

Recreation Authority of Roseville and Eastpointe

**Financial Report
with Supplemental Information
June 30, 2016**

Recreation Authority of Roseville and Eastpointe

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December 1, 2016

To the Board of Trustees, Residents of the Roseville
and Eastpointe Authority Community

Letter of Transmittal

We are submitting herewith the financial report of the Recreation Authority of Roseville and Eastpointe (the “Authority”) as of and for the year ended June 30, 2016. It is the responsibility of Authority management to present fairly, with full disclosure and in conformity with accounting principles generally accepted in the United States of America, the financial position and results of operations of the Authority’s funds. The annual financial report contains necessary disclosures useful in providing an understanding of the individual funds and full accrual financial statements. Pursuant to that requirement, we hereby issue the annual financial report of the Recreation Authority of Roseville and Eastpointe as of and for the year ended June 30, 2016. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management.

To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the funds and of the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority’s activities have been included.

Plante & Moran, PLLC has issued an unmodified “clean” opinion on the Authority’s financial statements as of and for the year ended June 30, 2016. The independent auditor’s report is located at the front of the financial section of this report.

Management’s discussion and analysis (the “MD&A”) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

State law requires that all local governmental units, including authorities such as the Recreation Authority of Roseville and Eastpointe, 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.

The Authority is a special district form of government operating independently of all other governmental agencies. It provides a full range of recreational activities to the residents of Roseville and Eastpointe. The purpose of the Authority is to provide recreational services and construct, operate, maintain, and/or improve recreational facilities, including but not limited to parks, swimming pools, recreation centers, auditoriums, and any other facilities authorized by Section 5 of Act 321 of the State of Michigan.

Governmental Structure, Local Economic Condition, and Outlook

The Authority was sanctioned by Public Act 321 as a metropolitan district for planning, promoting, acquiring, constructing, owning, developing, maintaining, and operating, either within or without its limits, parks connecting drives and/or limited access highways and to provide for the assessment, levy, and collection of property taxes on both real and personal properties located within its boundaries. A referendum was held on November 8, 2011 on the proposed Authority. The citizens of the cities of Roseville and Eastpointe approved the creation of a one mill levy for a period of 20 years for Authority operations.

The governing body of the Authority is a five-member Board of Trustees. Two trustees are appointed from the legislative bodies of Roseville and Eastpointe, who then appoint a trustee at large for terms of three years. Public meetings of the Board of Trustees are held on the second Thursday of each month. The Board of Trustees is responsible, among other things, for setting policy; adopting the budget; setting fees; approving contracts, land acquisitions, and expenditures; planning new recreational services facilities; and appointing three staff officers: an executive director, a program director, and a senior director. Administrative and fiscal management services including accounting, payroll, and risk management are provided by agreement from the City of Roseville.

The Executive Director is responsible for carrying out the policies of the Board of Trustees, overseeing the day-to-day operations of the recreation services system, hiring all employees, and approving all purchase commitments of the Authority. The Executive Director is also the Executive Secretary and keeps minutes of all Board of Trustee meetings, is the official custodian of all records of the Authority, coordinates the recording of all property owned by the Authority, and certifies all payment vouchers prior to approval by the Board of Trustees. The Controller of Roseville is responsible for maintaining all financial accounting records of the Authority; collecting all revenues due to the Authority; investing all Authority funds; issuing payment vouchers for goods, services, and payrolls; and maintaining property/casualty insurances under the present agreement between the Authority and the City of Roseville.

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the local economic environment in which the Authority operates.

Regional Profile and Economic Conditions

The Authority encompasses the City of Roseville and the City of Eastpointe and is located near the southeast corner of Macomb County, adjacent to the southern boundary of Macomb County and north of the city of Detroit. Freeway access to the southeast Michigan region is provided by Interstate-94 (I-94) and Interstate-696 (I-696). In addition, regional access is available using the bus system of the Suburban Mobility Authority for Regional Rapid Transit (SMART) system. Both the cities of Roseville and Eastpointe have grown and prospered significantly as two of southeastern Michigan's earliest and strongest suburban communities.

The Authority was created by the municipalities of Roseville and Eastpointe and services the territories of these two established traditional yet forward-thinking communities. Both Roseville and Eastpointe continue to welcome residents, businesses, and visitors alike to enjoy vibrant and diverse community lifestyles. The Authority is ideally located in southeastern Michigan, within Macomb County, and proud of the initiative to “Make Macomb Your Home.” Roseville and Eastpointe provide a full range of services to residents, visitors, and the business community and are conveniently located for employers and employees alike.

With 60 percent of voters taxing themselves in 2011 with an additional millage of \$1.00 per thousand of taxable value to fund the Authority, it is clear that quality of life and services to young, old, and those of special needs is in the community culture of the joint cities. The residents’ action supporting the initiative to collaborate and join recreation departments indicates they are willing to pay for and improve their communities and make sure that the “sense of place” in Roseville and Eastpointe is alive and well.

Like most communities, in recent years, the cities of Roseville and Eastpointe have experienced double-digit declines in market values on its real and personal properties. Unfortunately, even as the housing market struggles to recover under Proposal A, taxable value losses will be slow to recoup due to the mandated inflationary cap on property assessments. No matter the rate of increase, it will take significant future years to restore any municipality to its prior funding level. As evidenced by a reduction in property values to tax at the one mill rate, the challenges of revenue will be a prominent issue for the continuation of operations of the Authority. The Authority will adhere to a multi-year financial plan to address the challenges of revenue reduction and increase program income along with seeking additional grant funding sources.

Major Achievements and Result of Operations for 2015-2016

The fifth year of the newly formed authority was not without challenges. Some financial challenges will remain in the foreseeable future. Despite the expected and some unexpected challenges, there were significant achievements in 2015-2016, with more anticipated in the years ahead.

- Completion of structural enhancements and expansion of the Recreation Authority Center building on Sycamore fulfilling CGAP grant requirements for reimbursement from the State of Michigan
- Continued sponsorship of the "Sizzlin' Summer Nights" event that has become a successful annual event in the City of Eastpointe
- Secured a new leasing arrangement for the Eastpointe Community Center on Eight Mile
- Created an interactive website for the Authority to better serve the residents of the member communities
- Renewed a Cooperative Agreement with Roseville Community Schools to share resources and maintain low program costs for residents
- Provided staffing for Kelly Middle School for the continuation of an Art class and for the promotion of Teen Programs during the final eight weeks of the 2015-2016 school year
- Established health initiatives for youth and seniors through coordination with mParks with funding from the Michigan Health Endowment Fund

In 2015-2016, the Authority established several objectives to be accomplished in the next fiscal year that will have a material impact on services and financial planning including:

- Continuing to redefine the organization and improve full cost recovery program objectives by evaluating programs and special events to provide a variety of recreational opportunities that appeal to the residents of Eastpointe and Roseville
- Continuing to follow a multi-year capital equipment and facilities improvement plan that includes senior van maintenance yard expansion, van shelter installation, and other handicapped bus service enhancements
- Develop and implement a concession agreement to operate facilities in Eastpointe and Roseville during sporting events
- Continue to seek sponsors for the Authority's various programs and events

The Reporting Entity and Services Provided

The Authority has defined its financial reporting entity in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB).

Financial Information

Management of the Authority is responsible for establishing and maintaining internal controls designed to ensure that the assets of the Authority are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe the Authority's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The Authority adopted a balanced fiscal year 2015-2016 General Fund budget. During the year, RARE contributed \$308,000 to fund balance assigning \$69,000 for capital improvements. The slow rebound in taxable values in both cities limited by Proposal A continues to impact the Authority's budget and will seriously affect operations in the future. However, with cost control initiatives put in place including the continued reliance on part-time staff as well as modifications to the operations of existing programs, the use of the unreserved fund balance should be avoided for several fiscal years to come. The planning and operations of the physical buildings and facilities of the Authority will significantly affect the five-year fiscal plan and, accordingly, each budget year ahead.

Budgeting Controls

In accordance with state law, the Authority's budget is prepared on the modified accrual basis for governmental-type funds, and its accounting records are also maintained on that basis. Under modified accrual accounting, revenues are recorded when they are both measurable and available. Expenditures are recorded when a liability is incurred, except for interest on long-term debt.

The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Authority's governing body. Activities of the General Fund are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the program unit level for the General Fund. However, for internal accounting purposes, budgetary control is maintained by object class (line account) for all funds. The City of Roseville, on behalf of the Authority, also maintains an encumbrance accounting system as one technique of accomplishing budgetary control.

Purchase orders that would create an over-encumbrance are not written until additional appropriations are available. Encumbered accounts lapse at year end. However, any encumbrances outstanding at June 30, 2016 are reported as reservations of fund balance.

As demonstrated by the statements and schedules included in the financial section of this report, the Authority has met and will continue to meet its financial management responsibilities.

Acknowledgments

The timely preparation of this report could not have been accomplished without the efficient and dedicated services of the staff of the Roseville Controller's Department and our independent auditors, Plante & Moran, PLLC, certified public accountants. We express our appreciation to all members of the city departments we partnered with that assisted and contributed to operations. In closing, without the leadership and support of the Board of Trustees, this report would not have been possible.

Sincerely,

Anthony J. Lipinski
Executive Director

Independent Auditor's Report

To the Members of the Board
Recreation Authority of Roseville and Eastpointe

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities (full accrual basis) and the General Fund (modified accrual basis) of the Recreation Authority of Roseville and Eastpointe (the "Authority") as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Recreation Authority of Roseville and Eastpointe's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities (full accrual basis) and the General Fund (modified accrual basis) of the Recreation Authority of Roseville and Eastpointe as of June 30, 2016 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Members of the Board
Recreation Authority of Roseville and Eastpointe

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the General Fund budgetary comparison schedule, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Recreation Authority of Roseville and Eastpointe's basic financial statements. The letter of transmittal is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The letter of transmittal has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Plante & Morse, PLLC

December 1, 2016

Recreation Authority of Roseville and Eastpointe

Management's Discussion and Analysis

Our discussion and analysis of the Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the Authority's financial statements.

Financial Highlights

As management of the Authority, we offer the readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, the financial statements, and the notes to the financial statements. The Authority was incorporated by the City Council of Roseville on August 9, 2011 and the City Council of Eastpointe on August 16, 2011 and operationalized in the November 8, 2011 election whereby voters in both Roseville and Eastpointe approved a levy of one mill (\$1 per thousand of taxable value) by an average of nearly 60 percent "yes" votes. Funded operations of the Authority began on January 1, 2012. The emphasis of the Authority's third annual budget and five-year plan is to provide senior recreation and transportation services and programs for youth and adult participation. The Authority's buildings, acquired at incorporation, are located at 18185 Sycamore in Roseville and 16435 Eight Mile Road in Eastpointe.

Using this Annual Report

This annual report consists of three parts - the management's discussion and analysis (this section), the basic financial statements, and required supplemental information. The basic financial statements include information that presents two different views of the Authority:

- The first column of the financial statements includes information on the Authority's Operating Fund under the modified accrual method. This fund's financial statement focuses on current financial resources and provides a more detailed view about the accountability of the Authority's sources and uses of these funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method.
- The third column is the government-wide financial statement column. This column provides both long-term and short-term information about the Authority's overall financial status. The statement of net position and the statement of activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. These statements tell how the Authority was financed in the short term, as well as what remains for future spending.

Recreation Authority of Roseville and Eastpointe

Management's Discussion and Analysis (Continued)

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required information that further explains and supports the information in the financial statements.

Governmental Activities

The following tables show, in a condensed format, the current year's net position and changes in net position, compared to the prior year:

	Governmental Activities			
	2015	2016	Change	Percent Change
Assets				
Other assets	\$ 1,784,217	\$ 1,684,712	\$ (99,505)	-6%
Capital assets	<u>5,740,672</u>	<u>5,428,483</u>	<u>(312,189)</u>	-5%
Total assets	7,524,889	7,113,195	(411,694)	-5%
Liabilities				
Current liabilities	952,736	200,983	(751,753)	-79%
Long-term liabilities	<u>1,612,521</u>	<u>1,601,642</u>	<u>(10,879)</u>	-1%
Total liabilities	<u>2,565,257</u>	<u>1,802,625</u>	<u>(762,632)</u>	-30%
Net Position				
Net investment in capital assets	4,140,672	3,854,442	(286,230)	-7%
Restricted	-	-	-	0%
Unrestricted	<u>818,960</u>	<u>1,456,128</u>	<u>637,168</u>	78%
Total net position	<u>\$ 4,959,632</u>	<u>\$ 5,310,570</u>	<u>\$ 350,938</u>	7%

	Governmental Activities			
	2015	2016	Change	Percent Change
Revenue				
Program revenue:				
Charges for services to external parties	\$ 357,361	\$ 413,493	\$ 56,132	16%
SMART operating credits	149,211	206,026	56,815	38%
General revenue:				
Property taxes	1,246,453	1,287,661	41,208	3%
State grants	-	342,000	342,000	100%
Other revenue	<u>55,159</u>	<u>35,272</u>	<u>(19,887)</u>	-36%
Total revenue	1,808,184	2,284,452	476,268	26%
Program Expenses - Recreation	<u>1,582,883</u>	<u>1,933,514</u>	<u>350,631</u>	22%
Change in Net Position	<u>\$ 225,301</u>	<u>\$ 350,938</u>	<u>\$ 125,637</u>	56%

Recreation Authority of Roseville and Eastpointe

Management's Discussion and Analysis (Continued)

The Authority's total net position at June 30, 2016 was \$5,310,570, including approximately \$3.9 million in capital assets. The Authority's governmental revenue totaled \$2,284,452, of which \$1,287,661, or 56 percent, was supported by property taxes levied on both real and personal properties located within the Authority's boundaries. Program revenue generated from recreation programs and rental fees totaled \$413,493, or 18 percent. State grants for the program were \$342,000, or 15 percent. The remaining 11 percent, or \$241,298, was generated from the following activities: \$206,026 from SMART operating revenue and \$35,272 from vending machine revenue, rent, a farmer's market program, and other miscellaneous sources. The Authority's government-wide expenditures totaled \$1,933,514, of which \$771,714, or 40 percent, is attributed to personnel-related expenditures. Program operating supplies, professional services, and administrative fees represent 21 percent of total governmental expenditures, or \$413,805. Utilities and building-related expenditures represent 36 percent, or \$701,491, of total expenditures incurred. At year end, the Authority contributed approximately \$350,000 to its net position.

General Fund Budgetary Highlights

The Authority's administration monitors and amends the budget to take into account unanticipated expenditures that were incurred during the year. The Authority adopted a balanced budget for fiscal year 2015-2016. The budget was formally amended once for fiscal year 2016. A budgetary comparison statement has been provided herein to demonstrate compliance with this budget. At year end, actual revenue was approximately \$339,000 less than the amended budgeted amounts due to recreation fees collected in advance for fiscal year 2015-2016 programs that were reclassified as unearned revenue and operating reimbursements from SMART not received by June 30, 2015. Actual expenditures were approximately \$40,000 greater than budgeted amounts due to the timing of construction at the Sycamore Center. After utilizing \$1,500,000 of fund balance reserved for structural enhancements at the Sycamore Center, the Authority contributed approximately \$0.4 million to its unreserved fund balance in fiscal year 2014-2015. As stated earlier, the main objective of the Authority's fifth annual budget and multi-year plan is to provide senior recreation and transportation services and programs for youth and adult participation. However, the mandated inflationary cap on property assessments under Proposal A limits the recovery of losses of taxable property values from prior years in both cities which seriously affects the Authority's budgets in the future. For fiscal year 2017 and beyond, management has developed a comprehensive multi-year financial forecast that will be updated annually as part of the Authority's annual operating budget to ensure adequate financial reserves are maintained.

Recreation Authority of Roseville and Eastpointe

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of 2016, the Authority had \$5.4 million invested in capital assets, including land, buildings, and equipment with related outstanding debt of \$1.6 million. During fiscal year 2011-2012, the member cities transferred approximately \$3.3 million in net assets to the Recreation Authority of Roseville and Eastpointe. The Authority uses these capital assets to provide recreation services to citizens; consequently, these assets are not available for future spending. At inception, the City Councils of Roseville and Eastpointe committed to contribute real and personal property to the Authority limited to the City of Roseville Recreation Center, 18185 Sycamore, Roseville, MI and the City of Eastpointe Community Center, 16435 Eight Mile Road, Eastpointe, MI. The articles permit any participating municipality to withdraw upon giving one full year's budgetary notice. The articles also address dissolution of the Authority, which requires council resolution from the governing board of the participating communities, at which time all outstanding debt of the Authority is required to be paid in full. Any remaining assets of the Authority would be evenly distributed to the member communities at the time of dissolution. During fiscal year 2013-2014 and fiscal year 2014-2015, the Authority incurred approximately \$200,000 and \$3 million, respectively, in building improvement expenditures at the 18185 Sycamore building with an additional \$300,000 incurred during fiscal year 2015-2016. During fiscal year 2013-2014, the Authority entered into a loan agreement with the member communities that allows advances up to \$900,000 from each community as needed to fund future building improvement expenditures at this location. At June 30, 2016, the Authority had \$1,800,000 of outstanding debt, with \$900,000 due to each member community.

Economic Factors and Next Year's Budgets and Rates

The fifth year of the newly formed Authority was not without challenges. Many financial challenges remain in the foreseeable future. Funding for the Authority is principally supported by property taxes and program revenue. Like most communities, in recent years, the cities of Roseville and Eastpointe have experienced double-digit declines in market values on their real and personal properties. For 2017, an increase in taxable value from property assessments in member communities is anticipated. Unfortunately, even as the housing market recovers under Proposal A, taxable value losses from prior years will be slow to recoup due to the mandated inflationary cap on property assessments. No matter the rate of increase, it will take significant future years to restore any municipality to its prior funding level. For fiscal year 2015-2016, taxable value of property subject to the Authority's authorized one mill levy was \$1,304,725,994. For fiscal year 2016-2017, taxable value of property subject to the Authority's authorized one mill levy is assessed at \$1,304,725,994. As evidenced by a reduction in property values to tax at the one mill rate, the challenges of revenue will be a prominent issue for the continuation of operations of the Authority. The Authority will adhere to a multi-year financial plan to address the challenges of revenue reduction and increase program income along with seeking additional grant funding sources.

Recreation Authority of Roseville and Eastpointe

Management's Discussion and Analysis (Continued)

The Authority is pursuing new service-sharing agreements with surrounding communities while seeking additional grant sources to ensure adequate financial reserves are maintained. Through the implementation of staff restructuring and employee benefit controls, along with fiscal modifications to programs, the use of fund balance should be avoided for several fiscal years to come. However, the planning and operations of physical buildings and facilities of the Authority, in addition to future construction projects, will significantly affect the multi-year fiscal plan and, accordingly, each budget year ahead.

Contacting the Authority's Management

This financial report is intended to provide our member communities, taxpayers, customers, and potential new members with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Authority directly.

Recreation Authority of Roseville and Eastpointe

Statement of Net Position/Governmental Funds Balance Sheet June 30, 2016

	Modified Accrual Basis		
	General Fund	Adjustments (Note 2)	Statement of Net Position
Assets			
Cash and cash equivalents (Note 3)	\$ 1,197,450	\$ -	\$ 1,197,450
Receivables:			
Property taxes receivable	66,731	-	66,731
Other receivables	50,449	-	50,449
Due from other governmental units	342,000	-	342,000
Prepaid expenses	24,410	-	24,410
Capital assets (Note 5):			
Assets not subject to depreciation	-	815,030	815,030
Assets subject to depreciation	-	4,613,453	4,613,453
	<u>\$ 1,681,040</u>	5,428,483	7,109,523
Liabilities			
Accounts payable	72,010	-	72,010
Accrued liabilities and other	20,052	-	20,052
Unearned revenue (Note 4)	108,921	-	108,921
Noncurrent liabilities:			
Due within one year:			
Compensated absences	-	18,988	18,988
Current portion of long-term debt	-	317,527	317,527
Due in more than one year:			
Compensated absences	-	4,941	4,941
Long-term debt (Note 9)	-	1,256,514	1,256,514
	200,983	1,597,970	1,798,953
Deferred Inflows of Resources - Revenue earned but not collected	372,800	(372,800)	-
	573,783	1,225,170	1,798,953
Fund Balance			
Nonspendable - Prepays	28,082	(28,082)	-
Assigned - Capital improvements	69,117	(69,117)	-
Unassigned	1,010,058	(1,010,058)	-
	1,107,257	(1,107,257)	-
	<u>\$ 1,681,040</u>	117,913	1,798,953
Net Position			
Net investment in capital assets		3,854,442	3,854,442
Unrestricted		1,456,128	1,456,128
		<u>\$ 5,310,570</u>	<u>\$ 5,310,570</u>

The Notes to Financial Statements are an
Integral Part of this Statement.

Recreation Authority of Roseville and Eastpointe

Statement of Activities/Governmental Fund Revenue, Expenditures, and Changes in Fund Balance Year Ended June 30, 2016

	Modified Accrual Basis		
	General Fund	Adjustments (Note 2)	Statement of Activities
Revenue			
Taxes	\$ 1,289,648	\$ (1,987)	\$ 1,287,661
Charges for services to external parties	413,493	-	413,493
SMART operating credits	206,026	-	206,026
State grants	-	342,000	342,000
Other revenue	30,760	4,512	35,272
Total revenue	1,939,927	344,525	2,284,452
Expenditures/Expenses - Recreation and culture			
Salaries and wages	599,285	11,408	610,693
Fringe benefits	161,021	-	161,021
Operating supplies and sundry	131,022	-	131,022
Professional fees, administration fees, training, and other	282,783	-	282,783
Capital outlay	178,966	(178,966)	-
Utilities, maintenance, and improvements	210,336	-	210,336
Depreciation expense	-	491,155	491,155
Debt service - Principal	225,959	(225,959)	-
Interest on promissory note	46,504	-	46,504
Total expenditures/expenses	1,835,876	97,638	1,933,514
Other Financing Sources - Promissory note proceeds	200,000	(200,000)	-
Net Change in Fund Balance/Net Position	304,051	46,887	350,938
Fund Balance/Net Position - Beginning of year	803,206	4,156,426	4,959,632
Fund Balance/Net Position - End of year	\$ 1,107,257	\$ 4,203,313	\$ 5,310,570

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by the Recreation Authority of Roseville and Eastpointe (the "Authority"):

Reporting Entity

The Recreation Authority of Roseville and Eastpointe was established under Michigan Public Act 321 of 2000. The Authority is governed by an elected five-member council (board). Two members are appointed by the City Council of each participating member community. A neutral fifth member is appointed by the other four members. The Authority constructs, operates, maintains, and/or approves recreational facilities and provides recreational services to the participating cities of Roseville and Eastpointe. Revenue is derived principally from a property tax levy on each participating community.

Accounting and Reporting Principles

The Authority follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The General Fund column presents its activities on the modified accrual basis of accounting, as discussed above, which demonstrates accountability for how the current resources have been spent. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue in the year for which they are levied. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

Fund Accounting

The Authority accounts for its various activities in a single fund.

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund. The Authority reports the General Fund as a "major" governmental fund. The General Fund represents the Authority's primary operating fund. It accounts for all financial resources of the Authority.

Basis of Accounting

The governmental fund uses the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources.

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as sick and vacation pay) are not counted until they come due for payment.

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the Authority considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: current property taxes, charges for services, and SMART operating credits. Conversely, delinquent taxes, grants, and utility fees will be collected after the period of availability; therefore, receivables have been recorded for these, along with a "deferred inflow."

Specific Balances and Transactions

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and a bank certificate of deposit.

Prepaid Expenses - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Buildings and equipment are depreciated using the straight-line method over the following useful lives:

<u>Capital Asset Class</u>	<u>Lives</u>
Buildings and building improvements	20 years
Machinery and equipment	5 to 7 years

Land Use Fees - Included in the utilities, maintenance, and improvements line item is \$90,000, which represents land use payments of \$45,000 to each community per the land use agreement.

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. There were no deferred outflows reported.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue is reported only in the governmental funds balance sheet.

Fund Balance Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Authority itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Authority's board is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Authority's 2015 tax is levied and collectible on July 1, 2015 and is recognized as revenue in the year ended June 30, 2016 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2015 taxable valuation of the Authority totaled \$1.3 billion, on which taxes levied consisted of 1.0000 mill for operating purposes. This resulted in \$1.290 million for the Authority. These amounts are recognized in the General Fund financial statements as tax revenue.

Compensated Absences (Vacation and Sick Leave) - It is the Authority's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. All compensated absence liabilities will eventually be extinguished by General Fund resources.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2016

Note 2 - Reconciliation of Modified Accrual Financial Statements to the Full Accrual Financial Statements

Net position reported in the statement of net position column is different than the fund balance reported in the individual fund column because of the different measurement focus and basis of accounting, as discussed in Note 1. Below is a reconciliation of the differences:

Fund Balance Reported in Governmental Funds	\$ 1,107,257
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	5,428,483
Promissory note is not due and payable in the current period and is not reported in the funds	(1,574,041)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(23,929)
Unavailable revenue related to delinquent taxes, utility reimbursements, and grants that are for services already performed but not yet collected are recognized as a deferred inflow of resources in the fund but are revenue in the statement of net position	<u>372,800</u>
Net Position of Governmental Activities	<u>\$ 5,310,570</u>

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2016

Note 2 - Reconciliation of Modified Accrual Financial Statements to the Full Accrual Financial Statements (Continued)

The change in net position reported in the statement of activities column is different than the change in fund balance reported in the individual fund column because of the different measurement focus and basis of accounting, as discussed in Note 1. Below is a reconciliation of the differences:

Net Change in Fund Balances - Total Governmental Funds	\$ 304,051
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, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	178,966
Depreciation expense	(491,155)
Revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	344,525
Promissory note proceeds are not reported in the statement of activities but rather are shown as long-term debt	(200,000)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	225,959
Increase in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment	(11,408)
Change in Net Position of Governmental Activities	<u>\$ 350,938</u>

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2016

Note 3 - Cash and Cash Equivalents

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated two banks for the deposit of its funds. The investment policy adopted by the Authority in accordance with Public Act 196 of 1997 has authorized investments in bonds and securities of the United States government, bank accounts, and CDs, but not the remainder of state statutory authority as listed above. The Authority's deposits and investment policies are in accordance with statutory authority.

The Authority holds its cash and investments in a checking account in its own name, a sweep account managed by the City of Roseville, and a certificate of deposit. As of June 30, 2016, the balance in the checking account was \$1,039,674, the balance in the commingled sweep account was \$30,872, and the balance of the certificate of deposit was \$200,000.

The Authority's cash and investments are subject to various of risks, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had \$820,546 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. A portion of the Authority's cash is commingled with other pooled cash managed by the City of Roseville and there is no separate insurance for the Authority. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2016

Note 4 - Deferred Inflows of Resources and Unearned Revenue

Governmental funds report deferred inflows of resources in connection with receivables that are not collectible soon enough after the end of the year (60 days) that they are considered to be available to liquidate liabilities of the current period. On the full accrual basis, the Authority also defers 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 inflows of resources and unearned revenue are as follows:

	General Fund - Modified Accrual Deferred Inflows of Resources	Authority - Full Accrual Unearned Revenue
Delinquent property taxes	\$ 13,964	\$ -
Utility fees	16,836	-
Grants	342,000	-
Recreation use fees	-	93,417
Rental fees	-	15,504
	<u> </u>	<u> </u>
Total	<u>\$ 372,800</u>	<u>\$ 108,921</u>

Note 5 - Capital Assets

Capital asset activity of the Authority was as follows:

Governmental Activities	Balance July 1, 2015	Additions	Reclassifications and Disposals	Balance June 30, 2016
Capital assets not being depreciated - Land	\$ 815,030	\$ -	\$ -	\$ 815,030
Capital assets being depreciated:				
Buildings and improvements	5,562,429	75,647	-	5,638,076
Machinery and equipment	298,168	103,319	(8,661)	392,826
Subtotal	<u>5,860,597</u>	<u>178,966</u>	<u>(8,661)</u>	<u>6,030,902</u>
Accumulated depreciation - Buildings, improvements, and equipment	<u>934,955</u>	<u>491,155</u>	<u>(8,661)</u>	<u>1,417,449</u>
Net capital assets being depreciated	<u>4,925,642</u>	<u>(312,189)</u>	<u>-</u>	<u>4,613,453</u>
Net capital assets	<u>\$ 5,740,672</u>	<u>\$ (312,189)</u>	<u>\$ -</u>	<u>\$ 5,428,483</u>

Total depreciation for the year ended June 30, 2016 is \$491,155.

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2016

Note 6 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority purchased commercial insurance for property loss, torts, errors and omissions, and workers' compensation insurance that fulfill statutory requirements. The Authority is insured for medical benefit claims through the City of Roseville's employee medical benefit plan, which is liable for claims up to \$200,000 on an individual level annually. Excess insurance coverage for medical benefit claims has been purchased by the City of Roseville. Settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 7 - Defined Contribution Pension Plan

The Authority provides pension benefits to all of its full-time employees through a defined contribution plan administered by Transamerica Investments. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by the employment agreement (authority under which the pension obligation is established), the Authority contributes 15 percent of employees' gross earnings and the employees can contribute up to 5 percent. The employee contributions for each employee plus interest allocated to the employee's account are fully vested after five years of service.

The Authority's total payroll during the current year was \$493,911. The current year contribution was calculated based on covered payroll of \$246,443, resulting in an employer contribution of \$36,966 and employee contributions of \$12,322.

Note 8 - Other Postemployment Benefits

The Authority provides retiree healthcare benefits to eligible employees and their spouses. This is a defined contribution plan administered by Transamerica Investments. The benefits are provided under employment agreements. The agreements require the Authority to contribute 2 percent of the employees' base wages. Employees are required to contribute 1 percent of their base pay.

During the year ended June 30, 2016, the Authority made contributions of \$4,929 and the plan members contributed \$2,464 to the plan.

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2016

Note 9 - Long-term Debt

The Authority entered into a debt issuance to provide for the acquisition, construction, and remodeling of major capital facilities.

During the prior year the Authority drew upon \$1,600,000 of the available advances and an additional \$200,000 during the current year. The Authority drew equally from the City of Eastpointe and the City of Roseville in the form of a promissory note. Each note has an interest rate of 2.75 percent to fund building construction costs. Monthly installments of accrued interest only shall be made beginning on the date any draw occurs and continuing on the same day of each month thereafter. An amortization schedule was established; however, the agreement stipulated that principal payments can be made at the Authority's discretion with outstanding amounts due no later than five years from the first draw.

Governmental Activities	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Promissory notes	\$ 1,600,000	\$ 200,000	\$ 225,959	\$ 1,574,041	\$ 317,527
Accumulated compensated absences	<u>12,521</u>	<u>19,855</u>	<u>8,447</u>	<u>23,929</u>	<u>18,988</u>
Total governmental activities	<u>\$ 1,612,521</u>	<u>\$ 219,855</u>	<u>\$ 234,406</u>	<u>\$ 1,597,970</u>	<u>\$ 336,515</u>

Compensated absences attributable to the governmental activities will be liquidated by the General Fund.

Total interest expense for the year was approximately \$46,504. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 317,527	\$ 36,057	\$ 353,584
2018	355,635	30,094	385,729
2019	365,539	20,190	385,729
2020	375,719	10,010	385,729
2021	<u>159,621</u>	<u>1,099</u>	<u>160,720</u>
Total	<u>\$ 1,574,041</u>	<u>\$ 97,450</u>	<u>\$ 1,671,491</u>

Note 10 - Upcoming Accounting Pronouncements

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement will require governments to disclose in their financial statements information related to tax abatement agreements. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during the 2016-2017 fiscal year.

Required Supplemental Information

Recreation Authority of Roseville and Eastpointe

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2016

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes	\$ 1,277,904	\$ 1,291,679	\$ 1,289,648	\$ (2,031)
Charges for services to external parties	445,000	420,000	413,493	(6,507)
SMART operating credits	198,127	191,642	206,026	14,384
Other revenue	394,056	375,700	30,760	(344,940)
Total revenue	2,315,087	2,279,021	1,939,927	(339,094)
Expenditures/Expenses				
Salaries and wages	601,248	582,575	599,285	(16,710)
Fringe benefits	162,062	164,535	161,021	3,514
Operating supplies and sundry	140,109	117,121	131,022	(13,901)
Professional fees, administration fees, training, and other	284,419	264,372	282,783	(18,411)
Capital outlay	240,000	177,621	178,966	(1,345)
Utilities, maintenance, and improvements	336,399	245,837	210,336	35,501
Premium on promissory note	254,496	197,486	225,959	(28,473)
Interest on promissory note	42,778	42,832	46,504	(3,672)
Total expenditures/expenses	2,061,511	1,792,379	1,835,876	(43,497)
Other Financing Sources	200,000	200,000	200,000	-
Net Change in Fund Balance	453,576	686,642	304,051	(382,591)
Fund Balance - Beginning of year	803,206	803,206	803,206	-
Fund Balance - End of year	<u>\$ 1,256,782</u>	<u>\$ 1,489,848</u>	<u>\$ 1,107,257</u>	<u>\$ (382,591)</u>

Recreation Authority of Roseville and Eastpointe

Note to Required Supplemental Information Year Ended June 30, 2016

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The annual budget is prepared and adopted by the Authority's members; subsequent amendments are approved by the Authority's members. During the current year, the budget was amended in a legally permissible manner.

The budget statement (statement of revenue, expenditures, and changes in fund balance - budget and actual - General Fund) is presented in accordance with accounting principles generally accepted in the United States of America, which is the same basis of accounting used in preparing the adopted budget except for reporting proceeds from debt as revenue rather than other financing sources. The budget has been adopted at the program unit level; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A reconciliation of the budgetary comparison schedules to the fund-based statements of changes in fund balances is as follows:

The following line items had unfavorable expenditure budget variances: fringe benefits and capital outlay.

	Amended Budget	Actual	Variance
Salaries and wages	\$ 582,575	\$ 599,285	\$ (16,710)
Operating supplies and sundry	117,121	131,022	(13,901)
Professional fees, administration fees, training, and other	264,372	282,783	(18,411)
Capital outlay	177,621	178,966	(1,345)
Premium on promissory note	197,486	225,959	(28,473)
Interest on promissory note	42,832	46,504	(3,672)