

Recreation Authority of Roseville and Eastpointe

**Financial Report
with Supplemental Information
June 30, 2014**

Recreation Authority of Roseville and Eastpointe

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Recreation Authority of Roseville-Eastpointe



10/3/2014

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, 2014. 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, 2014. 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, 2014. 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 2013-2014

The third 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 “start-up” challenges, there were significant achievements in 2013-2014, with more anticipated in the years ahead.

- Initiated construction of the Sycamore Center building improvement project and executed loan agreements with the Cities of Roseville and Eastpointe to assist with funding the project
- Implemented a successful major special event, "Sizzlin' Summer Nights" that will become an annual event
- Developed the Eastpointe Farmer's Market program by assisting with marketing strategies and appointing a market manager
- Secured leasing agreement with two tenants for Eastpointe Eight Mile center
- Created an interactive website for the Authority to better serve the residents of the member communities

In 2013-2014, 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
- Developing and adopting a capital equipment and facilities multi-year improvement plan, including a senior van and handicapped bus service

- Complete structural enhancements to the Sycamore facility including construction of a dedicated senior wing with increased handicap parking

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. The internal control is 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 2013-2014 General Fund budget. The Authority contributed \$305,492 to the fund balance in fiscal year 2013-2014. The slowdown in the economy, including double-digit declines in taxable property values in both cities, continues to impact the Authority's budget and will seriously affect operations in the future. However, with the implementation of employee benefit controls, reductions in costs for full-time staff, and greater reliance on part-time staff following the initial restructuring of the Authority, in addition to new fiscal controls and modifications to programs, the use of the fund balance should be avoided for several fiscal years to come. The planning and operations of the physical buildings and facilities of the Authority, in addition to future construction projects, will significantly affect the five-year fiscal plan and, accordingly, each budget year ahead.

The Authority's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

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, 2014 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 Lipinski
Executive Director

Independent Auditor's Report

To the Board of Trustees
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, 2014 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, 2014 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 Board of Trustees
Recreation Authority of Roseville and Eastpointe

Emphasis of Matter

As discussed in Note 9 to the basic financial statements, during the year ended June 30, 2014, the Authority implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result, certain balances have been reclassified to deferred inflows or deferred outflows on the Authority's balance sheet. Our opinion is not modified with respect to this matter.

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 schedules, 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.

Plante & Moran, PLLC

October 3, 2014

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, 2014. 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, 2014. 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 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 table shows, in a condensed format, the current year's net position and changes in net position, compared to the prior year:

	Governmental Activities			Percent Change
	2013	2014	Change	
Assets				
Other assets	\$ 1,796,049	\$ 2,128,337	\$ 332,288	19%
Capital assets	<u>2,890,027</u>	<u>2,862,296</u>	<u>(27,731)</u>	-1%
Total assets	4,686,076	4,990,633	304,557	6%
Liabilities				
Current liabilities	209,029	244,653	35,624	17%
Long-term liabilities	<u>14,258</u>	<u>11,649</u>	<u>(2,609)</u>	-18%
Total liabilities	223,287	256,302	33,015	15%
Net Position				
Net investment in capital assets	2,890,027	2,862,296	(27,731)	-1%
Unrestricted	<u>1,572,762</u>	<u>1,872,035</u>	<u>299,273</u>	19%
Total net position	<u>\$ 4,462,789</u>	<u>\$ 4,734,331</u>	<u>\$ 271,542</u>	6%

	Governmental Activities			Percent Change
	2013	2014	Change	
Revenue				
Program revenue:				
Charges for services to external parties	\$ 370,278	\$ 437,104	\$ 66,826	18%
SMART operating credits	122,131	178,293	56,162	46%
General revenue:				
Property taxes	1,359,531	1,249,788	(109,743)	-8%
Other revenue	<u>42,638</u>	<u>42,836</u>	<u>198</u>	0%
Total revenue	1,894,578	1,908,021	13,443	1%
Program Expenses - Public safety	<u>1,745,432</u>	<u>1,636,479</u>	<u>(108,953)</u>	-6%
Change in Net Position	<u>\$ 149,146</u>	<u>\$ 271,542</u>	<u>\$ 122,396</u>	82%

Recreation Authority of Roseville and Eastpointe

Management's Discussion and Analysis (Continued)

The Authority's total net position at June 30, 2014 was \$4,734,331, including approximately \$2.9 million in capital assets contributed by the Cities of Roseville and Eastpointe at the Authority's inception. The Authority's governmental revenues totaled \$1,908,021, of which \$1,249,788, or 66 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 \$437,104, or 23 percent. The remaining 11 percent, or \$221,129, was generated from the following activities: \$178,293 from SMART operating revenues, and \$42,836 from vending machine revenues, rent, a farmer's market program, and other miscellaneous sources. The Authority's governmental expenditures totaled \$1,636,479, of which \$664,898, or 41 percent, is attributed to personnel-related expenditures. Program operating supplies, professional services, and administrative fees represent 26 percent of total governmental expenditures, or \$418,476. Utilities and building-related expenditures represent 33 percent, or \$553,105, of total expenditures incurred. At year end, the Authority contributed approximately \$272,000 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 2013-2014. The budget was formally amended once for fiscal year 2014. A budgetary comparison statement has been provided herein to demonstrate compliance with this budget. At year end, actual revenues were approximately \$27,000 less than the amended budgeted amounts due to recreation fees collected in advance for fiscal year 2014-2015 programs that were reclassified as unearned revenue and operating reimbursements from SMART not received by June 30, 2014. Actual expenditures were approximately \$188,000 greater than budgeted amounts due to the timing of construction at the Sycamore Center. The Authority overall contributed approximately \$0.3 million to its fund balance in fiscal year 2013-2014. As stated earlier, the main objective of the Authority's third annual budget and multi-year plan is to provide senior recreation and transportation services and programs for youth and adult participation. However, the recent slowdown of the economy and losses in taxable property values in both cities prior to the most recent fiscal year, seriously affects the Authority's budgets in the future. For fiscal year 2015 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 2014, the Authority had \$2.9 million invested in capital assets, including land, buildings, and equipment. 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, the Authority incurred approximately \$200,000 in building improvement expenditures at the 18185 Sycamore building, and 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, 2014, the Authority did not have any outstanding debt.

Economic Factors and Next Year's Budgets and Rates

The third 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 2015, an aggregate marginal decline in 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 2013-2014, taxable value of property subject to the Authority's authorized one mill levy was \$1,282,716,843. For fiscal year 2014-2015, taxable value of property subject to the Authority's authorized one mill levy is assessed at \$1,277,025,423. 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, 2014

	Modified Accrual Basis		
	General Fund	Adjustments (Note 2)	Statement of Net Position
Assets			
Cash and cash equivalents (Note 3)	\$ 2,056,198	\$ -	\$ 2,056,198
Receivables:			
Property taxes receivable	19,553	-	19,553
Other receivables	32,075	-	32,075
Prepaid expenses	20,511	-	20,511
Capital assets (Note 5):			
Assets not subject to depreciation	-	1,037,742	1,037,742
Assets subject to depreciation	-	1,824,554	1,824,554
Total assets	<u>2,128,337</u>	<u>2,862,296</u>	<u>4,990,633</u>
Liabilities			
Accounts payable	114,833	-	114,833
Accrued liabilities and other	40,776	-	40,776
Unearned revenue (Note 4)	89,044	-	89,044
Noncurrent liabilities - Compensated absences:			
Due within one year	-	7,575	7,575
Due in more than one year	-	4,074	4,074
Total liabilities	<u>244,653</u>	<u>11,649</u>	<u>256,302</u>
Deferred Inflows of Resources - Revenues earned but not collected	<u>30,463</u>	<u>(30,463)</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>275,116</u>	<u>(18,814)</u>	<u>256,302</u>
Fund Balance			
Nonspendable - Prepays	20,511	(20,511)	-
Unassigned	1,832,710	(1,832,710)	-
Total fund balance	<u>1,853,221</u>	<u>(1,853,221)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$2,128,337</u>	<u>\$(1,872,035)</u>	<u>\$ 256,302</u>
Net Position			
Net investment in capital assets		2,862,296	2,862,296
Unrestricted		1,872,035	1,872,035
Total net position		<u>\$ 4,734,331</u>	<u>\$4,734,331</u>

Recreation Authority of Roseville and Eastpointe

Statement of Activities/Governmental Fund Revenues, Expenditures, and Changes in Fund Balance Year Ended June 30, 2014

	Modified Accrual Basis		
	General Fund	Adjustments (Note 2)	Statement of Activities
Revenues			
Taxes	\$ 1,269,527	\$ (19,739)	\$ 1,249,788
Charges for services to external parties	437,104	-	437,104
SMART operating credits	178,293	-	178,293
Other revenue	31,925	10,911	42,836
	<u>1,916,849</u>	<u>(8,828)</u>	<u>1,908,021</u>
Expenditures/Expenses - Recreation and culture			
Salaries and wages	545,781	(2,609)	543,172
Fringe benefits	121,726	-	121,726
Operating supplies and sundry	146,402	-	146,402
Professional fees, administration fees, training, and other	272,074	-	272,074
Utilities, maintenance, and improvements	525,374	(239,836)	285,538
Depreciation expense	-	267,567	267,567
	<u>1,611,357</u>	<u>25,122</u>	<u>1,636,479</u>
Net Change in Fund Balance/Net Position	305,492	(33,950)	271,542
Fund Balance/Net Position - Beginning of year	<u>1,547,729</u>	<u>2,915,060</u>	<u>4,462,789</u>
Fund Balance/Net Position - End of year	<u>\$ 1,853,221</u>	<u>\$ 2,881,110</u>	<u>\$ 4,734,331</u>

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2014

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:

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 Government 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 revenues 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, 2014

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.

Revenues are not recognized until they are collected, or collected soon enough after the end of the year that they are 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 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 short-term investments with a maturity of three months or less when acquired.

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 fair market 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, 2014

Note I - Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, 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 financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, 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, 2014

Note 1 - 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 2013 tax is levied and collectible on July 1, 2013 and is recognized as revenue in the year ended June 30, 2014, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2013 taxable valuation of the Authority totaled \$1.238 billion, on which taxes levied consisted of 1.0000 mill for operating purposes. This resulted in \$1.269 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, 2014

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	\$ 1,853,221
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	2,862,296
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	(11,649)
Deferred revenue related to delinquent taxes and utility reimbursements that are for services already performed but not yet collected are recognized as a deferred inflow of resources	<u>30,463</u>
Net Position of Governmental Activities	<u>\$ 4,734,331</u>

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2014

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 \$ 305,492

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	239,836
Depreciation expense	(267,567)

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	(8,828)
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Decrease 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	2,609
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Change in Net Position of Governmental Activities \$ 271,542

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.

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2014

Note 3 - Cash and Cash Equivalents (Continued)

The Authority has designated one bank for the deposit of its funds. The investment policy adopted by the Authority in accordance with Public Act 196 of 1997 has unauthorized 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 manages its cash and investments through a sweep account managed by the City of Roseville. As of June 30, 2014, the balance in the sweep account was \$2,056,198.

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 \$2,056,198 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. 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.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Pooled investment	<u>\$ 2,056,198</u>	AI/PI/FI	Moody's

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2014

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 revenue and deferred inflows of resources are as follows:

	General Fund - Modified Accrual Deferred Inflows of Resources	Authority - Full Accrual Unearned revenue
Delinquent property taxes	\$ 19,552	\$ -
Recreation use fees	-	78,238
Rental fees	-	10,806
Utility fees	10,911	-
Total	<u>\$ 30,463</u>	<u>\$ 89,044</u>

Note 5 - Capital Assets

Capital asset activity of the Authority was as follows:

Governmental Activities	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 815,030	\$ -	\$ -	\$ 815,030
Construction in progress	-	222,712	-	222,712
Subtotal	815,030	222,712	-	1,037,742
Capital assets being depreciated:				
Buildings and improvements	2,230,843	-	-	2,230,843
Machinery and equipment	243,393	17,124	-	260,517
Subtotal	2,474,236	17,124	-	2,491,360
Accumulated depreciation - Buildings, improvements, and equipment	399,239	267,567	-	666,806
Net capital assets being depreciated	2,074,997	(250,443)	-	1,824,554
Net capital assets	<u>\$ 2,890,027</u>	<u>\$ (27,731)</u>	<u>\$ -</u>	<u>\$ 2,862,296</u>

Total depreciation for the year ended June 30, 2014 is \$267,567.

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2014

Note 5 - Capital Assets (Continued)

Construction Financing - During the year ended June 30, 2014, the Authority entered into loan agreements with the City of Roseville and the City of Eastpointe, each bearing interest at 2.75 percent to fund building construction costs. Advances up to \$900,000 shall be made from time to time as needed from each City. 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. Principal payments can be made at the Authority's discretion with outstanding amounts due no later than five years from the first draw. There were no outstanding advances at June 30, 2014.

Construction Commitments - At June 30, 2014, the Authority had approximately \$2,750,000 remaining on a contract to expand the building on Sycamore in Roseville.

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 10 percent of employees' gross earnings, and 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 \$456,864. The current year contribution was calculated based on covered payroll of \$196,785, resulting in an employer contribution of \$19,754 and employee contributions of \$9,877.

Recreation Authority of Roseville and Eastpointe

Notes to Financial Statements June 30, 2014

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, 2014, the Authority made contributions of \$3,951 and the plan members contributed \$1,975 to the plan.

Note 9 - Change in Accounting

During the current year, the Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or as outflows of resources.

As a result of implementing this Statement, the following liability has been reclassified, as indicated:

<u>Item</u>	<u>Amount</u>	<u>Prior Reporting Classification/Treatment</u>	<u>New Classification After Adoption of GASB Statement No. 65</u>
Revenue in governmental funds not collected within 60 days of year end	\$ 30,463	Deferred revenue	Deferred inflow of resources

Required Supplemental Information

Recreation Authority of Roseville and Eastpointe

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Taxes	\$ 1,269,890	\$ 1,269,890	\$ 1,269,527	\$ (363)
Charges for services to external parties	435,000	450,000	437,104	(12,896)
SMART operating credits	178,666	188,632	178,293	(10,339)
Other revenue	20,249	35,299	31,925	(3,374)
Total revenues	1,903,805	1,943,821	1,916,849	(26,972)
Expenditures/Expenses				
Salaries	525,673	532,498	545,781	(13,283)
Fringe benefits	118,628	128,275	121,726	6,549
Operating supplies and sundry	116,150	130,000	146,402	(16,402)
Professional fees, administration fees, training, and other	297,297	266,752	272,074	(5,322)
Utilities, maintenance, and improvements	340,194	366,296	525,374	(159,078)
Bond expenses	230,000	-	-	-
Total expenditures/expenses	1,627,942	1,423,821	1,611,357	(187,536)
Net Change in Fund Balances	275,863	520,000	305,492	(214,508)
Fund Balance - Beginning of year	1,547,729	1,547,729	1,547,729	-
Fund Balance - End of year	\$ 1,823,592	\$ 2,067,729	\$ 1,853,221	\$ (214,508)

Recreation Authority of Roseville and Eastpointe

Note to Required Supplemental Information Year Ended June 30, 2014

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 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. The budget has been adopted on a line-item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. The following line items had unfavorable expenditure budget variances: salaries; operating supplies and sundry; professional fees, administration fees, training and other; utilities, maintenance, and improvements.

October 3, 2014

To the Board of Trustees
Recreation Authority of Roseville and Eastpointe

We have audited the financial statements of the Recreation Authority of Roseville and Eastpointe (the "Authority" or "RARE") as of and for the year ended June 30, 2014 and have issued our report thereon dated October 3, 2014. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Internal Control Related Matters Identified in an Audit

Section II - Required Communications with Those Charged with Governance

Section I includes any deficiencies we observed in the Authority's accounting principles or internal control that we believe are significant. Current auditing standards require us to formally communicate annually matters we note about the Authority's accounting policies and internal control. Section II includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the Board of Trustees of the Recreation Authority of Roseville and Eastpointe.

Section II includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the board of trustees of RARE.

We would like to take this opportunity to thank the Authority's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the board of trustees and management of the Recreation Authority of Roseville and Eastpointe and is not intended to be and should not be used by anyone other than these specified parties.

We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC



Beth Bialy

Section I - Internal Control Related Matters Identified in an Audit

Communications Required Under AU 265

In planning and performing our audit of the financial statements of the Recreation Authority of Roseville and Eastpointe as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

We consider the following deficiency in the Authority's internal control to be a material weakness:

During the audit, we proposed a journal entry resulting from a lack of review of a GASB 34 adjustment for the full-accrual government-wide financial statements. Although the fund-based statements properly reflected construction costs incurred during the fiscal year related to building improvements, it was noted that these costs were not capitalized as "construction in progress" in the full-accrual statements. This resulted in expenses being overstated and capital assets being understated on the government-wide financial statement. In addition, it was noted that an item was recorded as both a prepaid asset and a liability at year-end. An invoice for an insurance policy covering the period of July 2014 through June 2015 was expected to be paid prior to June 30 and was entered as a prepaid asset. Due to a delay in payment, the check was not issued until July and was included in accounts payable. Although this oversight had no impact on the fund balance, a reclassifying entry was proposed to remove the item from being reported as both an asset and a liability at year-end. This proposed journal entry was the result of a lack of an adequate review of prepaid assets and accounts payable at year-end.

Section II - Required Communications with Those Charged with Governance

Communications Required Under AU 260

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 6, 2014, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the Recreation Authority of Roseville and Eastpointe. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 21, 2014.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. As described in Note 9, the Authority changed accounting policies related to the reclassification of certain items that were previously reported as assets and liabilities to classify them as deferred inflows of resources, deferred outflows of resources, or as outflows of resources.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements was the Authority's estimation of MTT adjustments and chargebacks which is based on historical payouts of amounts in contention. We evaluated the key factors and assumptions used to develop the estimations of MTT adjustments and chargebacks in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Authority, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 3, 2014.

Management Consultations with Other Independent Accountants

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