

**City of Albion
Calhoun County, Michigan**

FINANCIAL STATEMENTS

December 31, 2016

City of Albion
Calhoun County, Michigan
December 31, 2016

CITY COUNCIL AND ADMINISTRATION

Garrett Brown	Mayor
Maurice Barnes, Jr.	Council member
Lenn Reid	Council member
Sonya Brown	Council member
Jeanette Spicer	Council member
Marcola Lawler	Council member
Andrew French	Council member
Sheryl Mitchell	City Manager
Tom Mead	City Treasurer/ Finance Director
Jill Domingo	Clerk

City of Albion

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Albion, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Albion, Michigan (the City) as of and for the year ended December 31, 2016, which collectively comprise the City'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 did not audit the financial statements of the Albion Housing Commission, which represents 83 percent, 84 percent, and 60 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Albion Housing Commission, is based solely on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Albion, Michigan, as of December 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Accounting Principles

As discussed in Note O to the financial statements, the City implemented GASB Statement No. 72, *Fair Value Measurement and Application*, during the year. As a result, this statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosure related to all fair value measurements. Our opinions are not modified with respect to this matter.

As discussed in Note O to the financial statements, the City implemented GASB issued Statement No. 77, *Tax Abatement Disclosures*. The statement improves financial reporting through the disclosure of information about the nature and magnitude of tax abatements that are not consistently or comprehensively reported to the public. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension system and other post-employment benefit system 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, who 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 supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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 City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate 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 combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2017, on our consideration of the City of Albion, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Albion's internal control over financial reporting and compliance.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 9, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

This discussion and analysis is intended to provide an overview of the City's financial condition for the year ended December 31, 2016, as well as an analysis of what this financial condition means for the future financial operations of the City. The information provided in this discussion and analysis should be reviewed in conjunction with the audit information provided in the audit of the City's 2016 fiscal year.

Government-Wide Financial Statements

Under GASB 34 government-wide financial statements have been added to the financial reporting with the intent of providing a broad overview of the City's finances. The government-wide statements are presented on a full accrual basis of accounting, similar to a private business. This means revenues are accounted for when they are earned and expenses are accounted for when incurred, regardless of when the actual cash is received or disbursed. Two government-wide statements are provided. One government-wide statement, the Statement of Net Position, presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference shown as net position. Over time, increases or decreases in the City's net position may be an indicator of whether the City's financial health is improving or deteriorating. However, other factors both financial and non-financial should be considered in assessing the overall financial health of the City.

The second government-wide statement, the Statement of Activities, provides information on how the government-wide net position changed during the fiscal year. All changes in net position are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in the statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

In the Statement of Net Position and the Statement of Activities, we report the following kinds of activities:

- Governmental Activities - Most of the City's basic services are reported here, including, but not limited to, police, fire, general administration, parks and recreation, public works, and major and local streets. Taxes, charges for services and intergovernmental revenue primarily fund these services.
- Business-type Activities - These activities operate like private business. The City charges fees to recover the cost of the services provided. The City's water and sewer activities are reported here.
- Component Units - Component units are legally separate organizations for which the City Council appoints a majority of the organizations board and there is a degree of financial accountability to the City. Discretely presented component units for the City of Albion are the Downtown Development Authority (DDA), the Economic Development Corporation (EDC), and the Tax Increment Finance Authority (TIFA).

Following the government-wide financial statements will be Governmental Fund Financial Statements. While the government-wide financial statements are presented on a full accrual basis of accounting, the Governmental Fund Financial Statements are presented on a modified accrual basis of accounting.

The differences between the full accrual basis and modified accrual basis of accounting are primarily related to inclusion of capital assets and recognition of certain receivables and long-term liabilities in the Government-wide Statement of Net Position, which are not included in the Governmental Funds Balance Sheet. Also, there is a difference related to the timing of reporting capital outlays and debt principal repayment in the Governmental Funds Financial Statements and a difference in the timing of the recognition of certain revenues and expenditures such as bond proceeds, accrued interest, and accrued employee leave time in the Governmental Funds Financial Statements versus the Government-wide Statements. (See following table)

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

Item Description	Government-Wide Statements	Government Fund Statements
Capital Assets	Depreciation reported	Depreciation not reported
Capital Outlay	Capital asset	Reported as expenditure
Internal Service Fund (Equip. Pool)	Government activity	Proprietary fund
Long-term liability (sick leave)	Liability	Actual expenditures
Bond proceeds	Liability	Other financing source

Fund Financial Statements

The Fund Financial Statements provide detailed information about the most significant funds (activities); not the City as a whole. A Fund is a fiscal and accounting entity with a self-balancing set of accounts that the City uses to keep track of specific sources of funding and spending for a particular purpose. GASB 34 defines these significant funds as "major funds" which are reported separately as part of the Fund Financial Statements portion of the audit.

The Major funds for the City of Albion include the General Fund, Albion Trust, Solid Waste, Sidewalk Program, MDOT Street Reconstruction, Sewer, and Water. All other funds will be classified as non-major funds and are reported in aggregate by the applicable fund type. All of the funds of the City of Albion can be divided into three categories; governmental funds, proprietary funds and fiduciary funds.

Governmental Funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. The City of Albion maintains several individual governmental funds. These funds are presented in the Balance Sheet under Governmental Fund Types under the categories of General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

Proprietary Funds - When the City charges customers for the services it provides, these services are generally reported in Proprietary Funds. The City of Albion uses two types of proprietary funds. Enterprise Funds are used to report the activities for the water and sewer operations. The Internal Service Fund is used to report the activities for the equipment pool operations.

Fiduciary Funds - The City of Albion is the trustee, or fiduciary, for the following funds: Public Safety Officers' Pension and the Retiree Health Care. All of the City's fiduciary funds are reported in a separate statement of Fiduciary Net Position. The government-wide statements exclude the fiduciary fund activities and balances because these assets are not available to the City of Albion to fund its operations.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements.

Other Information

Following the basic financial statements is additional required supplementary information, which further explains and supports the information in the financial statements. Other supplementary information includes combining financial statements for non-major governmental funds, component unit funds, and schedules of outstanding debt.

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

Government-Wide (City as a Whole) Financial Analysis

The Statement of Net Position provides information that can be helpful in evaluating the City's financial condition. The net position and changes over time can provide an indication of whether the City's financial health is improving or deteriorating. However, it should be noted that other factors both economic and non-economic could affect the City's financial health.

The largest portion of the City's net position is invested in capital assets (streets, buildings, land, equipment, and utility systems). These assets are used to provide services to residents in the community and therefore these assets are not available to pay operating expenses, etc. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the funds needed to repay current City debt must be provided from other sources, since the capital assets themselves cannot be used to cover these liabilities.

Net Position as December 31, 2016 and 2015

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ 14,673,234	\$ 14,104,696	\$ 2,332,147	\$ 2,020,372	\$ 17,005,381	\$ 16,125,068
Capital Assets	10,457,234	10,575,724	8,097,585	8,501,495	18,554,819	19,077,219
Total Assets	25,130,468	24,680,420	10,429,732	10,521,867	35,560,200	35,202,287
Deferred Outflows of Resources	2,054,134	-	-	-	2,054,134	-
Current Liabilities	892,844	986,069	341,776	288,780	1,234,620	1,274,849
Noncurrent Liabilities	2,949,139	2,572,567	81,200	232,961	3,030,339	2,805,528
Total Liabilities	3,841,983	3,558,636	422,976	521,741	4,264,959	4,080,377
Deferred Inflows of Resources	462,111	-	-	-	462,111	-
Net Position						
Net investment in Capital						
Assets	8,200,258	7,982,595	7,942,585	8,201,495	16,142,843	16,184,090
Restricted	12,274,917	11,863,953	61,990	61,990	12,336,907	11,925,943
Unrestricted	2,405,333	2,821,917	2,002,181	1,736,641	4,407,514	4,558,558
Total Net Position	\$ 22,880,508	\$ 22,668,465	\$ 10,006,756	\$ 10,000,126	\$ 32,887,264	\$ 32,668,591

The total net position for Governmental Activities increased by \$212,043, due to increases in revenue in the general, major and local street, street improvement, and sidewalk program funds as compared to the PY. The total net position for business-type activities increased by \$6,630 mainly as a result of increased expenses keeping pace with increased revenues.

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

Changes in Net Position for the Fiscal Year Ended December 31, 2016 and 2015

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues						
Charges for Services	\$ 1,100,583	\$ 1,066,546	\$ 2,171,140	\$ 1,959,687	\$ 3,271,723	\$ 3,026,233
Grants and Contributions	1,125,625	1,755,013	591,504	403,358	1,717,129	2,158,371
General Revenues						
Property Taxes	1,779,718	1,635,184	-	-	1,779,718	1,635,184
Income Taxes	972,827	925,010	-	-	972,827	925,010
State Shared Revenues	1,031,244	1,024,400	-	-	1,031,244	1,024,400
Investment Earnings	61,363	62,085	10,821	6,546	72,184	68,631
Miscellaneous	247,831	246,086	18,872	24,011	266,703	270,097
Transfers	163,115	164,239	(163,115)	(164,239)	-0-	-0-
Total Revenues	\$ 6,482,306	\$ 6,878,563	\$ 2,629,222	\$ 2,229,363	\$ 9,111,528	\$ 9,107,926
Expenses						
General Government	\$ 1,227,153	\$ 1,068,358	\$ -	\$ -	\$ 1,227,153	\$ 1,068,358
Public Safety	1,961,677	1,599,730	-	-	1,961,677	1,599,730
Public Works	1,838,134	1,739,604	-	-	1,838,134	1,739,604
Health and Welfare	15,127	9,129	-	-	15,127	9,129
Community and Econ. Development	621,927	755,376	-	-	621,927	755,376
Recreation and Cultural	501,721	470,518	-	-	501,721	470,518
Interest on Long Term Debt	104,524	111,599	-	-	104,524	111,599
Other	-	-	2,622,592	2,423,103	2,622,592	2,423,103
Total Expenses	6,270,263	5,754,314	2,622,592	2,423,103	8,892,855	8,177,417
Change in Net Position	212,043	1,124,249	6,630	(193,740)	218,673	930,509
Restated Net Position - Beginning	22,668,465	21,544,216	10,000,126	10,193,866	20,066,247	19,696,768
Net Position Ending	\$ 22,880,508	\$ 22,668,465	\$ 10,006,756	\$ 10,000,126	\$ 32,887,264	\$ 32,668,591

Governmental Activities

Revenues:

The three largest revenue sources under the governmental activities category are property taxes at 28%, operating grants and contributions at 17%, and charges for services at 17%. For 2016, overall governmental revenues were down about 6%, primarily due to lower revenue reflected in Grants and Contributions.

Expenses:

The largest governmental activities expense item is public safety at 31% of total expenses. The next largest expense item is public works at 29% of total expenses. Total expenses increased by about \$515,949 from approximately \$5.7 million in 2015 to approximately \$6.3 million in 2016. In a continuing effort to maintain a balanced budget, the City strives to reduce expenses in almost every category. The City will continue to diligently monitor expenses and look for cost savings for its taxpayers.

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

Business-Type Activities

The Statement of Net Position shows that for business-type activities as of December 31, 2016, there was a total net position of \$10,006,756, which represents an increase of \$6,630 from the prior year. The Statement of Net Position is significantly affected by the recording of depreciation expense. For utility funds, the City's charter requires that rates be "...fixed as to at least meet all the costs of such utility, including depreciation". Therefore, the City's utility funds record depreciation even if revenues are not sufficient to fund depreciation for the fiscal year. More detail about the Business-Type Activities is provided in a later section.

Financial Analysis of the City's Major Funds

General Fund:

The General Fund is the primary operating fund of the City of Albion. As of December 31, 2016, the General Fund had a nonspendable fund balance of \$214,957, an assigned fund balance of \$41,345 and an unassigned fund balance of \$1,241,600. Total fund balance had an increase of \$335,645 from the fund balance on December 31, 2015.

From a budgetary standpoint, General Fund budgeted revenues and other financing sources were greater than actual revenues by \$193,082 and expenditures and other financing uses came in under budget by \$177,090.

Albion Trust Fund:

The Albion Trust Fund is used to account for funding for City improvements as a whole and to set dollars aside for the Maple Grove Apartment Facility Bonds. The fund balance decreased as the result of current year activity by \$18,995. Fund balance for this fund was \$1,067,155 at year-end.

Solid Waste:

Fund balance increased by \$78,491 during the year. The Solid Waste fund balance was \$117,705 as of December 31, 2016.

Sewer:

The City operates a wastewater treatment plant and collection system that serves the City and a small portion of a neighboring township. For the last several years, the City has increased rates; however, the system has not been able to cover all of its operating costs, including depreciation. Net position for the sewer system decreased by \$41,074 to a December 31, 2016, level of \$4,522,289. The majority of these assets are invested in facilities and equipment. The City recognizes that additional rate increases will be required. As part of an on-going study of the waster-water system covered by a large SAW grant, the City will receive a rate study. This rate study should be available within the year to help the City determine what level the rates should be set at.

Water:

The City operates a water treatment plant and distribution system that serves the City and a small portion of the neighboring townships. For the last several years, the City has increased rates so that an operating gain of \$57,585 in the current year was finally recognized. Net position for the water system increased by \$47,704 to a December 31, 2016, level of \$5,484,467. The City would like to conduct a rate study in the very near future to determine the appropriate fees and rates to charge. In addition, the City is also exploring some grants in an effort to obtain funding for some major infrastructure maintenance. One of the top priorities is to have the City's water tower repainted and serviced to not only extend its life, but also to ensure we continue to provide clean, safe drinking water for the residents.

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

Capital Assets and Debt Administration

At the end of the year, the City had invested \$10,457,234 and \$8,097,585 (net of accumulated depreciation) for governmental and business-type capital assets respectively. Depreciation charges for the fiscal year totaled \$596,418 for the governmental activities and \$451,989 for the business-type activities. The following chart provides more detail on these capital assets.

	Governmental Activities	Business- Type Activities	Total
Land and construction in progress	\$ 472,705	\$ 93,700	\$ 566,405
Buildings and improvements, net	4,309,563	4,809,041	9,118,604
Infrastructure, net	4,556,877	-	4,556,877
Vehicles and equipment, net	1,118,089	94,943	1,213,032
Sewer system, net	-	1,413,955	1,413,955
Water system, net	-	1,685,946	1,685,946
	<u>\$ 10,457,234</u>	<u>\$ 8,097,585</u>	<u>\$ 18,554,819</u>

Long-term Debt:

As of December 31, 2016, the City had the following bond debt outstanding:

Primary Government

	Jan. 1, 2016	Additions	Deletions	Dec. 31, 2016
Governmental Activities				
General Obligation Bonds	\$ 1,405,000	\$ -	\$ (125,000)	\$ 1,280,000
Refunding Bonds	270,000	-	(130,000)	140,000
EPA Liability	80,389	-	(5,125)	75,264
Building Authority Bonds	820,000	-	(85,000)	735,000
Land contract	98,129	-	(12,056)	86,073
Compensated Absences	286,818	242,496	(271,609)	257,705
Installment Note	-	19,800	(3,897)	15,903
	<u>2,960,336</u>	<u>242,496</u>	<u>(628,790)</u>	<u>2,589,945</u>
Business-type Activities				
Revenue Refunding Bonds	300,000	-	(145,000)	155,000
Compensated Absences	114,618	60,515	(53,458)	121,675
	<u>414,618</u>	<u>60,515</u>	<u>(198,458)</u>	<u>276,675</u>
Total Primary Government	<u>\$ 3,374,954</u>	<u>\$ 303,011</u>	<u>\$ (827,248)</u>	<u>\$ 2,866,620</u>

As of December 31, 2016, the City had total outstanding debt for governmental activities (including compensated absences) of \$2,589,945. For business-type activities, the outstanding debt (including compensated absences) was \$276,675 as of December 31, 2016. As a result of the significant cost for issuing bonds, the City for the past several years has used an installment purchase process to purchase land, buildings, and equipment. These obligations are reflected in the chart showing the City's outstanding debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

Economic Factors and Next Year's Budget

For the 2017 budget, the following property tax millage rates were used: The General Fund Operating millage is set at 11.9736 mills, or essentially the same level in which it has been for the past 3 years. In addition, the City has several special millages that have been approved by the voters. For 2017 these were:

- a. Water plant bonds - 1.00 mills
- b. Street reconstruction - 3.00 mills
- c. Recreation - 1.50 mills
- d. Solid Waste – 3.00 mills.

Thus, the 2017 total City millage levy was 20.4736 mills. Because of its effort to cut costs, the City was able to operate within budget during 2016. However, there are continued concerns with declining taxable values within the City and as the State has passed legislation to eliminate personal property taxes. Additionally, the City has experienced a decline in its income taxes as well. These factors, combined with a continuation in the rising costs of insurance, utilities and other major expenses is cause for concern. The City is working with a third party in 2017 in an effort to collect income tax non-filers and delinquencies. The City anticipates about a 5 to 10% increase in income tax revenues due to this more aggressive effort to collect these taxes. Additionally, the City will diligently monitor its expenses and look for alternative sources of revenues, such as recovery fees, etc. wherever possible. The direction of the State economy combined with future legislation will be key components in the City's success over the next several years.

In the area of expenses, the City will have to negotiate new union contracts for all four of its unions, as the existing contracts expire in September of 2017. It is unknown at this point in time what impact these new contracts will have on the 2017 and future budgets.

Just like other employers, the City has struggled with the significant cost for medical insurance for its employees. For 2017 the City was fortunate to only see moderate rate increases in the cost of its health insurance plan. However, there continues to be significant concerns about the future costs of health insurance for the City's employees. The Affordable Care Act has resulted in major changes in the health care area. At this time, there are still some uncertainties as to how the cost of future health care may be effected based on the election results last November. The City continues to monitor potential changes.

The City continues to pursue grants to assist with capital projects, as well as activities that can spur economic development and job creation in the City. As a result of the special voted millage (the current 3.0 mill annual levy was renewed in 2015 for another 5 years) for street reconstruction, the City is able to have an active street reconstruction program each year. However, the City purposely scaled down its' street repairs in 2016 (only spending roughly \$180,000) in order to save money for a major MDOT street construction project in 2017. The City's main downtown street, Superior Street, will be completely reconstructed in 2017, including new water and sewer lines beneath the surface of the street, as well as all new bricks for the surface of the street itself, to comply with State of Michigan historical requirements. While much of this will be covered by MDOT grant money, there will still be some matching dollars required from the City.

This year, 2017, will be the last of the 10 year Sidewalk Program that the City Council approved back in 2008. Because of this program, just over \$110,000 in sidewalk repairs were completed in 2016. No definitive decision has been reached yet as of this writing relating to possible future sidewalk improvement plans.

Of significant importance is the hotel and conference center being built in downtown Albion. Construction started in late 2016, with an anticipated completion date of late 2017. This construction seems to have stirred up some interest in other properties within the City. Besides the recent completion of some new properties, such as a new auto parts store, a new fast food restaurant, a newly remodeled downtown building for Albion College and a state-of-the-art dialysis center, plans are also in place for a new brew pub. Additionally, some additional interest has been expressed for some other new businesses as well. The City is also seeing some sizable expansions at some of the major businesses in the surrounding Albion area, and while these are outside the City limits, it still reflects positively on the Albion area. This certainly appears to indicate an economic upswing for Albion. We are hopeful that this economic growth will continue, and that the City as a whole will prosper in the years to come.

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the City Manager or the City Treasurer at (517) 629-5535.

BASIC FINANCIAL STATEMENTS

City of Albion

STATEMENT OF NET POSITION

December 31, 2016

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 4,116,309	\$ 1,134,035	\$ 5,250,344	\$ 454,066
Cash and cash equivalents - restricted	-	61,990	61,990	-
Investments	842,664	299,975	1,142,639	331,019
Receivables	534,451	587,556	1,122,007	189,825
Due from other governmental units	139,593	1,782	141,375	6,011
Inventories	65,329	9,904	75,233	-
Prepays	237,034	17,038	254,072	20,665
Internal balances	(120,000)	120,000	-0-	-
Total current assets	5,815,380	2,232,280	8,047,660	1,001,586
Noncurrent assets				
Investments	624,311	99,867	724,178	-
Due from other governmental units	29,880	-	29,880	-
Net pension asset	8,203,663	-	8,203,663	-
Capital assets not being depreciated	472,705	93,700	566,405	205,799
Capital assets, net of accumulated depreciation	9,984,529	8,003,885	17,988,414	3,599,005
Total noncurrent assets	19,315,088	8,197,452	27,512,540	3,804,804
TOTAL ASSETS	25,130,468	10,429,732	35,560,200	4,806,390
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources related to pensions	2,054,134	-	2,054,134	187,984
LIABILITIES				
Current liabilities				
Accounts payable	213,055	111,048	324,103	69,124
Accrued wages	67,687	35,053	102,740	-
Accrued liabilities	64,252	200	64,452	49,756
Due to other governmental units	7,660	-	7,660	29,880
Accrued interest payable	26,937	-	26,937	1,173
Unearned revenue	4,600	-	4,600	42,040
Current portion of compensated absences	128,558	40,475	169,033	99,685
Current portion of long-term debt	380,095	155,000	535,095	4,274
Total current liabilities	892,844	341,776	1,234,620	295,932
Noncurrent liabilities				
Net OPEB obligation	102,834	-	102,834	-
Net pension liability	765,013	-	765,013	411,313
Noncurrent portion of compensated absences	129,147	81,200	210,347	5,413
Noncurrent portion of long-term debt	1,952,145	-	1,952,145	19,868
Total noncurrent liabilities	2,949,139	81,200	3,030,339	436,594
TOTAL LIABILITIES	3,841,983	422,976	4,264,959	732,526
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources related to pensions	462,111	-	462,111	-
NET POSITION				
Net investment in capital assets	8,200,258	7,942,585	16,142,843	3,780,662
Restricted for:				
Nonexpendable				
Perpetual care	215,000	-	215,000	-
Expendable				
Pension trust	8,203,663	-	8,203,663	-
Debt service	86,805	61,990	148,795	-
Streets and highways	1,084,370	-	1,084,370	-
Sidewalks	295,740	-	295,740	-
Perpetual care	35,362	-	35,362	-
Community and economic development	2,187,394	-	2,187,394	33,194
Solid waste	117,705	-	117,705	-
Law enforcement	48,878	-	48,878	-
Unrestricted	2,405,333	2,002,181	4,407,514	447,992
TOTAL NET POSITION	\$ 22,880,508	\$ 10,006,756	\$ 32,887,264	\$ 4,261,848

See accompanying notes to financial statements.

City of Albion

STATEMENT OF ACTIVITIES

Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 1,227,153	\$ 613,914	\$ 59,500	\$ -	\$ (553,739)	\$ -	\$ (553,739)	\$ -
Public safety	1,961,677	41,166	7,078	-	(1,913,433)	-	(1,913,433)	-
Public works	1,838,134	150,780	799,441	-	(887,913)	-	(887,913)	-
Health and welfare	15,127	-	-	-	(15,127)	-	(15,127)	-
Community and economic development	621,927	275,626	230,045	-	(116,256)	-	(116,256)	-
Recreation and cultural	501,721	19,097	29,561	-	(453,063)	-	(453,063)	-
Interest on long-term debt	104,524	-	-	-	(104,524)	-	(104,524)	-
Total governmental activities	6,270,263	1,100,583	1,125,625	-0-	(4,044,055)	-0-	(4,044,055)	-0-
Business-type activities								
Sewer system	1,708,083	1,221,570	591,504	-	-	104,991	104,991	-
Water system	914,509	949,570	-	-	-	35,061	35,061	-
Total business-type activities	2,622,592	2,171,140	591,504	-0-	-0-	140,052	140,052	-0-
Total primary government	\$ 8,892,855	\$ 3,271,723	\$ 1,717,129	\$ -0-	(4,044,055)	140,052	(3,904,003)	-0-
Component units								
Economic Development Corporation	\$ 267,658	\$ 112,308	\$ 132,595	\$ -	-	-	-0-	(22,755)
Downtown Development Authority	272,207	-	211,317	-	-	-	-0-	(60,890)
Tax Increment Finance Authority	201,692	-	-	-	-	-	-0-	(201,692)
Albion Housing Commission	1,547,157	453,224	693,327	12,628	-	-	-0-	(387,978)
Total component units	\$ 2,288,714	\$ 565,532	\$ 1,037,239	\$ 12,628	-0-	-0-	-0-	(673,315)
General revenues								
Property taxes					1,779,718	-	1,779,718	284,819
Income taxes					972,827	-	972,827	-
State shared revenue					1,031,244	-	1,031,244	-
Investment earnings					61,363	10,821	72,184	4,313
Miscellaneous					247,831	18,872	266,703	46,023
Transfers					163,115	(163,115)	-0-	-
Total general revenues and transfers					4,256,098	(133,422)	4,122,676	335,155
Change in net position					212,043	6,630	218,673	(338,160)
Restated net position, beginning of the year					22,668,465	10,000,126	32,668,591	4,600,008
Net position, end of the year					\$ 22,880,508	\$ 10,006,756	\$ 32,887,264	\$ 4,261,848

See accompanying notes to financial statements.

City of Albion
Governmental Funds
BALANCE SHEET
December 31, 2016

	Special Revenue			Nonmajor Governmental Funds	Total Governmental Funds
	General	Albion Trust	Solid Waste		
ASSETS					
Cash and cash equivalents	\$ 1,146,407	\$ -	\$ 125,626	\$ 2,691,861	\$ 3,963,894
Investments	149,891	1,067,155	100,004	149,925	1,466,975
Receivables					
Accounts	67,661	-	2,336	2,674	72,671
Taxes	159,164	-	17,219	42,263	218,646
Loans	-	-	-	243,134	243,134
Due from other funds	-	-	-	5,823	5,823
Due from other governmental units	-	-	-	169,473	169,473
Prepays	214,957	-	-	14,997	229,954
Inventories	-	-	-	56,562	56,562
TOTAL ASSETS	<u>\$ 1,738,080</u>	<u>\$ 1,067,155</u>	<u>\$ 245,185</u>	<u>\$ 3,376,712</u>	<u>\$ 6,427,132</u>
LIABILITIES					
Accounts payable	\$ 59,949	\$ -	\$ 36	\$ 52,572	\$ 112,557
Accrued liabilities	22,946	-	519	40,787	64,252
Accrued wages	64,186	-	-	-	64,186
Due to other funds	5,823	-	120,000	-	125,823
Due to other governmental units	-	-	-	7,660	7,660
Unearned revenue	-	-	-	4,600	4,600
TOTAL LIABILITIES	152,904	-0-	120,555	105,619	379,078
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	87,274	-	6,925	13,189	107,388
FUND BALANCES					
Nonspendable	214,957	-	-	559,573	774,530
Restricted	-	1,067,155	117,705	2,698,331	3,883,191
Assigned	41,345	-	-	-	41,345
Unassigned	1,241,600	-	-	-	1,241,600
TOTAL FUND BALANCES	<u>1,497,902</u>	<u>1,067,155</u>	<u>117,705</u>	<u>3,257,904</u>	<u>5,940,666</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,738,080</u>	<u>\$ 1,067,155</u>	<u>\$ 245,185</u>	<u>\$ 3,376,712</u>	<u>\$ 6,427,132</u>

See accompanying notes to financial statements.

City of Albion

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

December 31, 2016

Total fund balances - governmental funds \$ 5,940,666

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

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

The cost of capital assets is	\$ 16,041,294	
Accumulated depreciation is	<u>(5,769,303)</u>	
Capital assets, net		10,271,991

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Government-wide Statement of Net Position. 230,633

Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds. These consist of:

Unavailable revenue		107,388
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Some assets are not current financial resources and therefore are not reported as assets in the governmental funds. These amounts consist of:

Net pension asset		8,203,663
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Governmental funds report actual pension expenditures for the fiscal year, whereas the governmental activities will recognize the net pension liability as of the measurement date. Pension contributions subsequent to the measurement date will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, and differences between projected and actual pension plan investment earnings will be deferred over time in the government-wide financial statements. These amounts consist of:

Deferred outflows of resources related to pensions	2,054,134	
Deferred inflows of resources related to pensions	<u>(462,111)</u>	
		1,592,023

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Direct City obligations	(2,316,337)	
Net pension liability	(765,013)	
Accrued interest payable	(26,937)	
Net other post-employment benefits obligation	(102,834)	
Compensated absences	<u>(254,735)</u>	
		<u>(3,465,856)</u>

Net position of governmental activities \$ 22,880,508

City of Albion

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2016

	Special Revenue			Nonmajor Governmental Funds	Total Governmental Funds
	General	Albion Trust	Solid Waste		
REVENUES					
Taxes	\$ 2,061,785	\$ -	\$ 225,715	\$ 487,902	\$ 2,775,402
Licenses and permits	194,906	-	-	-	194,906
Intergovernmental	1,095,148	-	16,190	1,089,247	2,200,585
Charges for services	279,489	-	-	34,524	314,013
Fines and forfeits	20,150	-	-	-	20,150
Interest and rents	7,318	31,005	1,630	293,474	333,427
Other	154,197	-	-	297,480	451,677
TOTAL REVENUES	3,812,993	31,005	243,535	2,202,627	6,290,160
EXPENDITURES					
Current					
General government	909,151	-	-	1	909,152
Public safety	1,966,526	-	-	73,085	2,039,611
Public works	194,438	-	153,544	750,691	1,098,673
Health and welfare	11,041	-	-	-	11,041
Community and economic development	-	50,000	-	342,789	392,789
Recreation and cultural	220,373	-	-	144,595	364,968
Other	150,316	-	-	71,822	222,138
Debt service	-	-	-	464,456	464,456
Capital outlay	-	-	-	263,446	263,446
TOTAL EXPENDITURES	3,451,845	50,000	153,544	2,110,885	5,766,274
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	361,148	(18,995)	89,991	91,742	523,886
OTHER FINANCING SOURCES (USES)					
Transfers in	27,000	-	-	442,606	469,606
Transfers out	(52,503)	-	(11,500)	(224,329)	(288,332)
TOTAL OTHER FINANCING SOURCES (USES)	(25,503)	-0-	(11,500)	218,277	181,274
NET CHANGE IN FUND BALANCES	335,645	(18,995)	78,491	310,019	705,160
Fund balances, beginning of year	1,162,257	1,086,150	39,214	2,947,885	5,235,506
Fund balances, end of year	<u>\$ 1,497,902</u>	<u>\$ 1,067,155</u>	<u>\$ 117,705</u>	<u>\$ 3,257,904</u>	<u>\$ 5,940,666</u>

See accompanying notes to financial statements.

City of Albion

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2016

Net change in fund balances - total governmental funds \$ 705,160

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 436,258	
Depreciation expense	<u>(546,350)</u>	
Excess of depreciation expense over capital outlay		(110,092)

Internal service funds are used by management to charge the costs of certain activities to individual funds. 22,930

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unavailable revenue	29,031	
(Increase) in deferred inflows of resources	(203,132)	
(Decrease) in net pension asset	<u>(86,863)</u>	
		(260,964)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current year, these amounts consist of:

Long-term debt principal retirements		357,181
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in deferred outflows of resources	248,474	
(Increase) in net pension liability	(765,013)	
Decrease in accrued interest payable	2,751	
(Increase) in other post-employment benefits obligation	(17,417)	
Decrease in accrued compensated absences	<u>29,033</u>	
		<u>(502,172)</u>

Change in net position of governmental activities \$ 212,043

City of Albion

Proprietary Funds

STATEMENT OF NET POSITION

December 31, 2016

	Business-type Activities			Governmental Activities
	Sewer	Water	Total	Internal Service
ASSETS				
Current assets				
Cash and cash equivalents	\$ 531,505	\$ 602,530	\$ 1,134,035	\$ 152,415
Cash and cash equivalents - restricted	-	61,990	61,990	-
Investments	-	299,975	299,975	-
Receivables	335,839	251,717	587,556	-
Due from other funds	-	120,000	120,000	-
Due from other governmental units	1,782	-	1,782	-
Inventories	6,388	3,516	9,904	8,767
Prepays	12,117	4,921	17,038	7,080
Total current assets	887,631	1,344,649	2,232,280	168,262
Noncurrent assets				
Investments	-	99,867	99,867	-
Capital assets not being depreciated	-	93,700	93,700	-
Capital assets, net of accumulated depreciation	3,830,270	4,173,615	8,003,885	185,243
Total noncurrent assets	3,830,270	4,367,182	8,197,452	185,243
TOTAL ASSETS	4,717,901	5,711,831	10,429,732	353,505
LIABILITIES				
Current liabilities				
Accounts payable	99,900	11,148	111,048	100,498
Accrued wages	20,532	14,521	35,053	3,501
Accrued liabilities	-	200	200	-
Current portion of compensated absences	24,232	16,243	40,475	1,594
Current portion of long-term debt	-	155,000	155,000	7,888
Total current liabilities	144,664	197,112	341,776	113,481
Noncurrent liabilities				
Noncurrent portion of compensated absences	50,948	30,252	81,200	1,376
Noncurrent portion of long-term debt	-	-	-0-	8,015
Total noncurrent liabilities	50,948	30,252	81,200	9,391
TOTAL LIABILITIES	195,612	227,364	422,976	122,872
NET POSITION				
Net investment in capital assets	3,830,270	4,112,315	7,942,585	169,340
Restricted for debt service	-	61,990	61,990	-
Unrestricted	692,019	1,310,162	2,002,181	61,293
TOTAL NET POSITION	\$ 4,522,289	\$ 5,484,467	\$ 10,006,756	\$ 230,633

See accompanying notes to financial statements.

City of Albion

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended December 31, 2016

	Business-type Activities			Governmental Activities
	Sewer	Water	Total	Internal Service
OPERATING REVENUES				
Charges for services	\$ 1,221,570	\$ 949,570	\$ 2,171,140	\$ 288,361
Other	2,588	16,284	18,872	12,777
TOTAL OPERATING REVENUES	1,224,158	965,854	2,190,012	301,138
OPERATING EXPENSES				
Salaries and wages	362,097	241,887	603,984	30,540
Fringe benefits	173,199	134,998	308,197	27,140
Contractual services	629,817	44,240	674,057	6,955
Supplies	118,068	112,859	230,927	102,595
Utilities	111,694	89,670	201,364	13,522
Insurance and bonds	24,647	10,026	34,673	14,273
Administrative services	40,000	40,000	80,000	10,900
Building and equipment rental	6,675	16,248	22,923	4,379
Other	5,510	2,728	8,238	313
Depreciation	236,376	215,613	451,989	50,068
TOTAL OPERATING EXPENSES	1,708,083	908,269	2,616,352	260,685
OPERATING INCOME (LOSS)	(483,925)	57,585	(426,340)	40,453
NONOPERATING REVENUES (EXPENSES)				
Interest earned	2,794	7,667	10,461	768
Grants	591,504	-	591,504	-
Gain on investments	-	360	360	-
Interest expense and fees	-	(6,240)	(6,240)	(132)
TOTAL NONOPERATING REVENUES (EXPENSES)	594,298	1,787	596,085	636
INCOME BEFORE TRANSFERS	110,373	59,372	169,745	41,089
TRANSFERS				
Transfers out	(151,447)	(11,668)	(163,115)	(18,159)
CHANGE IN NET POSITION	(41,074)	47,704	6,630	22,930
Net position, beginning of year	4,563,363	5,436,763	10,000,126	207,703
Net position, end of year	\$ 4,522,289	\$ 5,484,467	\$ 10,006,756	\$ 230,633

See accompanying notes to financial statements.

City of Albion

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended December 31, 2016

	Business-type Activities			Governmental Activities
	Sewer	Water	Total	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	\$ 1,227,896	\$ 973,765	\$ 2,201,661	\$ 301,287
Cash paid to suppliers	(851,343)	(311,603)	(1,162,946)	(143,258)
Cash paid for employee benefits/wages	(531,872)	(365,827)	(897,699)	(56,245)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(155,319)	296,335	141,016	101,784
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Payments of borrowing	-	(145,000)	(145,000)	15,903
Receipt of grants	591,504	-	591,504	-
Purchase of capital assets	-	(48,079)	(48,079)	(41,670)
Interest expense and fees	-	(6,240)	(6,240)	(132)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	591,504	(199,319)	392,185	(25,899)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers out	(151,447)	(11,668)	(163,115)	(18,159)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest earned	2,794	7,667	10,461	768
NET INCREASE IN CASH AND CASH EQUIVALENTS	287,532	93,015	380,547	58,494
Cash and cash equivalents, beginning of year	243,973	571,505	815,478	93,921
Cash and cash equivalents, end of year	<u>\$ 531,505</u>	<u>\$ 664,520</u>	<u>\$ 1,196,025</u>	<u>\$ 152,415</u>

See accompanying notes to financial statements.

City of Albion

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended December 31, 2016

	Business-type Activities			Governmental
	Sewer	Water	Total	Internal Service
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (483,925)	\$ 57,585	\$ (426,340)	\$ 40,453
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	236,376	215,613	451,989	50,068
Decrease in:				
Accounts receivable	4,935	9,905	14,840	149
Due from other governmental units	53,695	-	53,695	-
Prepays	413	184	597	113
Increase (decrease) in:				
Accounts payable	30,960	3,984	34,944	9,566
Accrued liabilities	(1,197)	(1,994)	(3,191)	
Accrued wages	3,605	3,821	7,426	1,514
Compensated absences	(181)	7,237	7,056	(79)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (155,319)	\$ 296,335	\$ 141,016	\$ 101,784

City of Albion

Fiduciary Funds

STATEMENT OF NET POSITION

December 31, 2016

	<u>Agency</u>	<u>Pension and Employee Benefit Trusts</u>
ASSETS		
Cash and cash equivalents	\$ 472,295	\$ 483,226
Investments	-	20,840,887
Interest receivable	-	63,995
	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 472,295</u>	21,388,108
LIABILITIES		
Due to County	\$ 26,704	-
Due to State	13,363	-
Due to schools	241,970	-
Due to others	190,258	-
	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>\$ 472,295</u>	<u>-0-</u>
NET POSITION		
Held in trust for pension and employee benefits		<u>\$ 21,388,108</u>

See accompanying notes to financial statements.

City of Albion

Fiduciary Funds

STATEMENT OF CHANGES IN NET POSITION

Year Ended December 31, 2016

	<u>Pension and Employee Benefit Trusts</u>
ADDITIONS	
Investment income	
Net investment income	\$ 1,456,703
Contributions	<u>34,699</u>
TOTAL ADDITIONS	1,491,402
DEDUCTIONS	
Benefit payments	<u>676,302</u>
CHANGE IN NET POSITION	815,100
Net position, beginning of year	<u>20,573,008</u>
Net position, end of year	<u><u>\$ 21,388,108</u></u>

City of Albion

Component Units

COMBINING STATEMENT OF NET POSITION

December 31, 2016

	Economic Development Corporation	Downtown Development Authority	Tax Increment Finance Authority	Albion Housing Commission	Total Component Units
ASSETS					
Current assets					
Cash	\$ 99,772	\$ 47,093	\$ 151,049	\$ 156,152	\$ 454,066
Investments	-	-	-	331,019	331,019
Receivables	2,659	-	65,333	121,833	189,825
Due from other governmental units	6,011	-	-	-	6,011
Prepays	3,006	627	-	17,032	20,665
Total current assets	111,448	47,720	216,382	626,036	1,001,586
Noncurrent assets					
Capital assets not being depreciated	26,655	-	160,000	19,144	205,799
Capital assets, net of accumulated depreciation	242,566	-	-	3,356,439	3,599,005
Total noncurrent assets	269,221	-0-	160,000	3,375,583	3,804,804
TOTAL ASSETS	380,669	47,720	376,382	4,001,619	4,806,390
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources related to pensions	-	-	-	187,984	187,984
LIABILITIES					
Current liabilities					
Accounts payable	7,857	-	181	61,086	69,124
Accrued liabilities	5,291	-	6,383	38,082	49,756
Due to other governmental units	29,880	-	-	-	29,880
Accrued interest payable	1,173	-	-	-	1,173
Unearned revenue	35,226	-	-	6,814	42,040
Current portion of compensated absences	-	-	12,951	86,734	99,685
Current portion of long-term debt	4,274	-	-	-	4,274
Total current liabilities	83,701	-0-	19,515	192,716	295,932
Noncurrent liabilities					
Net pension liability	-	-	-	411,313	411,313
Noncurrent portion of compensated absences	-	-	5,413	-	5,413
Noncurrent portion of long-term debt	19,868	-	-	-	19,868
Total noncurrent liabilities	19,868	-0-	5,413	411,313	436,594
TOTAL LIABILITIES	103,569	-0-	24,928	604,029	732,526
NET POSITION					
Net investment in capital assets	245,079	-	160,000	3,375,583	3,780,662
Restricted for community and economic development	33,194	-	-	-	33,194
Unrestricted	(1,173)	47,720	191,454	209,991	447,992
TOTAL NET POSITION	\$ 277,100	\$ 47,720	\$ 351,454	\$ 3,585,574	\$ 4,261,848

City of Albion

Component Units

COMBINING STATEMENT OF ACTIVITIES

Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Economic Development Corporation	Downtown Development Authority	Tax Increment Finance Authority	Albion Housing Commission	Total Component Units
Economic Development Corporation	\$ 267,658	\$ 112,308	\$ 132,595	\$ -	\$ (22,755)	\$ -	\$ -	\$ -	\$ (22,755)
Downtown Development Authority	272,207	-	211,317	-	-	(60,890)	-	-	(60,890)
Tax Increment Finance Authority	201,692	-	-	-	-	-	(201,692)	-	(201,692)
Albion Housing Commission	1,547,157	453,224	693,327	12,628	-	-	-	(387,978)	(387,978)
TOTALS	\$ 2,288,714	\$ 565,532	\$ 1,037,239	\$ 12,628	(22,755)	(60,890)	(201,692)	(387,978)	(673,315)
General revenues									
Property taxes									
					-	20,547	264,272	-	284,819
Investment earnings									
					691	152	814	2,656	4,313
Miscellaneous									
					39,541	-	349	6,133	46,023
Total general revenues					40,232	20,699	265,435	8,789	335,155
CHANGE IN NET POSITION					17,477	(40,191)	63,743	(379,189)	(338,160)
Restated net position, beginning of year					259,623	87,911	287,711	3,964,763	4,600,008
Net position, end of year					\$ 277,100	\$ 47,720	\$ 351,454	\$ 3,585,574	\$ 4,261,848

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Albion is located in Calhoun County, Michigan and has a population of approximately 8,616. The City of Albion operates with a City Manager/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The City has six (6) City Council members who are elected for overlapping four (4) year terms. The Council elects one (1) of its members to serve as Mayor Pro-Tem. A Mayor is elected at-large for a two (2) year term. The Council appoints the City Manager and City Attorney.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to city governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; these financial statements present the financial activities of the City of Albion (primary government) and its component units. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

The inclusion of the activities of various agencies is based on the financial accountability of the primary government, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management's, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

2. Blended Component Units

The Albion Building Authority is a five (5) member board governed by the City Council. One member of the board must be a resident of the Maple Grove Apartments. Its purpose under State Statute is to manage, maintain, develop, and acquire property for the City. It is reported in the Special Revenue Fund category.

The Albion Trust is governed by a three (3) member board appointed by current board members or by the City. Its purposes include construction of senior citizen facilities, supporting the debt of the Senior Citizen Facility, and other betterments to the City. It is reported in the Special Revenue Fund category.

The Albion Public Safety Officers' Pension Trust is governed by a five (5) member pension board that includes two (2) individuals chosen by the Mayor and the City Council. Its purpose is to operate the retirement system. It is reported in the Fiduciary Fund category.

3. Discretely Presented Component Units

The component units are reported in a separate column to emphasize that, while legally separate, the City remains financially accountable for these entities or the nature and significance of the relationship between the entities and the City is such that exclusion of the entities would render the financial statements misleading or incomplete.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Discretely Presented Component Units - continued

The financial statements contain the following discretely presented component units:

- a. Economic Development Corporation - The Economic Development Corporation (EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC is governed jointly by a nine (9) member board with the Tax Increment Finance Authority. The financial statements of the EDC are included in the City's financial statements and are not audited separately.
- b. Downtown Development Authority - The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of 9-12 members, is selected by the Mayor and City Council. In addition, the DDA's budget is subject to approval by the City Council. The financial statements of the DDA are included in the City's financial statements and are not audited separately.
- c. Tax Increment Finance Authority - The Tax Increment Finance Authority (TIFA) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The TIFA is governed jointly by a nine (9) member board with the Economic Development Corporation. The TIFA also acts as an agent for the Revolving Loan Fund, which is included as a Special Revenue Fund of the City. The financial statements of the TIFA are included in the City's financial statements and are not audited separately.
- d. Albion Housing Commission - The Albion Housing Commission (the Commission) was established by City Council to provide low rent housing. The Commission's governing body, which consists of five (5) members, is selected by the Mayor and City Council. The financial activity has been included as part of the City's financial statements. The financial statements of the Commission are audited separately and are available by contacting the Commission at 1300 Cooper Street, Albion, Michigan 49224.

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the government-wide financial statements) present information for the primary government and its component units as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide financial statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component units and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Albion Trust Fund is used to provide grant dollars for City improvements as a whole and to set dollars aside for the Maple Grove Apartment Facility.
- c. The Solid Waste Fund is used to account for revenues relating to trash collections, and disposal services to the public.

The City reports the following major enterprise funds:

- a. The Sewer Fund is used to account for the operations required to provide sewer services to the general public. The costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- b. The Water Fund is used to account for the operations required to provide water services to the general public. The costs (expenses, including depreciation) are financed or recovered primarily through user charges.

Additionally, the City reports an internal service fund to account for the management of equipment pool services provided to other departments on a cost reimbursement basis.

The City also reports agency funds to account for assets held by the City as the trustee or as the agent for others. Agency Funds are, by nature, custodial; therefore, operation results are not measured.

The City also reports pension trust funds to account for the activities of the Public Safety Officers' Pension, a defined-benefit pension plan, which accumulates resources for retirement benefit payments to qualified employees and the activities of the Retiree Health Care Fund, which accumulates resources for post-employment health care benefits to qualified employees.

5. Measurement Focus

The government-wide, proprietary, and non-agency fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide financial statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

There is no measurement focus for Agency Funds since assets equal liabilities.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental and similar trust funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as receivable and unavailable revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary and similar trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

If/when, both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

7. Budgets and Budgetary Accounting

The General and major Special Revenue Fund budgets shown as required supplementary information were prepared on the same modified accrual basis used to reflect actual results. The City employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Six weeks prior to December 31, the City Manager submits to City Council the proposed operating budgets for the fiscal year commencing the following January 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. On or before the second regular council meeting in December, the budget is legally enacted through passage of a resolution.
- d. The budget is legally adopted at the total expenditure level for the General Fund and Special Revenue Funds; however, they are maintained at the account level for control purposes.
- e. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at December 31 are not carried forward to the following fiscal year.
- f. Budgeted amounts are reported as originally adopted or amended by the City Council during the year. Individual amendments were appropriately approved by the City Council as required.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings, money market, certificates of deposit with a maturity from date of purchase of 90 days or less, and pooled investment fund accounts. The cash equivalents are recorded at cost, which approximates market value.

9. Investments

Investments consist of certificates of deposit, Municipal Securities, Corporate Bonds and Notes, and Michigan CLASS funds with original maturities of greater than 90 days. Investments are recorded at fair value.

10. Due from Other Governmental Units

Due from other governmental units consists of amounts due from the State of Michigan and amounts due from component units for various payments and grants and accounts receivable for charges for services provided to local governmental units.

11. Receivables

Receivables consist of amounts due related to charges for services, interest receivable, and other amounts owed to the City at year-end.

12. Property Tax

The City of Albion bills and collects its own property taxes and also taxes for other governmental units. The City's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph:

Property taxes are levied by the City of Albion on July 1 and are payable without penalty through August 10. The July 1 levy is composed of the City's millage, delinquent assessments, and State Education Tax. All real property taxes not paid to the City by February 28 are turned over to the Calhoun County Treasurer for collection. The Calhoun County Treasurer purchases the receivables of all taxing districts on any delinquent real property taxes. Delinquent personal property taxes receivable are retained by the City for subsequent collection.

The City is permitted by charter to levy taxes up to 12.50 mills (\$12.50 per \$1,000 of taxable valuation) for general governmental services other than the payment of Debt Service Fund expenditures. For the year ended December 31, 2016, the City levied 11.9736 mills per \$1,000 of taxable valuation for general governmental services. In addition, the City levied 3.0000 mills for street maintenance, 3.0000 mills for solid waste services, 1.5800 mills for debt service payments, and 1.5000 mills for recreational services. The total taxable value for the 2016 levy for property within the City was \$80,723,907.

13. Income Tax Revenues

In accordance with GASB Statement No. 22, *Accounting for Taxpayer - Assessed Tax Revenues in Governmental Funds*, the City has recognized taxpayer-assessed taxes, net of estimated refunds, as revenue in the accounting period in which they become susceptible to accrual (i.e., measurable and available to finance expenditures of the fiscal period). The City has calculated this amount based on the income tax collections made within 60 days after year end that relate to the prior years. Estimated refunds of these amounts are considered to be immaterial.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Inventories

Inventories are valued at cost. Cost is determined using the first-in, first-out method. Inventory consists of expendable supplies held for consumption. Inventories are capitalized under the consumption method, whereby expenditures are capitalized as inventory until used. Reported inventories in governmental funds are equally offset by nonspendable fund balance, which indicates that they do not constitute "available expendable resources" even though they are a component of fund balance.

15. Prepays

Prepaid expenditures in the governmental funds, such as insurance premiums, which are expected to be written off within the next fiscal year, are included in net current assets. Reported prepaid expenditures are equally offset by nonspendable fund balance, which indicates they do not constitute "available spendable resources" even though they are a component of fund balance.

16. Compensated Absences

City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation days according to contract or personnel policies. In the event of termination by retirement or death, an employee is paid for accumulated sick days according to contract or personnel policies.

17. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

The Internal Service Fund (Equipment Pool) records charges for services provided to various City departments and funds as operating revenue. All City funds record these payments as operating expenditures/expenses.

18. Capital Assets

Capital assets are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental, business-type, and component unit activities columns, respectively. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	5 - 50 years
Equipment and furniture	3 - 50 years
Infrastructure - streets and bridges	10 - 30 years
Vehicles	5 - 15 years
Sewer system	20 - 50 years
Water system	10 - 50 years

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

19. Long-term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as noncurrent.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

20. Restricted Net Position

Restrictions of net position shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes.

21. Tax Abatements

The City's tax revenues have been reduced by tax abatements. There have been no significant abatements made by the City or by other governmental units that significantly reduce tax revenues within the City. Management has determined these amounts to be immaterial to the financial statements.

22. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of financial position or balance sheet will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. *Deferred outflows of resources*, a separate financial statement element, represents a consumption of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. *Deferred inflows of resources*, a separate financial statement element, represents an acquisition of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The City has several items that qualify for reporting in these categories. These items correspond to the City's net pension asset (liability) and are related to differences between expected and actual experience, changes in assumptions, differences between projected and actual pension plan investment earnings, and contributions made subsequent to the measurement date. These amounts are deferred and recognized as an outflow or inflow of resources in the period to which they apply. The City has also recorded deferred inflows of resources in the fund financial statements. Governmental funds report unavailable revenues resulting from property taxes that have been levied on July 1 to support the current year's budget, and from intergovernmental revenue from the State of Michigan. Amounts not collected within sixty (60) days after year-end are considered unavailable revenue in the fund financial statements.

23. Unearned Revenue

The City reports unearned revenue in connection with resources that have been received, but not yet earned.

24. Net Pension Asset and Net Pension Liability

The net pension asset and net pension liability are deemed to be noncurrent items and are recognized on the City's government-wide financial statements.

25. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The City deposits consist of a common checking account and various savings, money market, checking, and pooled investment fund accounts maintained by individual funds and are reported as cash, cash equivalents, and investments in the financial statements.

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers' acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

In addition, the Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the Authority's Pension Trust Fund and Other Post-Employment Benefit Trust Fund to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations.

Deposits

As of December 31, 2016, the carrying amounts and bank balances for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking and savings	\$ 4,994,634	\$ 5,928,844
Certificates of deposit	990,891	990,891
Total Primary Government	5,985,525	6,919,735
FIDUCIARY FUNDS		
Checking	567,429	503,878
COMPONENT UNITS		
Checking and savings	453,821	478,941
Certificates of deposit	331,019	331,019
Total Component Units	784,840	809,960
TOTAL REPORTING ENTITY	<u>\$ 7,337,794</u>	<u>\$ 8,233,573</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Deposits - continued

The primary government and component units' cash and cash equivalents captions on the basic financial statements include \$378 and \$244, respectively, of imprest cash.

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of December 31, 2016, the City accounts were insured by the FDIC for \$1,049,662 and the amount of \$7,183,911 was uninsured and uncollateralized.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs. There are three (3) levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

INVESTMENT TYPE	Level 1	Level 2	Level 3	Fair Value	Moody's/ S & P Rating	Weighted Average Maturity
PRIMARY GOVERNMENT						
Uncategorized Pooled Investments	\$ 302,740	\$ -	\$ -	\$ 302,740	Aaa/AA+	0.97 years
Federal National Mortgage Association	-	24,986	-	24,986	Aaa/AA+	0.99 years
Federal Farm Credit Bank	-	49,923	-	49,923	Aaa/AA+	1.03 years
Federal Home Loan Mortgage Corporation	-	24,949	-	24,949	Aaa/AA+	1.33 years
International Bank for Recon & Development	-	63,328	-	63,328	Aaa/AA+	0.26 years
Municipal Bonds	-	410,000	-	410,000	Aaa/AA+	2.85 years
Michigan CLASS	-	317,322	-	317,322	Aaa/AA+	0.14 years
TOTAL PRIMARY GOVERNMENT	\$ 302,740	\$ 890,508	\$ -0-	\$ 1,193,248		
Fiduciary Accounts						
Uncategorized Pooled Investments	\$ 307,195	\$ -	\$ -	\$ 307,195	N/R	N/A
US Treasury Notes	54,935	-	-	54,935	Aaa/AA+	N/A
US Treasury Bonds	-	2,222,993	-	2,222,993	Aaa/AA+	17.16 years
Federal National Mortgage Association	-	24,392	-	24,392	Aaa/AA+	15.46 years
Federal Home Loan Mortgage Corporation	-	1,116,721	-	1,116,721	Aaa/AA+	8.32 years
Governmental National Mortgage Association	-	505,573	-	505,573	Aaa/AA+	45.10 years
Corporate Bonds	-	5,449,989	-	5,449,989	Various	9.83 years
Michigan CLASS	-	25,963	-	25,963	N/A	N/A
Common Equity Securities	11,521,219	-	-	11,521,219	N/A	N/A
TOTAL PENSION TRUST FUND	\$ 11,883,349	\$ 9,345,631	\$ -0-	\$ 21,228,980		
TOTAL REPORTING ENTITY	\$ 12,186,089	\$ 10,236,139	\$ -0-	\$ 22,422,228		

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS – CONTINUED

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of December 31, 2016, rating information on the City's investments is presented above.

Interest Rate Risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements.

Concentration of Credit Risk

The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk

The City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Council and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business in accordance with Council approved policy.

The cash, cash equivalents, and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of December 31, 2016:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 5,250,344	\$ 454,066	\$ 955,521	\$ 6,659,931
Cash and cash equivalents - restricted	61,990	-	-	61,990
Investments - current	1,142,639	331,019	20,840,887	22,314,545
Investments - noncurrent	724,178	-	-	724,178
	<u>\$ 7,179,151</u>	<u>\$ 785,085</u>	<u>\$ 21,796,408</u>	<u>\$ 29,760,644</u>

NOTE C: CASH AND CASH EQUIVALENTS - RESTRICTED

The following summarizes the restricted cash and cash equivalents as of December 31, 2016:

	<u>Bond Reserve</u>
Enterprise Funds	<u>\$ 61,990</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details primary government and component unit interfund receivables and payables at December 31, 2016:

PRIMARY GOVERNMENT	
Due to Water Fund from:	
Solid Waste Fund	\$ 120,000
	<u> </u>
Due to nonmajor governmental funds from:	
General Fund	\$ 5,823
	<u> </u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE E: INTERFUND TRANSFERS

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds and business-type funds have been eliminated.

Transfers to General Fund from:	
Nonmajor governmental funds	\$ 27,000
	<u> </u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 52,503
Solid Waste Fund	11,500
Nonmajor governmental funds	197,329
Sewer Fund	151,447
Water Fund	11,668
Internal Service Fund	18,159
	<u> </u>
	<u>\$ 442,606</u>

Transfers are used to: (1) fund current operations; (2) cover bond and other debt payments.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE F: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016, was as follows:

PRIMARY GOVERNMENT

	Balance Jan. 1, 2016	Additions/ Reclassifications	Deletions/ Reclassifications	Balance Dec. 31, 2016
Governmental activities				
Capital assets not being depreciated				
Land	\$ 457,705	\$ -	\$ -	\$ 457,705
Construction in progress	332,217	15,000	(332,217)	15,000
Subtotal	789,922	15,000	(332,217)	472,705
Capital assets being depreciated				
Buildings and improvements	6,402,597	368,635	-	6,771,232
Infrastructure	6,220,544	310,996	-	6,531,540
Equipment and furniture	1,030,965	82,129	-	1,113,094
Vehicles	2,690,027	33,385	-	2,723,412
Subtotal	16,344,133	795,145	-0-	17,139,278
Less accumulated depreciation for:				
Buildings and improvements	(2,280,590)	(181,079)	-	(2,461,669)
Infrastructure	(1,718,430)	(256,233)	-	(1,974,663)
Equipment and furniture	(959,531)	(22,141)	-	(981,672)
Vehicles	(1,599,780)	(136,965)	-	(1,736,745)
Subtotal	(6,558,331)	(596,418)	-0-	(7,154,749)
Net capital assets being depreciated	9,785,802	198,727	-0-	9,984,529
Capital assets, net	<u>\$ 10,575,724</u>	<u>\$ 213,727</u>	<u>\$ (332,217)</u>	<u>\$ 10,457,234</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 55,068
Public safety	123,459
Public works	332,607
Community and economic development	83,684
Recreation and cultural	1,600
Total depreciation expense	<u>\$ 596,418</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE F: CAPITAL ASSETS - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

	Balance Jan. 1, 2016	Additions	Deletions	Balance Dec. 31, 2016
Business-type activities				
Capital assets not being depreciated				
Land	\$ 93,700	\$ -	\$ -	\$ 93,700
Capital assets being depreciated				
Buildings and improvements	11,222,852	-	-	11,222,852
Equipment	1,049,319	-	-	1,049,319
Water system	4,574,580	48,079	-	4,622,659
Sewer system	2,281,095	-	-	2,281,095
Vehicles	461,515	-	-	461,515
Subtotal	19,589,361	48,079	-0-	19,637,440
Less accumulated depreciation for:				
Buildings and improvements	(6,142,869)	(270,942)	-	(6,413,811)
Equipment	(968,447)	(17,920)	-	(986,367)
Water system	(2,824,009)	(112,704)	-	(2,936,713)
Sewer system	(827,561)	(39,579)	-	(867,140)
Vehicles	(418,680)	(10,844)	-	(429,524)
Subtotal	(11,181,566)	(451,989)	-0-	(11,633,555)
Net capital assets being depreciated	8,407,795	(403,910)	-0-	8,003,885
Capital assets, net	<u>\$ 8,501,495</u>	<u>\$ (403,910)</u>	<u>\$ -0-</u>	<u>\$ 8,097,585</u>

Depreciation expense was charged to the following business-type activities:

Sewer	\$ 236,376
Water	<u>215,613</u>
Total depreciation expense	<u>\$ 451,989</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE F: CAPITAL ASSETS - CONTINUED

COMPONENT UNITS

	Restated Balance Jan. 1, 2016	Additions/ Reclassifications	Deletions/ Reclassifications	Balance Dec. 31, 2016
Component unit - EDC				
Capital assets not being depreciated				
Land	\$ 26,655	\$ -	\$ -	\$ 26,655
Construction in progress	210,311	26,022	(236,333)	-0-
Subtotal	236,966	26,022	(236,333)	26,655
Capital assets being depreciated				
Buildings	20,000	-	-	20,000
Equipment	-	236,333	-	236,333
Land Improvements	-	8,895	-	8,895
Subtotal	20,000	245,228	-0-	265,228
Less accumulated depreciation for:				
Buildings	(9,600)	(800)	-	(10,400)
Equipment	-	(11,817)	-	(11,817)
Land Improvements	-	(445)	-	(445)
Subtotal	(9,600)	(13,062)	-0-	(22,662)
Net capital assets being depreciated	10,400	232,166	-0-	242,566
Capital assets, net	<u>\$ 247,366</u>	<u>\$ 232,166</u>	<u>\$ (236,333)</u>	<u>\$ 269,221</u>
Component unit - DDA				
Capital assets being depreciated				
Buildings	\$ 61,588	\$ -	\$ -	\$ 61,588
Infrastructure	557,494	-	-	557,494
Subtotal	619,082	-0-	-0-	619,082
Less accumulated depreciation for:				
Buildings	(61,588)	-	-	(61,588)
Infrastructure	(501,744)	(55,750)	-	(557,494)
Subtotal	(563,332)	(55,750)	-0-	(619,082)
Capital assets, net	<u>\$ 55,750</u>	<u>\$ (55,750)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Component unit - TIFA				
Capital assets not being depreciated				
Land	<u>\$ 160,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 160,000</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE F: CAPITAL ASSETS - CONTINUED

COMPONENT UNITS - CONTINUED

	Balance Jan. 1, 2016	Additions/ Reclassifications	Deletions/ Reclassifications	Balance Dec. 31, 2016
Component unit - Housing Commission				
Capital assets not being depreciated	\$ 19,144	\$ -	\$ -	\$ 19,144
Capital assets being depreciated	14,671,301	15,972	(2,318)	14,684,955
Less accumulated depreciation:	<u>(10,974,975)</u>	<u>(355,514)</u>	<u>1,973</u>	<u>(11,328,516)</u>
Net capital assets being depreciated	<u>3,696,326</u>	<u>(339,542)</u>	<u>(345)</u>	<u>3,356,439</u>
Capital assets, net	<u>\$ 3,715,470</u>	<u>\$ (339,542)</u>	<u>\$ (345)</u>	<u>\$ 3,375,583</u>

NOTE G: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended December 31, 2016.

	Balance Jan. 1, 2016	Additions	Reductions	Balance Dec. 31, 2016	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental activities					
2010 General Obligation Bonds	\$ 1,405,000	\$ -	\$ (125,000)	\$ 1,280,000	\$ 125,000
2013 Refunding Bonds	270,000	-	(130,000)	140,000	140,000
EPA landfill liability	80,389	-	(5,125)	75,264	4,789
Building Authority bonds	820,000	-	(85,000)	735,000	90,000
Land contract	98,129	-	(12,056)	86,073	12,418
Installment note	-	19,800	(3,897)	15,903	7,888
Compensated absences	<u>286,818</u>	<u>242,496</u>	<u>(271,609)</u>	<u>257,705</u>	<u>128,558</u>
	2,960,336	262,296	(632,687)	2,589,945	508,653
Business-type activities					
2013 Revenue Refunding Bonds	300,000	-	(145,000)	155,000	155,000
Compensated absences	<u>114,618</u>	<u>60,515</u>	<u>(53,458)</u>	<u>121,675</u>	<u>40,475</u>
	<u>414,618</u>	<u>60,515</u>	<u>(198,458)</u>	<u>276,675</u>	<u>195,475</u>
TOTAL PRIMARY GOVERNMENT	3,374,954	322,811	(831,145)	2,866,620	704,128

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE G: LONG-TERM DEBT - CONTINUED

	Balance Jan. 1, 2016	Additions	Reductions	Balance Dec. 31, 2016	Amounts Due Within One Year
COMPONENT UNITS					
Economic Development Corporation					
ABA loan	\$ 28,212	\$ -	\$ (4,070)	\$ 24,142	\$ 4,274
Tax Increment Finance Authority					
Compensated absences	24,553	29,455	(35,644)	18,364	12,951
Albion Housing Commission					
Compensated absences	<u>67,845</u>	<u>86,734</u>	<u>(67,845)</u>	<u>86,734</u>	<u>86,734</u>
TOTAL COMPONENT UNITS	<u>120,610</u>	<u>116,189</u>	<u>(107,559)</u>	<u>129,240</u>	<u>103,959</u>
TOTAL REPORTING ENTITY	<u>\$ 3,495,564</u>	<u>\$ 439,000</u>	<u>\$ (938,704)</u>	<u>\$ 2,995,860</u>	<u>\$ 808,087</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT

2010 General Obligation Limited Tax Bonds Payable

\$2,000,000 General Obligation Limited Tax Bonds Series 2010 dated December 9, 2010, due in annual installments ranging from \$125,000 to \$165,000 through October 1, 2025, with interest ranging from 4.00 to 4.63 percent, payable semi-annually.

\$ 1,280,000

EPA Landfill Liability

The City is liable for half the operations and maintenance costs for the landfill cleanup, with annual installments ranging from \$2,040 to \$40,567 through 2028.

\$ 75,264

2013 General Obligation Unlimited Tax Refunding Bonds Payable

\$640,000 General Obligation Unlimited Tax Refunding Bonds Series 2013 dated February 5, 2013, due in all installment of \$140,000 on October 1, 2017, with interest of 2.08 percent, payable semi-annually.

\$ 140,000

2013 Revenue Refunding Bonds

\$620,000 Revenue Bonds dated February 5, 2013, due an annual installment of \$155,000 on October 1, 2017, with interest of 2.08 percent, payable semi-annually.

\$ 155,000

Land Contract

\$207,000 Land contract dated June 30, 2006, due in annual installments ranging from \$5,750 to \$14,396 through July 1, 2023, with interest at 3.0 percent, payable annually.

\$ 86,073

Building Authority Bonds

\$700,000 Building Authority Bonds dated January 15, 2009, due in annual installments ranging from \$35,000 to \$65,000 through October 1, 2028, with interest ranging from 5.00 to 6.25 percent, payable semi-annually.

\$ 560,000

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE G: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

Building Authority Bonds - continued

\$500,000 Building Authority Bonds dated July 17, 2009, due in annual installments ranging from \$55,000 to \$60,000 through April 1, 2019, with interest ranging from 4.5 to 5.0 percent, payable semi-annually.

\$ 175,000

Installment Note

\$19,800 Installment note dated March 14, 2016, due in monthly installments of \$4,055, including interest of 1.57%, through September 14, 2018.

\$ 15,903

Advance Refunding - Prior

On February 5, 2013, the City defeased the 1997 General Obligation Bonds which are due and payable October 1, 2014 through October 1, 2017. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The City issued General Obligation 2013 Refunding Bonds in the amount of \$640,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. At December 31, 2016, bonds due and payable on October 1, 2017 for the 1997 General Obligation Bonds in the amount of \$140,000 are considered defeased.

On February 5, 2013, the City defeased the 1997 Water Supply and Sewage Disposal System Revenue Bonds which are due and payable October 1, 2014 through October 1, 2017. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The City issued 2013 Water Supply and Sewage Disposal System Revenue Refunding Bonds in the amount of \$620,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. At December 31, 2016, bonds due and payable on October 1, 2017 for the 1997 Water Supply and Sewage Disposal System Revenue Bonds in the amount of \$155,000 are considered defeased.

Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused sick and vacation. The dollar amounts of these vested rights include related payroll taxes, which have been accrued on the government-wide financial statements. The total liability amounted to \$484,478 at December 31, 2016. Of this amount, \$257,705, \$121,675, and \$105,098 are shown as accrued liabilities within the governmental activities, business-type activities, and component units, respectively, in accordance with criteria disclosed in Note A.

COMPONENT UNITS - DISCRETELY PRESENTED

ABA Loan

\$57,246 Albion Building Authority Loan to the Economic Development Corporation dated May 23, 2007, due in annual installments ranging from \$4,274 to \$5,720 through January 10, 2021, with interest at 5.0 percent, payable annually.

\$ 24,142

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE G: LONG-TERM DEBT - CONTINUED

The annual requirements to pay the debt principal and interest outstanding for the Bonds and other obligations are as follows:

PRIMARY GOVERNMENT

Year Ending December 31,	2010 General Obligation Limited Tax Bonds		2013 Refunding Bonds	
	Principal	Interest	Principal	Interest
2017	\$ 125,000	\$ 54,850	\$ 140,000	\$ 2,912
2018	130,000	49,850	-	-
2019	135,000	44,650	-	-
2020	135,000	39,250	-	-
2021	140,000	33,850	-	-
2022-2025	615,000	72,069	-	-
	<u>\$ 1,280,000</u>	<u>\$ 294,519</u>	<u>\$ 140,000</u>	<u>\$ 2,912</u>
Year Ending December 31,	Revenue Bonds			
	Principal	Interest		
2017	<u>\$ 155,000</u>	<u>\$ 3,224</u>		
Year Ending December 31,	EPA Landfill Liability		Land Contracts	
	Principal	Interest	Principal	Interest
2017	\$ 4,789	\$ 2,394	\$ 12,418	\$ 2,582
2018	5,057	2,528	12,790	2,210
2019	3,505	1,753	13,174	1,826
2020	3,276	1,638	13,569	1,431
2021	3,062	1,531	13,976	1,801
2022-2026	12,968	6,484	20,146	777
2027-2028	42,607	21,304	-	-
	<u>\$ 75,264</u>	<u>\$ 37,632</u>	<u>\$ 86,073</u>	<u>\$ 10,627</u>
Year Ending December 31,	Building Authority Bonds		Instalment Note	
	Principal	Interest	Principal	Interest
2017	\$ 90,000	\$ 40,090	\$ 7,888	\$ 222
2018	95,000	35,603	8,015	96
2019	95,000	30,678	-	-
2020	40,000	27,253	-	-
2021	40,000	25,053	-	-
2022-2026	250,000	86,295	-	-
2027-2028	125,000	11,875	-	-
	<u>\$ 735,000</u>	<u>\$ 256,847</u>	<u>\$ 15,903</u>	<u>\$ 318</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE G: LONG-TERM DEBT - CONTINUED

COMPONENT UNITS

Year Ending December 31,	ABA Loan	
	Principal	Interest
2017	\$ 4,274	\$ 1,207
2018	4,488	993
2019	4,712	769
2020	4,948	533
2021	5,720	286
	<u>\$ 24,142</u>	<u>\$ 3,788</u>

NOTE H: RETIREMENT PLANS

PRIMARY GOVERNMENT (EXCEPT PUBLIC SAFETY) AND HOUSING COMMISSION

Plan Description

The City participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees (other than public safety employees) of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the City Council and by negotiation with the City's collective bargaining units. The plan requires no contribution from the employees.

Summary of Significant Accounting Policies

For the purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purposes, 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.

Benefits Provided

Benefits provided include plans with multipliers ranging from 1.50% to 2.25%.

Vesting period of 6 to 10 years.

Normal retirement age is 60 with early retirement at 55 with 25 years of service or reduced early retirement at 50 with 25 years of service or 55 with 15 years of service.

Final average compensation is calculated based on 5 years. Member contributions are not required.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE H: RETIREMENT PLANS - CONTINUED

PRIMARY GOVERNMENT (EXCEPT PUBLIC SAFETY) AND HOUSING COMMISSION - CONTINUED

Benefits Provided - continued

At the December 31, 2015 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefits	103
Inactive employees entitled to but not yet receiving benefits	16
Active employees	<u>27</u>
 Total employees covered by MERS	 <u><u>146</u></u>

Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in 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, as established by the MERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs 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.

Employer contributions range from 3.79% to 11.10% based on annual payroll for open divisions.

Net Pension Liability (Asset)

The employer's Net Pension Liability (Asset) was measured as of December 31, 2015, and the total pension liability used to calculate the Net Pension Liability (Asset) was determined by an annual actuarial valuation as of that date. Changes in the net pension liability (asset) during the measurement year were as follows:

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (Asset) (a)-(b)</u>
Balances at December 31, 2014	\$ 13,020,797	\$ 13,772,877	\$ (752,080)
Service Cost	110,870	-	110,870
Interest on Total Pension Liability	1,036,191	-	1,036,191
Difference between expected and actual experience	(50,350)	-	(50,350)
Changes in assumptions	642,057	-	642,057
Employer contributions	-	35,606	(35,606)
Net investment income	-	(195,914)	195,914
Benefit payments, including employee refunds	(1,032,679)	(1,032,679)	-0-
Administrative expense	-	(29,331)	29,331
Other changes	(1)	-	(1)
Net changes	<u>706,088</u>	<u>(1,222,318)</u>	<u>1,928,406</u>
Balances at December 31, 2015	<u><u>\$ 13,726,885</u></u>	<u><u>\$ 12,550,559</u></u>	<u><u>\$ 1,176,326</u></u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE H: RETIREMENT PLANS - CONTINUED

PRIMARY GOVERNMENT (EXCEPT PUBLIC SAFETY) AND HOUSING COMMISSION - CONTINUED

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2016, the employer recognized pension expense of \$980,980. The employer reported deferred outflows and inflows 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	\$ 1,178,383
Contributions subsequent to the measurement date*	<u>62,729</u>
Total	<u>\$ 1,241,112</u>

* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as an addition in the net pension liability for the year ended December 31, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the employer contributions to the plan made subsequent to the measurement date (\$62,729), which will impact the net pension liability in fiscal year 2017, rather than pension expense.

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

<u>Year Ending December 31,</u>	<u>Pension Expense</u>
2017	\$ 306,805
2018	306,805
2019	306,804
2020	257,969

Actuarial Assumptions

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

Inflation: 2.5%%

Salary increases: 3.75% in the long-term plus a percentage based on age related scale to reflect merit, longevity, and promotional pay increases

Investment rate of return: 7.75 %, net of investment expenses, including inflation

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE H: RETIREMENT PLANS - CONTINUED

PRIMARY GOVERNMENT (EXCEPT PUBLIC SAFETY) AND HOUSING COMMISSION - CONTINUED

Actuarial Assumptions - continued

The mortality table used to project the mortality experience of non-disabled plan members is a 50% Male - 50% Female blend of the following tables; 1. The RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%, 2. The RP-2014 Employee Mortality Tables, and 3. The RP-2014

Juvenile Mortality Tables. The mortality table used to project the mortality experience of disable plan members is a 50% Male - 50% Female blend of the RP-2014 Disabled Retiree Mortality Tables.

The actuarial assumptions used in valuation were based on the 2009-2013 Five Year Experience Study.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses 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 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	57.50%	8.52%
Global Fixed Income	20.0%	5.68%
Real Assets	12.5%	7.73%
Diversifying Strategies	10.0%	10.06%

Sensitivity of the Net Position Liability to Changes in the Discount Rate

The following presents the Net Pension Liability of the employer, calculated using the discount rates 8.25%, as well as what the employer's Net Position Liability would be using a discount rate that is 1% lower (7.25%) or 1% higher (9.25%) than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net pension liability	<u>\$ 2,486,314</u>	<u>\$ 1,176,326</u>	<u>\$ 49,094</u>

Discount Rate

The discount rate used to measure the total pension liability is 8.25%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay 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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE H: RETIREMENT PLANS - CONTINUED

PUBLIC SAFETY

Plan Description

The City participates in the Public Safety Officers' Pension Fund, a single-employer defined benefit pension plan that covers all eligible full-time public safety employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Public Safety Officers' Pension Fund does not issue a stand-alone financial report.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the City Council and by negotiation with the City's collective bargaining units. The plan requires a 2% contribution from the employees.

Benefits Provided

Straight life pension equals 2.65% of average final compensation (AFC) times all years of service. AFC is computed on the highest consecutive 36 months of the last 60 months.

Eligibility for retirement is effective after 25 or more years of service or age 60 regardless of service.

At the December 31, 2016 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefits	32
Inactive employees entitled to but not yet receiving benefits	4
Active employees	<u>16</u>
Total employees covered	<u><u>52</u></u>

Deferred Retirement

Members are eligible for benefits with 10 years of service. Benefits are computed as service retirement but based upon service, AFC and benefit provisions in effect at termination. Benefit begins at date retirement would have occurred had member remained in employment.

Duty Disability

No age or service requirement for eligibility. Payable upon the total and permanent disability of a member in the line of duty. If disability occurs prior to the age of 55, benefit is 50% of AFC. At age 55, benefit is same as Service Retirement Pension with service credit from date of disability until age 55.

Non-duty Disability

Payable upon the total and permanent disability of a member with 5 or more years of service. Retirement benefits are calculated as regular retirement.

Duty Death before Retirement

No age or service requirement for eligibility. Upon termination of worker's compensation, a benefit equal to the worker's compensation amount shall be paid to the spouse, unmarried children under 18 and dependent parents.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE H: RETIREMENT PLANS - CONTINUED

PUBLIC SAFETY - CONTINUED

Non-duty Death before Retirement

Members are eligible for benefits with 20 years of service. Retirement benefits are calculated as regular retirement but actuarially reduced in accordance with a 100% joint and survivor election.

Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the System's Board of Trustees retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The actuarially recommended employer contribution rate for the year ended December 31, 2016, was 0.00% of annual payroll.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balances at December 31, 2015	\$ 13,145,788	\$ 20,522,645	\$ (7,376,857)
Service Cost	331,905	-	331,905
Interest on Total Pension Liability	778,502	-	778,502
Difference between expected and actual experience	(446,144)	-	(446,144)
Changes in assumptions	-	-	-
Employee contributions	-	34,699	(34,699)
Net investment income	-	1,456,370	(1,456,370)
Benefit payments, including employee refunds	(673,402)	(673,402)	-0-
Net changes	(9,139)	817,667	(826,806)
Balances at December 31, 2016	<u>\$ 13,136,649</u>	<u>\$ 21,340,312</u>	<u>\$ (8,203,663)</u>

Actuarial Assumptions

The total pension liability was determined based on the annual actuarial valuation as of December 31, 2016. The following actuarial assumptions were applied to compute the total pension liability:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	15 years
Asset valuation method	5 years smoothed market
Inflation	4.00%
Salary increases	8.0%-4.0%, includes inflation
Cost of Living Adjustments	None
Investment rate of return	6.0%, net of pension plan investment expense, including inflation
Mortality rates	RP 2000 Combined Healthy Mortality Table

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE H: RETIREMENT PLANS - CONTINUED

PUBLIC SAFETY - CONTINUED

Discount Rate

The discount rate used to measure the total pension liability was 6.0%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that City Contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the 6.0% discount rate is the single rate of return that, when applied to all projected benefit payments, results in an actuarial present value of projected benefit payments equal to the total of the actuarial present values determined in conformity with GASB Statement 67/68.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These real rates of return 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. For each major asset class that is included in the pension plans target asset allocation as of December 31, 2016, these best estimates are summarized in the following table.

<u>Asset Allocation</u>	
<u>Asset Class</u>	<u>Target Allocation</u>
Cash	5.00%
High Yield and Bank Loans	5.00%
Stocks	60.00%
Bonds	30.00%
Total	<u>100.00%</u>

Sensitivity of the Net Pension (Asset) to Changes in the Discount Rate

The following presents the City's net pension (asset), calculated using the discount rate of 6.0%, as well as what the City's net pension (asset) would be if it were calculated using a discount rate that is 1% lower (5.0%) or 1% higher (7.0%) than the current rate:

	<u>1% Decrease Rate 5.0%</u>	<u>Current Discount Rate 6.0%</u>	<u>1% Increase Rate 7.0%</u>
City's net pension (asset)	<u>\$ (6,595,346)</u>	<u>\$ (8,203,663)</u>	<u>\$ (9,544,637)</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE H: RETIREMENT PLANS - CONTINUED

PUBLIC SAFETY - CONTINUED

Pension Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2016, the employer recognized pension expenses of \$8,339. The employer reported deferred outflows and inflows of resources relate to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 462,111
Changes in assumptions	113,678	-
Net difference between projected and actual earnings on pension plan investments	<u>887,328</u>	<u>-</u>
Total changes in assumptions	<u>\$ 1,001,006</u>	<u>\$ 462,111</u>

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

<u>Year Ending December 31,</u>	<u>Pension Expense</u>
2017	\$ 144,829
2018	158,732
2019	284,170
2020	(48,836)

NOTE I: RISK MANAGEMENT

The City participates in a pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

The City also participates in a State pool, the Michigan Municipal League Liability and Property Pool, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE J: OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (OPEB)

In addition to providing pension benefits, the City provides certain health care benefits to all full-time employees upon retirement in accordance with labor contracts and not participants in the Retiree Health Savings Plan. General employees may become eligible for employer financed health coverage under MERS if they reach the normal retirement age of 55 with at least 10 years of service while working for the City and a Medicare supplement payment payable beginning at Medicare eligibility age is based on years of service. Public Safety employees may become eligible for employer financed health coverage at retirement with 25 or more years of service.

The plan does not issue a separate stand-alone financial statement.

Funding Policy

The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (i.e., may be financed on a “pay-as-you-go” basis). The only current contributions being made are to pay the actual current premiums of the retirees. That amount was less than the annual required contribution and is reflected in the schedule that follows. Administrative costs of the plan are paid for by the City.

Funding Progress

For the year ended December 31, 2016, the City has determined an estimated cost of providing retiree post-employment benefits through an actuarial valuation as of December 31, 2014. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed 30 years.

The City’s computed contribution and actual funding is summarized as follows:

Annual required contribution (ARC)	\$ 39,966
Interest on net OPEB Obligation	5,125
Adjustment to annual required contribution	<u>(3,974)</u>
Annual OPEB cost (expense)	41,117
Amounts contributed:	
Payments of current premiums	<u>23,700</u>
Increase in Net OPEB obligation	17,417
OPEB obligation - Beginning of year	<u>85,417</u>
OPEB obligation - End of year	<u><u>\$ 102,834</u></u>

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the years ended December 31, were as follows:

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Annual OPEB cost	\$ 40,905	\$ 41,031	\$ 41,117
Percentage contributed	68 %	68 %	58 %
Net OPEB obligation	\$ 72,484	\$ 85,417	\$ 102,834

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE J: OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (OPEB) - CONTINUED

The current funding progress of the plan as of December 31, 2014, the most recent valuation date, is as follows:

Actuarial value of assets	\$ 54,932
Actuarial accrued liability (AAL)	497,517
Unfunded AAL (UAAL)	442,585
Funded ratio	11 %

NOTE K: CONSTRUCTION CODE FEES

The City oversees building construction, in accordance with the State's construction code act; including inspection of building construction and renovation ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000, is as follows:

Deficit at December 31, 2015	\$ (497,430)
Construction code revenue	118,485
Related expenditures - Direct costs	<u>(107,721)</u>
Deficit at December 31, 2016	<u>\$ (486,666)</u>

NOTE L: CONTINGENCIES

The Environmental Protection Agency (EPA) has identified the City as one of the potentially responsible parties for the contamination of a landfill used by the City and has named the City in an action filed in 1997 seeking to recover the EPA's past service costs and oversight costs. The parties negotiated settlement calling for the City to make certain settlement payments and conduct operations and maintenance work jointly with another party. On July 1, 2004, the City made its final installment payment to the EPA. The land operation and maintenance work continues at the site. The Michigan Department of Environmental Quality (MDEQ) is also seeking to recover response costs in a related but separate claim filed in March 1999. There have been no recent communications to the City or judicial enforcement of this claim against the City by MDEQ. Sufficient information is not available at this time for the City's legal counsel to form a judgment with respect to the merits, if any, of this claim or the amount or likelihood of potential loss to the City which might result from this claim.

In November 1997, the MDEQ also notified the City that another property within the City had been identified as a site of alleged environmental contamination and that the City is the alleged responsible owner of this site.

There have been no recent communications to the City or judicial enforcement of this claim against the City by MDEQ. Sufficient information is not available at this time for the City's legal counsel to form a judgment with respect to the merits, if any, of this claim or the amount or likelihood of potential loss to the City which might result from this claim.

In addition, the City has informed the Michigan Department of Environmental Quality (MDEQ) of two (2) leaking underground storage tanks that were in the City's possession. The City has removed the underground storage tanks and taken action to limit further contamination caused by the underground storage tanks. Semi-Annual Groundwater Monitoring Reports are submitted to the MDEQ and a Closure Request is currently pending before the MDEQ for one (1) of the sites. Sufficient information is not available at this time to determine the amount of potential losses, if any, to the City which might result from these matters.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE L: CONTINGENCIES - CONTINUED

In addition, the City has informed the Michigan Department of Environmental Quality (MDEQ) of two (2) leaking underground storage tanks that were in the City's possession. The City has removed the underground storage tanks and taken action to limit further contamination caused by the underground storage tanks. Semi-Annual Groundwater Monitoring Reports are submitted to the MDEQ and a Closure Request is currently pending before the MDEQ for one (1) of the sites. Sufficient information is not available at this time to determine the amount of potential losses, if any, to the City which might result from these matters.

There are various other legal actions pending against the City. Due to the inconclusive nature of many of the actions, it is not possible for legal counsel to determine the probable outcome or a reasonable estimate of the City's potential liability, if any. Those various other legal actions for which a reasonable estimate can be determined of the City's potential liability and that would not be covered by insurance and reserves, if any, are considered by City management and legal counsel to be immaterial.

NOTE M: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five (5) fund balance classifications under this standard.

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, the City's highest level of decision-making authority is the City Council. Formal action that is required to be taken to establish a fund balance commitment is a resolution of the City Council.

For assigned fund balance, the City has not approved a policy indicating who is authorized to assign amounts to a specific purpose. As a result, this authority is retained with the City Council.

The City has not adopted a policy that defines the order of usage for fund balance amounts classified as restricted, committed, assigned, or unassigned, therefore restricted resources will be used first, then unrestricted resources if they are needed.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE M: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED

	General Fund	Albion Trust	Solid Waste	Nonmajor Governmental Funds	Total
Fund Balances					
Nonspendable:					
Prepays	\$ 214,957	\$ -	\$ -	\$ 14,997	\$ 229,954
Inventory	-	-	-	56,562	56,562
Long-term receivable	-	-	-	273,014	273,014
Perpetual care	-	-	-	215,000	215,000
Restricted for:					
Streets and highways	-	-	-	1,084,370	1,084,370
Sidewalks	-	-	-	295,740	295,740
Community enrichment	-	1,067,155	-	1,120,239	2,187,394
Solid waste	-	-	117,705	-	117,705
Law enforcement	-	-	-	48,878	48,878
Debt service	-	-	-	113,742	113,742
Perpetual care	-	-	-	35,362	35,362
Assigned to:					
Communications	41,345	-	-	-	41,345
Unassigned:	1,241,600	-	-	-	1,241,600
TOTAL FUND BALANCES	\$ 1,497,902	\$ 1,067,155	\$ 117,705	\$ 3,257,904	\$ 5,940,666

NOTE N: UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2017 fiscal year.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The statement will establish accounting and financial reporting requirements related to other postemployment benefit plans and specify the required approach to measuring the OPEB liability of employers. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. This statement will be effective for the City's 2017 fiscal year.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement requires governments providing other postemployment benefits (OPEB) to recognize their unfunded OPEB obligations as a liability for the first time, and to more comprehensibly and comparably measure the annual costs of OPEB benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2018 fiscal year.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*. This statement improves financial reporting by clarifying the financial statement presentation requirements component units. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2017 fiscal year.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE N: UPCOMING ACCOUNTING PRONOUNCEMENTS - CONTINUED

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the 2018 fiscal year.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2020 fiscal year.

NOTE O: CHANGES IN ACCOUNTING PRINCIPLES

In March 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The City is currently evaluating the impact this standard will have on the financial statements when adopted for the 2016 fiscal year.

GASB Statement No. 77, *Tax Abatement Disclosures*, was also implemented during the year. This Statement improves financial reporting through disclosure of information about the nature and magnitude of tax abatements that were previously not consistently or comprehensively reported to the public.

NOTE P: RESTATEMENT OF NET POSITION

The beginning net position of the Economic Development Corporation component unit was increased by \$210,311 to reflect an increase in capital assets which were understated in the prior period.

REQUIRED SUPPLEMENTARY INFORMATION

City of Albion

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 864,250	\$ 858,750	\$ 994,337	\$ 135,587
Income taxes	985,000	945,000	972,827	27,827
Payments in lieu of taxes	8,100	9,842	9,842	-0-
Penalties and interest	21,000	27,000	32,892	5,892
Administration fees	42,500	45,000	51,887	6,887
Total taxes	1,920,850	1,885,592	2,061,785	176,193
Licenses and permits	144,000	170,131	194,906	24,775
Intergovernmental				
Federal/State	1,073,500	1,111,536	1,053,161	(58,375)
Local	-	11,039	41,987	30,948
Total intergovernmental	1,073,500	1,122,575	1,095,148	(27,427)
Charges for services				
Cemetery	40,000	53,300	57,198	3,898
Other fees	205,700	219,787	222,291	2,504
Total charges for services	245,700	273,087	279,489	6,402
Fines and forfeits	34,500	25,500	20,150	(5,350)
Interest and rents	5,600	5,600	7,318	1,718
Other				
Reimbursements	60,500	93,975	100,350	6,375
Other	8,970	43,451	53,847	10,396
Total other	69,470	137,426	154,197	16,771
TOTAL REVENUES	3,493,620	3,619,911	3,812,993	193,082

City of Albion

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended December 31, 2016

EXPENDITURES	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Current				
General government				
City Council	\$ 36,925	\$ 34,895	\$ 33,857	\$ 1,038
City Manager	74,530	106,316	90,091	16,225
Human resources	34,571	36,926	29,786	7,140
Assessor	49,950	50,500	47,943	2,557
Attorney	96,500	93,025	90,764	2,261
Clerk	104,525	110,576	109,556	1,020
Treasurer	266,345	269,817	251,397	18,420
Municipal building	74,475	76,308	68,044	8,264
Cemetery	149,570	153,019	140,696	12,323
Other	48,500	52,350	47,017	5,333
Total general government	935,891	983,732	909,151	74,581
Public safety				
Police and fire	1,822,827	1,849,869	1,746,756	103,113
Code enforcement	169,435	209,591	219,770	(10,179)
Total public safety	1,992,262	2,059,460	1,966,526	92,934
Public works				
Engineering	5,845	10,332	8,736	1,596
Highways and streets	205,440	191,690	176,224	15,466
Tree trimming	9,497	13,099	9,478	3,621
Total public works	220,782	215,121	194,438	20,683
Health and welfare				
Environmental expenditures	11,000	11,000	11,041	(41)
Recreation and cultural				
Parks	186,645	200,987	220,373	(19,386)
Other	107,300	158,635	150,316	8,319
TOTAL EXPENDITURES	3,453,880	3,628,935	3,451,845	177,090
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	39,740	(9,024)	361,148	370,172

City of Albion

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 27,000	\$ 39,500	\$ 27,000	\$ (12,500)
Transfers out	(52,567)	(52,512)	(52,503)	9
TOTAL OTHER FINANCING SOURCES (USES)	(25,567)	(13,012)	(25,503)	(12,491)
NET CHANGE IN FUND BALANCE	14,173	(22,036)	335,645	357,681
Fund balance, beginning of year	1,162,257	1,162,257	1,162,257	-0-
Fund balance, end of year	<u>\$ 1,176,430</u>	<u>\$ 1,140,221</u>	<u>\$ 1,497,902</u>	<u>\$ 357,681</u>

City of Albion

Albion Trust Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$ 30,000	\$ 27,000	\$ 31,005	\$ 4,005
EXPENDITURES				
Current				
Community and economic development	65,000	50,000	50,000	-0-
NET CHANGE IN FUND BALANCE	(35,000)	(23,000)	(18,995)	4,005
Fund balance, beginning of year	1,086,150	1,086,150	1,086,150	-0-
Fund balance, end of year	<u>\$ 1,051,150</u>	<u>\$ 1,063,150</u>	<u>\$ 1,067,155</u>	<u>\$ 4,005</u>

City of Albion

Solid Waste Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 212,900	\$ 214,608	\$ 225,715	\$ 11,107
Intergovernmental	-	5,000	16,190	11,190
Interest and rents	1,500	1,550	1,630	80
	<u>214,400</u>	<u>221,158</u>	<u>243,535</u>	<u>22,377</u>
TOTAL REVENUES				
EXPENDITURES				
Current				
Public works	<u>177,782</u>	<u>184,302</u>	<u>153,544</u>	<u>30,758</u>
EXCESS OF REVENUES OVER EXPENDITURES	36,618	36,856	89,991	53,135
OTHER FINANCING (USES)				
Transfer out	<u>(11,500)</u>	<u>(24,000)</u>	<u>(11,500)</u>	<u>12,500</u>
NET CHANGE IN FUND BALANCE	25,118	12,856	78,491	65,635
Fund balance, beginning of year	<u>39,214</u>	<u>39,214</u>	<u>39,214</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 64,332</u>	<u>\$ 52,070</u>	<u>\$ 117,705</u>	<u>\$ 65,635</u>

City of Albion

Primary Government (except Public Safety) and Housing Commission

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS

Last Two Measurement Dates (Ultimately ten fiscal years will be displayed)

	<u>2015</u>	<u>2014</u>
Total Pension Liability		
Service cost	\$ 110,870	\$ 111,241
Interest	1,036,191	1,027,804
Difference between expected and actual experience	(50,350)	-
Changes of assumptions	642,057	-
Benefit payments including employee refunds	(1,032,679)	(1,041,700)
Other	(1)	(3)
	<u>706,088</u>	<u>97,342</u>
Net Change in Total Pension Liability		
Total Pension Liability, beginning	<u>13,020,797</u>	<u>12,923,455</u>
Total Pension Liability, ending	<u><u>\$ 13,726,885</u></u>	<u><u>\$ 13,020,797</u></u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 35,606	\$ 29,258
Net Investment income	(195,914)	863,867
Benefit payments including employee refunds	(1,032,679)	(1,041,700)
Administrative expense	(29,331)	(31,504)
	<u>(1,222,318)</u>	<u>(180,079)</u>
Net Change in Plan Fiduciary Net Position		
Plan Fiduciary Net Position, beginning	<u>13,772,877</u>	<u>13,952,956</u>
Plan Fiduciary Net Position, ending	<u><u>\$ 12,550,559</u></u>	<u><u>\$ 13,772,877</u></u>
Employer Net Pension Liability (Asset)	<u><u>\$ 1,176,326</u></u>	<u><u>\$ (752,080)</u></u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	91%	106%
Covered Employee Payroll	\$ 1,238,091	\$ 1,243,368
Employer's Net Pension Liability (Asset) as a percentage of covered employee payroll	95.01%	(60.49%)

City of Albion

Primary Government (except Public Safety) and Housing Commission

SCHEDULE OF CITY'S CONTRIBUTIONS

Last Two Fiscal Years (Ultimately ten fiscal years will be displayed)

	<u>2016</u>	<u>2015</u>
Actuarially determined contributions	\$ 62,729	\$ 33,038
Contributions in relation to the actuarially determined contribution	<u>62,729</u>	<u>33,038</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered employee payroll	\$ 1,255,473	\$ 1,231,119
Contributions as a percentage of covered employee payroll	5%	3%

City of Albion

Public Safety Officers' Retirement System

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS

Last Three Fiscal Years (Ultimately ten fiscal years will be displayed)

	2016	2015	2014
CHANGES IN TOTAL PENSION LIABILITY			
Service cost	\$ 331,905	\$ 310,957	\$ 340,366
Interest	778,502	759,667	728,402
Differences between expected and actual experience	(446,144)	(362,571)	126,170
Changes in assumptions	-	265,250	-
Benefit payments, including refunds of member contributions	<u>(673,402)</u>	<u>(666,290)</u>	<u>(652,027)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	(9,139)	307,013	542,911
TOTAL PENSION LIABILITY, BEGINNING	<u>13,145,788</u>	<u>12,838,775</u>	<u>12,295,864</u>
TOTAL PENSION LIABILITY, ENDING (A)	<u>\$ 13,136,649</u>	<u>\$ 13,145,788</u>	<u>\$ 12,838,775</u>
CHANGES IN PLAN FIDUCIARY NET POSITION			
Contributions - member	\$ 34,699	\$ 39,001	\$ 56,449
Net investment income	1,456,370	(522,893)	1,769,846
Benefit payments, including refunds of member contributions	<u>(673,402)</u>	<u>(666,290)</u>	<u>(652,027)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	817,667	(1,150,182)	1,174,268
PLAN FIDUCIARY NET POSITION, BEGINNING	<u>20,522,645</u>	<u>21,672,827</u>	<u>20,498,559</u>
PLAN FIDUCIARY NET POSITION, ENDING (B)	<u>\$ 21,340,312</u>	<u>\$ 20,522,645</u>	<u>\$ 21,672,827</u>
CITY'S NET PENSION LIABILITY (ASSET), ENDING (A)-(B)	<u>\$ (8,203,663)</u>	<u>\$ (7,376,857)</u>	<u>\$ (8,834,052)</u>
Plan fiduciary net position as a percentage of the total pension liability	162.45%	156.12%	168.81%
Covered employee payroll	\$ 889,505	\$ 1,037,365	\$ 992,149
City's net pension liability (asset) as a percentage of covered employee payroll	(922.27%)	(711.11%)	(890.40%)

City of Albion
Public Safety Officers Retirement System
SCHEDULE OF CITY CONTRIBUTIONS

Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	-	-	-	-	-	-	-	-	-
Contribution excess (deficiency)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Covered-employee payroll	\$ 889,505	\$ 1,037,365	\$ 992,149	\$ 1,048,533	\$ 1,055,148	\$ 1,162,556	\$ 1,222,264	\$ 1,341,984	\$ 1,381,175	\$ 1,270,325
Actuarially determined contributions as a percentage of covered employee payroll	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

City of Albion

Public Safety Officers Retirement System

SCHEDULE OF INVESTMENT RETURNS

Last Ten Fiscal Years

<u>Year Ended December 31,</u>	<u>Nominal rate of return on smoothed value of assets</u>
2016	8.7%
2015	7.8%
2014	10.5%
2013	11.7%
2012	3.9%
2011	2.8%
2010	5.4%
2009	5.0%
2008	4.0%
2007	10.8%

City of Albion

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Year Ended December 31, 2016

City Employees - Post-Employment Health Care Benefits

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
12/31/2014	\$ 54,932	\$ 497,517	\$ 442,585	11 %	\$ -	Not Applicable
12/31/2011	203,242	627,442	424,200	32 %	216,003	196 %
12/31/2008	179,123	539,823	360,700	33 %	1,592,118	23 %

City Employees - Post-Employment Health Care Benefits

<u>Year Ended December 31,</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>
2016	\$ 41,117	58 %
2015	41,031	68 %
2014	40,905	68 %
2013	45,036	60 %
2012	44,790	69 %
2011	44,306	79 %
2010	40,350	141 %

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended December 31, 2016

NOTE A: SCHEDULES OF FUNDING PROGRESS AND SCHEDULES OF EMPLOYER CONTRIBUTIONS

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, healthcare cost trends, and other factors. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions presents trend information about the amounts contributed to the plan by the employer in comparison to the Annual Required Contribution (ARC), an amount that is actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortized any unfunded actuarial liabilities (of funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with long-term perspective of the calculations. Additional information as of the latest actuarial valuations follows:

Public Safety - Retirement Plan

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases (includes inflation at 4.00%)	4.00 - 8.00%
Cost of living adjustments	None
Mortality rates	RP 2000 combined healthy mortality table

City Employees - Post-Employment Health Care Benefits

Actuarial Valuation:	
Frequency	Triennial
Latest valuation date	12/31/2014
Actuarial cost method	Individual Entry Age
Amortization method	Level dollar
Remaining amortization period	30 years
Asset valuation method	Market
Actuarial assumptions:	
Projected salary increases Includes inflation at:	Investment rates of return 6.0% 4.0%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED

Year Ended December 31, 2016

NOTE B: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

PRIMARY GOVERNMENT

In the budgetary comparison schedules and other supplementary information section, the City budgeted expenditures in the General Fund and Special Revenue Funds have been shown at the functional classification (department) level. The approved budgets of the City have been adopted at the department level for the General Fund and the fund level for Special Revenue Funds. The General and Special Revenue Funds' budgets shown as required and other supplementary information were prepared on the same modified accrual basis used to reflect actual results.

During the year ended December 31, 2016, the County incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Health and Welfare	\$ 11,000	\$ 11,041	\$ 41
Recreation and Culture	200,987	220,373	19,386

NOTE C: EMPLOYEE RETIREMENT SYSTEM

Changes of benefits terms: There were no changes of benefit terms during fiscal year 2016.

Changes in assumptions: Assumption changes as a result of the 2009-2013 Five-Year Experience Study were adopted by MERS for use in the December 31, 2015 annual pension valuation.

For amounts reported prior to the December 31, 2015, actuarial valuation, the expectation of retired life mortality was based on the 1994 Group Annuity Mortality table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table was used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members. For the December 31, 2015, actuarial valuation, the mortality table was adjusted to reflect longer lifetimes. The mortality table used to project the mortality experience of nondisabled plan members is a 50% Male - 50% Female blend of the following tables: 1. the RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%, 2. the RP-2014 Employee Mortality Tables, and 3. the RP-2014 Juvenile Mortality Tables. The mortality table used to project the mortality experience of disabled plan members is a 50% Male - 50% Female blend of the RP-2014 Disabled Retiree Mortality Tables.

The assumed annual rate of investment return, net of all expenses, was lowered from 8% to 7.75%.

OTHER SUPPLEMENTARY INFORMATION

City of Albion

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

December 31, 2016

	Special Revenue			
	Major Street	Local Street	Recreation Fund	Community Development Block Grant
ASSETS				
Cash and cash equivalents	\$ 338,603	\$ 113,340	\$ 62,443	\$ 14,965
Investments	-	-	-	-
Accounts receivable	-	-	-	-
Taxes receivable	-	-	5,147	-
Loans receivable	-	-	-	-
Due from other funds	-	-	-	-
Due from other governmental units	106,582	28,766	-	-
Prepays	5,084	5,107	812	-
Inventories	40,192	-	-	-
TOTAL ASSETS	\$ 490,461	\$ 147,213	\$ 68,402	\$ 14,965
LIABILITIES				
Accounts payable	\$ 22,128	\$ 140	\$ 2,703	\$ -
Accrued liabilities	8,189	4,735	3,280	-
Due to other governmental units	-	-	-	-
Unearned revenue	-	-	4,600	-
TOTAL LIABILITIES	30,317	4,875	10,583	-0-
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	-	-	-	-
FUND BALANCES				
Nonspendable	45,276	5,107	812	-
Restricted	414,868	137,231	57,007	14,965
TOTAL FUND BALANCES	460,144	142,338	57,819	14,965
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 490,461	\$ 147,213	\$ 68,402	\$ 14,965

	Funds			Debt Service Funds
Drug Law Enforcement	Albion Building Authority	Maple Grove Apartments	Revolving Loan	Energy 425 Generator Bonds
\$ 52,026	\$ 80,434	\$ 543,527	\$ 467,715	\$ 35,410
-	-	-	-	-
127	-	-	-	-
-	-	-	-	-
-	24,143	-	218,991	-
-	5,823	-	-	-
-	-	-	-	-
-	1,439	2,555	-	-
-	1,970	-	-	-
<u>\$ 52,153</u>	<u>\$ 113,809</u>	<u>\$ 546,082</u>	<u>\$ 686,706</u>	<u>\$ 35,410</u>
\$ 2,542	\$ 1,770	\$ 23,289	\$ -	\$ -
733	-	23,661	189	-
-	-	-	323	-
-	-	-	-	-
3,275	1,770	46,950	512	-0-
-	-	-	-	-
-	27,552	2,555	218,991	-
48,878	84,487	496,577	467,203	35,410
48,878	112,039	499,132	686,194	35,410
<u>\$ 52,153</u>	<u>\$ 113,809</u>	<u>\$ 546,082</u>	<u>\$ 686,706</u>	<u>\$ 35,410</u>

City of Albion

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2016

	Debt Service Funds		
	DPW Building Debt	G.O. Water Bonds	ABA Bonds
ASSETS			
Cash and cash equivalents	\$ 295	\$ 43,896	\$ 24,062
Investments	-	-	-
Accounts receivable	-	2,547	-
Taxes receivable	-	10,341	-
Loans receivable	-	-	-
Due from other funds	-	-	-
Due from other governmental units	-	-	-
Prepays	-	-	-
Inventories	-	-	-
TOTAL ASSETS	<u>\$ 295</u>	<u>\$ 56,784</u>	<u>\$ 24,062</u>
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-
Due to other governmental units	-	-	-
Unearned revenue	-	-	-
TOTAL LIABILITIES	-0-	-0-	-0-
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	-	2,809	-
FUND BALANCES			
Nonspendable	-	-	-
Restricted	295	53,975	24,062
TOTAL FUND BALANCES	<u>295</u>	<u>53,975</u>	<u>24,062</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 295</u>	<u>\$ 56,784</u>	<u>\$ 24,062</u>

Capital Projects Funds			Permanent Fund	Total Nonmajor Governmental Funds
Street Improvement	MDOT Street Reconstruction	Sidewalk Program	Cemetery Trust	
\$ 376,626	\$ 141,436	\$ 289,640	\$ 107,443	\$ 2,691,861
-	-	-	149,925	149,925
-	-	-	-	2,674
20,675	-	6,100	-	42,263
-	-	-	-	243,134
-	-	-	-	5,823
4,245	-	-	29,880	169,473
-	-	-	-	14,997
-	-	14,400	-	56,562
<u>\$ 401,546</u>	<u>\$ 141,436</u>	<u>\$ 310,140</u>	<u>\$ 287,248</u>	<u>\$ 3,376,712</u>
\$ -	\$ -	\$ -	\$ -	\$ 52,572
-	-	-	-	40,787
-	331	-	7,006	7,660
-	-	-	-	4,600
-0-	331	-0-	7,006	105,619
10,380	-	-	-	13,189
-	-	14,400	244,880	559,573
391,166	141,105	295,740	35,362	2,698,331
<u>391,166</u>	<u>141,105</u>	<u>310,140</u>	<u>280,242</u>	<u>3,257,904</u>
<u>\$ 401,546</u>	<u>\$ 141,436</u>	<u>\$ 310,140</u>	<u>\$ 287,248</u>	<u>\$ 3,376,712</u>

City of Albion

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

Year Ended December 31, 2016

	Special Revenue			
	Major Street	Local Street	Recreation Fund	Community Development Block Grant
REVENUES				
Taxes	\$ -	\$ -	\$ 120,089	\$ -
Intergovernmental	604,544	194,097	28,461	-
Charges for services	-	1,050	19,067	-
Interest and rents	2,069	916	318	80
Other	1,870	1,856	2,811	1,000
TOTAL REVENUES	608,483	197,919	170,746	1,080
EXPENDITURES				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	361,852	278,433	-	-
Community and economic development	-	-	-	-
Recreation and cultural	-	-	144,595	-
Other	-	-	-	71,822
Debt service				
Principal	-	-	-	-
Interest and fiscal fees	-	-	-	-
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	361,852	278,433	144,595	71,822
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	246,631	(80,514)	26,151	(70,742)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	136,366	-	-
Transfers out	(139,366)	(3,000)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(139,366)	133,366	-0-	-0-
NET CHANGE IN FUND BALANCES	107,265	52,852	26,151	(70,742)
Fund balances, beginning of year	352,879	89,486	31,668	85,707
Fund balances, end of year	\$ 460,144	\$ 142,338	\$ 57,819	\$ 14,965

	Funds			Debt Service Funds
Drug Law Enforcement	Albion Building Authority	Maple Grove Apartments	Revolving Loan	Energy 425 Generator Bonds
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	228,634	-	-
-	-	-	-	-
-	55,661	216,364	12,127	-
52,616	35,000	10,450	-	-
52,616	90,661	455,448	12,127	-0-
-	-	-	-	-
73,085	-	-	-	-
-	-	-	-	-
-	69,723	268,139	4,927	-
-	-	-	-	-
-	-	-	-	125,000
-	-	-	-	59,350
4,915	-	76,125	-	-
78,000	69,723	344,264	4,927	184,350
(25,384)	20,938	111,184	7,200	(184,350)
-	-	-	-	184,350
-	-	(64,963)	-	-
-0-	-0-	(64,963)	-0-	184,350
(25,384)	20,938	46,221	7,200	-0-
74,262	91,101	452,911	678,994	35,410
\$ 48,878	\$ 112,039	\$ 499,132	\$ 686,194	\$ 35,410

City of Albion

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2016

	Debt Service Funds		
	DPW Building Debt	G.O. Water Bonds	ABA Bonds
REVENUES			
Taxes	\$ -	\$ 132,900	\$ -
Intergovernmental	-	9,977	-
Charges for services	-	14,407	-
Interest and rents	-	-	-
Other	-	-	24,963
TOTAL REVENUES	-0-	157,284	24,963
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	-
Public works	-	-	-
Community and economic development	-	-	-
Recreation and cultural	-	-	-
Other	-	-	-
Debt service			
Principal	12,056	130,000	85,000
Interest and fiscal fees	2,944	5,615	44,491
Capital outlay	-	-	-
TOTAL EXPENDITURES	15,000	135,615	129,491
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(15,000)	21,669	(104,528)
OTHER FINANCING SOURCES (USES)			
Transfers in	15,000	-	106,890
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	15,000	-0-	106,890
NET CHANGE IN FUND BALANCES	-0-	21,669	2,362
Fund balances, beginning of year	295	32,306	21,700
Fund balances, end of year	\$ 295	\$ 53,975	\$ 24,062

Capital Projects Funds			Permanent Fund	Total Nonmajor Governmental Funds
Street Improvement	MDOT Street Reconstruction	Sidewalk Program	Cemetery Trust	
\$ 234,913	\$ -	\$ -	\$ -	\$ 487,902
23,534	-	-	-	1,089,247
-	-	-	-	34,524
-	-	2,243	3,696	293,474
15,075	-	151,839	-	297,480
273,522	-0-	154,082	3,696	2,202,627
-	-	-	1	1
-	-	-	-	73,085
-	-	110,406	-	750,691
-	-	-	-	342,789
-	-	-	-	144,595
-	-	-	-	71,822
-	-	-	-	352,056
-	-	-	-	112,400
182,406	-	-	-	263,446
182,406	-0-	110,406	1	2,110,885
91,116	-0-	43,676	3,695	91,742
-	-	-	-	442,606
-	-	-	(17,000)	(224,329)
-0-	-0-	-0-	(17,000)	218,277
91,116	-0-	43,676	(13,305)	310,019
300,050	141,105	266,464	293,547	2,947,885
\$ 391,166	\$ 141,105	\$ 310,140	\$ 280,242	\$ 3,257,904

City of Albion

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

December 31, 2016

	<u>Trust and Agency</u>	<u>Current Tax Collections</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	<u>\$ 160,990</u>	<u>\$ 311,305</u>	<u>\$ 472,295</u>
LIABILITIES			
Due to County	\$ -	\$ 26,704	\$ 26,704
Due to State	440	12,923	13,363
Due to schools	-	241,970	241,970
Due to others	<u>160,550</u>	<u>29,708</u>	<u>190,258</u>
TOTAL LIABILITIES	<u>\$ 160,990</u>	<u>\$ 311,305</u>	<u>\$ 472,295</u>

City of Albion

Pension and Employee Benefit Trust Funds

COMBINING STATEMENT OF FIDUCIARY NET POSITION

December 31, 2016

	Public Safety Officers' Pension	Retiree Health Care	Total
ASSETS			
Cash and cash equivalents	\$ 435,430	\$ 47,796	\$ 483,226
Investments	20,840,887	-	20,840,887
Interest receivable	63,995	-	63,995
	<u>21,340,312</u>	<u>47,796</u>	<u>21,388,108</u>
TOTAL ASSETS			
	21,340,312	47,796	21,388,108
LIABILITIES	<u>-</u>	<u>-</u>	<u>-0-</u>
NET POSITION			
Held in trust for pension and employee benefits	<u>\$ 21,340,312</u>	<u>\$ 47,796</u>	<u>\$ 21,388,108</u>

City of Albion

Pension and Employee Benefit Trust Funds

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended December 31, 2016

	Public Safety Officers' Pension	Retiree Health Care	Total
	<u> </u>	<u> </u>	<u> </u>
ADDITIONS			
Investment income			
Net investment income	\$ 1,456,370	\$ 333	\$ 1,456,703
Contributions - employee	34,699	-	34,699
	<u> </u>	<u> </u>	<u> </u>
TOTAL ADDITIONS	1,491,069	333	1,491,402
DEDUCTIONS			
Benefit payments	673,402	2,900	676,302
	<u> </u>	<u> </u>	<u> </u>
CHANGE IN NET POSITION	817,667	(2,567)	815,100
Net position, beginning of year	20,522,645	50,363	20,573,008
	<u> </u>	<u> </u>	<u> </u>
Net position, end of year	<u>\$ 21,340,312</u>	<u>\$ 47,796</u>	<u>\$ 21,388,108</u>

City of Albion

Component Unit Funds

COMBINING BALANCE SHEET - ECONOMIC DEVELOPMENT CORPORATION

December 31, 2016

	Economic Development	Special Revenue Business Incubator	Total
ASSETS			
Cash	\$ 56,162	\$ 43,610	\$ 99,772
Accounts receivable	-	2,659	2,659
Due from other governmental units	-	6,011	6,011
Prepays	-	3,006	3,006
	<u>56,162</u>	<u>55,286</u>	<u>111,448</u>
TOTAL ASSETS	<u>\$ 56,162</u>	<u>\$ 55,286</u>	<u>\$ 111,448</u>
LIABILITIES			
Accounts payable	\$ 1,153	\$ 6,704	\$ 7,857
Accrued liabilities	2,978	2,313	5,291
Due to other governmental units	-	29,880	29,880
Unearned revenue	35,000	226	35,226
	<u>39,131</u>	<u>39,123</u>	<u>78,254</u>
TOTAL LIABILITIES	39,131	39,123	78,254
FUND BALANCES			
Nonspendable - Prepays	-	3,006	3,006
Restricted	17,031	13,157	30,188
	<u>17,031</u>	<u>16,163</u>	<u>33,194</u>
TOTAL FUND BALANCES	<u>17,031</u>	<u>16,163</u>	<u>33,194</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 56,162</u>	<u>\$ 55,286</u>	<u>\$ 111,448</u>

City of Albion

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO THE STATEMENT
OF NET POSITION - ECONOMIC DEVELOPMENT CORPORATION

December 31, 2016

Total fund balances - governmental funds \$ 33,194

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

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

The cost of capital assets is	\$ 291,883	
Accumulated depreciation is	<u>(22,662)</u>	
Capital assets, net		269,221

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

ABA loan	(24,142)	
Accrued interest payable	<u>(1,173)</u>	
		<u>(25,315)</u>

Net position of governmental activities \$ 277,100

City of Albion

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - ECONOMIC DEVELOPMENT CORPORATION

Year Ended December 31, 2016

	Economic Development	Special Revenue Business Incubator	Total
REVENUES			
Intergovernmental	\$ 43,135	\$ 89,460	\$ 132,595
Charges for services	-	2,280	2,280
Interest and rents	77,632	33,087	110,719
Other	26,661	12,880	39,541
TOTAL REVENUES	147,428	137,707	285,135
EXPENDITURES			
Current			
Community and economic development	139,837	148,464	288,301
Debt service			
Principal	4,070	-	4,070
Interest and fiscal fees	1,411	-	1,411
TOTAL EXPENDITURES	145,318	148,464	293,782
NET CHANGE IN FUND BALANCES	2,110	(10,757)	(8,647)
Fund balances, beginning of year	14,921	26,920	41,841
Fund balances, end of year	<u>\$ 17,031</u>	<u>\$ 16,163</u>	<u>\$ 33,194</u>

City of Albion

Component Unit Funds

RECONCILIATION OF THE COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES - ECONOMIC DEVELOPMENT CORPORATION

Year Ended December 31, 2016

Net change in fund balances - governmental funds \$ (8,647)

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 34,917
Depreciation expense	<u>(13,062)</u>

Excess of capital outlay over depreciation expense	21,855
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Repayment of long-term debt is reported as expenditures in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. In the current year, these amounts consist of:

ABA loan payments	4,070
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	<u>199</u>
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Change in net position of governmental activities \$ 17,477

City of Albion

Component Unit Funds

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

December 31, 2016

ASSETS	
Cash	\$ 47,093
Prepays	<u>627</u>
TOTAL ASSETS	<u>\$ 47,720</u>
LIABILITIES	\$ -
FUND BALANCES	
Nonspendable	627
Unassigned	<u>47,093</u>
TOTAL FUND BALANCES	<u>47,720</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 47,720</u>

Note: Reconciliation of the governmental fund balance sheet to the statement of net position for this component unit is not required as the fund balance was equal to the net position as of December 31, 2016.

City of Albion

Component Unit Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended December 31, 2016

REVENUES	
Taxes	\$ 20,547
Intergovernmental	211,317
Interest	<u>152</u>
TOTAL REVENUES	232,016
EXPENDITURES	
Current	
Community and economic development	<u>216,457</u>
NET CHANGE IN FUND BALANCE	15,559
Fund balance, beginning of year	<u>32,161</u>
Fund balance, end of year	<u><u>\$ 47,720</u></u>

City of Albion

Component Unit Funds

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF THE GOVERNMENTAL FUNDS TO THE STATEMENT
OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended December 31, 2016

Net change in fund balance - governmental fund \$ 15,559

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

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense (55,750)

Change in net position of governmental activities \$ (40,191)

City of Albion

Component Unit Funds

BALANCE SHEET - TAX INCREMENT FINANCE AUTHORITY

December 31, 2016

ASSETS	
Cash	\$ 151,049
Interest receivable	538
Taxes receivable	<u>64,795</u>
TOTAL ASSETS	<u>\$ 216,382</u>
LIABILITIES	
Accounts payable	\$ 181
Accrued liabilities	<u>6,383</u>
TOTAL LIABILITIES	6,564
FUND BALANCE	
Unassigned	<u>209,818</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 216,382</u>

City of Albion

Component Unit Funds

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT
OF NET POSITION - TAX INCREMENT FINANCE AUTHORITY

December 31, 2016

Total fund balance - governmental fund \$ 209,818

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

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

The cost of capital assets is: 160,000

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Fund Balance Sheet.

Long-term liabilities at year-end consist of:

Compensated absences (18,364)

Net position of governmental activities \$ 351,454

City of Albion

Component Unit Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - TAX INCREMENT FINANCE AUTHORITY

Year Ended December 31, 2016

REVENUES	
Taxes	\$ 264,272
Interest	814
Other	<u>349</u>
TOTAL REVENUES	265,435
EXPENDITURES	
Current	
Community and economic development	207,749
Debt service	
Interest and fiscal fees	<u>132</u>
TOTAL EXPENDITURES	<u>207,881</u>
NET CHANGE IN FUND BALANCE	57,554
Fund balance, beginning of year	<u>152,264</u>
Fund balance, end of year	<u><u>\$ 209,818</u></u>

City of Albion

Component Unit Funds

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES - TAX INCREMENT FINANCE AUTHORITY

Year Ended December 31, 2016

Net change in fund balance - governmental fund \$ 57,554

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

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund. These activities consist of:

Decrease in accrued compensated absences 6,189

Change in net position of governmental activities \$ 63,743

Principals

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council
City of Albion, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Albion, Michigan (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 9, 2017. Our report includes a reference to other auditors who audited the financial statements of Albion Housing Commission, as described in our report on the City's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting and on compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 9, 2017