

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

|  |                                   |  |                   |
|--|-----------------------------------|--|-------------------|
| Local Unit of Government Type<br><input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other |                                   | Local Unit Name<br>Battle Creek Tax Increment Finance Authorit | County<br>Calhoun |
| Fiscal Year End<br>6/30/2007   | Opinion Date<br>November 20, 2007 | Date Audit Report Submitted to State<br>November 28, 2007      |                   |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

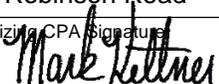
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

**YES NO** Check each applicable box below. (See instructions for further detail.)

1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.   The local unit has adopted a budget for all required funds.
5.   A public hearing on the budget was held in accordance with State statute.
6.   The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.   The local unit only holds deposits/investments that comply with statutory requirements.
9.   The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10.   There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.   The local unit is free of repeated comments from previous years.
12.   The audit opinion is UNQUALIFIED.
13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.   The board or council approves all invoices prior to payment as required by charter or statute.
15.   To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| We have enclosed the following:   | Enclosed                            | Not Required (enter a brief justification) |             |                         |
|---|-------------------------------------|--|-------------|-------------------------|
| Financial Statements  | <input checked="" type="checkbox"/> |  |             |                         |
| The letter of Comments and Recommendations  | <input type="checkbox"/>            | Single Letter for the City of Battle Creek |             |                         |
| Other (Describe)  | <input type="checkbox"/>            |  |             |                         |
| Certified Public Accountant (Firm Name)<br>REHMANN ROBSON   |                                     | Telephone Number<br>517-787-6503           |             |                         |
| Street Address<br>675 Robinson Road   |                                     | City<br>Jackson                            | State<br>MI | Zip<br>49203            |
| Authorized CPA Signature<br> |                                     | Printed Name<br>Mark T. Kettner, CPA, CGFM |             | License Number<br>11673 |

**BATTLE CREEK TAX INCREMENT  
FINANCE AUTHORITY  
(A Component Unit of the  
City of Battle Creek, Michigan)**

**Battle Creek, Michigan**

**BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**For the Year Ended  
June 30, 2007**



**REHMANN ROBSON**

*Certified Public Accountants*

**BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY**  
**(A Component Unit of the**  
**City of Battle Creek, Michigan)**

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**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP

 an independent member of  
**BAKER TILLY**  
INTERNATIONAL

## **INDEPENDENT AUDITORS' REPORT**

November 20, 2007

Board of Directors  
Battle Creek Tax Increment Finance Authority  
City of Battle Creek, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the ***Battle Creek Tax Increment Finance Authority, a component unit of the City of Battle Creek, Michigan***, as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority'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. 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 and each major fund of the ***Battle Creek Tax Increment Finance Authority*** as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented Management's Discussion and Analysis as required supplementary information. The Governmental Accounting Standards Board has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The continuing bond disclosures as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Authority. The continuing bond disclosures 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.

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

# **BASIC FINANCIAL STATEMENTS**

**BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY**  
**Statement of Net Assets and**  
**Governmental Funds Balance Sheet**  
**June 30, 2007**

|   | <u>General</u>      | <u>Debt<br/>Service</u> | <u>Pipeline<br/>Bonds</u> | <u>Capital<br/>Projects</u> | <u>Total<br/>Governmental<br/>Funds</u> | <u>Adjustments</u>   | <u>Statement of<br/>Net Assets</u> |
|---|---------------------|-------------------------|---------------------------|-----------------------------|---|----------------------|------------------------------------|
| <b>Assets</b>                                   |                     |                         |                           |                             |   |                      |                                    |
| Pooled cash and investments                     | \$ 905,750          | \$ -                    | \$ 32                     | \$ 12,177,287               | \$ 13,083,069                           | \$ -                 | \$ 13,083,069                      |
| Interest receivable                             | 132,143             | -                       | -                         | 1,410                       | 133,553                                 | -                    | 133,553                            |
| Advance to primary government                   | 397,540             | -                       | -                         | -                           | 397,540                                 | -                    | 397,540                            |
| Capital assets not being depreciated            | -                   | -                       | -                         | -                           | -                                       | 11,679,397           | 11,679,397                         |
| Capital assets being depreciated, net           | -                   | -                       | -                         | -                           | -                                       | 568,278              | 568,278                            |
| <b>Total assets</b>                             | <u>\$ 1,435,433</u> | <u>\$ -</u>             | <u>\$ 32</u>              | <u>\$ 12,178,697</u>        | <u>\$ 13,614,162</u>                    | <u>12,247,675</u>    | <u>25,861,837</u>                  |
| <b>Liabilities</b>                              |                     |                         |                           |                             |   |                      |                                    |
| Accrued interest payable                        | \$ -                | \$ -                    | \$ -                      | \$ -                        | \$ -                                    | 93,143               | 93,143                             |
| Other liabilities                               | -                   | -                       | -                         | 4,380                       | 4,380                                   | -                    | 4,380                              |
| Long-term liabilities:                          |                     |                         |                           |                             |   |                      |                                    |
| Due within one year                             | -                   | -                       | -                         | -                           | -                                       | 1,873,672            | 1,873,672                          |
| Due in more than one year                       | -                   | -                       | -                         | -                           | -                                       | 11,309,145           | 11,309,145                         |
| <b>Total liabilities</b>                        | -                   | -                       | -                         | 4,380                       | 4,380                                   | 13,275,960           | 13,280,340                         |
| <b>Fund balances</b>                            |                     |                         |                           |                             |   |                      |                                    |
| Unreserved, undesignated                        | <u>1,435,433</u>    | <u>-</u>                | <u>32</u>                 | <u>12,174,317</u>           | <u>13,609,782</u>                       | <u>(13,609,782)</u>  | <u>-</u>                           |
| <b>Total liabilities and fund balances</b>      | <u>\$ 1,435,433</u> | <u>\$ -</u>             | <u>\$ 32</u>              | <u>\$ 12,178,697</u>        | <u>\$ 13,614,162</u>                    |                      |                                    |
| <b>Net assets</b>                               |                     |                         |                           |                             |   |                      |                                    |
| Invested in capital assets, net of related debt |                     |                         |                           |                             |   | 8,544,890            | 8,544,890                          |
| Restricted for debt service                     |                     |                         |                           |                             |   | 32                   | 32                                 |
| Restricted for capital projects                 |                     |                         |                           |                             |   | 12,174,317           | 12,174,317                         |
| Unrestricted (deficit)                          |                     |                         |                           |                             |   | <u>(8,137,742)</u>   | <u>(8,137,742)</u>                 |
| <b>Total net assets</b>                         |                     |                         |                           |                             |   | <u>\$ 12,581,497</u> | <u>\$ 12,581,497</u>               |

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

**BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY**  
**Statement of Activities and**  
**Governmental Fund Revenues, Expenditures**  
**and Changes in Fund Balances**  
**For the Year Ended June 30, 2007**

|   | <u>General</u>      | <u>Debt<br/>Service</u> | <u>Pipeline<br/>Bonds</u> | <u>Capital<br/>Projects</u> | <u>Total<br/>Governmental<br/>Funds</u> | <u>Adjustments</u>    | <u>Statement of<br/>Net Assets</u> |
|---|---------------------|-------------------------|---------------------------|-----------------------------|---|-----------------------|------------------------------------|
| <b>Revenues</b>   |                     |                         |                           |                             |   |                       |                                    |
| Property taxes  | \$ 9,706,604        | \$ -                    | \$ -                      | \$ -                        | \$ 9,706,604                            | \$ -                  | \$ 9,706,604                       |
| Interest earnings   | 678,830             | 35                      | 423                       | 16,786                      | 696,074                                 | -                     | 696,074                            |
| Other revenues  | 27,635              | -                       | -                         | 8,584                       | 36,219                                  | -                     | 36,219                             |
| Total revenues  | <u>10,413,069</u>   | <u>35</u>               | <u>423</u>                | <u>25,370</u>               | <u>10,438,897</u>                       | <u>-</u>              | <u>10,438,897</u>                  |
| <b>Expenditures/expenses</b>  |                     |                         |                           |                             |   |                       |                                    |
| Community development   | 3,919,082           | -                       | -                         | 1,195,793                   | 5,114,875                               | 22,878                | 5,137,753                          |
| Debt service:   |                     |                         |                           |                             |   |                       |                                    |
| Principal   | 771,728             | 330,000                 | 675,000                   | -                           | 1,776,728                               | (1,776,728)           | -                                  |
| Interest and fiscal charges   | 446,902             | 105,885                 | 370,140                   | -                           | 922,927                                 | (15,901)              | 907,026                            |
| Total expenditures/expenses   | <u>5,137,712</u>    | <u>435,885</u>          | <u>1,045,140</u>          | <u>1,195,793</u>            | <u>7,814,530</u>                        | <u>(1,769,751)</u>    | <u>6,044,779</u>                   |
| Revenues over (under) expenditures                                  | <u>5,275,357</u>    | <u>(435,850)</u>        | <u>(1,044,717)</u>        | <u>(1,170,423)</u>          | <u>2,624,367</u>                        | <u>1,769,751</u>      | <u>4,394,118</u>                   |
| <b>Other financing sources (uses)</b>                               |                     |                         |                           |                             |   |                       |                                    |
| Transfers in  | -                   | 435,850                 | 1,044,718                 | 2,745,149                   | 4,225,717                               | (4,225,717)           | -                                  |
| Transfers out   | (4,225,717)         | -                       | -                         | -                           | (4,225,717)                             | 4,225,717             | -                                  |
| Total other financing sources (uses)                                | <u>(4,225,717)</u>  | <u>435,850</u>          | <u>1,044,718</u>          | <u>2,745,149</u>            | <u>-</u>                                | <u>-</u>              | <u>-</u>                           |
| Revenues and other sources over (under) expenditures and other uses | 1,049,640           | -                       | 1                         | 1,574,726                   | 2,624,367                               | (2,624,367)           | -                                  |
| Change in net assets  | -                   | -                       | -                         | -                           | -                                       | 4,394,118             | 4,394,118                          |
| <b>Fund balances/net assets</b>                                     |                     |                         |                           |                             |   |                       |                                    |
| Beginning of year   | 385,793             | -                       | 31                        | 10,599,591                  | 10,985,415                              | (2,798,036)           | 8,187,379                          |
| <b>End of year</b>  | <u>\$ 1,435,433</u> | <u>\$ -</u>             | <u>\$ 32</u>              | <u>\$ 12,174,317</u>        | <u>\$ 13,609,782</u>                    | <u>\$ (1,028,285)</u> | <u>\$ 12,581,497</u>               |

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

**BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2007**

|                                       | <b>Budget<br/>(Original<br/>and Final)</b> | <b>Actual</b>              | <b>Actual<br/>Over (Under)<br/>Final Budget</b> |
|---------------------------------------|--|----------------------------|---|
| <b>Revenues</b>                       |  |                            |   |
| Property taxes                        | \$ 9,600,000                               | \$ 9,706,604               | \$ 106,604                                      |
| Interest earnings                     | 276,000                                    | 678,830                    | 402,830   |
| Other revenues                        | 5,000                                      | 27,635                     | 22,635  |
| Total revenues                        | <u>9,881,000</u>                           | <u>10,413,069</u>          | <u>532,069</u>                                  |
| <b>Expenditures</b>                   |  |                            |   |
| Community development                 | 4,144,856                                  | 3,919,082                  | (225,774)                                       |
| Debt service:                         |  |                            |   |
| Principal                             | 768,407                                    | 771,728                    | 3,321   |
| Interest and fiscal charges           | 450,224                                    | 446,902                    | (3,322)   |
| Total expenditures                    | <u>5,363,487</u>                           | <u>5,137,712</u>           | <u>(225,775)</u>                                |
| Revenues over expenditures            | <u>4,517,513</u>                           | <u>5,275,357</u>           | <u>757,844</u>                                  |
| <b>Other financing sources (uses)</b> |  |                            |   |
| Proceeds from sale of capital assets  | 50,000                                     | -                          | (50,000)  |
| Transfers out                         | (4,225,899)                                | (4,225,717)                | (182)   |
| Total other financing sources (uses)  | <u>(4,175,899)</u>                         | <u>(4,225,717)</u>         | <u>49,818</u>                                   |
| Net change in fund balance            | 341,614                                    | 1,049,640                  | 708,026   |
| Fund balance, beginning of year       | <u>385,793</u>                             | <u>385,793</u>             | <u>-</u>  |
| <b>Fund balance, end of year</b>      | <u><u>\$ 727,407</u></u>                   | <u><u>\$ 1,435,433</u></u> | <u><u>\$ 708,026</u></u>                        |

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

# BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

## Notes To Basic Financial Statements

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity** – These financial statements present the activities of the Battle Creek Tax Increment Finance Authority (the “Authority”). The Authority was organized pursuant to Public Act 450 of 1980. The primary purpose of the Authority is to encourage economic activity in the Fort Custer Industrial Park Development District. The Authority’s activities are primarily funded through tax increment financing and bonded debt.

The Authority is a component unit of the City of Battle Creek, Michigan (the “City”) because the City appoints the Authority’s Board of Directors, it has the ability to significantly influence the Authority’s operations and it is financially accountable for the Authority as defined under GASB Statement No. 14, *The Financial Reporting Entity*. Accordingly, the Authority is presented as a discrete component unit in the City’s financial statements and is an integral part of that reporting entity.

**Government-wide and Fund Financial Statements** – As permitted by GASB Statement No. 34, the Authority uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. Major individual governmental funds are reported as separate columns in the aforementioned financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation** – The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

# BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

## Notes To Basic Financial Statements

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The Authority reports the following major governmental funds:

- General fund
- Debt service funds:
  - Debt service fund
  - Pipeline bonds fund
- Capital projects fund

The *general fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

*Debt service funds* account for the accumulation of resources for, and the payment of, interest and principal on bonded debt.

The *capital projects fund* accounts for the use of resources, primarily bond proceeds, in constructing or acquiring capital assets, including buildings.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

**Capital Assets** – Capital assets, which include property and equipment, are reported in the government-wide financial statements. The Authority 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, if any, are recorded at estimated fair value at the date of donation. 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, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

# BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

## Notes To Basic Financial Statements

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Infrastructure assets (e.g., roads, bridges, curbs, sidewalks, storm sewers and similar items), along with water and wastewater subsystems, constructed by the Authority are not recorded as the Authority's capital assets, even though the Authority may be obligated to repay the debt issued to finance the related projects. Such capital assets become the property of the City when they are placed into service and, accordingly, are reported in the City's capital assets.

The Authority's capital assets are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u>     | <u>Years</u> |
|-------------------|--------------|
| Land improvements | 50           |
| Buildings         | 25           |
| Equipment         | 10           |

**Long-term Obligations** – In the government-wide financial statements, long-term debt is reported as a liability. Bond discounts, as well as issuance costs, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Budgetary Information** – The general fund is under formal budgetary control and its budget is prepared on the same modified accrual basis used to reflect actual results. The Authority follows the City budget process in establishing the budgetary data reflected in the financial statements:

- The Authority submits a proposed budget to the City Manager. After review and approval, the City Manager submits a recommended operating budget to the City Commission. Public hearings are held to obtain taxpayer comments. The budget is legally adopted through a City Commission resolution prior to the beginning of the budgetary year for the Authority's funds.

# BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

## Notes To Basic Financial Statements

- The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or amended by the City Commission during the year. Individual amendments were not material in relation to the original appropriations.

### 2. POOLED CASH AND INVESTMENTS

At year-end, the carrying amount of the Authority's pooled cash and investments, which were deposited entirely in the City's internal cash management pool, was \$13,083,069. Because it is infeasible to allocate risk to individual component units or pool participants, aggregate cash and investment categorizations are presented in the City's basic financial statements.

### 3. CAPITAL ASSETS

|  | <b>Beginning<br/>Balance</b> | <b>Increases</b>          | <b>Decreases</b>   | <b>Ending<br/>Balance</b>   |
|--|------------------------------|---------------------------|--------------------|-----------------------------|
| Capital assets, not being depreciated - Land       | \$ 11,679,397                | \$ -                      | \$ -               | \$ 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             | <u>1,168,402</u>             | <u>-</u>                  | <u>-</u>           | <u>1,168,402</u>            |
| Less accumulated depreciation for:                 |                              |                           |                    |                             |
| Land improvements                                  | (141,000)                    | (11,750)                  | -                  | (152,750)                   |
| Buildings  | (133,534)                    | (11,128)                  | -                  | (144,662)                   |
| Equipment  | (302,712)                    | -                         | -                  | (302,712)                   |
| Total accumulated depreciation                     | <u>(577,246)</u>             | <u>(22,878)</u>           | <u>-</u>           | <u>(600,124)</u>            |
| Total capital assets, being depreciated, net       | <u>591,156</u>               | <u>(22,878)</u>           | <u>-</u>           | <u>568,278</u>              |
| <b>Governmental activities capital assets, net</b> | <b><u>\$ 12,270,553</u></b>  | <b><u>\$ (22,878)</u></b> | <b><u>\$ -</u></b> | <b><u>\$ 12,247,675</u></b> |

Depreciation expense in the amount of \$22,878 was reported in the community development function in the government-wide statement of activities.

# BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

## Notes To Basic Financial Statements

### 4. LONG-TERM DEBT

Following is a summary of the Authority's debt outstanding as of June 30, 2007:

|  | <u>Interest<br/>Rate</u> | <u>Date of<br/>Maturity</u> | <u>Outstanding<br/>Principal</u> |
|--|--------------------------|-----------------------------|----------------------------------|
| <b>General Obligation Bonds</b>          |                          |                             |                                  |
| 1997 Limited Tax Development Refunding   | 4.9-5.0%                 | 09/01/11                    | <u>\$ 1,920,000</u>              |
| <b>Revenue Bonds</b>                     |                          |                             |                                  |
| 1997 Development Refunding               | 5.0-5.25%                | 05/01/16                    | <u>6,650,000</u>                 |
| <b>Land Contract</b>                     |                          |                             |                                  |
| 1992 Land Contract                       | 9.0%                     | 06/30/12                    | <u>3,702,785</u>                 |
| <b>Economic Development Loan Payable</b> |                          |                             |                                  |
| 2002 Loan                                | 6.0%                     | 12/31/16                    | 756,049                          |
| 2003 Loan                                | 5.0%                     | 11/01/07                    | <u>153,983</u>                   |
|  |                          |                             | <u>910,032</u>                   |
|  |                          |                             | <u><b>\$ 13,182,817</b></u>      |

In addition to the above obligations, the Authority has committed to contribute toward the repayment of a City of Battle Creek bond issue. Although not contractually obligated, the Authority intends to pay debt service on this obligation, which has an outstanding balance of \$229,963 with interest rates ranging from 2.75% to 3.5%, and maturing through 2011.

# BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

## Notes To Basic Financial Statements

Annual debt service requirements to maturity for the Authority's debt, including the City of Battle Creek bond issue that the Authority intends to service, are as follows:

| <u>Year Ending<br/>June 30,</u> | <u>Authority Obligations</u> |                            | <u>City Obligations</u>  |                         |
|---------------------------------|------------------------------|----------------------------|--------------------------|-------------------------|
|                                 | <u>Principal</u>             | <u>Interest</u>            | <u>Principal</u>         | <u>Interest</u>         |
| 2008                            | \$ 1,873,672                 | \$ 808,758                 | \$ 54,297                | \$ 6,469                |
| 2009                            | 1,834,115                    | 689,316                    | 55,894                   | 4,884                   |
| 2010                            | 1,928,782                    | 569,581                    | 58,555                   | 3,094                   |
| 2011                            | 2,049,154                    | 441,843                    | 61,217                   | 1,071                   |
| 2012                            | 2,175,735                    | 304,332                    | -                        | -                       |
| 2013-2017                       | 3,321,359                    | 402,339                    | -                        | -                       |
| <b>Total</b>                    | <b><u>\$ 13,182,817</u></b>  | <b><u>\$ 3,216,169</u></b> | <b><u>\$ 229,963</u></b> | <b><u>\$ 15,518</u></b> |

*Changes in Long-Term Debt.* Long-term liability activity for the year ended June 30, 2007, was as follows:

|                               | <u>Beginning<br/>Balance</u> | <u>Additions</u>   | <u>Reductions</u>           | <u>Ending<br/>Balance</u>   | <u>Due Within<br/>One Year</u> |
|-------------------------------|------------------------------|--------------------|-----------------------------|-----------------------------|--------------------------------|
| General obligation bonds      | \$ 2,250,000                 | \$ -               | \$ (330,000)                | \$ 1,920,000                | \$ 345,000                     |
| Revenue bonds                 | 7,325,000                    | -                  | (675,000)                   | 6,650,000                   | 695,000                        |
| Land contract                 | 4,270,407                    | -                  | (567,622)                   | 3,702,785                   | 618,708                        |
| Economic development<br>loans | 1,114,138                    | -                  | (204,106)                   | 910,032                     | 214,964                        |
|                               | <b><u>\$ 14,959,545</u></b>  | <b><u>\$ -</u></b> | <b><u>\$(1,776,728)</u></b> | <b><u>\$ 13,182,817</u></b> | <b><u>\$ 1,873,672</u></b>     |

### 5. PROPERTY TAXES

Property tax revenue is derived pursuant to a tax increment financing agreement between the Authority and various applicable taxing districts. Real and personal property taxes are levied and attach as an enforceable lien on properties located within the boundaries of the tax increment financing district. The City of Battle Creek bills and collects the taxes on behalf of the Authority. Delinquent taxes on ad valorem real property are purchased by Calhoun County. Property tax revenue is recognized when levied in the government-wide financial statements and in the fund financial statements to the extent that it results in current receivables.

# BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

## Notes To Basic Financial Statements

Except for property taxes captured from local schools that exceed contractual obligations, the Authority is entitled to all taxes levied on property within the Battle Creek Tax Increment Finance Authority district to the extent that the current taxable value exceeds the base year taxable value. These taxable values for the 2006 levy are summarized below:

|                   | <u>Base Year</u> | <u>Increment</u> | <u>Total</u>  |
|-------------------|------------------|------------------|---------------|
| Real property     | \$ 2,748,540     | \$ 63,218,868    | \$ 65,967,408 |
| Personal property | 1,755,730        | 107,645,096      | 109,400,826   |
| P.A. 198 property | 12,394,110       | 121,516,292      | 133,910,402   |

### 6. ADJUSTMENTS

Following is an explanation of the adjustments between the governmental funds balance sheet and the government-wide statement of net assets, which reconciles fund balances to net assets:

|   |                             |
|---|-----------------------------|
| <b>Fund balances</b>  | \$ 13,609,782               |
| Adjustments:  |                             |
| Capital assets are not current financial resources and therefore are not reported in the governmental funds:                                    |                             |
| Property and equipment  | 12,847,799                  |
| Accumulated depreciation  | (600,124)                   |
| Bonds payable and other long-term obligation are not due and payable in the current period and therefore not reported in the governmental funds |                             |
|   | (13,182,817)                |
| Accrued interest payable on bonds is not recorded by governmental funds   |                             |
|   | (93,143)                    |
| <b>Net assets</b>   | <u><u>\$ 12,581,497</u></u> |

# BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY

## Notes To Basic Financial Statements

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Following is an explanation of the adjustments between the governmental funds statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities, which reconciles the net change in fund balances to the change in net assets:

|   |                                   |
|---|-----------------------------------|
| <b>Net change in fund balances</b>  | \$ 2,624,367                      |
| Adjustments:  |                                   |
| Repayment of bond and other long-term obligations principal is an expenditure in the funds, but the repayment reduces long-term liabilities for purposes of determining net assets                                | 1,776,728                         |
| 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: |                                   |
| Depreciation expense  | (22,878)                          |
| The change in accrued interest expense on long-term obligations is not recorded by governmental funds but is reported under interest and fiscal charges for purposes of determining net assets                    | <u>15,901</u>                     |
| <b>Change in net assets</b>   | <b><u><u>\$ 4,394,118</u></u></b> |

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## **SUPPLEMENTARY INFORMATION**

**BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY**  
**Continuing Bond Disclosures (Unaudited)**

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

| Assessed Value as of December 31 | Year of Tax Levy | Fiscal Year Ended June 30 | Ad Valorem SEV |          | Ad Valorem TV  |          |
|----------------------------------|------------------|---------------------------|----------------|----------|----------------|----------|
|                                  |                  |                           | Amount         | % Change | Amount         | % Change |
| 2005                             | 2006             | 2007                      | \$ 177,171,368 | 4.82%    | \$ 175,368,234 | 4.82%    |
| 2004                             | 2005             | 2006                      | 169,024,580    | -3.19%   | 167,303,773    | -2.90%   |
| 2003                             | 2004             | 2005                      | 174,592,160    | 4.59%    | 172,303,773    | 4.28%    |
| 2002                             | 2003             | 2004                      | 166,922,857    | 1.37%    | 165,224,263    | 2.34%    |
| 2001                             | 2002             | 2003                      | 164,661,334    | 23.89%   | 161,442,246    | 22.43%   |
| 2000                             | 2001             | 2002                      | 132,912,439    | 12.53%   | 131,864,597    | 13.39%   |
| 1999                             | 2000             | 2001                      | 118,117,500    | 29.02%   | 116,289,550    | 28.79%   |
| 1998                             | 1999             | 2000                      | 91,551,700     | 7.44%    | 90,293,700     | 7.04%    |
| 1997                             | 1998             | 1999                      | 85,215,400     | 12.64%   | 84,355,600     | 11.60%   |

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

| Fiscal Year Ended June 30 | Commercial   | Industrial     | Total          |
|---------------------------|--------------|----------------|----------------|
| 2007                      | \$ 8,147,660 | \$ 167,220,574 | \$ 175,368,234 |
| 2006                      | 8,664,241    | 158,458,357    | 167,122,598    |
| 2005                      | 12,682,444   | 159,621,329    | 172,303,773    |
| 2004                      | 8,300,838    | 156,923,425    | 165,224,263    |
| 2003                      | 9,329,644    | 152,112,602    | 161,442,246    |
| 2002                      | 9,419,758    | 122,444,839    | 131,864,597    |
| 2001                      | 8,566,850    | 107,722,700    | 116,289,550    |
| 2000                      | 8,436,400    | 81,857,300     | 90,293,700     |
| 1999                      | 8,025,750    | 76,329,850     | 84,355,600     |

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

| Fiscal Year Ended June 30 | Real          | Personal       | Total          |
|---------------------------|---------------|----------------|----------------|
| 2007                      | \$ 65,967,408 | \$ 109,400,826 | \$ 175,368,234 |
| 2006                      | 63,045,638    | 104,076,960    | 167,122,598    |
| 2005                      | 61,145,274    | 111,158,499    | 172,303,773    |
| 2004                      | 56,352,265    | 108,871,998    | 165,224,263    |
| 2003                      | 46,807,146    | 114,635,100    | 161,442,246    |
| 2002                      | 41,310,697    | 90,553,900     | 131,864,597    |
| 2001                      | 37,258,550    | 79,031,000     | 116,289,550    |
| 2000                      | 24,957,200    | 65,336,500     | 90,293,700     |
| 1999                      | 23,286,500    | 61,069,100     | 84,355,600     |

**BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY**  
**Continuing Bond Disclosures (Unaudited)**

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

| Fiscal<br>Year Ended<br>June 30 | Real          | Personal       | Total          |
|---------------------------------|---------------|----------------|----------------|
| 2007                            | \$ 23,161,715 | \$ 110,748,687 | \$ 133,910,402 |
| 2006                            | 23,242,752    | 108,911,603    | 132,154,355    |
| 2005                            | 23,620,554    | 81,772,376     | 105,392,930    |
| 2004                            | 24,235,506    | 78,251,877     | 102,487,383    |
| 2003                            | 33,690,941    | 70,710,300     | 104,401,241    |
| 2002                            | 31,617,845    | 72,390,012     | 104,007,857    |
| 2001                            | 32,393,900    | 75,196,300     | 107,590,200    |
| 2000                            | 44,078,600    | 83,957,200     | 128,035,800    |
| 1999                            | 44,391,700    | 81,842,250     | 126,233,950    |

**5. Property Tax Collections**

| Fiscal<br>Year Ended<br>June 30 | Taxes<br>Levied | Collections<br>to March 1 | % Collected |
|---------------------------------|-----------------|---------------------------|-------------|
| 2007                            | \$ 10,369,259   | \$ 10,171,550             | 98.09%      |
| 2006                            | 9,998,865       | 9,881,842                 | 98.83%      |
| 2005                            | 9,053,251       | 8,809,482                 | 97.31%      |
| 2004                            | 8,907,046       | 8,907,046                 | 100.00%     |
| 2003                            | 9,138,546       | 9,138,546                 | 100.00%     |
| 2002                            | 8,455,874       | 7,889,892                 | 93.31%      |
| 2001                            | 7,306,333       | 7,243,324                 | 99.14%      |
| 2000                            | 6,779,678       | 6,724,628                 | 99.19%      |
| 1999                            | 6,555,340       | 6,499,272                 | 99.14%      |
| 1998                            | 5,931,538       | 5,532,782                 | 93.28%      |

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

| Fiscal<br>Year Ended<br>June 30 | City    | B.C. & ISD<br>Schools | County | State<br>Education<br>Tax | Willard<br>Library |
|---------------------------------|---------|-----------------------|--------|---------------------------|--------------------|
| 2007                            | 13.9210 | 20.7792               | 4.0334 | 6.0000                    | -                  |
| 2006                            | 11.2300 | 20.7792               | 4.3080 | 6.0000                    | 2.00               |
| 2005                            | 10.4530 | 20.0000               | 4.0334 | 6.0000                    | 2.00               |
| 2004                            | 13.0000 | 20.0000               | 4.0334 | 5.0000                    | -                  |
| 2003                            | 13.0000 | 20.0000               | 4.0334 | 6.0000                    | -                  |
| 2002                            | 13.0000 | 20.7550               | 4.0334 | 6.0000                    | -                  |
| 2001                            | 12.7730 | 20.7296               | 4.0448 | 6.0000                    | -                  |
| 2000                            | 15.5970 | 20.7296               | 4.0448 | 6.0000                    | -                  |
| 1999                            | 12.7290 | 20.7489               | 4.0559 | 6.0000                    | -                  |
| 1998                            | 12.8440 | 20.8200               | 4.0591 | 6.0000                    | -                  |

**BATTLE CREEK TAX INCREMENT FINANCE AUTHORITY**  
**Continuing Bond Disclosures (Unaudited)**

**7. Taxable Value of Twenty Largest Ad Valorem Taxpayers**  
(Fiscal Year Ended June 30, 2007)

| Taxpayer                              | Product or Service    | Taxable Value         | % of Taxable Value |
|---------------------------------------|-----------------------|-----------------------|--------------------|
| 1 Denso Manufacturing                 | Automotive parts      | \$ 83,586,510         | 47.66%             |
| 2 TRMI, Inc.                          | Automotive parts      | 10,237,011            | 5.84%              |
| 3 New AMI Inc.                        | Automotive parts      | 7,065,493             | 4.03%              |
| 4 II Stanley Company, Inc.            | Automotive parts      | 6,704,446             | 3.82%              |
| 5 Systex Products Corp.               | Plastics manufacturer | 6,161,773             | 3.51%              |
| 6 Hi-Lex Corp.                        | Automotive parts      | 5,779,037             | 3.30%              |
| 7 Toyota Tsusho America, Inc.         | Automotive parts      | 5,704,313             | 3.25%              |
| 8 Musashi Auto Parts                  | Automotive parts      | 5,633,348             | 3.21%              |
| 9 Koyo Corp.                          | Automotive parts      | 4,886,909             | 2.79%              |
| 10 Union Pump                         | Pump manufacturer     | 4,281,998             | 2.44%              |
| 11 Lotte USA Inc.                     | Automotive parts      | 2,345,291             | 1.34%              |
| 12 Johnson Control                    | Automotive parts      | 2,328,581             | 1.33%              |
| 13 Battle Creek Industrial Center LLC | Leased equipment      | 2,143,373             | 1.22%              |
| 14 Duncan Aviation Inc.               | Aviation              | 1,963,487             | 1.12%              |
| 15 EPI Printers, Inc.                 | Printing              | 1,785,355             | 1.02%              |
| 16 United Steel & Wire                | Wire products         | 1,778,500             | 1.01%              |
| 17 Marley Precision Inc.              | Automotive parts      | 1,556,205             | 0.89%              |
| 18 Waterland Battle Creek             | Leasing facility      | 1,055,032             | 0.60%              |
| 19 Advanced Special Tools, Inc.       | Specialty tools       | 1,015,315             | 0.58%              |
| 20 Gallagher Industrial Laundry Inc.  | Laundry               | 986,620               | 0.56%              |
|                                       |                       | <u>\$ 156,998,597</u> | <u>89.52%</u>      |

**8. Taxable Value of Twenty Largest IFT Taxpayers**  
(Fiscal Year Ended June 30, 2007)

| Taxpayer                               | Product or Service        | Taxable Value         | % of Taxable Value |
|--|---------------------------|-----------------------|--------------------|
| 1 Denso Manufacturing                  | Automotive parts          | \$ 44,904,790         | 33.53%             |
| 2 Musashi Auto Parts                   | Automotive parts          | 29,436,952            | 21.98%             |
| 3 II Stanley Company, Inc.             | Automotive parts          | 16,303,102            | 12.17%             |
| 4 Yorozu Automotive                    | Automotive parts          | 9,695,096             | 7.24%              |
| 5 EPI Printers, Inc.                   | Printing                  | 6,713,716             | 5.01%              |
| 6 TRMI, Inc.                           | Automotive parts          | 4,289,963             | 3.20%              |
| 7 Prairie Farms Dairy Inc.             | Dairy products            | 3,511,365             | 2.62%              |
| 8 Roesler Metral Finishing             | Metal finishing           | 3,348,439             | 2.50%              |
| 9 Pyper Products                       | Plastic injection molding | 2,970,480             | 2.22%              |
| 10 Marley Precision Inc.               | Automotive parts          | 2,081,775             | 1.55%              |
| 11 Advanced Special Tools Inc.         | Specialty tools           | 1,896,926             | 1.42%              |
| 12 Systex Products Corp.               | Plastics manufacturer     | 1,551,813             | 1.16%              |
| 13 Koyo Corp.                          | Automotive parts          | 1,149,991             | 0.86%              |
| 14 Stewart Industries Inc.             | Subproduction             | 1,010,349             | 0.75%              |
| 15 Hi-Lex Corp.                        | Automotive parts          | 712,793               | 0.53%              |
| 16 Perelli Enterprises Inc.            | Plastic recycling         | 642,197               | 0.48%              |
| 17 New AMI Inc.                        | Automotive parts          | 629,801               | 0.47%              |
| 18 Hotset Corp.                        | Molded parts              | 556,812               | 0.42%              |
| 19 Advanced Plastic Manufacturing Inc. | Specialty tools           | 507,924               | 0.38%              |
| 20 Geislinger Corp.                    | Molded parts              | 489,754               | 0.37%              |
|  |                           | <u>\$ 132,404,038</u> | <u>98.86%</u>      |