

**City of Albion
Calhoun County, Michigan**

FINANCIAL STATEMENTS

December 31, 2017

City of Albion
Calhoun County, Michigan
December 31, 2017

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, 2017, 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 80 percent, 80 percent, and 75 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, 2017, 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.

Change in Accounting Principles

As discussed in Note O to the financial statements, the City implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, during the year. As a result, this statement improves the usefulness of information about other postemployment benefits (OPEB) included in the general purpose external financial reports of state and local government OPEB plans for making decisions and assessing accountability. 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 28, 2018, 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.

Stevens Kirinovic & Tucker, P.C.

STEVENS, KIRINOVIC & TUCKER, P.C.
Certified Public Accountants

June 28, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

This discussion and analysis is intended to provide an overview of the City's financial condition for the year ended December 31, 2017, 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 2017 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 organization's 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, 2017

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, Major Street, 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, 2017

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, 2017 and 2016

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 15,975,180	\$ 14,673,234	\$ 2,749,132	\$ 2,332,147	\$ 18,724,312	\$ 17,005,381
Capital Assets	10,527,531	10,457,234	8,503,801	8,097,585	19,031,332	18,554,819
Total Assets	26,502,711	25,130,468	11,252,933	10,429,732	37,755,644	35,560,200
Deferred Outflows of Resources	613,866	2,054,134	-	-	613,866	2,054,134
Current Liabilities	836,189	892,844	637,892	341,776	1,474,081	1,234,620
Noncurrent Liabilities	2,439,877	2,949,139	80,380	81,200	2,520,257	3,030,339
Total Liabilities	3,276,066	3,841,983	718,272	422,976	3,994,338	4,264,959
Deferred Inflows of Resources	201,660	462,111	-	-	201,660	462,111
Net Position						
Net investment in Capital						
Assets	8,645,861	8,200,258	8,503,801	7,942,585	17,149,662	16,142,843
Restricted	13,927,085	12,274,917	61,990	61,990	13,989,075	12,336,907
Unrestricted	1,065,905	2,405,333	1,968,870	2,002,181	3,034,775	4,407,514
Total Net Position	\$ 23,638,851	\$ 22,880,508	\$ 10,534,661	\$ 10,006,756	\$ 34,173,512	\$ 32,887,264

The total net position for Governmental Activities increased by \$758,343, due to increases in revenue in the general, major and local street, recreation, and solid waste activities as compared to the PY. The total net position for business-type activities increased by \$527,905 mainly as a result of increased grants received by the Sewer activities.

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

Changes in Net Position for the Fiscal Year Ended December 31, 2017 and 2016

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues						
Charges for Services	\$ 917,437	\$ 1,100,583	\$ 2,121,399	\$ 2,171,140	\$ 3,038,836	\$ 3,271,723
Grants and Contributions	1,545,133	1,125,625	1,490,154	591,504	3,035,287	1,717,129
General Revenues						
Property Taxes	1,805,487	1,779,718	-	-	1,805,487	1,779,718
Income Taxes	892,389	972,827	-	-	892,389	972,827
State Shared Revenues	1,087,452	1,031,244	-	-	1,087,452	1,031,244
Investment Earnings	59,356	61,363	15,236	10,821	74,592	72,184
Miscellaneous	233,976	247,831	35,434	18,872	269,410	266,703
Transfers	159,850	163,115	(159,850)	(163,115)	-0-	-0-
Total Revenues	6,701,080	6,482,306	3,502,373	2,629,222	10,203,453	9,111,528
Expenses						
General Government	989,369	1,227,153	-	-	989,369	1,227,153
Public Safety	2,188,834	1,961,677	-	-	2,188,834	1,961,677
Public Works	1,525,113	1,838,134	-	-	1,525,113	1,838,134
Health and Welfare	8,414	15,127	-	-	8,414	15,127
Community and Econ. Development	486,818	621,927	-	-	486,818	621,927
Recreation and Cultural	650,506	501,721	-	-	650,506	501,721
Interest on Long Term Debt	93,683	104,524	-	-	93,683	104,524
Other	-	-	2,974,468	2,622,592	2,974,468	2,622,592
Total Expenses	5,942,737	6,270,263	2,974,468	2,622,592	8,917,205	8,892,855
Change in Net Position	758,343	212,043	527,905	6,630	1,286,248	218,673
Restated Net Position - Beginning	22,880,508	22,668,465	10,006,756	10,000,126	20,066,247	19,696,768
Net Position Ending	\$ 23,638,851	\$ 22,880,508	\$ 10,534,661	\$ 10,006,756	\$ 34,173,512	\$ 32,887,264

Governmental Activities

Revenues:

The three largest revenue sources under the governmental activities category are property taxes at 27%, operating grants and contributions at 23% and state shared revenues at 16%. For 2017, overall governmental revenues were up about 3%, primarily due to higher revenue reflected in Grants and Contributions.

Expenses:

The largest governmental activities expense item is public works at 31% of total expenses. The next largest expense item is public safety at 25% of total expenses. Total expenses decreased by about \$861,649 from approximately \$6.3 million in 2016 to approximately \$5.9 million in 2017. 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, 2017

Business-Type Activities

The Statement of Net Position shows that for business-type activities as of December 31, 2017, there was a total net position of \$10,534,661, which represents an increase of \$527,905 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, 2017, the General Fund had a nonspendable fund balance of \$225,324, an assigned fund balance of \$41,345 and an unassigned fund balance of \$1,170,117. Total fund balance had a decrease of \$61,116 from the fund balance on December 31, 2016.

From a budgetary standpoint, General Fund budgeted revenues and other financing sources were less than actual revenues by \$197,373 and expenditures and other financing uses came in under budget by \$301,064.

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 increased as the result of current year activity by \$29,276. Fund balance for this fund was \$1,096,431 at year-end.

Major Street:

Fund balance increased by \$95,519 during the year. The Major Street fund balance was \$555,663 as of December 31, 2017.

Sewer:

The City operates a wastewater treatment plant and collection system that serves the City and a small portion of a neighboring township. The majority of the fund's assets are invested in facilities and equipment. 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. The City recognizes that additional rate increases will be required. Net position for the sewer system increased by \$534,866 to a December 31, 2017, level of \$5,057,155, primarily due to a large SAW grant covering an on-going study of the wastewater system, and due to a large grant to refurbish the digester equipment. As part of the wastewater study, the City will receive a rate study, which should be available by year-end 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, however, an operating loss of \$1,871 in the current year was still recognized. Net position for the water system decreased by \$6,961 to a December 31, 2017, level of \$5,477,506. 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, 2017

Capital Assets and Debt Administration

At the end of the year, the City had invested \$10,527,531 and \$8,503,801 (net of accumulated depreciation) for governmental and business-type capital assets respectively. Depreciation charges for the fiscal year totaled \$632,556 for the governmental activities and \$457,514 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	\$ 457,704	\$ 752,690	\$ 1,210,394
Buildings and improvements, net	4,188,856	4,538,098	8,726,954
Infrastructure, net	4,915,983	-	4,915,983
Vehicles and equipment, net	964,988	100,491	1,065,479
Sewer system, net	-	1,386,664	1,386,664
Water system, net	-	1,725,858	1,725,858
Capital Assets, net	<u>\$ 10,527,531</u>	<u>\$ 8,503,801</u>	<u>\$ 19,031,332</u>

Long-term Debt:

As of December 31, 2017, the City had the following bond debt outstanding:

Primary Government

	Jan. 1, 2017	Additions	Deletions	Dec. 31, 2017
Governmental Activities				
General Obligation Bonds	\$ 1,280,000	\$ -	\$ (125,000)	\$ 1,155,000
Refunding Bonds	140,000	-	(140,000)	-
EPA Liability	75,264	-	(4,789)	70,475
Building Authority Bonds	735,000	-	(90,000)	645,000
Land contract	86,073	-	(12,418)	73,655
Compensated Absences	257,705	261,997	(224,611)	295,091
Installment Note	15,903	-	(7,888)	8,015
	<u>2,589,945</u>	<u>261,997</u>	<u>(604,706)</u>	<u>2,247,236</u>
Business-type Activities				
Revenue Refunding Bonds	155,000	-	(155,000)	-
Compensated Absences	121,675	65,420	(66,414)	120,681
	<u>276,675</u>	<u>65,420</u>	<u>(221,414)</u>	<u>120,681</u>
Total Primary Government	<u>\$ 2,866,620</u>	<u>\$ 327,417</u>	<u>\$ (826,120)</u>	<u>\$ 2,367,917</u>

As of December 31, 2017, the City had total outstanding debt for governmental activities (including compensated absences) of \$2,247,236. For business-type activities, the outstanding debt (including compensated absences) was \$120,681 as of December 31, 2017. 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, 2017

Economic Factors and Next Year's Budget

For the 2018 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 4 years. In addition, the City has several special millages that have been approved by the voters. For 2018 these were:

- a. Street reconstruction - 3.00 mills
- b. Recreation - 1.50 mills
- c. Solid Waste – 3.00 mills.

Thus, the 2018 total City millage levy was 19.4736 mills. Because of its effort to cut costs, the City was able to operate within budget during 2017. For the first time since 2008, the total Taxable Value for the City did not decline. For 8 straight years, the Taxable Value has declined resulting in declining property tax revenues. For 2017, the Taxable Values remained constant with the 2016 level, while the City finally saw an upswing in the 2018 Taxable Values. While the City views this as a positive sign that property values have finally bottomed out and are now in fact starting to appreciate, the City still remains cautious as the City's income tax revenues have declined for 2 years in a row. Additionally, with a continuation in the rising costs of insurance, utilities and other major expenses there is cause for concern. The City started working with a third party late in 2017 in an effort to increase revenues from collecting income taxes from non-filers and from 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 negotiated new union contracts for all four of its unions, as the existing contracts expired in September of 2017. It is unknown at this point in time what impact these new contracts will have on the 2018 and future budgets.

Just like other employers, the City has struggled with the significant cost for medical insurance for its employees, however, the City was fortunate to only see moderate rate increases in the cost of its health insurance for 2017. Another concerning increase in employee related costs for the City relates to the cost of the City's past pension plans. While these plans are adequately funded now, the fact that they are closed plans with no new employees making contributions to them, combined with an increasing number of retirees drawing on the plans, has caused the City to take pro-active steps by making sizable annual contributions to the plans. These contributions will impact the City's future bottom lines.

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 5 years) for street reconstruction, the City is able to have an active street reconstruction program each year. The City underwent a major MDOT street construction project in 2017, which will continue into 2018. The City's main downtown street, Superior Street, was completely reconstructed, 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 Federal and MDOT grant money, there will still be some matching dollars required from the City.

Of significant importance is the newly constructed hotel and conference center in downtown Albion. Construction started in late 2016, and was completed in early spring of 2018. This new construction has stirred up interest in other properties within the City. Recently the City has welcomed several new businesses, such as a new auto parts store, a new fast food restaurant, a newly remodeled downtown building for Albion College, a state-of-the-art dialysis center, a new brew pub and a downtown building is currently undergoing significant renovation to provide office space, a bakery, and upstairs apartments. Additional interest has been expressed for some other new businesses as well, while other existing businesses have recently remodeled. 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, 2017

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, 2017

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 4,128,918	\$ 970,301	\$ 5,099,219	\$ 604,638
Cash and cash equivalents - restricted	-	61,990	61,990	-
Investments	1,527,461	449,722	1,977,183	333,929
Receivables	430,190	573,685	1,003,875	128,175
Due from other governmental units	158,819	513,043	671,862	4,443
Inventories	38,138	13,676	51,814	-
Prepays	247,470	17,163	264,633	20,678
Internal balances	(50,000)	50,000	-0-	-
Total current assets	6,480,996	2,649,580	9,130,576	1,091,863
Noncurrent assets				
Investments	370,000	99,552	469,552	-
Due from other governmental units	23,904	-	23,904	-
Net pension asset	9,100,280	-	9,100,280	-
Capital assets not being depreciated	457,704	752,690	1,210,394	205,799
Capital assets, net of accumulated depreciation	10,069,827	7,751,111	17,820,938	3,654,442
Total noncurrent assets	20,021,715	8,603,353	28,625,068	3,860,241
TOTAL ASSETS	26,502,711	11,252,933	37,755,644	4,952,104
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources related to pensions	613,866	-	613,866	118,651
LIABILITIES				
Current liabilities				
Accounts payable	255,871	421,305	677,176	70,797
Accrued wages	88,337	38,500	126,837	-
Accrued liabilities	60,750	200	60,950	69,200
Due to other governmental units	8,366	137,586	145,952	23,904
Accrued interest payable	23,725	-	23,725	965
Unearned revenue	11,111	-	11,111	31,667
Current portion of compensated absences	137,167	40,301	177,468	90,608
Current portion of long-term debt	250,862	-	250,862	4,488
Total current liabilities	836,189	637,892	1,474,081	291,629
Noncurrent liabilities				
Net OPEB obligation	105,483	-	105,483	-
Net pension liability	475,187	-	475,187	350,660
Noncurrent portion of compensated absences	157,924	80,380	238,304	14,391
Noncurrent portion of long-term debt	1,701,283	-	1,701,283	15,380
Total noncurrent liabilities	2,439,877	80,380	2,520,257	380,431
TOTAL LIABILITIES	3,276,066	718,272	3,994,338	672,060
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources related to pensions	201,660	-	201,660	-
NET POSITION				
Net investment in capital assets	8,645,861	8,503,801	17,149,662	3,840,373
Restricted for:				
Nonexpendable				
Perpetual care	215,000	-	215,000	-
Expendable				
Pension trust	9,100,280	-	9,100,280	-
Debt service	63,244	61,990	125,234	-
Streets and highways	1,182,553	-	1,182,553	-
Sidewalks	440,136	-	440,136	-
Perpetual care	48,642	-	48,642	-
Community and economic development	2,612,047	-	2,612,047	104,143
Solid waste	255,987	-	255,987	-
Law enforcement	9,196	-	9,196	-
Unrestricted	1,065,905	1,968,870	3,034,775	454,179
TOTAL NET POSITION	\$ 23,638,851	\$ 10,534,661	\$ 34,173,512	\$ 4,398,695

See accompanying notes to financial statements.

City of Albion

STATEMENT OF ACTIVITIES

Year Ended December 31, 2017

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	\$ 989,369	\$ 458,148	\$ 304,414	\$ -	\$ (226,807)	\$ -	\$ (226,807)	\$ -
Public safety	2,188,834	26,289	33,756	-	(2,128,789)	-	(2,128,789)	-
Public works	1,525,113	149,625	957,149	-	(418,339)	-	(418,339)	-
Health and welfare	8,414	-	-	-	(8,414)	-	(8,414)	-
Community and economic development	486,818	267,870	241,295	-	22,347	-	22,347	-
Recreation and cultural	650,506	15,505	8,519	-	(626,482)	-	(626,482)	-
Interest on long-term debt	93,683	-	-	-	(93,683)	-	(93,683)	-
Total governmental activities	5,942,737	917,437	1,545,133	-0-	(3,480,167)	-0-	(3,480,167)	-0-
Business-type activities								
Sewer system	2,019,085	1,190,459	1,490,154	-	-	661,528	661,528	-
Water system	955,383	930,940	-	-	-	(24,443)	(24,443)	-
Total business-type activities	2,974,468	2,121,399	1,490,154	-0-	-0-	637,085	637,085	-0-
Total primary government	\$ 8,917,205	\$ 3,038,836	\$ 3,035,287	\$ -0-	(3,480,167)	637,085	(2,843,082)	-0-
Component units								
Economic Development Corporation	\$ 246,890	\$ 129,991	\$ 86,441	\$ -	-	-	-0-	(30,458)
Downtown Development Authority	12,069	-	-	-	-	-	-0-	(12,069)
Tax Increment Finance Authority	212,853	-	-	-	-	-	-0-	(212,853)
Albion Housing Commission	1,510,780	481,311	709,608	232,868	-	-	-0-	(86,993)
Total component units	\$ 1,982,592	\$ 611,302	\$ 796,049	\$ 232,868	-0-	-0-	-0-	(342,373)
General revenues								
Property taxes					1,805,487	-	1,805,487	169,387
Income taxes					892,389	-	892,389	-
State shared revenue					1,087,452	-	1,087,452	-
Investment earnings					59,356	15,236	74,592	5,012
Miscellaneous					233,976	35,434	269,410	100,548
Transfers					159,850	(159,850)	-0-	-
Total general revenues and transfers					4,238,510	(109,180)	4,129,330	274,947
Change in net position					758,343	527,905	1,286,248	(67,426)
Restated net position, beginning of the year					22,880,508	10,006,756	32,887,264	4,466,121
Net position, end of the year					\$ 23,638,851	\$ 10,534,661	\$ 34,173,512	\$ 4,398,695

See accompanying notes to financial statements.

City of Albion
Governmental Funds
BALANCE SHEET
December 31, 2017

	Special Revenue			Nonmajor Governmental Funds	Total Governmental Funds
	General	Albion Trust	Major Street		
ASSETS					
Cash and cash equivalents	\$ 1,087,507	\$ -	\$ 342,331	\$ 2,485,842	\$ 3,915,680
Investments	149,874	1,096,431	100,261	550,895	1,897,461
Receivables					
Accounts	62,804	-	-	10,803	73,607
Taxes	145,556	-	-	51,362	196,918
Loans	-	-	-	159,665	159,665
Due from other governmental units	493	-	124,583	57,647	182,723
Prepays	225,324	-	5,121	9,893	240,338
Inventories	-	-	28,366	1,970	30,336
TOTAL ASSETS	\$ 1,671,558	\$ 1,096,431	\$ 600,662	\$ 3,328,077	\$ 6,696,728
LIABILITIES					
Accounts payable	\$ 58,728	\$ -	\$ 33,242	\$ 56,851	\$ 148,821
Accrued liabilities	20,024	-	-	40,726	60,750
Accrued wages	73,501	-	11,757	-	85,258
Due to other funds	50,000	-	-	-	50,000
Due to other governmental units	305	-	-	8,061	8,366
Unearned revenue	8,247	-	-	2,864	11,111
TOTAL LIABILITIES	210,805	-0-	44,999	108,502	364,306
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	23,967	-	-	21,139	45,106
FUND BALANCES					
Nonspendable	225,324	-	33,487	410,432	669,243
Restricted	-	1,096,431	522,176	2,788,004	4,406,611
Assigned	213,422	-	-	-	213,422
Unassigned	998,040	-	-	-	998,040
TOTAL FUND BALANCES	1,436,786	1,096,431	555,663	3,198,436	6,287,316
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 1,671,558	\$ 1,096,431	\$ 600,662	\$ 3,328,077	\$ 6,696,728

See accompanying notes to financial statements.

City of Albion

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

December 31, 2017

Total fund balances - governmental funds \$ 6,287,316

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	\$ 17,301,640	
Accumulated depreciation is	<u>(6,914,090)</u>	
Capital assets, net		10,387,550

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.

246,478

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

Unavailable revenue		45,106
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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		9,100,280
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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	613,866	
Deferred inflows of resources related to pensions	<u>(201,660)</u>	
		412,206

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	(1,944,130)	
Net pension liability	(475,187)	
Accrued interest payable	(23,725)	
Net other post-employment benefits obligation	(105,483)	
Compensated absences	<u>(291,560)</u>	
		<u>(2,840,085)</u>

Net position of governmental activities \$ 23,638,851

City of Albion

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2017

	Special Revenue			Nonmajor Governmental Funds	Total Governmental Funds
	General	Albion Trust	Major Street		
REVENUES					
Taxes	\$ 2,034,886	\$ -	\$ -	\$ 773,604	\$ 2,808,490
Licenses and permits	134,738	-	-	-	134,738
Intergovernmental	1,420,029	-	734,880	479,466	2,634,375
Charges for services	257,099	-	-	31,583	288,682
Fines and forfeits	3,161	-	-	-	3,161
Interest and rents	7,819	29,276	2,914	288,286	328,295
Other	94,791	-	1,144	309,836	405,771
TOTAL REVENUES	3,952,523	29,276	738,938	1,882,775	6,603,512
EXPENDITURES					
Current					
General government	993,386	-	-	-	993,386
Public safety	2,166,287	-	-	79,437	2,245,724
Public works	208,900	-	440,419	490,968	1,140,287
Health and welfare	8,285	-	-	-	8,285
Community and economic development	-	-	-	396,849	396,849
Recreation and cultural	514,174	-	-	122,952	637,126
Other	112,135	-	-	-	112,135
Debt service	-	-	-	469,102	469,102
Capital outlay	-	-	-	431,668	431,668
TOTAL EXPENDITURES	4,003,167	-0-	440,419	1,990,976	6,434,562
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(50,644)	29,276	298,519	(108,201)	168,950
OTHER FINANCING SOURCES (USES)					
Transfers in	44,000	-	-	532,660	576,660
Transfers out	(54,472)	-	(203,000)	(141,488)	(398,960)
TOTAL OTHER FINANCING SOURCES (USES)	(10,472)	-0-	(203,000)	391,172	177,700
NET CHANGE IN FUND BALANCES	(61,116)	29,276	95,519	282,971	346,650
Fund balances, beginning of year	1,497,902	1,067,155	460,144	2,915,465	5,940,666
Fund balances, end of year	\$ 1,436,786	\$ 1,096,431	\$ 555,663	\$ 3,198,436	\$ 6,287,316

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, 2017

Net change in fund balances - total governmental funds **\$ 346,650**

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	\$ 702,853	
Depreciation expense	<u>(587,294)</u>	
Excess of capital outlay over depreciation expense		115,559

Internal service funds are used by management to charge the costs of certain activities to individual funds.		15,845
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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	(62,282)	
Decrease in deferred inflows of resources	260,451	
Increase in net pension asset	<u>896,617</u>	
		1,094,786

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		372,207
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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 deferred outflows of resources	(1,440,268)	
Decrease in net pension liability	289,826	
Decrease in accrued interest payable	3,212	
(Increase) in other post-employment benefits obligation	(2,649)	
(Increase) in accrued compensated absences	<u>(36,825)</u>	
		<u>(1,186,704)</u>

Change in net position of governmental activities **\$ 758,343**

City of Albion

Proprietary Funds

STATEMENT OF NET POSITION

December 31, 2017

	Business-type Activities			Governmental Activities
	Sewer	Water	Total	Internal Service
ASSETS				
Current assets				
Cash and cash equivalents	\$ 437,660	\$ 532,641	\$ 970,301	\$ 213,238
Cash and cash equivalents - restricted	-	61,990	61,990	-
Investments	-	449,722	449,722	-
Receivables	339,981	233,704	573,685	-
Due from other funds	-	50,000	50,000	-
Due from other governmental units	513,043	-	513,043	-
Inventories	4,879	8,797	13,676	7,802
Prepays	12,206	4,957	17,163	7,132
Total current assets	1,307,769	1,341,811	2,649,580	228,172
Noncurrent assets				
Investments	-	99,552	99,552	-
Capital assets not being depreciated	658,990	93,700	752,690	-
Capital assets, net of accumulated depreciation	3,636,633	4,114,478	7,751,111	139,981
Total noncurrent assets	4,295,623	4,307,730	8,603,353	139,981
TOTAL ASSETS	5,603,392	5,649,541	11,252,933	368,153
LIABILITIES				
Current liabilities				
Accounts payable	309,849	111,456	421,305	107,050
Accrued wages	24,515	13,985	38,500	3,079
Accrued liabilities	-	200	200	-
Due to other governmental units	135,852	1,734	137,586	-
Current portion of compensated absences	24,870	15,431	40,301	1,508
Current portion of long-term debt	-	-	-0-	8,015
Total current liabilities	495,086	142,806	637,892	119,652
Noncurrent liabilities				
Noncurrent portion of compensated absences	51,151	29,229	80,380	2,023
TOTAL LIABILITIES	546,237	172,035	718,272	121,675
NET POSITION				
Net investment in capital assets	4,295,623	4,208,178	8,503,801	131,966
Restricted for debt service	-	61,990	61,990	-
Unrestricted	761,532	1,207,338	1,968,870	114,512
TOTAL NET POSITION	\$ 5,057,155	\$ 5,477,506	\$ 10,534,661	\$ 246,478

See accompanying notes to financial statements.

City of Albion

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended December 31, 2017

	Business-type Activities			Governmental Activities
	Sewer	Water	Total	Internal Service
OPERATING REVENUES				
Charges for services	\$ 1,190,459	\$ 930,940	\$ 2,121,399	\$ 263,404
Other	16,086	19,348	35,434	32,277
TOTAL OPERATING REVENUES	1,206,545	950,288	2,156,833	295,681
OPERATING EXPENSES				
Salaries and wages	363,510	221,755	585,265	43,064
Fringe benefits	210,912	145,200	356,112	30,058
Contractual services	868,064	52,330	920,394	8,848
Supplies	132,157	148,046	280,203	86,010
Utilities	120,817	95,332	216,149	15,950
Insurance and bonds	24,526	9,961	34,487	14,330
Administrative services	40,105	41,155	81,260	11,230
Building and equipment rental	7,325	19,361	26,686	8,206
Other	7,861	5,313	13,174	14
Depreciation	243,808	213,706	457,514	45,262
TOTAL OPERATING EXPENSES	2,019,085	952,159	2,971,244	262,972
OPERATING INCOME (LOSS)	(812,540)	(1,871)	(814,411)	32,709
NONOPERATING REVENUES (EXPENSES)				
Interest earned	5,652	10,153	15,805	1,206
Grants	1,490,154	-	1,490,154	-
Loss on investments	-	(569)	(569)	-
Interest expense and fees	-	(3,224)	(3,224)	(220)
TOTAL NONOPERATING REVENUES (EXPENSES)	1,495,806	6,360	1,502,166	986
INCOME BEFORE TRANSFERS	683,266	4,489	687,755	33,695
TRANSFERS				
Transfers out	(148,400)	(11,450)	(159,850)	(17,850)
CHANGE IN NET POSITION	534,866	(6,961)	527,905	15,845
Net position, beginning of year	4,522,289	5,484,467	10,006,756	230,633
Net position, end of year	<u>\$ 5,057,155</u>	<u>\$ 5,477,506</u>	<u>\$ 10,534,661</u>	<u>\$ 246,478</u>

See accompanying notes to financial statements.

City of Albion

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended December 31, 2017

	Business-type Activities			Governmental
	Sewer	Water	Total	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	\$ 1,202,403	\$ 968,301	\$ 2,170,704	\$ 295,681
Cash paid to suppliers	(1,364,895)	(204,773)	(1,569,668)	(137,123)
Cash paid for employee benefits/wages	(569,598)	(369,326)	(938,924)	(72,983)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(732,090)	394,202	(337,888)	85,575
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Payments of borrowing	-	(155,000)	(155,000)	(7,888)
Receipt of grants	1,490,154	-	1,490,154	-
Purchase of capital assets	(709,161)	(154,569)	(863,730)	-
Interest expense and fees	-	(3,224)	(3,224)	(220)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	780,993	(312,793)	468,200	(8,108)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers out	(148,400)	(11,450)	(159,850)	(17,850)
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale of investments	-	(150,001)	(150,001)	-
Interest earned	5,652	10,153	15,805	1,206
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	5,652	(139,848)	(134,196)	1,206
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(93,845)	(69,889)	(163,734)	60,823
Cash and cash equivalents, beginning of year	531,505	664,520	1,196,025	152,415
Cash and cash equivalents, end of year	<u>\$ 437,660</u>	<u>\$ 594,631</u>	<u>\$ 1,032,291</u>	<u>\$ 213,238</u>

See accompanying notes to financial statements.

City of Albion

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended December 31, 2017

	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)	\$ (812,540)	\$ (1,871)	\$ (814,411)	\$ 32,709
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	243,808	213,706	457,514	45,262
Decrease (increase) in:				
Accounts receivable	(4,142)	18,013	13,871	-
Due from other funds	-	70,000	70,000	-
Due from other governmental units	(511,261)	-	(511,261)	-
Inventories	1,509	(5,281)	(3,772)	965
Prepays	(89)	(36)	(125)	(52)
Increase (decrease) in:				
Accounts payable	209,949	100,308	310,257	6,552
Accrued wages	3,983	(536)	3,447	(422)
Due to other governmental units	135,852	1,734	137,586	-
Compensated absences	841	(1,835)	(994)	561
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (732,090)	\$ 394,202	\$ (337,888)	\$ 85,575

City of Albion

Fiduciary Funds

STATEMENT OF NET POSITION

December 31, 2017

	<u>Agency</u>	<u>Pension and Employee Benefit Trusts</u>
ASSETS		
Cash and cash equivalents	\$ 835,096	\$ 222,391
Investments	-	22,296,251
Interest receivable	-	63,429
	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 835,096</u>	22,582,071
LIABILITIES		
Due to County	\$ 62,459	-
Due to State	16,427	-
Due to schools	469,045	-
Due to others	287,165	-
	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>\$ 835,096</u>	<u>-0-</u>
NET POSITION		
Held in trust for pension and employee benefits		<u>\$ 22,582,071</u>

See accompanying notes to financial statements.

City of Albion

Fiduciary Funds

STATEMENT OF CHANGES IN NET POSITION

Year Ended December 31, 2017

	<u>Pension and Employee Benefit Trusts</u>
ADDITIONS	
Net investment income	\$ 1,929,930
Contributions	<u>48,446</u>
TOTAL ADDITIONS	1,978,376
DEDUCTIONS	
Benefit payments	<u>784,413</u>
CHANGE IN NET POSITION	1,193,963
Net position, beginning of year	<u>21,388,108</u>
Net position, end of year	<u><u>\$ 22,582,071</u></u>

City of Albion

Component Units

COMBINING STATEMENT OF NET POSITION

December 31, 2017

	Economic Development Corporation	Downtown Development Authority	Tax Increment Finance Authority	Albion Housing Commission	Total Component Units
ASSETS					
Current assets					
Cash	\$ 146,180	\$ 53,894	\$ 153,356	\$ 251,208	\$ 604,638
Investments	-	-	-	333,929	333,929
Receivables	5,652	-	14,181	108,342	128,175
Due from other governmental units	4,443	-	-	-	4,443
Prepays	3,742	631	-	16,305	20,678
Total current assets	160,017	54,525	167,537	709,784	1,091,863
Noncurrent assets					
Capital assets not being depreciated	26,655	-	160,000	19,144	205,799
Capital assets, net of accumulated depreciation	228,704	197,229	-	3,228,509	3,654,442
Total noncurrent assets	255,359	197,229	160,000	3,247,653	3,860,241
TOTAL ASSETS	415,376	251,754	327,537	3,957,437	4,952,104
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources related to pensions	-	-	-	118,651	118,651
LIABILITIES					
Current liabilities					
Accounts payable	4,056	-	455	66,286	70,797
Accrued liabilities	5,921	-	6,876	56,403	69,200
Due to other governmental units	23,904	-	-	-	23,904
Accrued interest payable	965	-	-	-	965
Unearned revenue	21,993	-	-	9,674	31,667
Current portion of compensated absences	-	-	16,558	74,050	90,608
Current portion of long-term debt	4,488	-	-	-	4,488
Total current liabilities	61,327	-0-	23,889	206,413	291,629
Noncurrent liabilities					
Net pension liability	-	-	-	350,660	350,660
Noncurrent portion of compensated absences	-	-	6,163	8,228	14,391
Noncurrent portion of long-term debt	15,380	-	-	-	15,380
Total noncurrent liabilities	15,380	-0-	6,163	358,888	380,431
TOTAL LIABILITIES	76,707	-0-	30,052	565,301	672,060
NET POSITION					
Net investment in capital assets	235,491	197,229	160,000	3,247,653	3,840,373
Restricted for community and economic development	104,143	-	-	-	104,143
Unrestricted	(965)	54,525	137,485	263,134	454,179
TOTAL NET POSITION	\$ 338,669	\$ 251,754	\$ 297,485	\$ 3,510,787	\$ 4,398,695

See accompanying notes to financial statements.

City of Albion

Component Units

COMBINING STATEMENT OF ACTIVITIES

Year Ended December 31, 2017

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	\$ 246,890	\$ 129,991	\$ 86,441	\$ -	\$ (30,458)	\$ -	\$ -	\$ -	\$ (30,458)
Downtown Development Authority	12,069	-	-	-	-	(12,069)	-	-	(12,069)
Tax Increment Finance Authority	212,853	-	-	-	-	-	(212,853)	-	(212,853)
Albion Housing Commission	1,510,780	481,311	709,608	232,868	-	-	-	(86,993)	(86,993)
TOTALS	\$ 1,982,592	\$ 611,302	\$ 796,049	\$ 232,868	(30,458)	(12,069)	(212,853)	(86,993)	(342,373)
General revenues									
Property taxes					-	11,511	157,876	-	169,387
Investment earnings					694	319	1,008	2,991	5,012
Miscellaneous					91,333	-	-	9,215	100,548
Total general revenues					92,027	11,830	158,884	12,206	274,947
CHANGE IN NET POSITION					61,569	(239)	(53,969)	(74,787)	(67,426)
Restated net position, beginning of year					277,100	251,993	351,454	3,585,574	4,466,121
Net position, end of year					\$ 338,669	\$ 251,754	\$ 297,485	\$ 3,510,787	\$ 4,398,695

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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, 2017

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, 2017

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 Major Street Fund is used to account for financial resources that are used for repairs and maintenance of the City's major streets. The primary source of revenue for this fund is restricted Act 51 revenue from the State of Michigan.

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, 2017

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 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, 2017

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, 2017, 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, 1.0000 mills for debt service payments, and 1.5000 mills for recreational services. The total taxable value for the 2017 levy for property within the City was \$80,485,006.

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, 2017

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 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 acquisition cost 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, 2017

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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, 2017, 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	\$ 4,165,778	\$ 4,699,727
Certificates of deposit	<u>848,998</u>	<u>848,998</u>
Total Primary Government	5,014,776	5,548,725
FIDUCIARY FUNDS		
Checking	857,303	857,303
COMPONENT UNITS		
Checking and savings	604,393	603,562
Certificates of deposit	<u>333,929</u>	<u>333,929</u>
Total Component Units	<u>938,322</u>	<u>937,491</u>
TOTAL REPORTING ENTITY	<u><u>\$ 6,810,401</u></u>	<u><u>\$ 7,343,519</u></u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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 \$877 and \$245, 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, 2017, the City accounts were insured by the FDIC for \$1,098,998 and the amount of \$6,244,521 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	\$ 573,165	\$ -	\$ -	\$ 573,165	Aaa/AA+	N/A
Federal Home Loan Mortgage Corporation	-	24,996	-	24,996	Aaa/AA+	0.03 years
International Bank for Recon & Development	-	64,613	-	64,613	Aaa/AA+	0.33 years
Municipal Bonds	-	355,000	-	355,000	Aaa/AA+	4.45 years
Michigan CLASS	-	1,574,517	-	1,574,517	Aaa/AA+	N/A
TOTAL PRIMARY GOVERNMENT	\$ 573,165	\$ 2,019,126	\$ -0-	\$ 2,592,291		
Fiduciary Accounts						
Uncategorized Pooled Investments	\$ 173,937	\$ -	\$ -	\$ 173,937	N/R	N/A
US Treasury Notes	856,549	-	-	856,549	Aaa/AA+	5.50 years
US Treasury Bonds	-	1,567,358	-	1,567,358	Aaa/AA+	24.49 years
Federal National Mortgage Association	-	66,128	-	66,128	Aaa/AA+	24.19 years
Federal Home Loan Mortgage Corporation	-	996,051	-	996,051	Aaa/AA+	5.35 years
Governmental National Mortgage Association	-	505,306	-	505,306	Aaa/AA+	45.51 years
Corporate Bonds	-	5,526,583	-	5,526,583	Various	8.77 years
Michigan CLASS	-	26,247	-	26,247	N/A	N/A
Common Equity Securities	12,778,276	-	-	12,778,276	N/A	N/A
TOTAL PENSION TRUST FUND	\$ 13,808,762	\$ 8,687,673	\$ -0-	\$ 22,496,435		
TOTAL REPORTING ENTITY	\$ 14,381,927	\$ 10,706,799	\$ -0-	\$ 25,088,726		

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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, 2017, 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, 2017:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 5,099,219	\$ 604,638	\$ 1,057,487	\$ 6,761,344
Cash and cash equivalents - restricted	61,990	-	-	61,990
Investments - current	1,977,183	333,929	22,296,251	24,607,363
Investments - noncurrent	469,552	-	-	469,552
	<u>\$ 7,607,944</u>	<u>\$ 938,567</u>	<u>\$ 23,353,738</u>	<u>\$ 31,900,249</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE C: CASH AND CASH EQUIVALENTS - RESTRICTED

The following summarizes the restricted cash and cash equivalents as of December 31, 2017:

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

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details primary government interfund receivables and payables at December 31, 2017:

Due to Water Fund from:	
General Fund	<u>\$ 50,000</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	<u>\$ 44,000</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 54,472
Major Street Fund	203,000
Nonmajor governmental funds	97,488
Sewer Fund	148,400
Water Fund	11,450
Internal Service Fund	<u>17,850</u>
	<u>\$ 532,660</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, 2017

NOTE F: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017, was as follows:

PRIMARY GOVERNMENT

	Restated Balance Jan. 1, 2017	Additions/ Reclassifications	Deletions/ Reclassifications	Balance Dec. 31, 2017
Governmental activities				
Capital assets not being depreciated				
Land	\$ 457,705	\$ -	\$ (1)	\$ 457,704
Construction in progress	15,000	-	(15,000)	-0-
Subtotal	472,705	-0-	(15,001)	457,704
Capital assets being depreciated				
Buildings and improvements	6,771,232	63,550	-	6,834,782
Infrastructure	7,089,033	654,304	-	7,743,337
Equipment and furniture	1,113,094	-	-	1,113,094
Vehicles	2,723,412	-	-	2,723,412
Subtotal	17,696,771	717,854	-0-	18,414,625
Less accumulated depreciation for:				
Buildings and improvements	(2,461,669)	(184,257)	-	(2,645,926)
Infrastructure	(2,532,156)	(295,198)	-	(2,827,354)
Equipment and furniture	(981,672)	(20,716)	-	(1,002,388)
Vehicles	(1,736,745)	(132,385)	-	(1,869,130)
Subtotal	(7,712,242)	(632,556)	-0-	(8,344,798)
Net capital assets being depreciated	9,984,529	85,298	-0-	10,069,827
Capital assets, net	<u>\$ 10,457,234</u>	<u>\$ 85,298</u>	<u>\$ (15,001)</u>	<u>\$ 10,527,531</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 56,556
Public safety	122,259
Public works	366,767
Community and economic development	83,684
Recreation and cultural	3,290
Total depreciation expense	<u>\$ 632,556</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE F: CAPITAL ASSETS - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

	Balance Jan. 1, 2017	Additions	Deletions	Balance Dec. 31, 2017
Business-type activities				
Capital assets not being depreciated				
Land	\$ 93,700	\$ -	\$ -	\$ 93,700
Construction in progress	-	658,990	-	658,990
Subtotal	93,700	658,990	-0-	752,690
Capital assets being depreciated				
Buildings and improvements	11,222,852	-	-	11,222,852
Equipment	1,049,319	39,280	-	1,088,599
Water system	4,622,659	154,570	-	4,777,229
Sewer system	2,281,095	10,890	-	2,291,985
Vehicles	461,515	-	-	461,515
Subtotal	19,637,440	204,740	-0-	19,842,180
Less accumulated depreciation for:				
Buildings and improvements	(6,413,811)	(270,943)	-	(6,684,754)
Equipment	(986,367)	(22,888)	-	(1,009,255)
Water system	(2,936,713)	(114,658)	-	(3,051,371)
Sewer system	(867,140)	(38,181)	-	(905,321)
Vehicles	(429,524)	(10,844)	-	(440,368)
Subtotal	(11,633,555)	(457,514)	-0-	(12,091,069)
Net capital assets being depreciated	8,003,885	(252,774)	-0-	7,751,111
Capital assets, net	<u>\$ 8,097,585</u>	<u>\$ 406,216</u>	<u>\$ -0-</u>	<u>\$ 8,503,801</u>

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

Water	\$ 213,706
Sewer	<u>243,808</u>
Total depreciation expense	<u>\$ 457,514</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE F: CAPITAL ASSETS - CONTINUED

COMPONENT UNITS

	Balance Jan. 1, 2017	Additions	Deletions	Balance Dec. 31, 2017
Component unit - EDC				
Capital assets not being depreciated				
Land	\$ 26,655	\$ -	\$ -	\$ 26,655
Capital assets being depreciated				
Buildings	20,000	-	-	20,000
Equipment	236,333	-	-	236,333
Land Improvements	8,895	-	-	8,895
Subtotal	265,228	-0-	-0-	265,228
Less accumulated depreciation for:				
Buildings	(10,400)	(1,600)	-	(12,000)
Equipment	(11,817)	(11,817)	-	(23,634)
Land Improvements	(445)	(445)	-	(890)
Subtotal	(22,662)	(13,862)	-0-	(36,524)
Net capital assets being depreciated	242,566	(13,862)	-0-	228,704
Capital assets, net	<u>\$ 269,221</u>	<u>\$ (13,862)</u>	<u>\$ -0-</u>	<u>\$ 255,359</u>
	Balance Jan. 1, 2017	Additions	Deletions	Balance Dec. 31, 2017
Component unit - DDA				
Capital assets being depreciated				
Buildings	\$ 211,317	\$ -	\$ -	211,317
Equipment	61,588	-	-	61,588
Infrastructure	557,494	-	(557,494)	-0-
Subtotal	830,399	-0-	(557,494)	272,905
Less accumulated depreciation for:				
Buildings	(7,044)	(7,044)	-	(14,088)
Equipment	(61,588)	-	-	(61,588)
Infrastructure	(557,494)	-	557,494	-0-
Subtotal	(626,126)	(7,044)	557,494	(75,676)
Capital assets, net	<u>\$ 204,273</u>	<u>\$ (7,044)</u>	<u>\$ -0-</u>	<u>\$ 197,229</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE F: CAPITAL ASSETS - CONTINUED

COMPONENT UNITS - CONTINUED

	Balance Jan. 1, 2017	Additions	Deletions	Balance Dec. 31, 2017
Component unit - TIFA				
Capital assets not being depreciated				
Land	\$ 160,000	\$ -0-	\$ -0-	\$ 160,000
Component unit - Housing Commission				
Capital assets not being depreciated	\$ 19,144	\$ -	\$ -	\$ 19,144
Capital assets being depreciated	14,684,955	235,096	-	14,920,051
Less accumulated depreciation:	<u>(11,328,516)</u>	<u>(363,026)</u>	<u>-</u>	<u>(11,691,542)</u>
Net capital assets being depreciated	<u>3,356,439</u>	<u>(127,930)</u>	<u>-0-</u>	<u>3,228,509</u>
Capital assets, net	<u>\$ 3,375,583</u>	<u>\$ (127,930)</u>	<u>\$ -0-</u>	<u>\$ 3,247,653</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, 2017.

	Balance Jan. 1, 2017	Additions	Reductions	Balance Dec. 31, 2017	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental activities					
2010 General Obligation Bonds	\$ 1,280,000	\$ -	\$ (125,000)	\$ 1,155,000	\$ 130,000
2013 Refunding Bonds	140,000	-	(140,000)	-0-	-
EPA landfill liability	75,264	-	(4,789)	70,475	5,057
Building Authority bonds	735,000	-	(90,000)	645,000	95,000
Land contract	86,073	-	(12,418)	73,655	12,790
Installment note	15,903	-	(7,888)	8,015	8,015
Compensated absences	<u>257,705</u>	<u>261,997</u>	<u>(224,611)</u>	<u>295,091</u>	<u>137,167</u>
	2,589,945	261,997	(604,706)	2,247,236	388,029
Business-type activities					
2013 Revenue Refunding Bonds	155,000	-	(155,000)	-0-	-
Compensated absences	<u>121,675</u>	<u>65,420</u>	<u>(66,414)</u>	<u>120,681</u>	<u>40,301</u>
	<u>276,675</u>	<u>65,420</u>	<u>(221,414)</u>	<u>120,681</u>	<u>40,301</u>
TOTAL PRIMARY GOVERNMENT	2,866,620	327,417	(826,120)	2,367,917	428,330

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE G: LONG-TERM DEBT - CONTINUED

	Balance Jan. 1, 2017	Additions	Reductions	Balance Dec. 31, 2017	Amounts Due Within One Year
COMPONENT UNITS					
Economic Development Corporation ABA loan	\$ 24,142	\$ -	\$ (4,274)	\$ 19,868	\$ 4,488
Tax Increment Finance Authority Compensated absences	18,364	24,095	(19,738)	22,721	16,558
Albion Housing Commission Compensated absences	79,498	8,228	(5,448)	82,278	74,050
TOTAL COMPONENT UNITS	122,004	32,323	(29,460)	124,867	95,096
TOTAL REPORTING ENTITY	\$ 2,988,624	\$ 359,740	\$ (855,580)	\$ 2,492,784	\$ 523,426

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 \$130,000 to \$165,000 through October 1, 2025, with interest ranging from 4.00 to 4.63 percent, payable semi-annually. \$ 1,155,000

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. \$ 70,475

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. \$ 73,655

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 5.50 to 6.25 percent, payable semi-annually. \$ 525,000

\$500,000 Building Authority Bonds dated July 17, 2009, due in annual installments of \$60,000 through April 1, 2019, with interest of 5.0 percent, payable semi-annually. \$ 120,000

Installment Note

\$19,800 Installment note dated March 14, 2016, due in semi-annual installments of \$4,055, including interest of 1.57%, through September 14, 2018. \$ 8,015

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE G: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

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 \$520,771 at December 31, 2017. Of this amount, \$295,091, \$120,681, and \$104,999 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 \$4,488 to \$5,720 through January 10, 2021, with interest at 5.0 percent, payable annually.

\$ 19,868

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			
	Principal		Interest	
2018	\$	130,000	\$	49,850
2019		135,000		44,650
2020		135,000		39,250
2021		140,000		33,850
2022		145,000		27,900
2023-2025		470,000		44,169
	\$	<u>1,155,000</u>	\$	<u>239,669</u>

Year Ending December 31,	EPA Landfill Liability		Land Contract	
	Principal	Interest	Principal	Interest
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	1,024
2022	2,861	1,431	14,396	604
2023-2027	12,147	6,073	5,750	173
2028	40,567	20,284	-	-
	<u>\$ 70,475</u>	<u>\$ 35,238</u>	<u>\$ 73,655</u>	<u>\$ 7,268</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE G: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

Year Ending December 31,	Building Authority Bonds		Installment Note	
	Principal	Interest	Principal	Interest
2018	\$ 95,000	\$ 35,603	\$ 8,015	\$ 96
2019	95,000	30,678	-	-
2020	40,000	27,253	-	-
2021	40,000	25,053	-	-
2022	45,000	22,753	-	-
2023-2027	265,000	71,355	-	-
2028	65,000	4,063	-	-
	<u>\$ 645,000</u>	<u>\$ 216,758</u>	<u>\$ 8,015</u>	<u>\$ 96</u>

COMPONENT UNITS

Year Ending December 31,	ABA Loan	
	Principal	Interest
2018	\$ 4,488	\$ 993
2019	4,712	769
2020	4,948	533
2021	5,720	286
	<u>\$ 19,868</u>	<u>\$ 2,581</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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE H: RETIREMENT PLANS - CONTINUED

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

Summary of Significant Accounting Policies

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the 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 purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

At the December 31, 2016 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	13
Active employees	<u>25</u>
Total employees covered by MERS	<u><u>141</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 8.35% to 13.95% based on annual payroll for open divisions.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE H: RETIREMENT PLANS - CONTINUED

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

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2016, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date. Changes in the net pension liability during the measurement year were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at December 31, 2015	\$ 13,726,885	\$ 12,550,559	\$ 1,176,326
Service Cost	104,470	-	104,470
Interest on Total Pension Liability	1,061,267	-	1,061,267
Difference between expected and actual experience	(94,721)	-	(94,721)
Employer contributions	-	62,729	(62,729)
Net investment income	-	1,386,172	(1,386,172)
Benefit payments, including employee refunds	(1,026,572)	(1,026,572)	-0-
Administrative expense	-	(27,407)	27,407
Other changes	(1)	-	(1)
Net changes	<u>44,443</u>	<u>394,922</u>	<u>(350,479)</u>
Balances at December 31, 2016	<u>\$ 13,771,328</u>	<u>\$ 12,945,481</u>	<u>\$ 825,847</u>

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

For the year ended December 31, 2017, the employer recognized pension expense of \$356,477. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 534,156
Contributions subsequent to the measurement date*	<u>122,066</u>
Total	<u>\$ 656,222</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, 2018.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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 - continued

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 (\$122,066), which will impact the net pension liability in fiscal year 2018, 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>
2018	\$ 222,450
2019	222,449
2020	173,614
2021	(84,357)

Actuarial Assumptions

The total pension liability in the December 31, 2016, 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.

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE H: RETIREMENT PLANS - CONTINUED

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

Actuarial Assumptions - continued

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	55.50%	8.65%
Global Fixed Income	18.50%	3.76%
Real Assets	13.50%	9.72%
Diversifying Strategies	12.50%	7.50%

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 8.00%, as well as what the employer's Net Position Liability (Asset) would be using a discount rate that is 1% lower (7.00%) or 1% higher (9.00%) than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net pension liability (asset)	<u>\$ 2,121,657</u>	<u>\$ 825,847</u>	<u>\$ (290,559)</u>

Discount Rate

The discount rate used to measure the total pension liability is 8.00%. 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.

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE H: RETIREMENT PLANS - CONTINUED

PUBLIC SAFETY - CONTINUED

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	33
Inactive employees entitled to but not yet receiving benefits	4
Active employees	<u>18</u>
Total employees covered	<u><u>55</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 of 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.

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE H: RETIREMENT PLANS - CONTINUED

PUBLIC SAFETY - CONTINUED

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, 2016	\$ 13,136,649	\$ 21,340,312	\$ (8,203,663)
Service Cost	283,929	-	283,929
Interest on Total Pension Liability	773,257	-	773,257
Difference between expected and actual experience	24,146	-	24,146
Employee contributions	-	48,446	(48,446)
Net investment income	-	1,929,502	(1,929,502)
Benefit payments, including employee refunds	(782,013)	(782,013)	-0-
Other changes	(1)	-	(1)
Net changes	<u>299,318</u>	<u>1,195,935</u>	<u>(896,617)</u>
Balances at December 31, 2017	<u>\$ 13,435,967</u>	<u>\$ 22,536,247</u>	<u>\$ (9,100,280)</u>

Actuarial Assumptions

The total pension liability was determined based on the annual actuarial valuation as of December 31, 2017. 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	4.0%-8.0%, 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, 2017

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, 2017, 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</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City's net pension (asset)	<u>\$ (7,443,266)</u>	<u>\$ (9,100,280)</u>	<u>\$ (10,480,999)</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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, 2017, the employer recognized pension expenses of \$(232,355). 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	\$ -	\$ 201,660
Changes in assumptions	37,892	-
Net difference between projected and actual earnings on pension plan investments	<u>38,403</u>	<u>-</u>
Total changes in assumptions	<u>\$ 76,295</u>	<u>\$ 201,660</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>
2018	\$ (31,221)
2019	(156,659)
2020	179,027
2021	134,218

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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

Plan Description

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. The following are the GASB Statement No. 45 required disclosures and these disclosures have been implemented prospectively by the City.

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

Benefits Provided

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.

Projections of benefits for financial reporting purposes 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 the long-term perspective of the calculations.

Summary of Plan Participants

At the December 31, 2017 valuation date, the following employees were covered by the benefit terms:

Eligible retirees/Non-active employees	10
Active employees	<u>19</u>
Total	<u><u>29</u></u>

Investment Policy

The City may invest and reinvest the assets of the Plan subject to the terms, conditions, limitations, and restrictions imposed by Michigan law and, to the extent applicable to a government plan, the Internal Revenue Code of 1986, as amended, and the Employee Retirement Security Act of 1974, as amended. It is the policy of the Plan to invest funds in a manner which will ensure the preservation of principal while providing the highest investment return with maximum security. The City is currently reviewing long-term investing options. As of December 31, 2017, all assets of the trust were in investments and cash which earn about 0.1% interest.

Summary of Significant Accounting Policies

In the December 31, 2017 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions include a 6.0 percent discount rate compounded annually, and an investment rate of return of 6.0 percent. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of active member payroll over an open period of 30 years. A 30-year amortization period for the UAAL is the maximum period that complies with GASB requirements.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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

Funding Policy

The City's annual other postemployment benefit (OPEB) cost is calculated based on the *annual required contribution of the employer* (ARC). The City has elected to calculate the ARC through an actuarial valuation as of December 31, 2017. The valuation represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. 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. The benefits are currently financed on a "pay-as-you-go" basis, and pre-funding contributions are made into a qualifying trust.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual required contribution (ARC)	\$ 28,622	\$ 39,966	\$ 39,966
Interest on net OPEB Obligation	6,170	5,125	4,349
Adjustment to annual required contribution	<u>(4,543)</u>	<u>(3,974)</u>	<u>(3,284)</u>
Annual OPEB cost (expense)	30,249	41,117	41,031
Amounts contributed:			
Payments of current premiums	<u>27,600</u>	<u>23,700</u>	<u>28,098</u>
Increase in Net OPEB obligation	2,649	17,417	12,933
OPEB obligation - Beginning of year	<u>102,834</u>	<u>85,417</u>	<u>72,484</u>
OPEB obligation - End of year	<u><u>\$ 105,483</u></u>	<u><u>\$ 102,834</u></u>	<u><u>\$ 85,417</u></u>

Schedule of Funding Progress

	<u>2017</u>	<u>2014</u>
Actuarial value of assets	\$ 45,824	\$ 54,932
Actuarial accrued liability (AAL)	336,338	497,517
Unfunded AAL (UAAL)	290,514	442,585
Funded ratio	14 %	11 %

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>2017</u>	<u>2016</u>	<u>2015</u>
Annual OPEB cost	\$ 30,249	\$ 41,117	\$ 41,030
Percentage contributed	91 %	58 %	68 %
Net OPEB obligation	\$ 105,483	\$ 102,834	\$ 85,417

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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

Net OPEB Liability

The components of the net OPEB liability of the City at December 31, 2017, were as follows:

Total OPEB liability	\$ 340,568
Plan fiduciary net position	<u>45,824</u>
City's net OPEB liability	<u>\$ 294,744</u>
Plan fiduciary net position as a percentage of the total OPEB liability	13.46%

Actuarial Assumptions

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount Rate	6.00%
Actuarial Cost Method	Entry-age normal
Salary Increases	N/A
Long Term Rate of Return	6.00%

Mortality rates were based on the RP-2000 Combined Healthy Annuitant Table Projected to 2014.

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

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.00 percent) or 1-percentage-point higher (7.00 percent) than the current discount rate:

	<u>Sensitivity to Discount Rate</u>		
	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Net OPEB liability	<u>\$ 317,490</u>	<u>\$ 294,744</u>	<u>\$ 273,899</u>

Regarding the sensitivity of the net OPEB liability to changes in the healthcare cost trend rates, since the stipend is a fixed payment there is no trend applied. Therefore, a healthcare cost trend sensitivity is not applicable and was not performed by the actuary.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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, 2016	\$ (486,666)
Construction code revenue	75,906
Related expenditures - Direct costs	<u>(69,755)</u>
Deficit at December 31, 2017	<u>\$ (480,515)</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.

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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.

	General Fund	Albion Trust	Major Street	Nonmajor Governmental Funds	Total
Fund Balances					
Nonspendable:					
Prepays	\$ 225,324	\$ -	\$ 5,121	\$ 9,893	\$ 240,338
Inventory	-	-	28,366	1,970	30,336
Long-term receivable	-	-	-	183,569	183,569
Perpetual care	-	-	-	215,000	215,000
Restricted for:					
Streets and highways	-	-	522,176	621,979	1,144,155
Sidewalks	-	-	-	440,136	440,136
Community enrichment	-	1,096,431	-	1,348,999	2,445,430
Solid waste	-	-	-	255,987	255,987
Law enforcement	-	-	-	9,196	9,196
Debt service	-	-	-	86,969	86,969
Perpetual care	-	-	-	24,738	24,738
Assigned to:					
Subsequent year's expenditures	172,077	-	-	-	172,077
Communications	41,345	-	-	-	41,345
Unassigned:	998,040	-	-	-	998,040
TOTAL FUND BALANCES	\$ 1,436,786	\$ 1,096,431	\$ 555,663	\$ 3,198,436	\$ 6,287,316

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE N: UPCOMING ACCOUNTING PRONOUNCEMENTS

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 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 City 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 2019 fiscal year.

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2020 fiscal year.

NOTE O: CHANGE IN ACCOUNTING PRINCIPLES

The City adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, during the year. The Statement improves the usefulness of information about other postemployment benefits (OPEB) included in the general-purpose external financial reports of state and local government OPEB plans for making decisions and assessing accountability.

NOTE P: RESTATEMENT OF NET POSITION

The beginning net position of the Downtown Development Authority component unit was increased by \$204,273, from \$47,720 to \$251,993, 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, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 817,000	\$ 929,206	\$ 1,037,074	\$ 107,868
Income taxes	1,055,000	1,010,000	892,389	(117,611)
Payments in lieu of taxes	20,300	29,387	29,387	-0-
Penalties and interest	26,000	25,000	27,703	2,703
Administration fees	45,000	45,000	48,333	3,333
Total taxes	1,963,300	2,038,593	2,034,886	(3,707)
Licenses and permits	138,800	138,694	134,738	(3,956)
Intergovernmental				
Federal/State	1,105,000	1,386,753	1,334,752	(52,001)
Local	22,100	87,383	85,277	(2,106)
Total intergovernmental	1,127,100	1,474,136	1,420,029	(54,107)
Charges for services				
Cemetery	50,000	40,000	49,313	9,313
Other fees	225,532	251,670	207,786	(43,884)
Total charges for services	275,532	291,670	257,099	(34,571)
Fines and forfeits	27,500	1,000	3,161	2,161
Interest and rents	6,100	6,450	7,819	1,369
Other				
Reimbursements	67,700	80,581	85,958	5,377
Other	8,220	118,772	8,833	(109,939)
Total other	75,920	199,353	94,791	(104,562)
TOTAL REVENUES	3,614,252	4,149,896	3,952,523	(197,373)

City of Albion

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES				
Current				
General government				
City Council	\$ 36,810	\$ 41,460	\$ 37,475	\$ 3,985
City Manager	107,260	113,791	108,069	5,722
Human resources	20,510	24,330	24,310	20
Assessor	50,300	51,050	46,834	4,216
Attorney	92,725	93,025	92,982	43
Clerk	99,585	90,030	87,873	2,157
Treasurer	318,225	318,180	292,687	25,493
Municipal building	71,915	96,445	84,543	11,902
Cemetery	159,685	173,220	157,887	15,333
Other	52,200	62,250	60,726	1,524
Total general government	1,009,215	1,063,781	993,386	70,395
Public safety				
Police and fire	1,859,617	2,001,791	1,995,496	6,295
Code enforcement	182,370	186,347	170,791	15,556
Total public safety	2,041,987	2,188,138	2,166,287	21,851
Public works				
Engineering	7,954	10,886	10,739	147
Highways and streets	200,845	189,471	183,241	6,230
Tree trimming	11,664	18,202	14,920	3,282
Total public works	220,463	218,559	208,900	9,659
Health and welfare				
Environmental expenditures	8,000	8,600	8,285	315
Recreation and cultural				
Parks	227,082	697,203	514,174	183,029
Other	105,400	127,950	112,135	15,815
TOTAL EXPENDITURES	3,612,147	4,304,231	4,003,167	301,064
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,105	(154,335)	(50,644)	103,691

City of Albion

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 44,000	\$ 44,000	\$ 44,000	\$ -0-
Transfers out	(54,472)	(54,472)	(54,472)	-0-
TOTAL OTHER FINANCING SOURCES (USES)	(10,472)	(10,472)	(10,472)	-0-
NET CHANGE IN FUND BALANCE	(8,367)	(164,807)	(61,116)	103,691
Fund balance, beginning of year	1,497,902	1,497,902	1,497,902	-0-
Fund balance, end of year	<u>\$ 1,489,535</u>	<u>\$ 1,333,095</u>	<u>\$ 1,436,786</u>	<u>\$ 103,691</u>

City of Albion

Albion Trust Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$ 23,500	\$ 20,250	\$ 29,276	\$ 9,026
EXPENDITURES	-	-	-	-0-
NET CHANGE IN FUND BALANCE	23,500	20,250	29,276	9,026
Fund balance, beginning of year	1,067,155	1,067,155	1,067,155	-0-
Fund balance, end of year	<u>\$ 1,090,655</u>	<u>\$ 1,087,405</u>	<u>\$ 1,096,431</u>	<u>\$ 9,026</u>

City of Albion

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 674,170	\$ 670,968	\$ 734,880	\$ 63,912
Charges for services rendered	-	3,000	-	(3,000)
Interest and rents	1,825	2,500	2,914	414
Other	1,500	1,144	1,144	-
TOTAL REVENUES	677,495	677,612	738,938	61,326
EXPENDITURES				
Current				
Public works	451,900	473,291	440,419	32,872
EXCESS OF REVENUES OVER EXPENDITURES	225,595	204,321	298,519	94,198
OTHER FINANCING (USES)				
Transfer out	(123,000)	(203,000)	(203,000)	-0-
NET CHANGE IN FUND BALANCE	102,595	1,321	95,519	94,198
Fund balance, beginning of year	460,144	460,144	460,144	-0-
Fund balance, end of year	<u>\$ 562,739</u>	<u>\$ 461,465</u>	<u>\$ 555,663</u>	<u>\$ 94,198</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 Three Measurement Dates (Ultimately ten fiscal years will be displayed)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability			
Service cost	\$ 104,470	\$ 110,870	\$ 111,241
Interest	1,061,267	1,036,191	1,027,804
Difference between expected and actual experience	(94,721)	(50,350)	-
Changes of assumptions	-	642,057	-
Benefit payments including employee refunds	(1,026,572)	(1,032,679)	(1,041,700)
Other	(1)	(1)	(3)
	<u>44,443</u>	<u>706,088</u>	<u>97,342</u>
Net Change in Total Pension Liability			
Total Pension Liability, beginning	<u>13,726,885</u>	<u>13,020,797</u>	<u>12,923,455</u>
Total Pension Liability, ending	<u>\$ 13,771,328</u>	<u>\$ 13,726,885</u>	<u>\$ 13,020,797</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 62,729	\$ 35,606	\$ 29,258
Net investment income	1,386,172	(195,914)	863,867
Benefit payments including employee refunds	(1,026,572)	(1,032,679)	(1,041,700)
Administrative expense	(27,407)	(29,331)	(31,504)
	<u>394,922</u>	<u>(1,222,318)</u>	<u>(180,079)</u>
Net Change in Plan Fiduciary Net Position			
Plan Fiduciary Net Position, beginning	<u>12,550,559</u>	<u>13,772,877</u>	<u>13,952,956</u>
Plan Fiduciary Net Position, ending	<u>\$ 12,945,481</u>	<u>\$ 12,550,559</u>	<u>\$ 13,772,877</u>
Employer Net Pension Liability (Asset)	<u>\$ 825,847</u>	<u>\$ 1,176,326</u>	<u>\$ (752,080)</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	94%	91%	106%
Covered Employee Payroll	\$ 1,157,642	\$ 1,238,091	\$ 1,243,368
Employer's Net Pension Liability (Asset) as a percentage of covered employee payroll	71.34%	95.01%	(60.49%)

City of Albion

Primary Government (except Public Safety) and Housing Commission

SCHEDULE OF CITY'S CONTRIBUTIONS

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contributions	\$ 122,066	\$ 62,729	\$ 33,038
Contributions in relation to the actuarially determined contribution	<u>122,066</u>	<u>62,729</u>	<u>33,038</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered employee payroll	\$ 1,154,268	\$ 1,255,473	\$ 1,231,119
Contributions as a percentage of covered employee payroll	11%	5%	3%

City of Albion

Public Safety Officers' Retirement System

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

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

	2017	2016	2015	2014
CHANGES IN TOTAL PENSION LIABILITY				
Service cost	\$ 283,929	\$ 331,905	\$ 310,957	\$ 340,366
Interest	773,257	778,502	759,667	728,402
Differences between expected and actual experience	24,146	(446,144)	(362,571)	126,170
Changes in assumptions	-	-	265,250	-
Benefit payments, including refunds of member contributions	(782,013)	(673,402)	(666,290)	(652,027)
Other changes	(1)	-	-	-
NET CHANGE IN TOTAL PENSION LIABILITY	299,318	(9,139)	307,013	542,911
TOTAL PENSION LIABILITY, BEGINNING	<u>13,136,649</u>	<u>13,145,788</u>	<u>12,838,775</u>	<u>12,295,864</u>
TOTAL PENSION LIABILITY, ENDING (A)	<u>\$ 13,435,967</u>	<u>\$ 13,136,649</u>	<u>\$ 13,145,788</u>	<u>\$ 12,838,775</u>
CHANGES IN PLAN FIDUCIARY NET POSITION				
Contributions - member	\$ 48,446	\$ 34,699	\$ 39,001	\$ 56,449
Net investment income	1,929,502	1,456,370	(522,893)	1,769,846
Benefit payments, including refunds of member contributions	(782,013)	(673,402)	(666,290)	(652,027)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	1,195,935	817,667	(1,150,182)	1,174,268
PLAN FIDUCIARY NET POSITION, BEGINNING	<u>21,340,312</u>	<u>20,522,645</u>	<u>21,672,827</u>	<u>20,498,559</u>
PLAN FIDUCIARY NET POSITION, ENDING (B)	<u>\$ 22,536,247</u>	<u>\$ 21,340,312</u>	<u>\$ 20,522,645</u>	<u>\$ 21,672,827</u>
CITY'S NET PENSION (ASSET), ENDING (A)-(B)	<u>\$ (9,100,280)</u>	<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 (asset)	167.73%	162.45%	156.12%	168.81%
Covered employee payroll	\$ 1,092,550	\$ 889,505	\$ 1,037,365	\$ 992,149
City's net pension (asset) as a percentage of covered employee payroll	(832.94%)	(922.27%)	(711.11%)	(890.40%)

City of Albion

Public Safety Officers Retirement System

SCHEDULE OF CITY'S CONTRIBUTIONS

Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	-	-	-	-	-	-	-	-	-
Contribution excess (deficiency)	<u>\$ -0-</u>									
Covered-employee payroll	\$ 1,092,550	\$ 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
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>
2017	8.0%
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%

City of Albion

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Year Ended December 31, 2017

City Employees - Post-Employment Health Care Benefits

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued 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>
12/31/2017	\$ 45,824	\$ 336,338	\$ 290,514	14 %	\$ -	Not Applicable
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 %

City Employees - Post-Employment Health Care Benefits

<u>Year Ended December 31,</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>
2017	\$ 30,249	91 %
2016	41,117	58 %
2015	41,031	68 %
2014	40,905	68 %
2013	45,036	60 %
2012	44,790	69 %
2011	44,306	79 %

City of Albion

Retiree Health Care Plan

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

Last Fiscal Year (Ultimately ten fiscal years will be displayed)

	<u>2017</u>
Change In Total OPEB Liability	
Service cost	\$ 5,444
Interest	19,063
Difference between actual and expected experience	2,269
Benefit payments including employee refunds	<u>(2,400)</u>
Net Change in Total OPEB Liability	24,376
Total OPEB Liability - beginning	<u>316,192</u>
Total OPEB Liability - ending	<u><u>\$ 340,568</u></u>
Change in Plan Fiduciary Net Position	
Net investment income	\$ 428
Benefit payments including employee refunds	<u>(2,400)</u>
Net Change in Plan Fiduciary Net Position	(1,972)
Plan Fiduciary Net Position - beginning	<u>47,796</u>
Plan Fiduciary Net Position - ending	<u><u>\$ 45,824</u></u>
Employer Net OPEB Liability	<u><u>\$ 294,744</u></u>
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	13.46%
Covered Employee Payroll	\$ 1,154,268
Employer's Net OPEB Liability as a percentage of covered employee payroll	25.54%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended December 31, 2017

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	12/31/2017
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar
Remaining amortization period	30 years
Asset valuation method	Market
Actuarial assumptions:	
Projected salary increases	N/A
Investment rate of return	6.0%

NOTE B: EMPLOYEE RETIREMENT SYSTEM - MERS

Changes of benefits terms: There were no changes of benefit terms during fiscal year 2017.

Changes in assumptions: The discount rate was lowered from 8.25% to 8.00%.

OTHER SUPPLEMENTARY INFORMATION

City of Albion

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

December 31, 2017

	Special Revenue			
	Local Street	Recreation Fund	Solid Waste	Community Development Block Grant
ASSETS				
Cash and cash equivalents	\$ 175,437	\$ 101,093	\$ 246,113	\$ 33,225
Investments	-	-	-	-
Accounts receivable	-	5,500	2,336	-
Taxes receivable	-	4,511	15,947	-
Loans receivable	-	-	-	-
Due from other governmental units	33,743	-	-	-
Prepays	4,911	818	-	-
Inventories	-	-	-	-
TOTAL ASSETS	\$ 214,091	\$ 111,922	\$ 264,396	\$ 33,225
LIABILITIES				
Accounts payable	\$ -	\$ 378	\$ 866	\$ -
Accrued liabilities	7,843	2,747	618	-
Due to other governmental units	-	-	-	-
Unearned revenue	-	2,864	-	-
TOTAL LIABILITIES	7,843	5,989	1,484	-0-
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	-	-	6,925	-
FUND BALANCES				
Nonspendable	4,911	818	-	-
Restricted	201,337	105,115	255,987	33,225
TOTAL FUND BALANCES	206,248	105,933	255,987	33,225
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 214,091	\$ 111,922	\$ 264,396	\$ 33,225

	Funds			Debt Service Funds
Drug Law Enforcement	Albion Building Authority	Maple Grove Apartments	Revolving Loan	Energy 425 Generator Bonds
\$ 14,566	\$ 116,892	\$ 618,116	\$ 549,520	\$ 35,410
-	-	-	-	-
-	1,200	-	-	-
-	-	-	-	-
-	19,868	-	139,797	-
-	-	-	-	-
-	1,345	2,819	-	-
-	1,970	-	-	-
<u>\$ 14,566</u>	<u>\$ 141,275</u>	<u>\$ 620,935</u>	<u>\$ 689,317</u>	<u>\$ 35,410</u>
\$ 3,020	\$ 18,206	\$ 29,260	\$ -	\$ -
2,350	2,000	24,921	247	-
-	-	-	435	-
-	-	-	-	-
5,370	20,206	54,181	682	-0-
-	-	-	-	-
-	23,183	2,819	139,797	-
9,196	97,886	563,935	548,838	35,410
<u>9,196</u>	<u>121,069</u>	<u>566,754</u>	<u>688,635</u>	<u>35,410</u>
<u>\$ 14,566</u>	<u>\$ 141,275</u>	<u>\$ 620,935</u>	<u>\$ 689,317</u>	<u>\$ 35,410</u>

City of Albion

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2017

	Debt Service Funds		
	DPW Building Debt	G.O. Water Bonds	ABA Bonds
ASSETS			
Cash and cash equivalents	\$ 295	\$ 20,787	\$ 25,619
Investments	-	-	-
Accounts receivable	-	1,767	-
Taxes receivable	-	6,925	-
Loans receivable	-	-	-
Due from other governmental units	-	-	-
Prepays	-	-	-
Inventories	-	-	-
TOTAL ASSETS	\$ 295	\$ 29,479	\$ 25,619
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-
Due to other governmental units	-	-	-
Unearned revenue	-	-	-
TOTAL LIABILITIES	-0-	-0-	-0-
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	-	3,834	-
FUND BALANCES			
Nonspendable	-	-	-
Restricted	295	25,645	25,619
TOTAL FUND BALANCES	295	25,645	25,619
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 295	\$ 29,479	\$ 25,619

Capital Projects Funds			Permanent Fund	Total Nonmajor Governmental Funds
Street Improvement	MDOT Street Reconstruction	Sidewalk Program	Cemetery Trust	
\$ 19,862	\$ 141,436	\$ 290,288	\$ 97,183	\$ 2,485,842
250,653	-	150,392	149,850	550,895
-	-	-	-	10,803
19,402	-	4,577	-	51,362
-	-	-	-	159,665
-	-	-	23,904	57,647
-	-	-	-	9,893
-	-	-	-	1,970
<u>\$ 289,917</u>	<u>\$ 141,436</u>	<u>\$ 445,257</u>	<u>\$ 270,937</u>	<u>\$ 3,328,077</u>
\$ -	\$ -	\$ 5,121	\$ -	\$ 56,851
-	-	-	-	40,726
-	331	-	7,295	8,061
-	-	-	-	2,864
-0-	331	5,121	7,295	108,502
10,380	-	-	-	21,139
-	-	-	238,904	410,432
<u>279,537</u>	<u>141,105</u>	<u>440,136</u>	<u>24,738</u>	<u>2,788,004</u>
<u>279,537</u>	<u>141,105</u>	<u>440,136</u>	<u>263,642</u>	<u>3,198,436</u>
<u>\$ 289,917</u>	<u>\$ 141,436</u>	<u>\$ 445,257</u>	<u>\$ 270,937</u>	<u>\$ 3,328,077</u>

City of Albion

Nonmajor Governmental Funds

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

Year Ended December 31, 2017

	Special Revenue			
	Local Street	Recreation Fund	Solid Waste	Community Development Block Grant
REVENUES				
Taxes	\$ -	\$ 138,617	\$ 271,034	\$ -
Intergovernmental	221,069	8,450	-	-
Charges for services	2,517	15,505	-	-
Interest and rents	779	449	1,959	131
Other	3,831	8,045	500	18,129
TOTAL REVENUES	228,196	171,066	273,493	18,260
EXPENDITURES				
Current				
Public safety	-	-	-	-
Public works	361,286	-	109,711	-
Community and economic development	-	-	-	-
Recreation and cultural	-	122,952	-	-
Debt service				
Principal	-	-	-	-
Interest and fiscal fees	-	-	-	-
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	361,286	122,952	109,711	-0-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(133,090)	48,114	163,782	18,260
OTHER FINANCING SOURCES (USES)				
Transfers in	200,000	-	-	-
Transfers out	(3,000)	-	(25,500)	-
TOTAL OTHER FINANCING SOURCES (USES)	197,000	-0-	(25,500)	-0-
NET CHANGE IN FUND BALANCES	63,910	48,114	138,282	18,260
Fund balances, beginning of year	142,338	57,819	117,705	14,965
Fund balances, end of year	<u>\$ 206,248</u>	<u>\$ 105,933</u>	<u>\$ 255,987</u>	<u>\$ 33,225</u>

	Funds			Debt Service Funds
Drug Law Enforcement	Albion Building Authority	Maple Grove Apartments	Revolving Loan	Energy 425 Generator Bonds
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	240,088	-	-
-	-	-	-	-
186	55,660	211,868	8,824	-
56,830	14,412	7,578	-	-
57,016	70,072	459,534	8,824	-0-
79,437	-	-	-	-
-	-	-	-	-
-	61,042	329,424	6,383	-
-	-	-	-	-
-	-	-	-	125,000
-	-	-	-	55,600
17,261	-	-	-	-
96,698	61,042	329,424	6,383	180,600
(39,682)	9,030	130,110	2,441	(180,600)
-	-	-	-	180,600
-	-	(62,488)	-	-
-0-	-0-	(62,488)	-0-	180,600
(39,682)	9,030	67,622	2,441	-0-
48,878	112,039	499,132	686,194	35,410
<u>\$ 9,196</u>	<u>\$ 121,069</u>	<u>\$ 566,754</u>	<u>\$ 688,635</u>	<u>\$ 35,410</u>

City of Albion

Nonmajor Governmental Funds

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

Year Ended December 31, 2017

	Debt Service Funds		
	DPW Building Debt	G.O. Water Bonds	ABA Bonds
REVENUES			
Taxes	\$ -	\$ 91,162	\$ -
Intergovernmental	-	9,859	-
Charges for services	-	13,561	-
Interest and rents	-	-	-
Other	-	-	25,587
TOTAL REVENUES	-0-	114,582	25,587
EXPENDITURES			
Current			
Public safety	-	-	-
Public works	-	-	-
Community and economic development	-	-	-
Recreation and cultural	-	-	-
Debt service			
Principal	12,418	140,000	90,000
Interest and fiscal fees	2,582	2,912	40,590
Capital outlay	-	-	-
TOTAL EXPENDITURES	15,000	142,912	130,590
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(15,000)	(28,330)	(105,003)
OTHER FINANCING SOURCES (USES)			
Transfers in	15,000	-	106,560
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	15,000	-0-	106,560
NET CHANGE IN FUND BALANCES	-0-	(28,330)	1,557
Fund balances, beginning of year	295	53,975	24,062
Fund balances, end of year	\$ 295	\$ 25,645	\$ 25,619

Capital Projects Funds			Permanent Fund	Total Nonmajor Governmental Funds
Street Improvement	MDOT Street Reconstruction	Sidewalk Program	Cemetery Trust	
\$ 272,791	\$ -	\$ -	\$ -	\$ 773,604
-	-	-	-	479,466
-	-	-	-	31,583
2,487	-	2,543	3,400	288,286
27,500	-	147,424	-	309,836
302,778	-0-	149,967	3,400	1,882,775
-	-	-	-	79,437
-	-	19,971	-	490,968
-	-	-	-	396,849
-	-	-	-	122,952
-	-	-	-	367,418
-	-	-	-	101,684
383,907	30,500	-	-	431,668
383,907	30,500	19,971	-0-	1,990,976
(81,129)	(30,500)	129,996	3,400	(108,201)
-	30,500	-	-	532,660
(30,500)	-	-	(20,000)	(141,488)
(30,500)	30,500	-0-	(20,000)	391,172
(111,629)	-0-	129,996	(16,600)	282,971
391,166	141,105	310,140	280,242	2,915,465
\$ 279,537	\$ 141,105	\$ 440,136	\$ 263,642	\$ 3,198,436

City of Albion

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

December 31, 2017

	Trust and Agency	Current Tax Collections	Total
ASSETS			
Cash and cash equivalents	\$ 253,723	\$ 581,373	\$ 835,096
LIABILITIES			
Due to County	\$ -	\$ 62,459	\$ 62,459
Due to State	440	15,987	16,427
Due to schools	-	469,045	469,045
Due to others	253,283	33,882	287,165
TOTAL LIABILITIES	\$ 253,723	\$ 581,373	\$ 835,096

City of Albion

Pension and Employee Benefit Trust Funds

COMBINING STATEMENT OF FIDUCIARY NET POSITION

December 31, 2017

	Public Safety Officers' Pension	Retiree Health Care	Total
ASSETS			
Cash and cash equivalents	\$ 176,567	\$ 45,824	\$ 222,391
Investments	22,296,251	-	22,296,251
Interest receivable	63,429	-	63,429
TOTAL ASSETS	22,536,247	45,824	22,582,071
LIABILITIES	-	-	-0-
NET POSITION			
Held in trust for pension and employee benefits	<u><u>\$ 22,536,247</u></u>	<u><u>\$ 45,824</u></u>	<u><u>\$ 22,582,071</u></u>

City of Albion

Pension and Employee Benefit Trust Funds

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended December 31, 2017

	Public Safety Officers' Pension	Retiree Health Care	Total
ADDITIONS			
Net investment income	\$ 1,929,502	\$ 428	\$ 1,929,930
Contributions - employee	48,446	-	48,446
TOTAL ADDITIONS	1,977,948	428	1,978,376
DEDUCTIONS			
Benefit payments	782,013	2,400	784,413
CHANGE IN NET POSITION	1,195,935	(1,972)	1,193,963
Net position, beginning of year	21,340,312	47,796	21,388,108
Net position, end of year	<u>\$ 22,536,247</u>	<u>\$ 45,824</u>	<u>\$ 22,582,071</u>

City of Albion

Component Unit Funds

COMBINING BALANCE SHEET - ECONOMIC DEVELOPMENT CORPORATION

December 31, 2017

	Economic Development	Special Revenue Business Incubator	Total
ASSETS			
Cash	\$ 93,859	\$ 52,321	\$ 146,180
Accounts receivable	833	4,819	5,652
Due from other governmental units	-	4,443	4,443
Prepays	1,871	1,871	3,742
TOTAL ASSETS	\$ 96,563	\$ 63,454	\$ 160,017
LIABILITIES			
Accounts payable	\$ 1,393	\$ 2,663	\$ 4,056
Accrued liabilities	4,025	1,896	5,921
Due to other governmental units	-	23,904	23,904
Unearned revenue	17,452	4,541	21,993
TOTAL LIABILITIES	22,870	33,004	55,874
FUND BALANCES			
Nonspendable - Prepays	1,871	1,871	3,742
Restricted	71,822	28,579	100,401
TOTAL FUND BALANCES	73,693	30,450	104,143
TOTAL LIABILITIES AND FUND BALANCES	\$ 96,563	\$ 63,454	\$ 160,017

City of Albion

Component Unit Funds

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

December 31, 2017

Total fund balances - governmental funds \$ 104,143

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>(36,524)</u>

Capital assets, net	255,359
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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:

Albion Building Authority loan	(19,868)
Accrued interest payable	<u>(965)</u>

(20,833)

Net position of governmental activities \$ 338,669

City of Albion

Component Unit Funds

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

Year Ended December 31, 2017

	Economic Development	Special Revenue Business Incubator	Total
REVENUES			
Intergovernmental	\$ 21,548	\$ 64,893	\$ 86,441
Charges for services	-	3,849	3,849
Interest and rents	84,300	42,536	126,836
Other	75,348	15,985	91,333
TOTAL REVENUES	181,196	127,263	308,459
EXPENDITURES			
Current			
Community and economic development	119,053	112,976	232,029
Debt service			
Principal	4,274	-	4,274
Interest and fiscal fees	1,207	-	1,207
TOTAL EXPENDITURES	124,534	112,976	237,510
NET CHANGE IN FUND BALANCES	56,662	14,287	70,949
Fund balances, beginning of year	17,031	16,163	33,194
Fund balances, end of year	<u>\$ 73,693</u>	<u>\$ 30,450</u>	<u>\$ 104,143</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, 2017

Net change in fund balances - governmental funds \$ 70,949

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:

Depreciation expense (13,862)

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:

Albion Building Authority loan payments 4,274

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 208

Change in net position of governmental activities \$ 61,569

City of Albion

Component Unit Funds

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

December 31, 2017

ASSETS	
Cash	\$ 53,894
Prepays	<u>631</u>
TOTAL ASSETS	<u>\$ 54,525</u>
LIABILITIES	\$ -
FUND BALANCES	
Nonspendable	631
Unassigned	<u>53,894</u>
TOTAL FUND BALANCES	<u>54,525</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 54,525</u>

City of Albion

Component Unit Funds

RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET POSITION - DOWNTOWN DEVELOPMENT AUTHORITY

December 31, 2017

Total fund balance - governmental fund \$ 54,525

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	\$ 272,905
Accumulated depreciation is	<u>(75,676)</u>

Capital assets, net	<u>197,229</u>
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Net position of governmental activities	<u><u>\$ 251,754</u></u>
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City of Albion

Component Unit Funds

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

Year Ended December 31, 2017

REVENUES	
Taxes	\$ 11,511
Interest	<u>319</u>
TOTAL REVENUES	11,830
EXPENDITURES	
Current	
Community and economic development	<u>5,025</u>
NET CHANGE IN FUND BALANCE	6,805
Fund balance, beginning of year	<u>47,720</u>
Fund balance, end of year	<u><u>\$ 54,525</u></u>

City of Albion

Component Unit Funds

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

Year Ended December 31, 2017

Net change in fund balance - governmental fund \$ 6,805

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 (7,044)

Change in net position of governmental activities \$ (239)

City of Albion

Component Unit Funds

BALANCE SHEET - TAX INCREMENT FINANCE AUTHORITY

December 31, 2017

ASSETS	
Cash	\$ 153,356
Interest receivable	538
Taxes receivable	<u>13,643</u>
TOTAL ASSETS	<u>\$ 167,537</u>
LIABILITIES	
Accounts payable	\$ 455
Accrued liabilities	<u>6,876</u>
TOTAL LIABILITIES	7,331
FUND BALANCE	
Unassigned	<u>160,206</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 167,537</u>

City of Albion

Component Unit Funds

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

December 31, 2017

Total fund balance - governmental fund \$ 160,206

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 (22,721)

Net position of governmental activities \$ 297,485

City of Albion

Component Unit Funds

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

Year Ended December 31, 2017

REVENUES	
Taxes	\$ 157,876
Interest	<u>1,008</u>
TOTAL REVENUES	158,884
EXPENDITURES	
Current	
Community and economic development	208,429
Debt service	
Interest and fiscal fees	<u>67</u>
TOTAL EXPENDITURES	<u>208,496</u>
NET CHANGE IN FUND BALANCE	(49,612)
Fund balance, beginning of year	<u>209,818</u>
Fund balance, end of year	<u><u>\$ 160,206</u></u>

City of Albion

Component Unit Funds

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

Year Ended December 31, 2017

Net change in fund balance - governmental fund \$ (49,612)

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:

(Increase) in accrued compensated absences (4,357)

Change in net position of governmental activities \$ (53,969)



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, 2017, 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 28, 2018. 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.

Stevens Kirinovic & Tucker, P.C.

STEVENS, KIRINOVIC & TUCKER, P.C.
Certified Public Accountants

June 28, 2018