

Northville Parks and Recreation Commission

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

Northville Parks and Recreation Commission

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Independent Auditor's Report

To the Board of Commissioners
Northville Parks and Recreation Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Northville Parks and Recreation Commission (the "Commission") as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Northville Parks and Recreation Commission'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 and each major fund of the Northville Parks and Recreation Commission 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 Board of Commissioners
Northville Parks and Recreation Commission

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedules on pages 33-34, and the pension schedules on pages 35-36, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northville Parks and Recreation Commission's basic financial statements. The other supplemental information on pages 38-40 is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

November 7, 2016

Northville Parks and Recreation Commission

Management's Discussion and Analysis

The Northville Parks and Recreation Commission (the "Commission") is a shared service provided through an agreement between the City of Northville (the "City") and the Charter Township of Northville (the "Township"). The following discussion and analysis of the financial performance for the Commission provides an overview of the Commission's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the Commission's financial statements.

Financial Highlights

The Commission has \$1.55 million of fund balance as of June 30, 2016. That is an increase of \$187,609, or 14 percent, from the prior year. The General Fund's unassigned fund balance of \$1.08 million is 51 percent of fiscal year 2015/2016 expenditures. The remaining portion of fund balance is either nonspendable, restricted for senior services, or assigned for specific purposes.

The Commission's liability for its proportionate share of the net pension liability is \$383,988. This is the first year that the pension liability was recorded in the financial statements due to requirements of GASB 68. The net OPEB obligation at the end of the year is \$81,482. The full OPEB liability of \$1,092,547 is not yet required to be reported in the statements until GASB 75 is implemented in fiscal year 2018. Although both of these liabilities have existed for many years, they were not required to be reported in the financial statements.

The Commission did not purchase any capital assets nor issue any new debt during fiscal year 2016. Outstanding debt consists of two interest-free loans from Northville Township which total \$558,593.

The contributions from the City and Township for the General Fund have been maintained at the fiscal year 2012 level.

The director resigned in May 2016 and the new director was hired in the next fiscal year. A decision was made to discontinue the aquatics program at the beginning of the next fiscal year due to high costs to operate, maintain, and repair the pool.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

Northville Parks and Recreation Commission

Management's Discussion and Analysis (Continued)

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Commission's operations in more detail than the government-wide financial statements by providing information about the Commission's most significant funds.

The Commission as a Whole

The following table shows, in a condensed format, the net position as of June 30, 2016 compared to June 30, 2015 and 2014:

TABLE I

| | 2014 | 2015 | 2016 | Changes from Prior Year | |
|---|---------------------|---------------------|---------------------|----------------------------|---------|
| | | | | in Dollars | Percent |
| Assets | | | | | |
| Current assets | \$ 1,932,061 | \$ 1,745,155 | \$ 1,876,312 | \$ 131,157 | 8 |
| Noncurrent assets | 2,789,239 | 2,934,816 | 2,646,181 | (288,635) | (10) |
| Total assets | 4,721,300 | 4,679,971 | 4,522,493 | (157,478) | (3) |
| Deferred Outflows of Resources - Pension | - | - | 66,137 | 66,137 | 100 |
| Liabilities | | | | | |
| Current liabilities | 510,955 | 377,370 | 318,457 | (58,913) | (16) |
| Long-term liabilities | 736,250 | 753,151 | 967,227 | 214,076 | 28 |
| Total liabilities | 1,247,205 | 1,130,521 | 1,285,684 | 155,163 | 14 |
| Net Position | | | | | |
| Invested in capital assets - Net of related debt | 1,944,130 | 2,232,965 | 2,087,588 | (145,377) | (7) |
| Restricted | 298,215 | 282,746 | 277,724 | (5,022) | (2) |
| Unrestricted | 1,231,750 | 1,033,739 | 937,634 | (96,105) | (9) |
| Total net position | \$ 3,474,095 | \$ 3,549,450 | \$ 3,302,946 | \$ (246,504) | (7) |

The increase in current assets was primarily in cash due to the reimbursement from Northville Township for the non-motorized connection to Maybury State Park which was paid by the Commission in the prior year. The decrease in noncurrent assets was due to the current year depreciation expense and disposal of capital assets.

The decrease in current liabilities is related to timing of invoices payable at year end. The increase in long-term liabilities was due to the addition of the pension liability offset by the current year debt service payments.

Northville Parks and Recreation Commission

Management's Discussion and Analysis (Continued)

The following table shows the change in net position during the current year and as compared to the two prior years:

TABLE 2

| | 2014 | 2015 | 2016 | Changes from Prior Year | |
|---|-------------------|------------------|---------------------|----------------------------|---------|
| | | | | in Dollars | Percent |
| Revenue | | | | | |
| Program revenue: | | | | | |
| Program activities | \$ 795,329 | \$ 855,757 | \$ 774,408 | \$ (81,349) | (10) |
| Grant revenue | 78,342 | 60,329 | 59,737 | (592) | (1) |
| Park development revenue | 70,508 | 87,052 | 194,108 | 107,056 | 123 |
| External athletic associations | 172,928 | 209,409 | 183,990 | (25,419) | (12) |
| Facility rental revenue | 365,304 | 330,287 | 317,637 | (12,650) | (4) |
| General revenue: | | | | | |
| Operating contributions - City and Township | 1,200,986 | 1,200,986 | 1,200,986 | - | - |
| Donations | 4,137 | 13,464 | 8,881 | (4,583) | (34) |
| Other revenue | 30,139 | 37,753 | 46,793 | 9,040 | 24 |
| Total revenue | 2,717,673 | 2,795,037 | 2,786,540 | (8,497) | (0) |
| Expenses | | | | | |
| Program activities | 849,315 | 882,642 | 839,300 | (43,342) | (5) |
| Parks | 367,144 | 393,143 | 462,728 | 69,585 | 18 |
| Facility centers | 545,401 | 569,433 | 541,141 | (28,292) | (5) |
| Administration | 587,068 | 646,520 | 975,864 | 329,344 | 51 |
| External athletic association | 241,029 | 228,343 | 214,030 | (14,313) | (6) |
| Total program expenses | 2,589,957 | 2,720,081 | 3,033,063 | 312,982 | 12 |
| Other Financing Sources - Sale of fixed assets | 2,061 | 399 | 19 | (380) | - |
| Change in Net Position | \$ 129,777 | \$ 75,355 | \$ (246,504) | \$ (321,859) | (427) |

The Commission continues to evaluate and modify program offerings and events, while offering new program initiatives that address key trends facing the Northville community.

Program revenue fluctuates year to year based upon participation levels and available offerings. Cancellation of swim classes due to pool temperatures resulted in decreased revenue in the aquatics program this year. The lacrosse program lost many participants due to an external group offering this program. This shift caused both the revenue and expenditures to decrease.

The park development revenue and park expense increases were primarily due to the cost of and reimbursement from Northville Township for the Maybury connection.

The category for external athletic associations in both revenue and expenditures encompasses the Northville Soccer and Northville Baseball/Softball Association activities. The expenditures are recorded at full cost. The costs were lower than expected due to contracting out soccer field preparation and more reliance on part-time staffing which results in lower revenue required.

The decrease in donations revenue is directly related to the \$10,000 private donation received for the senior transportation program in the prior year that was not received this year.

Northville Parks and Recreation Commission

Management's Discussion and Analysis (Continued)

The administration expenditures increase was due to recording of the pension liability as required by GASB 68.

The Commission's Funds

The Commission maintains four funds: the Parks and Recreation General Fund, the Senior Adult Services Fund (a special revenue fund), and two capital projects funds related to the two types of activities. The funds provide detailed information rather than information about the Commission as a whole. The Commission creates funds to help manage money for specific purposes, as well as to show accountability for certain activities, such as construction projects and related activities.

General Fund Budgetary Highlights

The Parks and Recreation General Fund accounts for all programming, operations, maintenance, and administrative functions of the Commission. The budget was monitored closely and amended quarterly.

The Parks and Recreation General Fund pays for all of the Commission's services other than senior adult services. The most significant are program activities, operations and maintenance of parks and facilities, and administration. Major capital expenditures are accounted for in the capital projects funds.

Capital Asset and Debt Administration

At the end of fiscal year 2016, the Commission had \$2.6 million (net of depreciation) invested in capital assets, which includes leasehold improvements, park improvements, and equipment. Most of the outdoor recreation amenities in the Northville community are owned by either the City of Northville or the Charter Township of Northville. The level of debt continues to decrease. Three years remain on the Hillside Center loan and five years remain on the Community Center loan. Both are payable interest-free to the Charter Township of Northville. No new debt is being contemplated by the Commission.

Economic Factors and Next Year's Budgets and Rates

The Parks and Recreation Department continues to evaluate and modify program offerings and events, while offering new program initiatives that address key trends facing the Northville community. A key goal next year is to continue the development of partnerships and collaborative efforts in order to increase the recreation opportunities available to residents and to assist the department with the financial impact of delivering quality leisure services.

The parks and recreation five-year master plan will be updated next year which will continue to provide the department with direction on program trends, facility priorities, and park priorities. Resident surveys, focus groups, and public workshops will provide the feedback necessary to help prioritize services and future development.

Northville Parks and Recreation Commission

Management's Discussion and Analysis (Continued)

Northville Township voters approved 0.7574 mills for shared services in August 2014. Due to Headlee rollbacks, this authorized millage rate was reduced to 0.7501 mills in 2016. The City pays for its share with the general operating tax levy.

Contacting the Commission's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Northville Parks and Recreation Commission's office at 700 W. Baseline, Northville, Michigan 48167 or via the Commission's website at www.northvilleparksandrec.org.

Northville Parks and Recreation Commission

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

| | Modified Accrual Basis | | | | | Adjustments (Note 3) | Statement of Net Position |
|---|---|-------------------------------|---|---|---------------------|-------------------------|------------------------------|
| | Parks and Recreation General Fund | Senior Adult Services Fund | Parks and Recreation Capital Projects Fund | Senior Adult Services Capital Projects Fund | Total | | |
| Assets | | | | | | | |
| Cash and cash equivalents | \$ 191,391 | \$ 40,608 | \$ 1,593 | \$ 16,611 | \$ 250,203 | \$ - | \$ 250,203 |
| Investments (Note 4) | 1,203,083 | 257,540 | 10,095 | 105,351 | 1,576,069 | - | 1,576,069 |
| Receivables: | | | | | | | |
| Receivables | 4,066 | 9,113 | - | 3 | 13,182 | - | 13,182 |
| Due from other governmental units | 10,700 | 9,322 | - | - | 20,022 | - | 20,022 |
| Prepaid expenses and other assets | 15,042 | 1,794 | - | - | 16,836 | - | 16,836 |
| Capital assets (Note 6) | - | - | - | - | - | 2,646,181 | 2,646,181 |
| Total assets | 1,424,282 | 318,377 | 11,688 | 121,965 | 1,876,312 | 2,646,181 | 4,522,493 |
| Deferred Outflows of Resources - Pension | | | | | | 66,137 | 66,137 |
| Total assets and deferred outflows | <u>\$ 1,424,282</u> | <u>\$ 318,377</u> | <u>\$ 11,688</u> | <u>\$ 121,965</u> | <u>\$ 1,876,312</u> | 2,712,318 | 4,588,630 |

Northville Parks and Recreation Commission

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

| | Modified Accrual Basis | | | | | Adjustments (Note 3) | Statement of Net Position |
|--|---|-------------------------------|---|---|---------------------|-------------------------|------------------------------|
| | Parks and Recreation General Fund | Senior Adult Services Fund | Parks and Recreation Capital Projects Fund | Senior Adult Services Capital Projects Fund | Total | | |
| Liabilities | | | | | | | |
| Accounts payable | \$ 112,711 | \$ 2,457 | \$ - | \$ 28 | \$ 115,196 | \$ - | \$ 115,196 |
| Accrued liabilities and other | 48,480 | 10,048 | - | - | 58,528 | - | 58,528 |
| Unearned revenue (Note 5) | 141,645 | 3,088 | - | - | 144,733 | - | 144,733 |
| Noncurrent liabilities: | | | | | | | |
| Due within one year: | | | | | | | |
| Compensated absences | - | - | - | - | - | 7,958 | 7,958 |
| Long-term debt (Note 9) | - | - | - | - | - | 143,258 | 143,258 |
| Due in more than one year: | | | | | | | |
| Compensated absences | - | - | - | - | - | 16,688 | 16,688 |
| Net pension liability | - | - | - | - | - | 383,988 | 383,988 |
| Long-term debt (Note 9) | - | - | - | - | - | 415,335 | 415,335 |
| Total liabilities | 302,836 | 15,593 | - | 28 | 318,457 | 967,227 | 1,285,684 |
| Deferred Inflows of Resources - | | | | | | | |
| Unavailable revenue | - | 9,322 | - | - | 9,322 | (9,322) | - |
| Equity | | | | | | | |
| Fund balance: | | | | | | | |
| Nonspendable - Prepays | 15,042 | 1,794 | - | - | 16,836 | (16,836) | - |
| Restricted: | | | | | | | |
| Senior center donations | - | - | - | 5,390 | 5,390 | (5,390) | - |
| Senior adult services | - | 272,334 | - | - | 272,334 | (272,334) | - |
| Assigned for other purposes (Note 8) | 25,669 | 19,334 | 11,688 | 116,547 | 173,238 | (173,238) | - |
| Unassigned | 1,080,735 | - | - | - | 1,080,735 | (1,080,735) | - |
| Total fund balance | 1,121,446 | 293,462 | 11,688 | 121,937 | 1,548,533 | (1,548,533) | - |
| Total liabilities, deferred inflows, and fund balance | <u>\$ 1,424,282</u> | <u>\$ 318,377</u> | <u>\$ 11,688</u> | <u>\$ 121,965</u> | <u>\$ 1,876,312</u> | | |
| Net position: | | | | | | | |
| Net investment in capital assets | | | | | | 2,087,588 | 2,087,588 |
| Restricted: | | | | | | | |
| Senior center donations | | | | | | 5,390 | 5,390 |
| Senior adult services | | | | | | 272,334 | 272,334 |
| Unrestricted | | | | | | 937,634 | 937,634 |
| Total net position | | | | | | <u>\$ 3,302,946</u> | <u>\$ 3,302,946</u> |

Northville Parks and Recreation Commission

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

| | Modified Accrual Basis | | | | | Adjustments (Note 3) | Statement of Net Position |
|---|---|-------------------------------|---|--|---------------------|-------------------------|------------------------------|
| | Parks and Recreation General Fund | Senior Adult Services Fund | Parks and Recreation Capital Projects Fund | Senior Adult Services Capital Projects Fund | Total | | |
| Revenue | | | | | | | |
| Operating contributions - | | | | | | | |
| City and Township | \$ 1,014,843 | \$ 186,143 | \$ - | \$ - | \$ 1,200,986 | \$ - | \$ 1,200,986 |
| Program activities | 718,147 | 56,261 | - | - | 774,408 | - | 774,408 |
| Community | | | | | | | |
| Development Block | | | | | | | |
| Grant | - | 6,861 | - | - | 6,861 | 2,460 | 9,321 |
| Other grant revenue | 1,285 | 49,131 | - | - | 50,416 | - | 50,416 |
| Parks and facilities | | | | | | | |
| development revenue | 194,108 | - | - | - | 194,108 | - | 194,108 |
| External athletic | | | | | | | |
| associations | 183,990 | - | - | - | 183,990 | - | 183,990 |
| Facility rental revenue | 317,637 | - | - | - | 317,637 | - | 317,637 |
| Donations | 7,514 | 1,367 | - | - | 8,881 | - | 8,881 |
| Other revenue | 41,242 | 3,077 | 1,500 | 974 | 46,793 | - | 46,793 |
| Total revenue | 2,478,766 | 302,840 | 1,500 | 974 | 2,784,080 | 2,460 | 2,786,540 |
| Expenditures/Expenses | | | | | | | |
| Program activities | 718,594 | 111,380 | - | - | 829,974 | 9,326 | 839,300 |
| Parks operations, | | | | | | | |
| maintenance, and | | | | | | | |
| capital outlay | 276,275 | - | 19,134 | 10,605 | 306,014 | 156,714 | 462,728 |
| Facility centers | 382,224 | 36,800 | - | - | 419,024 | 122,117 | 541,141 |
| Administration | 537,070 | 147,120 | - | - | 684,190 | 291,674 | 975,864 |
| Debt service | - | - | 143,258 | - | 143,258 | (143,258) | - |
| External athletic | | | | | | | |
| associations | 214,030 | - | - | - | 214,030 | - | 214,030 |
| Total | 2,128,193 | 295,300 | 162,392 | 10,605 | 2,596,490 | 436,573 | 3,033,063 |
| Excess (Deficiency) of Revenue Over Expenditures | 350,573 | 7,540 | (160,892) | (9,631) | 187,590 | (434,113) | (246,523) |
| Other Financing Sources (Uses) | | | | | | | |
| Sale of fixed assets | 19 | - | - | - | 19 | - | 19 |
| Interfund transfers in | - | - | 160,892 | 14,000 | 174,892 | - | 174,892 |
| Transfers out | (160,892) | (14,000) | - | - | (174,892) | - | (174,892) |
| Total other financing (uses) sources | (160,873) | (14,000) | 160,892 | 14,000 | 19 | - | 19 |
| Net Change in Fund Balances/Net Position | 189,700 | (6,460) | - | 4,369 | 187,609 | (434,113) | (246,504) |
| Fund Balances/Net Position - Beginning of year | | | | | | | |
| | 931,746 | 299,922 | 11,688 | 117,568 | 1,360,924 | 2,188,526 | 3,549,450 |
| Fund Balances/Net Position - End of year | \$ 1,121,446 | \$ 293,462 | \$ 11,688 | \$ 121,937 | \$ 1,548,533 | \$ 1,754,413 | \$ 3,302,946 |

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

Northville Parks and Recreation Commission

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 Northville Parks and Recreation Commission (the "Commission"):

Reporting Entity

The Commission operates under a shared services agreement between the City of Northville (the "City") and the Charter Township of Northville (the "Township"). This agreement provides the funding formula as well as operational guidelines. In accordance with that agreement, administrative services are provided by the City of Northville. Accordingly, the Commission follows the financial policies adopted by the Northville City Council. Based upon the delegation of those responsibilities by agreement, it is inherent that financial policies that are adopted by the City are integral to the operation of the Commission.

The Commission consists of six members made up of two elected officials of the City, three from the Township, and one from the Northville School Board. The Commission serves as a recommending body to the City and Township. There are no component units for which the Commission is considered to be financially accountable.

Accounting and Reporting Principles

The Commission 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 Commission is reporting under the model of a special purpose government engaged in a single governmental activity. Therefore, fund-based financial statements are combined with the government-wide financial statements using a columnar format to reconcile individual line items from the fund-based perspective to the government-wide perspective. The individual fund columns present their 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 columns are presented on the economic resources measurement focus and the full accrual basis of accounting in order to measure the cost of providing government services and the extent to which constituents have paid the full cost of government services.

On the full accrual basis of accounting, revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Northville Parks and Recreation Commission

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

Fund Accounting

The Commission accounts for its various activities in several different funds in order to demonstrate accountability for how it has spent certain resources - separate funds allow us to show the particular expenditures for which specific revenue was used. All funds of the Commission are considered governmental funds.

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue fund, and capital project funds. The Commission reports the following funds as “major” governmental funds:

- **Parks and Recreation General Fund** - The Parks and Recreation General Fund is the Commission’s primary operating fund. It accounts for all financial resources of the government, including rental and maintenance of all facilities within the Commission’s oversight.
- **Senior Adult Services Fund** - This special revenue fund accounts for all of the senior adult programming and related administration. The fund's operating contributions received are restricted for use on senior adult programs.
- **Parks and Recreation Capital Projects Fund** - This fund accounts for all capital acquisition and related professional services for the Commission, except for those accounted for in another fund.
- **Senior Adult Services Capital Projects Fund** - This fund accounts for all activity related to capital improvements and related expenses for the Northville Community Center.

Interfund Activity - During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds are eliminated so that only the net amount is included as transfers in the government-wide column of the financial statements.

Northville Parks and Recreation Commission

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The governmental funds use 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.

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 pension and retiree healthcare related costs, or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

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 Commission considers amounts collected within 60 days of year end to be available for recognition.

Specific Balances and Transactions

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables - All trade and property tax receivables are shown net of any allowance for uncollectible amounts.

Capital Assets - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Commission 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, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|---------------------------------|---------------|
| Buildings and park improvements | 5 to 50 years |
| Equipment and furniture | 3 to 20 years |
| Vehicles | 3 to 15 years |

Northville Parks and Recreation Commission

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. The liability will be liquidated from the Parks and Recreation General Fund.

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 will not be recognized as an outflow of resources (expenditure) until then. The Commission has one item that qualifies for reporting in this category, which is the deferred outflows of resources related to the defined benefit pension plan. The deferred outflows of resources related to the defined benefit pension plan are reported in the government-wide financial statements. The deferred outflows of resources result from two transactions: contributions to the defined benefit pension plan subsequent to the plan's year end through the City's fiscal year end and the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings.

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 will not be recognized as an inflow of resources (revenue) until that time.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Northville Parks and Recreation Commission

Notes to Financial Statements June 30, 2016

Note I - Summary of Significant Accounting Policies (Continued)

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 Commission'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

In the fund financial statements, governmental funds report the following components of fund balance:

Nonspendable - Amounts that are not in spendable form or are legally or contractually required to be maintained intact

Restricted - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose

Committed - Amounts that have been formally set aside by the Northville Parks and Recreation Commission for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Commission.

Assigned - Intent to spend resources on specific purposes expressed by the city finance director and the township finance director, who are authorized by policies approved by the Northville Parks and Recreation Commission to make assignments

Unassigned - Amounts that do not fall into any other category above.

Pension - The Commission offers a defined benefit pension plan to its employees. The Commission records a net pension liability for the difference between the total pension liability and the pension plan's fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Northville Parks and Recreation Commission

Notes to Financial Statements June 30, 2016

Note 1 - Summary of Significant Accounting Policies (Continued)

Other Postemployment Benefit Costs - The Commission offers retiree healthcare benefits to retirees through the City of Northville. In the governmental funds, OPEB costs are recognized as contributions are made. For the government-wide statements, the Commission reports the full accrual cost equal to the current year contractually required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

Compensated Absences (Vacation and Sick Leave) - It is the Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits and accumulate compensatory leave time. After 10 years of service, employees may receive payment of the accumulated sick leave balance at the rate of 50 percent for retirement or 25 percent for other types of termination. A liability is accrued when incurred in the government-wide column of the financial statements. The liability will be liquidated from the Parks and Recreation General Fund and the Senior Adult Services Fund.

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.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the Parks and Recreation General Fund, the special revenue fund, and the capital projects funds. All annual appropriations lapse at fiscal year end. The annual budget is prepared by the director and then reviewed by the Commission. After the budget is approved by the Commission, it is then presented to the Township and the City for approval prior to the start of the fiscal year. The budget is reviewed by the Commission on a quarterly basis and amended as necessary.

Northville Parks and Recreation Commission

Notes to Financial Statements June 30, 2016

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget document presents information by fund, function, department, and line items. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. The budgeted amounts for the Parks and Recreation General Fund, special revenue fund, and capital projects funds are adopted at the departmental level; expenditures in excess of amounts budgeted are a violation of Michigan law. The comparisons of actual results of operations to the Parks and Recreation General Fund, special revenue fund, and capital projects funds budgets shown in the required supplemental information and other supplemental information are more detailed than the budgets as adopted by the Commission and are presented for analytical purposes only.

Excess of Expenditures Over Appropriations in Budgeted Funds - The budget variance in the Parks and Recreation General Fund administration expense was due to reallocation of hours by program coordinators necessitated by the departure of the former director.

Northville Parks and Recreation Commission

Notes to Financial Statements June 30, 2016

Note 3 - Reconciliation of Government-wide and Fund Financial Statements

Total fund balances and the net change in fund balances of the Commission's governmental funds differ from net position and change in net position of the governmental activities reported in the statement of net position and statement of activities portions of the financial statements. These differences result primarily from the long-term economic focus of the statement of net position and statement of activities versus the economic focus of the governmental funds balance sheet and the statement of governmental funds revenue, expenditures, and changes in fund balances.

The following is a reconciliation of fund balance to net position and the net change in fund balance to the net change in net position:

| | |
|--|----------------------------|
| Total Fund Balance - Modified Accrual Basis | \$ 1,548,533 |
| Amounts reported in the statement of net position are different because: | |
| Capital assets are not financial resources and are not reported in the funds | 2,646,181 |
| Net pension liability is not due and payable in the current period and is not reported in the funds | (383,988) |
| Certain pension contributions and changes in the pension plan net position are reported as deferred outflows of resources in the statement of net position, but are reported as expenses in the governmental funds | 66,137 |
| Compensated absences are included as a liability | (24,646) |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds | (558,593) |
| Grant receivables that are not collected or collectible within 60 days of year end are not available to pay for current year expenditures. | 9,322 |
| | <u>9,322</u> |
| Total Net Position - Full Accrual Basis | \$ <u>3,302,946</u> |

Northville Parks and Recreation Commission

Notes to Financial Statements June 30, 2016

Note 3 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

| | |
|---|---------------------|
| Total Changes in Fund Balance - Modified Accrual Basis | \$ 187,609 |
| Amounts reported in the statement of activities are different because: | |
| Governmental funds report capital outlay as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation: | |
| Disposal of capital assets | (112,354) |
| Depreciation | (176,281) |
| Increase in the accrual for long-term compensated absences is reported as an expense in the governmental funds but is not reported as an expense in the statement of activities | 26,655 |
| Repayment of bond principal is an expenditure in the governmental funds but is not reported as an expense in the statement of activities | 143,258 |
| Changes in the net pension liability and deferred outflows related to pensions reported in the statement of activities do not require the use of current resources | (317,851) |
| Grant revenue is recognized in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end | 2,460 |
| Total Changes in Net Position - Full Accrual Basis | \$ (246,504) |

Note 4 - Deposits and Investments

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 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; mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan; and investment pools organized under the Surplus Funds Investment Pool Acts of the State of Michigan. The investment policy adopted in accordance with Public Act 196 of 1997 has authorized investments in all vehicles covered by the state statute listed above.

Northville Parks and Recreation Commission

Notes to Financial Statements June 30, 2016

Note 4 - Deposits and Investments (Continued)

Cash and investments are subject to several types of risk. At year end, the carrying amount of the Commission's cash and investments is held by the City's cash and investments pool. For the purpose of risk disclosure, it is not practical to allocate risk to each entity in the investment fund. The disclosures below are related to the overall risk for the cash and investments totals that are presented in the City's financial statements. The Commission's cash and investments represent 11.6 percent of the total portfolio managed by the City.

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. The policy for custodial credit risk limits bank options to those approved by the Commission. All banks must supply audited financial statements, proof of state registration, and certification of compliance with the investment policy. Overall, at year end, the Commission had \$234,731 in bank deposits (checking and savings accounts) that were uninsured and uncollateralized. Each financial institution in which funds are deposited is evaluated to assess the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. As of June 30, 2016, two banks are utilized for the deposit of Commission funds.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity.

At year end, the Commission had the following investments:

| <u>Investment</u> | <u>Fair Value</u> | <u>Weighted Average Maturity (Days)</u> |
|---------------------------|---------------------|---|
| Primary Government | | |
| Commercial paper | \$ 131,049 | 191 |
| U.S. Treasury | 419,159 | 747 |
| Federal Agency Bond | 900,112 | 767 |
| Supra National Agency | 118,437 | 503 |
| Municipal bonds | 5,794 | 63 |
| Total | <u>\$ 1,574,551</u> | |

Northville Parks and Recreation Commission

Notes to Financial Statements June 30, 2016

Note 4 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Commission 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>Percentage of Total Portfolio</u> | <u>Standard & Poor's Rating</u> |
|---------------------------|--|---|
| Primary Government | | |
| Commercial paper | 8.3% | A-1 |
| Money markets | 0.1% | AAAm |
| U.S. Treasury | 26.6% | AA+ |
| Federal Agency Bond | 57.1% | AA+ |
| Supra National Agency | 7.5% | AAA |
| Municipal bonds | 0.4% | SP-1 |

Concentration of Credit Risk - It is policy to diversify the investment portfolio with a goal of 5 percent maximum exposure to any one credit risk at time of purchase. This requirement does not apply to investments issued by the U.S. government or its agencies, investments in mutual funds, and external investment pools and other pooled investments. At June 30, 2016, more than 5 percent of the City's investments are in the following agency securities:

| | |
|-------------------------|-----|
| Federal Home Loan Banks | 14% |
| Fannie Mae | 33% |
| Freddie Mac | 10% |
| Supra National Agency | 8% |

Fair Value Measurements - The Commission categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Commission's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Northville Parks and Recreation Commission

Notes to Financial Statements June 30, 2016

Note 4 - Deposits and Investments (Continued)

The Commission has the following recurring fair value measurements as of June 30, 2016:

Assets Measured at Fair Value on a Recurring Basis

| | Balance at June 30, 2016 | Fair Value Measurement Using | | |
|---|-----------------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Debt securities: | | | | |
| U.S. Treasury securities | \$ 419,159 | \$ - | \$ 419,159 | \$ - |
| Supra National Agency bonds | 118,437 | - | 118,437 | - |
| Federal agency bonds | 900,112 | - | 900,112 | - |
| Municipal bonds | 5,794 | - | 5,794 | - |
| Commercial paper | 131,049 | - | 131,049 | - |
| Total investments by fair value level | 1,574,551 | \$ - | \$ 1,574,551 | \$ - |
| Investments measured at net asset value (NAV) - Money markets | 1,518 | | | |
| Total investments measured at fair value | \$ 1,576,069 | | | |

The fair value of debt securities at June 30, 2016 was determined primarily based on Level 2 inputs. The Commission estimates the fair value of these investments using quoted market prices and other market data for the same or comparable instruments and transactions in establishing prices, discounted cash flow models, and other pricing models.

The Commission holds money market investments in the Governments of Michigan Investing Cooperative Program. These investments are measured at the net asset value (NAV) per share (or its equivalent). There are no limitations or restrictions on participant withdrawals for the cooperative program that is recorded at amortized cost.

Note 5 - Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the Commission had unearned program revenue of \$144,733.

Northville Parks and Recreation Commission

Notes to Financial Statements June 30, 2016

Note 6 - Capital Assets

Capital asset activity of the Commission's governmental activities was as follows:

| Governmental Activities | Balance <u>July 1, 2015</u> | <u>Additions</u> | <u>Disposals</u> | Balance <u>June 30, 2016</u> |
|---|--------------------------------|------------------|------------------|---------------------------------|
| Capital assets not being depreciated - | | | | |
| Construction in progress | \$ 112,354 | \$ - | \$ (112,354) | \$ - |
| Capital assets being depreciated: | | | | |
| Community Center improvements | \$ 3,185,414 | \$ - | \$ - | \$ 3,185,414 |
| Hillside improvements | 856,734 | - | - | 856,734 |
| Ford Field Park improvements | 65,901 | - | - | 65,901 |
| Fish Hatchery Park improvements | 50,508 | - | - | 50,508 |
| Henningson Park improvements | 9,693 | - | - | 9,693 |
| Community Park improvements | 303,242 | - | - | 303,242 |
| Millennium Park improvements | 2,246 | - | - | 2,246 |
| Park land and improvements | 83,509 | - | - | 83,509 |
| Program equipment and furniture | 94,748 | - | - | 94,748 |
| Office equipment and furniture | 52,881 | - | - | 52,881 |
| Parks maintenance equipment and vehicles | 420,945 | - | - | 420,945 |
| Subtotal | 5,125,821 | - | - | 5,125,821 |
| Accumulated depreciation | 2,303,359 | 176,281 | - | 2,479,640 |
| Net capital assets being depreciated | \$ 2,822,462 | \$ (176,281) | \$ - | \$ 2,646,181 |

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

Governmental activities:

| | |
|-------------------------------|-------------------|
| Administration | \$ 478 |
| Facility center | 122,118 |
| Program activities | 9,326 |
| Parks | 44,359 |
| Total governmental activities | <u>\$ 176,281</u> |

Northville Parks and Recreation Commission

Notes to Financial Statements June 30, 2016

Note 7 - Interfund Transfers

Interfund activity for the year ended June 30, 2016 consisted of the following:

| Transfers from (out) | Transfers to (in) | Amount |
|-----------------------------------|---|-------------------|
| Parks and Recreation General Fund | Parks and Recreation Capital Projects Fund (1) | \$ 160,892 |
| Senior Adult Services Fund | Senior Adult Services Capital Projects Fund (2) | 14,000 |
| | Total | <u>\$ 174,892</u> |

- (1) This transfer represents funding from the Parks and Recreation General Fund for park development, equipment purchases, and debt service.
- (2) This transfer represents funding from the Senior Adult Services Fund for future Community Center building improvements.

Note 8 - Fund Balance Assignments

Fund balance in the funds is assigned to show management's intentions. The following is a summary of the changes in assigned fund balance for the funds:

| | Balance July 1, 2015 | Additions | Deletions | Balance June 30, 2016 |
|---|-------------------------|------------------|--------------------|--------------------------|
| Parks and Recreation General Fund: | | | | |
| Compensated absences | \$ 47,018 | \$ 9,502 | \$ (35,297) | \$ 21,223 |
| Subsequent years' expenditures over revenue | 17,772 | - | (17,772) | - |
| Safety Town | 8,000 | - | (3,554) | 4,446 |
| Subtotal | 72,790 | 9,502 | (56,623) | 25,669 |
| Senior Adult Services Fund: | | | | |
| Bus replacement | 15,912 | - | - | 15,912 |
| Compensated absences | 4,282 | - | (860) | 3,422 |
| Subtotal | 20,194 | - | (860) | 19,334 |
| Parks and Recreation Capital Projects Fund - Assigned for future Hillside needs | | | | |
| | 11,688 | - | - | 11,688 |
| Senior Adult Services Capital Projects Fund: | | | | |
| General donated funds | 91,955 | 761 | - | 92,716 |
| Community Center improvements | 20,144 | 14,168 | (10,481) | 23,831 |
| Subtotal | 112,099 | 14,929 | (10,481) | 116,547 |
| Total | <u>\$ 216,771</u> | <u>\$ 24,431</u> | <u>\$ (67,964)</u> | <u>\$ 173,238</u> |

Northville Parks and Recreation Commission

Notes to Financial Statements June 30, 2016

Note 9 - Long-term Debt

The outstanding debt of the Commission consists of the following interest-free amounts borrowed from the Charter Township of Northville:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--------------------------------|----------------------|-------------|---------------------|-------------------|------------------------|
| Governmental Activities | | | | | |
| Community Center loan | \$ 588,822 | \$ - | \$ (115,000) | \$ 473,822 | \$ 115,000 |
| Hillside Center loan | 113,029 | - | (28,258) | 84,771 | 28,258 |
| Total loans payable | <u>\$ 701,851</u> | <u>\$ -</u> | <u>\$ (143,258)</u> | <u>\$ 558,593</u> | <u>\$ 143,258</u> |

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

| Years Ending June 30 | Principal | Interest | Total |
|-------------------------|-------------------|-------------|-------------------|
| 2017 | \$ 143,258 | \$ - | \$ 143,258 |
| 2018 | 143,258 | - | 143,258 |
| 2019 | 143,255 | - | 143,255 |
| 2020 | 115,000 | - | 115,000 |
| 2021 | 13,822 | - | 13,822 |
| Total | <u>\$ 558,593</u> | <u>\$ -</u> | <u>\$ 558,593</u> |

Note 10 - Risk Management

The Commission 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. As an affiliate of the City, the Commission participates in the Michigan Municipal Risk Management Authority (the "Authority") for claims relating to property loss, torts, and errors and omissions.

The Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority, which it uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Commission.

Northville Parks and Recreation Commission

Notes to Financial Statements June 30, 2016

Note 10 - Risk Management (Continued)

The Commission estimates the liability for general liability claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. During the year ended June 30, 2016, there were no uninsured claims paid by the Commission and no significant outstanding balances at year end.

The Commission also participates, through its affiliation with the City, in the Accident Fund Municipal Group Program risk pool for employee injuries. The Commission, through the City, has purchased commercial insurance for all medical benefits beginning November 1, 1998.

Note 11 - Defined Benefit Pension Plan

Plan Description - The Commission participates in the Michigan Municipal Employees Retirement System (MERS) through the City of Northville. The Commission participates as a cost-sharing participant in the City's plan. The plan covers regular employees of the Commission hired prior to certain dates. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS was established as a statewide public employee pension plan by the Michigan legislature under PA 135 of 1945 and is administered by a nine-member retirement board. MERS issues a publicly available financial report which includes the financial statements and required supplemental information of this defined benefit plan. This report can be obtained at www.mersofmich.com or in writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Benefits Provided - The plan provides retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS.

Retirement benefits for clerical employees are calculated as 2.5 percent of the employees' final five-year average salary times the employee's years of service. Normal retirement age is 60 with early retirement at age 55 with 25 years of service (unreduced), age 50 with 25 years of service (reduced), or age 55 with 15 years of services (reduced). The vesting period is six years.

Retirement benefits for nonunion employees are calculated as 2.5 percent of the employees' final four-year average salary times the employee's years of service. Normal retirement age is 60 with early retirement at age 50 with 25 years of service (unreduced) or age 55 with 15 years of services (unreduced). The vesting period is six years.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustments are 2 percent, noncompounding.

Northville Parks and Recreation Commission

Notes to Financial Statements June 30, 2016

Note 11 - Defined Benefit Pension Plan (Continued)

Contributions - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, established by the MERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees. For the year ended June 30, 2016, the Commission's annual required contribution was \$51,840.

Net Pension Liability, Deferrals, and Pension Expense

At June 30, 2016, the Commission reported a liability of \$383,998 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on the Commission's actuarially required contribution for the year ended June 30, 2016, relative to the total contribution for both the City and the Commission. At December 31, 2015, the Commission's proportion was 4.01 percent.

For the year ended June 30, 2016, the Commission recognized pension expense of \$317,851. At June 30, 2016, the Commission reported deferred outflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> |
|--|---|
| Net difference between projected and actual earnings on pension plan investments | \$ 38,576 |
| Employer contributions to the plan subsequent to the measurement date | <u>27,561</u> |
| Total | <u>\$ 66,137</u> |

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Years Ending June 30</u> | <u>Amount</u> |
|---------------------------------|---------------|
| 2017 | \$ 10,037 |
| 2018 | 10,037 |
| 2019 | 10,037 |
| 2020 | 8,465 |

Northville Parks and Recreation Commission

Notes to Financial Statements June 30, 2016

Note 11 - Defined Benefit Pension Plan (Continued)

Actuarial Assumptions - The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 2.50% |
| Salary increases | 3.75% Average, including inflation |
| Investment rate of return | 8.00% Net of pension plan investment expense, including inflation |

Mortality rates were based on a 50 percent male and 50 percent female blend of the following tables:

1. The RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105 percent
2. The RP-2014 Employee Mortality Tables
3. The RP-2014 Juvenile Mortality Tables

For disabled retirees, the RP-2014 Disabled Retiree Mortality Table is used with a 50 percent male and 50 percent female blend.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of the most recent actuarial experience study from 2009-2013.

Discount Rate - The discount rate used to measure the total pension liability was 8.0 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Northville Parks and Recreation Commission

Notes to Financial Statements June 30, 2016

Note 11 - Defined Benefit Pension Plan (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2015 for each major asset class are summarized in the following table.

| <u>Asset Class</u> | <u>Target Allocation (%)</u> | <u>Long-term Expected Real Rate of Return</u> |
|-------------------------|----------------------------------|---|
| Global equity | 58 % | 5.02 % |
| Global fixed income | 20 % | 2.18 % |
| Real assets | 12 % | 4.23 % |
| Diversifying strategies | 10 % | 6.56 % |

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the Commission, calculated using the discount rate of 8.0 percent, as well as what the Commission's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.0 percent) or 1 percentage point higher (9.0 percent) than the current rate:

| | <u>1 Percent Decrease (7.0%)</u> | <u>Current Discount Rate (8.0%)</u> | <u>1 Percent Increase (9.0%)</u> |
|-----------------------|--|---|--|
| Net pension liability | \$ 463,423 | \$ 383,988 | \$ 316,156 |

Note 12 - Defined Contribution Pension Plan

Employees hired after April 1997 are eligible to participate in the defined contribution plan sponsored by the City of Northville. As part of the City's defined contribution plan, the Commission contributes to the Municipal Employees' Retirement System of Michigan. 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 City Council action, the Commission contributes 5 percent of gross earnings for eligible part-time employees, 10 percent of gross earnings for full-time employees, and 2.5 percent for eligible full-time Senior Adult Services employees. The Commission's contribution plus investment earnings are fully vested by the employee after seven years of service.

Northville Parks and Recreation Commission

Notes to Financial Statements June 30, 2016

Note 12 - Defined Contribution Pension Plan (Continued)

The Commission's total payroll during the current year was \$918,132. The current year contribution was calculated based on covered payroll of \$299,092, resulting in an employer contribution of \$24,433. There are seven employees participating in this plan.

Note 13 - Other Postemployment Benefits

Plan Description - The Commission provides retiree healthcare benefits to eligible employees and their spouses through the City of Northville Retiree Health Plan. This is a cost-sharing multiple employer defined benefit plan administered by the City of Northville. Benefit provisions are established by negotiated labor contracts and the nonunion benefits policy established by the City Council. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy - The City and the Commission have no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). However, the City and the Commission have made contributions to advance-fund these benefits, as determined by City Council action.

Eligible employees hired after July 1, 2008 are provided a defined contribution plan. As established by City Council action, the City contributes 2 percent to 6 percent of gross earnings, based upon years of service, into a healthcare savings plan. The City's contribution vests after five years of service. In addition, employees must contribute 1 percent of earnings into the plan. There are three employees participating in this plan. In accordance with these requirements, the Commission contributed \$2,329 during the plan year.

In fiscal year 2016, the City and Commission made payments of \$32,297 for retiree healthcare and contributed an additional \$20,836 to the plan. Two retirees receive payments in lieu of healthcare benefits and one retiree receives reimbursement of premiums through a Health Reimbursement Account. The total member contributions were \$527.

Northville Parks and Recreation Commission

Notes to Financial Statements June 30, 2016

Note 14 - Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Commission to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the OPEB plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Commission is currently evaluating the impact this standard will have on the financial statements when adopted and management estimates that the liability will be approximately \$1.1 million. The provisions of this statement are effective for the Commission's financial statements for the year ending June 30, 2018.

Required Supplemental Information

Northville Parks and Recreation Commission

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

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|---|-------------------|---------------------|---------------------|---------------------------------|
| Revenue | | | | |
| Operating contributions - City and Township | \$ 1,014,843 | \$ 1,014,843 | \$ 1,014,843 | \$ - |
| Program activities | 787,500 | 740,816 | 718,147 | (22,669) |
| Federal and other grants | 1,630 | 1,285 | 1,285 | - |
| Parks and facilities development revenue | 83,450 | 190,104 | 194,108 | 4,004 |
| External athletic associations | 180,082 | 197,011 | 183,990 | (13,021) |
| Facility rental revenue | 354,000 | 316,245 | 317,637 | 1,392 |
| Operating grants and contributions | 2,500 | 7,704 | 7,514 | (190) |
| Other revenue | 32,700 | 38,000 | 41,242 | 3,242 |
| Total revenue | 2,456,705 | 2,506,008 | 2,478,766 | (27,242) |
| Expenditures/Expenses | | | | |
| Program activities | 769,135 | 747,049 | 718,594 | 28,455 |
| Park maintenance and capital outlay | 374,387 | 309,711 | 276,275 | 33,436 |
| Facility centers | 427,060 | 399,737 | 382,224 | 17,513 |
| Administration | 489,034 | 530,941 | 537,070 | (6,129) |
| External athletic associations | 209,103 | 224,838 | 214,030 | 10,808 |
| Total expenditures/expenses | 2,268,719 | 2,212,276 | 2,128,193 | 84,083 |
| Excess of Revenue Over Expenditures/Expenses | 187,986 | 293,732 | 350,573 | 56,841 |
| Other Financing Sources (Uses) | | | | |
| Sale of fixed assets | - | 19 | 19 | - |
| Operating transfers out | (205,758) | (169,123) | (160,892) | 8,231 |
| Total other financing uses | (205,758) | (169,104) | (160,873) | 8,231 |
| Net Change in Fund Balance | (17,772) | 124,628 | 189,700 | 65,072 |
| Fund Balance - Beginning of year | 931,746 | 931,746 | 931,746 | - |
| Fund Balance - End of year | <u>\$ 913,974</u> | <u>\$ 1,056,374</u> | <u>\$ 1,121,446</u> | <u>\$ 65,072</u> |

Northville Parks and Recreation Commission

Required Supplemental Information Budgetary Comparison Schedule - Senior Adult Services Fund Year Ended June 30, 2016

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|---|-------------------|-------------------|-------------------|---------------------------------|
| Revenue | | | | |
| Operating contributions - City and Township | \$ 186,143 | \$ 186,143 | \$ 186,143 | \$ - |
| Program activities | 60,500 | 58,500 | 56,261 | (2,239) |
| Community Development Block Grant | 12,043 | 16,183 | 6,861 | (9,322) |
| Federal and other grant revenue | 46,118 | 48,289 | 49,131 | 842 |
| Donations | 10,300 | 300 | 1,367 | 1,067 |
| Other revenue | 1,850 | 3,150 | 3,077 | (73) |
| Total revenue | 316,954 | 312,565 | 302,840 | (9,725) |
| Expenditures/Expenses | | | | |
| Program activities | 113,670 | 132,050 | 111,380 | 20,670 |
| Facility centers | 48,000 | 36,800 | 36,800 | - |
| Administration | 137,604 | 149,205 | 147,120 | 2,085 |
| Total expenditures/expenses | 299,274 | 318,055 | 295,300 | 22,755 |
| Excess of Revenue Over (Under) Expenditures/Expenses | 17,680 | (5,490) | 7,540 | 13,030 |
| Other Financing Uses - Transfers out | (14,000) | (14,000) | (14,000) | - |
| Net Change in Fund Balance | 3,680 | (19,490) | (6,460) | 13,030 |
| Fund Balance - Beginning of year | 299,922 | 299,922 | 299,922 | - |
| Fund Balance - End of year | \$ 303,602 | \$ 280,432 | \$ 293,462 | \$ 13,030 |

Northville Parks and Recreation Commission

Required Supplemental Information Schedule of Pension Contributions City of Northville Defined Benefit Pension Plan Fiscal Year

| | 2016 |
|--|---------------|
| Contractually required contribution | \$ 68,635 |
| Contributions in relation to the contractually required contribution | <u>68,635</u> |
| Contribution deficiency | <u>\$ -</u> |
| Commission's covered employee payroll | \$ 59,757 |
| Contributions as a percentage of covered employee payroll | 114.86 % |

Northville Parks and Recreation Commission

Required Supplemental Information Schedule of the Commission's Proportionate Share of the Net Pension Liability City of Northville Defined Benefit Pension Plan Fiscal Year

| | <u>2016</u> |
|---|-------------|
| Commission's proportion of the net pension liability (asset) | 4.01 % |
| Commission's proportionate share of the net pension liability (asset) | \$ 383,988 |
| Commission's covered employee payroll | \$ 59,757 |
| Commission's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll | 642.6 % |
| Plan fiduciary net position as a percentage of total pension liability | 52.3 % |

Other Supplemental Information

Northville Parks and Recreation Commission

Other Supplemental Information Schedule of Program Activities Revenue Budget and Actual Parks and Recreation General Fund Year Ended June 30, 2016 (with comparative actual amounts for the year ended June 30, 2015)

| | Year Ended June 30 | | | | |
|---|-----------------------------------|----------------------------------|-------------------|--|-------------------|
| | 2016 | | | 2015 | |
| | Original Budget (Unaudited) | Amended Budget (Unaudited) | Actual | Variance Favorable (Unfavorable) | Actual |
| Program Activities Revenue - Registration and fees | | | | | |
| Adult basketball | \$ 12,500 | \$ 12,500 | \$ 12,718 | \$ 218 | \$ 13,561 |
| Adult softball | 25,000 | 25,000 | 29,365 | 4,365 | 26,952 |
| Aquatics | 103,000 | 88,000 | 88,567 | 567 | 107,145 |
| Day camp | 17,000 | 13,000 | 17,436 | 4,436 | 12,515 |
| Ski club | 47,000 | 47,000 | 46,814 | (186) | 50,258 |
| Tennis | 55,000 | 55,000 | 63,354 | 8,354 | 50,071 |
| Health and wellness | 60,000 | 60,000 | 60,199 | 199 | 68,341 |
| Youth basketball | 95,000 | 100,000 | 102,902 | 2,902 | 100,695 |
| Youth volleyball | 33,500 | 28,000 | 26,108 | (1,892) | 32,431 |
| Sand volleyball | 7,500 | 7,500 | 7,562 | 62 | 7,007 |
| Adult volleyball | 35,000 | 35,000 | 31,659 | (3,341) | 32,227 |
| Lacrosse | 73,000 | 43,000 | 30,609 | (12,391) | 71,113 |
| Safety town | 19,000 | 19,000 | 19,004 | 4 | 17,965 |
| Cultural arts and community events | 20,000 | 17,816 | 13,819 | (3,997) | 23,300 |
| Other activities | 185,000 | 190,000 | 168,031 | (21,969) | 187,425 |
| Total program activities revenue | <u>\$ 787,500</u> | <u>\$ 740,816</u> | <u>\$ 718,147</u> | <u>\$ (22,669)</u> | <u>\$ 801,006</u> |

Northville Parks and Recreation Commission

Other Supplemental Information Schedule of Program Activities Expenditures Budget and Actual Parks and Recreation General Fund Year Ended June 30, 2016 (with comparative actual amounts for the year ended June 30, 2015)

| | Year Ended June 30 | | | | |
|--|-----------------------------------|----------------------------------|-------------------|--|-------------------|
| | 2016 | | | 2015 | |
| | Original Budget (Unaudited) | Amended Budget (Unaudited) | Actual | Variance Favorable (Unfavorable) | Actual |
| Program Activities Expenditures | | | | | |
| Adult basketball | \$ 12,160 | \$ 12,220 | \$ 9,681 | \$ 2,539 | \$ 12,119 |
| Adult softball | 24,185 | 27,095 | 27,555 | (460) | 22,355 |
| Aquatics | 102,945 | 110,120 | 113,052 | (2,932) | 101,485 |
| Day camp | 12,620 | 12,738 | 9,112 | 3,626 | 11,049 |
| Ski club | 42,290 | 42,055 | 42,046 | 9 | 40,188 |
| Tennis | 49,130 | 48,840 | 52,247 | (3,407) | 41,807 |
| Health and wellness | 58,655 | 61,711 | 61,597 | 114 | 58,641 |
| Youth basketball | 93,575 | 101,685 | 94,101 | 7,584 | 115,681 |
| Youth volleyball | 32,265 | 26,145 | 22,727 | 3,418 | 31,655 |
| Sand volleyball | 7,400 | 8,605 | 8,428 | 177 | 7,437 |
| Adult volleyball | 31,075 | 34,870 | 34,409 | 461 | 32,316 |
| Lacrosse | 72,480 | 46,580 | 35,145 | 11,435 | 71,678 |
| Safety town | 11,155 | 12,785 | 11,989 | 796 | 8,459 |
| Cultural arts | 18,700 | 12,275 | 12,219 | 56 | 23,406 |
| Other activities | 200,500 | 189,325 | 184,286 | 5,039 | 181,741 |
| Total program activities expenditures | <u>\$ 769,135</u> | <u>\$ 747,049</u> | <u>\$ 718,594</u> | <u>\$ 28,455</u> | <u>\$ 760,017</u> |

Northville Parks and Recreation Commission

Other Supplemental Information Schedule of Program Activities Revenue and Expenditures Parks and Recreation General Fund

| | Year Ended June 30 | | | | | |
|------------------------------|--------------------|-------------------|---|-------------------|-------------------|---|
| | 2016 | | | 2015 | | |
| | Revenue | Expenditures | Revenue Over (Under) Expenditures | Revenue | Expenditures | Revenue Over (Under) Expenditures |
| Registration and Fees | | | | | | |
| Adult basketball | \$ 12,718 | \$ 9,681 | \$ 3,037 | \$ 13,561 | \$ 12,119 | \$ 1,442 |
| Adult softball | 29,365 | 27,555 | 1,810 | 26,952 | 22,355 | 4,597 |
| Aquatics | 88,567 | 113,052 | (24,485) | 107,145 | 101,485 | 5,660 |
| Day camp | 17,436 | 9,112 | 8,324 | 12,515 | 11,049 | 1,466 |
| Ski club | 46,814 | 42,046 | 4,768 | 50,258 | 40,188 | 10,070 |
| Tennis | 63,354 | 52,247 | 11,107 | 50,071 | 41,807 | 8,264 |
| Health and wellness | 60,199 | 61,597 | (1,398) | 68,341 | 58,641 | 9,700 |
| Youth basketball | 102,902 | 94,101 | 8,801 | 100,695 | 115,681 | (14,986) |
| Youth volleyball | 26,108 | 22,727 | 3,381 | 32,431 | 31,655 | 776 |
| Sand volleyball | 7,562 | 8,428 | (866) | 7,007 | 7,437 | (430) |
| Adult volleyball | 31,659 | 34,409 | (2,750) | 32,227 | 32,316 | (89) |
| Lacrosse | 30,609 | 35,145 | (4,536) | 71,113 | 71,678 | (565) |
| Safety town | 19,004 | 11,989 | 7,015 | 17,965 | 8,459 | 9,506 |
| Cultural arts | 13,819 | 12,219 | 1,600 | 23,300 | 23,406 | (106) |
| Other activities | 168,031 | 184,286 | (16,255) | 187,425 | 181,741 | 5,684 |
| Total program activities | <u>\$ 718,147</u> | <u>\$ 718,594</u> | <u>\$ (447)</u> | <u>\$ 801,006</u> | <u>\$ 760,017</u> | <u>\$ 40,989</u> |