%
Arts, entertainment, recreation, accommodation and foods services	2,172	9.4%	351,229	7.6%
Other services	1,294	5.6%	212,868	4.6%
Public administration	1,409	6.1%	167,731	3.6%
Total	23,052	100.0%	4,637,461	100.0%

SOURCE: 2000 Census

**CITY OF BATTLE CREEK,
MICHIGAN**

SINGLE AUDIT

For the Year Ended June 30, 2005



REHMANN ROBSON

Certified Public Accountants

**CITY OF BATTLE CREEK, MICHIGAN
SINGLE AUDIT**

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REHMANN ROBSON

Certified Public Accountants

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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**

October 21, 2005

Honorable Mayor and Members
of the City Commission
City of Battle Creek, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **CITY OF BATTLE CREEK, MICHIGAN** as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 21, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *City of Battle Creek, Michigan's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of Battle Creek, Michigan's* financial statements are free of 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*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the City Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO MAJOR PROGRAMS
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

October 21, 2005

Honorable Mayor and Members
of the City Commission
City of Battle Creek, Michigan

Compliance

We have audited the compliance of the *City of Battle Creek, Michigan* with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2005. The *City of Battle Creek, Michigan's* major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the *City of Battle Creek, Michigan's* management. Our responsibility is to express an opinion on the *City of Battle Creek, Michigan's* compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about the *City of Battle Creek, Michigan's* compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the *City of Battle Creek, Michigan's* compliance with those requirements.

In our opinion, the *City of Battle Creek, Michigan* complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the *City of Battle Creek, Michigan* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the *City of Battle Creek, Michigan's* internal control over compliance with requirements that could have a direct and material effect on major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to major federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Battle Creek, Michigan* as of and for the year ended June 30, 2005, and have issued our report thereon dated October 21, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the City Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



CITY OF BATTLE CREEK
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

Federal/Pass-through Grantor Program Title	CFDA Number	Federal/ Pass-through Grantor Number	Federal Expenditures
U.S. Department of Agriculture			
Direct Program -			
Summer Food Service Program -	10.559		
Program year 2004			\$ 15,500
U.S. Department of Housing and Urban Development			
Direct Programs:			
Community Development Block Grant:	14.218		
Program year 2000/01		B-00-MC-26-0002	84,418
Program year 2001/02		B-01-MC-26-0002	38,338
Program year 2002/03		B-02-MC-26-0002	49,630
Program year 2003/04		B-03-MC-26-0002	466,272
Program year 2004/05		B-04-MC-26-0002	995,388
Total Community Development Block Grants			<u>1,634,046</u>
Home Investment Partnership Program:	14.239		
Program year 2000/01		M-00-MC-26-0203	10,802
Program year 2001/02		M-01-MC-26-0203	34,497
Program year 2002/03		M-02-MC-26-0203	75,551
Program year 2003/04		M-03-MC-26-0203	124,034
Program year 2004/05		M-04-MC-26-0203	70,975
Total Home Investment Partnership Program			<u>315,859</u>
Passed through the Battle Creek Housing Commission -			
Public and Indian Housing Drug Elimination	14.854		<u>72,034</u>
Total U.S. Department of Housing and Urban Development			<u>2,021,939</u>
U.S. Department of Justice			
Direct Programs:			
Local Law Enforcement Block Grant:	16.592		
Program year 2003/05		03-LB-BX-1769	84,533
Program year 2002/04		02-LB-BX-3030	98,085
Total Local Law Enforcement Block Grants			<u>182,618</u>
Bulletproof Vest Program	16.607		<u>4,080</u>
Juvenile Justice and Delinquency Prevention -	16.541		
Around the Clock Juvenile Justice Program		04-JL-FX-0156	<u>115,454</u>
Passed through the Michigan Department of State Police:			
State Homeland Security Grant Program:	16.007		
2002 Domestic Preparedness Equipment Support			5,498
2003 State Homeland Security - Part II Planning			23,850
2003 State Homeland Security Exercise Grant - RRT			1,543
2003 State Homeland Security Exercise Grant - City			481
2003 State Homeland Security Equipment Grant - RRT			47,852
2003 State Homeland Security Equipment Grant - City			16,630
Total State Homeland Security Grants			<u>95,854</u>

(continued)

CITY OF BATTLE CREEK
Schedule of Expenditures of Federal Awards (Concluded)
For the Year Ended June 30, 2005

Federal/Pass-through Grantor Program Title	CFDA Number	Federal/ Pass-through Grantor Number	Federal Expenditures
U.S. Department of Justice (concluded)			
Passed through Grand Valley State University:			
Project Safe Neighborhood	16.609	4-24001	\$ 22,234
Project Safe Neighborhood-Detective	16.609	4-24010	22,848
Total Project Safe Neighborhood Grants			<u>45,082</u>
Passed through the Substance Abuse Council of Greater Battle Creek -			
Weed and Seed Program -	16.595		
Program year 2004-05		2004-WS-Q4-0154	<u>54,245</u>
Total U.S. Department of Justice			<u>497,333</u>
U.S. Department of Transportation			
Direct Programs:			
Capital, Planning, and Operating Assistance (Section 5307):			
Operating 2005	20.507	MI-90-X440-01	(84)
Operating 2005		MI-90-X532	769,640
Capital 2005		MI-90-X356-02	5,641
Total Capital, Planning, and Operating Assistance			<u>775,197</u>
Federal Transit Capital Investment Grants -			
Bus Purchase (Section 5307)	20.507	MI-90-X419-01	<u>146,455</u>
Passed through the Michigan Department of Transportation -			
Capital Assistance Program for Elderly and Disabled Persons -			
Bus Purchase (Section 5310)	20.513	MI-16-0027, 2002	<u>40,000</u>
Passed through the Michigan Department of State Police -			
State & Community Highway Safety-Traffic Equipment	20.600		<u>3,998</u>
Total U.S. Department of Transportation			<u>965,650</u>
Environmental Protection Agency			
Passed through the Michigan Department of Environmental Quality:			
Police Department Roof - City Hall Runoff	66.460	2004-0152	24,921
Capitalization Grants for Drinking Water State Revolving Funds -			
Program year 2004/05	66.468		<u>9,239</u>
Total Environmental Protection Agency			<u>34,160</u>
U.S. Department of Homeland Security			
Passed through the Michigan Department of State Police:			
State Domestic Preparedness Equipment Support Program	97.004		
2003 State Homeland Security - Part II Training			38,024
2004 State Homeland Security Grant			118,402
2003 State Homeland Security - RRT Decontamination Chamber			100,450
Total State Homeland Security Grants			<u>256,876</u>
Emergency Management Performance Grants:			
Program year 2003/04	97.042		9,171
Program year 2004/05	97.067		26,615
Total Emergency Management Performance Grants			<u>35,786</u>
Total U.S. Department of Homeland Security			<u>292,662</u>
Total Expenditures of Federal Awards			<u><u>\$ 3,827,245</u></u>

CITY OF BATTLE CREEK, MICHIGAN

Notes To Schedule Of Expenditures Of Federal Awards

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Battle Creek, Michigan (the "City"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The City of Battle Creek reporting entity is defined in Note I of the City's basic financial statements.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note I of the City's basic financial statements.

3. SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant	14.218	\$ 453,354
HOME Investment Partnership Program	14.239	290,912
Juvenile Justice and Delinquency Prevention	16.541	115,454

* * * * *

CITY OF BATTLE CREEK, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial statements
noted?

_____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses?

_____ yes X none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

_____ yes X no

CITY OF BATTLE CREEK, MICHIGAN

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended June 30, 2005

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	U.S. Department of Housing
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> yes <u> </u> no

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

SECTION IV – PRIOR YEAR FINDINGS

2004-1 Appropriately resolved.

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



October 21, 2005

To the City Commissioners
City of Battle Creek, Michigan

We have audited the basic financial statements of the *City of Battle Creek* as of and for the year ended June 30, 2005, and have issued our report thereon dated October 21, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated May 10, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application.

As described in footnote 4A and 4B to the financial statements, in 2005 the City changed accounting policies related to the new financial reporting requirements for all state and local governments, by adopting Statements of Governmental Accounting Standards (GASB Statements) No. 40 - *Deposit and Investment Risk Disclosures*. The effect of implementing this new standard did not result in the restatement of beginning net assets/fund balances.

We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the liability for uninsured risks of loss, including incurred but not reported claims, which are accounted for in certain of the City's self-insurance internal service fund. We relied upon the work of the City's third-party administrator and internal risk manager for the estimated liabilities on reported claims and the work of the City's internal risk manager for the calculation of the estimated liabilities for incurred but not reported claims based on GASB Statement No. 10, as amended by GASB Statement No. 30 and Interpretation No. 4.
- Management's estimate of the collectability of receivables (excluding those receivables for which the City has the right to levy a lien against the applicable property owner). We evaluated the key factors and assumptions used to develop the allowances for uncollectable accounts in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the original cost and accumulated depreciation of infrastructure capital assets. We evaluated the key factors/assumptions used to develop the original cost and accumulated depreciation of the infrastructure capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the useful lives of depreciable capital assets – i.e., the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The City has posted all journal entries that we have identified as significant, and their effect is included in the City's financial statements. These journal entries included four entries that, in our judgment, indicate matters that could have a significant effect on the financial report process: (1) \$355,000 increase in the water and wastewater fund allowance for doubtful accounts (*see attached comment and recommendation*); (2) recognizing a liability of \$2,065,253 in the self-insurance internal service fund for medical insurance claims; (3) correcting general ledger balances for the activity of the pension trust fund for the year; and (4) correcting account balances for the two bond refundings that occurred during the year.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter is intended for the use of the City Commissioners and management of the City of Battle Creek, the State of Michigan, and respective federal and state grantor agencies. However, this report is a matter of public record and its distribution is not limited.

Very truly yours,



CITY OF BATTLE CREEK, MICHIGAN

COMMENTS AND RECOMMENDATIONS

For the Year Ended June 30, 2005

During our audit we became aware of certain matters that are opportunities for strengthening internal control and operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters, and does not affect our report dated October 21, 2005, on the financial statements of the City of Battle Creek, Michigan.

We will review the status of these comments during our next audit engagement. We have already discussed these matters with City management and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the City in implementing the recommendations.

Monitoring of Water and Wastewater Fund Receivables

During this year's audit procedures, we noted from an aging of the water and wastewater fund usage receivable billings that the City had accounts with balances older than one year of approximately \$370,000. The ability to take timely action regarding these accounts (i.e., to shut-off service, add delinquent balances to tax rolls, or to write off for whatever justified reasons) are stymied by limited staffing (in the case of shut-offs) and the fact that the special board charged with the authority to dispose of delinquent accounts meets only twice a year and may not be provided with a complete list of all delinquents.

In addition to the above, the City also utilizes the services of a collection agency to collect on certain past due accounts. While this is a good approach, especially given the City's limited staffing resources, thorough records regarding the accounts sent out for collection and the eventual results of those efforts are not maintained, or at least not clearly reflected in the City's utility billing subsidiary ledger.

As a result of these conditions, the City increased the allowance for doubtful accounts by \$355,000 to \$370,00 (approximately equal to the aged balances over one year) and we recommend that:

1. The City evaluate the purpose, need, duties and meeting frequency of the special board. At a minimum, this board should increase the frequency of its meetings to deal with this backlog of aged receivables, particularly those past due more than one year, and the City needs to ensure that a complete list is provided to the board. At the other end of the spectrum, the City should consider whether to change the applicable ordinance to dissolve this special board and assign its tasks to staff.
2. Establish appropriate procedures to track the accounts sent out for collection and to properly record the collections in the subsidiary ledger.

* * * * *