

**City of Albion
Calhoun County, Michigan**

FINANCIAL STATEMENTS

December 31, 2018

City of Albion
Calhoun County, Michigan
December 31, 2018

CITY COUNCIL AND ADMINISTRATION

| | |
|------------------|-------------------------------------|
| David Atchison | Mayor |
| Vicky Clark | Council member |
| Lenn Reid | Council member |
| Sonya Brown | Council member |
| Marcola Lawler | Council member |
| Jeanette Spicer | Council member |
| Shane Williamson | Council member |
| Scott Kipp | Interim 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, 2018, 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 67 percent, 76 percent, and 38 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, 2018, 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.

Emphases of a Matter - Change in Accounting Principles

As discussed in Note N to the financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions* (OPEB), during the year. Our opinions are not modified with respect to this matter.

Also, as discussed in Note N to the financial statements, the City implemented GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*, during the year. 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 27, 2019, 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.

Maney Costeiron PC

June 27, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2018

This discussion and analysis is intended to provide an overview of the City's financial condition for the year ended December 31, 2018, 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 2018 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), the Tax Increment Finance Authority (TIFA), and the Brownfield Redevelopment Authority.

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, 2018

| 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, 2018

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, 2018 and 2017

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--------------------------------|----------------------------|----------------------|-----------------------------|----------------------|--------------------------------|----------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Current and Other Assets | \$ 14,268,714 | \$ 15,975,180 | \$ 2,176,157 | \$ 2,749,132 | \$ 16,444,871 | \$ 18,724,312 |
| Capital Assets | 9,888,685 | 10,527,531 | 9,348,084 | 8,503,801 | 19,236,769 | 19,031,332 |
| Total Assets | 24,157,399 | 26,502,711 | 11,524,241 | 11,252,933 | 35,681,640 | 37,755,644 |
| Deferred Outflows of Resources | 2,457,119 | 613,866 | - | - | 2,457,119 | 613,866 |
| Current Liabilities | 785,609 | 836,189 | 312,598 | 637,892 | 1,098,207 | 1,474,081 |
| Noncurrent Liabilities | 1,902,008 | 2,439,877 | 235,295 | 80,380 | 2,137,303 | 2,520,257 |
| Total Liabilities | 2,687,617 | 3,276,066 | 547,893 | 718,272 | 3,235,510 | 3,994,338 |
| Deferred Inflows of Resources | 45,838 | 201,660 | - | - | 45,838 | 201,660 |
| Net Position | | | | | | |
| Net investment in Capital | | | | | | |
| Assets | 8,252,820 | 8,645,861 | 9,136,584 | 8,503,801 | 17,389,404 | 17,149,662 |
| Restricted | 11,985,074 | 13,927,085 | 61,990 | 61,990 | 12,047,064 | 13,989,075 |
| Unrestricted | 3,643,169 | 1,065,905 | 1,777,774 | 1,968,870 | 5,420,943 | 3,034,775 |
| Total Net Position | \$ 23,881,063 | \$ 23,638,851 | \$ 10,976,348 | \$ 10,534,661 | \$ 34,857,411 | \$ 34,173,512 |

The total net position for Governmental Activities increased by \$431,473, due to increases in revenue in the major and local street activities as compared to the PY. The total net position for business-type activities increased by \$247,784 mainly as a result of increased grants received by the Sewer activities.

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2018

Changes in Net Position for the Fiscal Year Ended December 31, 2018 and 2017

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|-----------------------------------|----------------------------|----------------------|-----------------------------|----------------------|--------------------------------|----------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Revenues | | | | | | |
| Program Revenues | | | | | | |
| Charges for Services | \$ 979,817 | \$ 917,437 | \$ 2,143,154 | \$ 2,121,399 | \$ 3,122,971 | \$ 3,038,836 |
| Grants and Contributions | 1,464,966 | 1,545,133 | 597,103 | 1,490,154 | 2,062,069 | 3,035,287 |
| General Revenues | | | | | | |
| Property Taxes | 1,610,660 | 1,805,487 | - | - | 1,610,660 | 1,805,487 |
| Income Taxes | 967,992 | 892,389 | - | - | 967,992 | 892,389 |
| State Shared Revenues | 1,106,229 | 1,087,452 | - | - | 1,106,229 | 1,087,452 |
| Investment Earnings | 69,123 | 59,356 | 23,156 | 15,236 | 92,279 | 74,592 |
| Other | 220,200 | 233,976 | 17,149 | 35,434 | 237,349 | 269,410 |
| Gain (loss) on sale of asset | (32,475) | - | 10,000 | - | (22,475) | - |
| Transfers | 159,850 | 159,850 | (159,850) | (159,850) | -0- | -0- |
| Total Revenues | 6,546,362 | 6,701,080 | 2,630,712 | 3,502,373 | 9,177,074 | 10,203,453 |
| Expenses | | | | | | |
| General Government | 853,766 | 989,369 | - | - | 853,766 | 989,369 |
| Public Safety | 2,805,683 | 2,188,834 | - | - | 2,805,683 | 2,188,834 |
| Public Works | 1,494,634 | 1,525,113 | - | - | 1,494,634 | 1,525,113 |
| Health and Welfare | 9,297 | 8,414 | - | - | 9,297 | 8,414 |
| Community and Econ. Development | 466,347 | 486,818 | - | - | 466,347 | 486,818 |
| Recreation and Cultural | 404,326 | 650,506 | - | - | 404,326 | 650,506 |
| Interest on Long Term Debt | 80,836 | 93,683 | - | - | 80,836 | 93,683 |
| Other | - | - | 2,382,928 | 2,974,468 | 2,382,928 | 2,974,468 |
| Total Expenses | 6,114,889 | 5,942,737 | 2,382,928 | 2,974,468 | 8,497,817 | 8,917,205 |
| Change in Net Position | 431,473 | 758,343 | 247,784 | 527,905 | 679,257 | 1,286,248 |
| Restated Net Position - Beginning | 23,449,590 | 22,880,508 | 10,728,564 | 10,006,756 | 34,178,154 | 19,696,768 |
| Net Position Ending | \$ 23,881,063 | \$ 23,638,851 | \$ 10,976,348 | \$ 10,534,661 | \$ 34,857,411 | \$ 34,173,512 |

Governmental Activities

Revenues:

The three largest revenue sources under the governmental activities category are property taxes at 25%, operating grants and contributions at 22% and state shared revenues at 17%. For 2018, overall governmental revenues were down about 2%.

Expenses:

The largest governmental activities expense item is public safety at 46% of total expenses. The next largest expense item is public works at 24% of total expenses. Total expenses increased by about \$172,152 from approximately \$5.94 million in 2017 to approximately \$6.11 million in 2018. 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, 2018

Business-Type Activities

The Statement of Net Position shows that for business-type activities as of December 31, 2018, there was a total net position of \$10,976,348, which represents an increase of \$247,784 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, 2018, the General Fund had a nonspendable fund balance of \$223,436, an assigned fund balance of \$127,565 and an unassigned fund balance of \$1,153,612. Total fund balance had an increase of \$67,827 from the fund balance on December 31, 2017.

From a budgetary standpoint, General Fund budgeted revenues and other financing sources were more than actual revenues by \$28,839 and expenditures and other financing uses came in under budget by \$272,603.

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 \$20,967. Fund balance for this fund was \$1,117,398 at year-end.

Major Street:

Fund balance increased by \$152,536 during the year. The Major Street fund balance was \$708,199 as of December 31, 2018.

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 decreased by \$145,447 to a December 31, 2018, level of \$5,105,611, 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 \$110,957 in the current year was still recognized. Net position for the water system increased by \$393,231 to a December 31, 2018, level of \$5,870,737. 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, 2018

Capital Assets and Debt Administration

At the end of the year, the City had invested \$9,888,685 and \$9,348,084 (net of accumulated depreciation) for governmental and business-type capital assets respectively. Depreciation charges for the fiscal year totaled \$609,689 for the governmental activities and \$539,941 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 | \$ 549,068 | \$ 93,700 | \$ 642,768 |
| Buildings and improvements, net | 3,850,999 | 4,273,314 | 8,124,313 |
| Infrastructure, net | 4,658,460 | - | 4,658,460 |
| Vehicles and equipment, net | 830,158 | 259,937 | 1,090,095 |
| Sewer system, net | - | 2,559,529 | 2,559,529 |
| Water system, net | - | 2,161,604 | 2,161,604 |
| | <u>\$ 9,888,685</u> | <u>\$ 9,348,084</u> | <u>\$ 19,236,769</u> |

Long-term Debt:

As of December 31, 2018, the City had the following bond debt outstanding:

Primary Government

| | Jan. 1, 2018 | Additions | Deletions | Dec. 31, 2018 |
|---------------------------------|----------------------------|--------------------------|----------------------------|----------------------------|
| Governmental Activities | | | | |
| General Obligation Bonds | \$ 1,155,000 | \$ - | \$ (130,000) | \$ 1,025,000 |
| EPA Liability | 70,475 | - | (5,057) | 65,418 |
| Building Authority Bonds | 645,000 | - | (95,000) | 550,000 |
| Land contract | 73,655 | - | (12,790) | 60,865 |
| Compensated Absences | 295,091 | 261,298 | (286,309) | 270,080 |
| Installment Note | 8,015 | - | (8,015) | -0- |
| | <u>2,247,236</u> | <u>261,298</u> | <u>(537,171)</u> | <u>1,971,363</u> |
| Business-type Activities | | | | |
| Installment note | - | 211,500 | - | 211,500 |
| Compensated Absences | 120,681 | 69,981 | (96,320) | 94,342 |
| | <u>120,681</u> | <u>281,481</u> | <u>(96,320)</u> | <u>305,842</u> |
| Total Primary Government | <u>\$ 2,367,917</u> | <u>\$ 542,779</u> | <u>\$ (633,491)</u> | <u>\$ 2,277,205</u> |

As of December 31, 2018, the City had total outstanding debt for governmental activities (including compensated absences) of \$1,971,363. For business-type activities, the outstanding debt (including compensated absences) was \$305,842 as of December 31, 2018. 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.

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2018

Economic Factors and Next Year's Budget

For the 2019 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 5 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 - 2.00 mills (a voter approved increase from 1.50 mills in previous years).
- c. Solid Waste - 3.00 mills.

Thus, the 2019 anticipated total City millage levy was 19.9736 mills at the time that the budget was approved. Because of its effort to cut costs, the City was able to operate within budget during 2018. The City continues to face the challenges of rising insurance costs, along with increased costs for utilities and other major expenses. The City has been working with a third party in an effort to collect income tax non-filers and delinquencies. The City anticipates about a 5 to 10% increase in income tax revenues due to this more aggressive effort to collect these taxes. Additionally, the City will diligently monitor its expenses and look for alternative sources of revenues, such as recovery fees, etc. wherever possible. The direction of the State economy combined with future legislation will be key components in the City's success over the next several years.

The majority of the staff are members of one of the four labor unions affiliated with the City. The union contracts were renegotiated in late 2017 and signed in January of 2018. They are 3-year contracts, covering 2018, 2019 and expiring on 9-30-2019. These contracts include moderate wage increases each year. Accordingly, these increased costs were reflected in the 2019 budget.

Just like other employers, the City has struggled with the significant cost for medical insurance for its employees. For 2018/2019 the City was fortunate to only see moderate rate increases in the cost of its health insurance plan. However, the City has recently been informed that health insurance premiums will increase by 5% for 2019/2020. The cost of providing quality health care for the City's employees continues to be a challenge. The Affordable Care Act has resulted in major changes in the health care area. The City continues to monitor these changes and work diligently to comply with the new requirements.

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 renewed in 2015 for 5 years) for street reconstruction, the City is able to have an active street reconstruction program each year. However, the monumental cost of street reconstruction still far exceeds the revenues generated by this street millage. The City tries to take advantage of any and all grant funding for street repair whenever possible. For the 2019 summer street construction season, the City intends to reconstruct North Street and Irwin Avenue. Both will utilize grant funding, however, the local match requirement for these two projects will still significantly impact the Fund Balance in the Street Improvement Fund.

In terms of growth, the new hotel and conference center recently built in downtown Albion, which opened in the spring 2018, has generated interest in other properties within the City. Other improvements and new construction projects include a new auto parts store, a new fast food restaurant, a newly remodeled downtown building for Albion College, a new state-of-the-art dialysis center and a renovated downtown block which houses a new bakery, a new brewery, some shops and some apartments. Plans are currently in place for the renovation of an additional downtown city block. In addition, there has been expressed interest by some investors for the renovation of some other properties throughout the City. 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, 2018

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, 2018

| | Primary Government | | | Component Units |
|--|----------------------------|-----------------------------|---------------|--------------------|
| | Governmental Activities | Business-type Activities | Total | |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 5,034,499 | \$ 1,215,106 | \$ 6,249,605 | \$ 693,463 |
| Cash and cash equivalents - restricted | - | 61,990 | 61,990 | - |
| Investments | 1,643,311 | 249,260 | 1,892,571 | 416,772 |
| Receivables | 412,829 | 613,537 | 1,026,366 | 318,423 |
| Due from other governmental units | 134,910 | 922 | 135,832 | 624,571 |
| Inventories | 45,536 | 17,161 | 62,697 | - |
| Prepays | 246,566 | 18,181 | 264,747 | 20,264 |
| Total current assets | 7,517,651 | 2,176,157 | 9,693,808 | 2,073,493 |
| Noncurrent assets | | | | |
| Investments | 235,320 | - | 235,320 | - |
| Net pension asset | 6,515,743 | - | 6,515,743 | - |
| Capital assets not being depreciated | 549,068 | 93,700 | 642,768 | 205,799 |
| Capital assets, net of accumulated depreciation | 9,339,617 | 9,254,384 | 18,594,001 | 3,493,522 |
| Total noncurrent assets | 16,639,748 | 9,348,084 | 25,987,832 | 3,699,321 |
| TOTAL ASSETS | 24,157,399 | 11,524,241 | 35,681,640 | 5,772,814 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred outflows of resources related to pensions | 2,455,507 | - | 2,455,507 | 86,947 |
| Deferred outflows of resources related to OPEB | 1,612 | - | 1,612 | - |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 2,457,119 | - | 2,457,119 | 86,947 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable | 226,502 | 195,235 | 421,737 | 857,410 |
| Accrued wages | 87,845 | 46,194 | 134,039 | - |
| Accrued liabilities | 46,061 | 200 | 46,261 | 62,692 |
| Due to other governmental units | 27,661 | 422 | 28,083 | 7,433 |
| Accrued interest payable | 20,705 | - | 20,705 | 748 |
| Unearned revenue | 5,755 | - | 5,755 | 6,502 |
| Current portion of compensated absences | 124,401 | 35,082 | 159,483 | 87,413 |
| Current portion of long-term debt | 246,679 | 35,465 | 282,144 | 4,712 |
| Total current liabilities | 785,609 | 312,598 | 1,098,207 | 1,026,910 |
| Noncurrent liabilities | | | | |
| Net OPEB liability | 301,725 | - | 301,725 | - |
| Net pension liability | - | - | -0- | 381,954 |
| Noncurrent portion of compensated absences | 145,679 | 59,260 | 204,939 | 14,924 |
| Noncurrent portion of long-term debt | 1,454,604 | 176,035 | 1,630,639 | 10,668 |
| Total noncurrent liabilities | 1,902,008 | 235,295 | 2,137,303 | 407,546 |
| TOTAL LIABILITIES | 2,687,617 | 547,893 | 3,235,510 | 1,434,456 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred inflows of resources related to pensions | 27,884 | - | 27,884 | - |
| Deferred inflows of resources related to OPEB | 17,954 | - | 17,954 | - |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 45,838 | -0- | 45,838 | -0- |
| NET POSITION | | | | |
| Net investment in capital assets | 8,252,820 | 9,136,584 | 17,389,404 | 3,683,941 |
| Restricted for: | | | | |
| Perpetual care - nonexpendable | 215,000 | - | 215,000 | - |
| Pension trust | 6,515,743 | - | 6,515,743 | - |
| Debt service | 90,967 | 61,990 | 152,957 | - |
| Streets and highways | 1,621,823 | - | 1,621,823 | - |
| Sidewalks | 465,826 | - | 465,826 | - |
| Perpetual care - expendable | 24,371 | - | 24,371 | - |
| Community and economic development | 2,676,855 | - | 2,676,855 | 38,238 |
| Solid waste | 368,662 | - | 368,662 | - |
| Law enforcement | 5,827 | - | 5,827 | - |
| Unrestricted | 3,643,169 | 1,777,774 | 5,420,943 | 703,126 |
| TOTAL NET POSITION | \$ 23,881,063 | \$ 10,976,348 | \$ 34,857,411 | \$ 4,425,305 |

See accompanying notes to financial statements.

City of Albion

STATEMENT OF ACTIVITIES

Year Ended December 31, 2018

| 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 | \$ 853,766 | \$ 592,885 | \$ 86,923 | \$ - | \$ (173,958) | \$ - | \$ (173,958) | \$ - |
| Public safety | 2,805,683 | 14,926 | 10,508 | - | (2,780,249) | - | (2,780,249) | - |
| Public works | 1,494,634 | 19,641 | 1,122,126 | - | (352,867) | - | (352,867) | - |
| Health and welfare | 9,297 | 70,000 | - | - | 60,703 | - | 60,703 | - |
| Community and economic development | 466,347 | 268,595 | 236,764 | - | 39,012 | - | 39,012 | - |
| Recreation and cultural | 404,326 | 13,770 | 8,645 | - | (381,911) | - | (381,911) | - |
| Interest on long-term debt | 80,836 | - | - | - | (80,836) | - | (80,836) | - |
| Total governmental activities | 6,114,889 | 979,817 | 1,464,966 | -0- | (3,670,106) | -0- | (3,670,106) | -0- |
| Business-type activities | | | | | | | | |
| Sewer system | 1,334,944 | 1,223,022 | - | 97,103 | - | (14,819) | (14,819) | - |
| Water system | 1,047,984 | 920,132 | - | 500,000 | - | 372,148 | 372,148 | - |
| Total business-type activities | 2,382,928 | 2,143,154 | -0- | 597,103 | -0- | 357,329 | 357,329 | -0- |
| Total primary government | \$ 8,497,817 | \$ 3,122,971 | \$ 1,464,966 | \$ 597,103 | (3,670,106) | 357,329 | (3,312,777) | -0- |
| Component units | | | | | | | | |
| Economic Development Corporation | \$ 265,465 | \$ 129,764 | \$ 63,771 | \$ - | - | - | -0- | (71,930) |
| Downtown Development Authority | 1,573,633 | - | 842,741 | - | - | - | -0- | (730,892) |
| Tax Increment Finance Authority | 158,125 | - | - | - | - | - | -0- | (158,125) |
| Albion Housing Commission | 1,582,682 | 513,532 | 700,419 | 216,231 | - | - | -0- | (152,500) |
| Brownfield Redevelopment Authority | 158,722 | - | 75,760 | - | - | - | -0- | (82,962) |
| Total component units | \$ 3,738,627 | \$ 643,296 | \$ 1,682,691 | \$ 216,231 | -0- | -0- | -0- | (1,196,409) |
| General revenues | | | | | | | | |
| Property taxes | | | | | 1,610,660 | - | 1,610,660 | 395,431 |
| Income taxes | | | | | 967,992 | - | 967,992 | - |
| State shared revenue | | | | | 1,106,229 | - | 1,106,229 | - |
| Investment earnings | | | | | 69,123 | 23,156 | 92,279 | 7,907 |
| Miscellaneous | | | | | 220,200 | 17,149 | 237,349 | 819,681 |
| Gain (Loss) on sale of assets | | | | | (32,475) | 10,000 | (22,475) | - |
| Transfers | | | | | 159,850 | (159,850) | -0- | - |
| Total general revenues and transfers | | | | | 4,101,579 | (109,545) | 3,992,034 | 1,223,019 |
| Change in net position | | | | | 431,473 | 247,784 | 679,257 | 26,610 |
| Restated net position, beginning of the year | | | | | 23,449,590 | 10,728,564 | 34,178,154 | 4,398,695 |
| Net position, end of the year | | | | | \$ 23,881,063 | \$ 10,976,348 | \$ 34,857,411 | \$ 4,425,305 |

See accompanying notes to financial statements.

City of Albion
Governmental Funds
BALANCE SHEET
December 31, 2018

| | Special Revenue | | | Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|---------------------|-------------------|-----------------------------------|--------------------------------|
| | General | Albion Trust | Major Street | | |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 1,144,103 | \$ - | \$ 501,695 | \$ 3,144,024 | \$ 4,789,822 |
| Investments | 99,858 | 1,117,398 | 102,316 | 559,059 | 1,878,631 |
| Receivables | | | | | |
| Accounts | 55,686 | - | - | 2,839 | 58,525 |
| Taxes | 153,596 | - | - | 47,999 | 201,595 |
| Loans | - | - | - | 152,709 | 152,709 |
| Due from other governmental units | - | - | 102,355 | 32,555 | 134,910 |
| Prepays | 223,436 | - | 5,425 | 10,274 | 239,135 |
| Inventories | - | - | 35,764 | 1,970 | 37,734 |
| TOTAL ASSETS | \$ 1,676,679 | \$ 1,117,398 | \$ 747,555 | \$ 3,951,429 | \$ 7,493,061 |
| LIABILITIES | | | | | |
| Accounts payable | \$ 65,042 | \$ - | \$ 17,907 | \$ 46,833 | \$ 129,782 |
| Accrued liabilities | 8,194 | - | - | 37,867 | 46,061 |
| Accrued wages | 76,299 | - | 7,122 | - | 83,421 |
| Due to other governmental units | - | - | 14,327 | 13,334 | 27,661 |
| Unearned revenue | 2,891 | - | - | 2,864 | 5,755 |
| TOTAL LIABILITIES | 152,426 | -0- | 39,356 | 100,898 | 292,680 |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Unavailable revenue | 19,640 | - | - | 21,139 | 40,779 |
| FUND BALANCES | | | | | |
| Nonspendable | 223,436 | - | 41,189 | 379,953 | 644,578 |
| Restricted | - | 1,117,398 | 667,010 | 3,449,439 | 5,233,847 |
| Assigned | 127,565 | - | - | - | 127,565 |
| Unassigned | 1,153,612 | - | - | - | 1,153,612 |
| TOTAL FUND BALANCES | 1,504,613 | 1,117,398 | 708,199 | 3,829,392 | 7,159,602 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | \$ 1,676,679 | \$ 1,117,398 | \$ 747,555 | \$ 3,951,429 | \$ 7,493,061 |

See accompanying notes to financial statements.

City of Albion

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

December 31, 2018

Total fund balances - governmental funds \$ 7,159,602

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 | \$ 17,186,083 | |
| Accumulated depreciation is | <u>(7,396,152)</u> | |
| Capital assets, net | | 9,789,931 |

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.

254,162

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

| | | |
|---------------------|--|--------|
| Unavailable revenue | | 40,779 |
|---------------------|--|--------|

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 | | 6,515,743 |
|-------------------|--|-----------|

Governmental funds report actual pension/OPEB expenditures for the fiscal year, whereas the governmental activities will recognize the net pension/OPEB 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 OPEB | 1,612 | |
| Deferred inflows of resources related to OPEB | (17,954) | |
| Deferred outflows of resources related to pensions | 2,455,507 | |
| Deferred inflows of resources related to pensions | <u>(27,884)</u> | |
| | | 2,411,281 |

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 | (1,701,283) | |
| Accrued interest payable | (20,705) | |
| Net other post-employment benefits liability | (301,725) | |
| Compensated absences | <u>(266,722)</u> | |
| | | <u>(2,290,435)</u> |

Net position of governmental activities \$ 23,881,063

City of Albion

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2018

| | Special Revenue | | | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---------------------|---------------------|-------------------|-----------------------------------|--------------------------------|
| | General | Albion Trust | Major Street | | |
| REVENUES | | | | | |
| Taxes | \$ 2,011,396 | \$ - | \$ - | \$ 621,684 | \$ 2,633,080 |
| Licenses and permits | 197,641 | - | - | - | 197,641 |
| Intergovernmental | 1,275,022 | - | 795,383 | 606,059 | 2,676,464 |
| Charges for services | 294,813 | - | - | 26,372 | 321,185 |
| Fines and forfeits | 11,990 | - | - | - | 11,990 |
| Interest and rents | 13,337 | 20,967 | 5,031 | 298,826 | 338,161 |
| Other | 146,653 | - | 1,083 | 97,057 | 244,793 |
| TOTAL REVENUES | 3,950,852 | 20,967 | 801,497 | 1,649,998 | 6,423,314 |
| EXPENDITURES | | | | | |
| Current | | | | | |
| General government | 909,328 | - | - | - | 909,328 |
| Public safety | 2,175,245 | - | - | 39,074 | 2,214,319 |
| Public works | 391,388 | - | 457,163 | 503,968 | 1,352,519 |
| Health and welfare | 9,803 | - | - | - | 9,803 |
| Community and economic development | - | - | - | 403,525 | 403,525 |
| Recreation and cultural | 283,960 | - | - | 138,938 | 422,898 |
| Other | 112,677 | - | - | - | 112,677 |
| Debt service | - | - | - | 326,703 | 326,703 |
| Capital outlay | - | - | - | 118,081 | 118,081 |
| TOTAL EXPENDITURES | 3,882,401 | -0- | 457,163 | 1,530,289 | 5,869,853 |
| EXCESS OF REVENUES OVER EXPENDITURES | 68,451 | 20,967 | 344,334 | 119,709 | 553,461 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Proceeds from sale of capital assets | - | - | - | 141,125 | 141,125 |
| Transfers in | 54,000 | - | 1,202 | 493,372 | 548,574 |
| Transfers out | (54,624) | - | (193,000) | (123,250) | (370,874) |
| TOTAL OTHER FINANCING SOURCES (USES) | (624) | -0- | (191,798) | 511,247 | 318,825 |
| NET CHANGE IN FUND BALANCES | 67,827 | 20,967 | 152,536 | 630,956 | 872,286 |
| Fund balances, beginning of year | 1,436,786 | 1,096,431 | 555,663 | 3,198,436 | 6,287,316 |
| Fund balances, end of year | <u>\$ 1,504,613</u> | <u>\$ 1,117,398</u> | <u>\$ 708,199</u> | <u>\$ 3,829,392</u> | <u>\$ 7,159,602</u> |

See accompanying notes to financial statements.

City of Albion

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

Year Ended December 31, 2018

Net change in fund balances - total governmental funds \$ 872,286

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 | \$ 144,443 |
| Depreciation expense | (568,462) |
| Loss on disposal of capital assets | <u>(173,600)</u> |

| | |
|--|-----------|
| Excess of depreciation expense and loss on disposal of assets over capital outlay | (597,619) |
|--|-----------|

| | |
|---|-------|
| Internal service funds are used by management to charge the costs of certain activities to individual funds. | 7,684 |
|---|-------|

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 | (4,327) |
|-------------------------------|---------|

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 | 242,847 |
|--------------------------------------|---------|

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

| | |
|--|---------------|
| Increase in deferred outflows of resources related to pensions | 1,841,641 |
| Decrease in deferred inflows of resources related to pensions | 173,776 |
| Increase in deferred outflows of resources related to OPEB | 1,612 |
| (Increase) in deferred inflows of resources related to OPEB | (17,954) |
| Change in net pension asset/liability | (2,109,350) |
| Decrease in accrued interest payable | 3,020 |
| (Increase) in net other post-employment benefits liability | (6,981) |
| Decrease in accrued compensated absences | <u>24,838</u> |

(89,398)

Change in net position of governmental activities \$ 431,473

City of Albion

Proprietary Funds

STATEMENT OF NET POSITION

December 31, 2018

| | Business-type Activities | | | Governmental |
|--|--------------------------|---------------------|----------------------|-----------------------------------|
| | Sewer | Water | Total | Activities Internal Service |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 375,472 | \$ 839,634 | \$ 1,215,106 | \$ 244,677 |
| Cash and cash equivalents - restricted | - | 61,990 | 61,990 | - |
| Investments | - | 249,260 | 249,260 | - |
| Receivables | 364,744 | 248,793 | 613,537 | - |
| Due from other governmental units | 922 | - | 922 | - |
| Inventories | 3,455 | 13,706 | 17,161 | 7,802 |
| Prepays | 12,930 | 5,251 | 18,181 | 7,431 |
| Total current assets | 757,523 | 1,418,634 | 2,176,157 | 259,910 |
| Noncurrent assets | | | | |
| Capital assets not being depreciated | - | 93,700 | 93,700 | - |
| Capital assets, net of accumulated depreciation | 4,665,485 | 4,588,899 | 9,254,384 | 98,754 |
| Total noncurrent assets | 4,665,485 | 4,682,599 | 9,348,084 | 98,754 |
| TOTAL ASSETS | 5,423,008 | 6,101,233 | 11,524,241 | 358,664 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable | 167,099 | 28,136 | 195,235 | 96,720 |
| Accrued wages | 28,987 | 17,207 | 46,194 | 4,424 |
| Accrued liabilities | - | 200 | 200 | - |
| Due to other governmental units | 422 | - | 422 | - |
| Current portion of compensated absences | 22,158 | 12,924 | 35,082 | 2,228 |
| Current portion of long-term debt | 10,124 | 25,341 | 35,465 | - |
| Total current liabilities | 228,790 | 83,808 | 312,598 | 103,372 |
| Noncurrent liabilities | | | | |
| Noncurrent portion of compensated absences | 38,356 | 20,904 | 59,260 | 1,130 |
| Noncurrent portion of long-term debt | 50,251 | 125,784 | 176,035 | - |
| Total noncurrent liabilities | 88,607 | 146,688 | 235,295 | 1,130 |
| TOTAL LIABILITIES | 317,397 | 230,496 | 547,893 | 104,502 |
| NET POSITION | | | | |
| Net investment in capital assets | 4,605,110 | 4,531,474 | 9,136,584 | 98,754 |
| Restricted for debt service | - | 61,990 | 61,990 | - |
| Unrestricted | 500,501 | 1,277,273 | 1,777,774 | 155,408 |
| TOTAL NET POSITION | \$ 5,105,611 | \$ 5,870,737 | \$ 10,976,348 | \$ 254,162 |

See accompanying notes to financial statements.

City of Albion

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended December 31, 2018

| | Business-type Activities | | | Governmental Activities |
|---|--------------------------|---------------------|----------------------|----------------------------|
| | Sewer | Water | Total | Internal Service |
| OPERATING REVENUES | | | | |
| Charges for services | \$ 1,223,022 | \$ 920,132 | \$ 2,143,154 | \$ 317,015 |
| Other | 268 | 16,881 | 17,149 | 4,777 |
| TOTAL OPERATING REVENUES | 1,223,290 | 937,013 | 2,160,303 | 321,792 |
| OPERATING EXPENSES | | | | |
| Salaries and wages | 385,963 | 236,456 | 622,419 | 47,330 |
| Fringe benefits | 233,267 | 154,663 | 387,930 | 32,219 |
| Contractual services | 64,396 | 64,129 | 128,525 | 14,374 |
| Supplies | 160,045 | 112,227 | 272,272 | 106,298 |
| Utilities | 134,619 | 120,866 | 255,485 | 18,762 |
| Insurance and bonds | 25,137 | 10,209 | 35,346 | 14,563 |
| Administrative services | 41,779 | 44,566 | 86,345 | 13,679 |
| Building and equipment rental | 8,509 | 34,494 | 43,003 | 8,934 |
| Other | 7,442 | 4,206 | 11,648 | 255 |
| Depreciation | 273,787 | 266,154 | 539,941 | 41,227 |
| TOTAL OPERATING EXPENSES | 1,334,944 | 1,047,970 | 2,382,914 | 297,641 |
| OPERATING INCOME (LOSS) | (111,654) | (110,957) | (222,611) | 24,151 |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Interest earned | 7,504 | 15,652 | 23,156 | 1,476 |
| Grants | 97,103 | 500,000 | 597,103 | - |
| Interest expense and fees | - | (14) | (14) | (93) |
| Gain on disposal of asset | 10,000 | - | 10,000 | - |
| TOTAL NONOPERATING REVENUES (EXPENSES) | 114,607 | 515,638 | 630,245 | 1,383 |
| INCOME BEFORE TRANSFERS | 2,953 | 404,681 | 407,634 | 25,534 |
| TRANSFERS | | | | |
| Transfers out | (148,400) | (11,450) | (159,850) | (17,850) |
| CHANGE IN NET POSITION | (145,447) | 393,231 | 247,784 | 7,684 |
| Restated net position, beginning of year | 5,251,058 | 5,477,506 | 10,728,564 | 246,478 |
| Net position, end of year | <u>\$ 5,105,611</u> | <u>\$ 5,870,737</u> | <u>\$ 10,976,348</u> | <u>\$ 254,162</u> |

See accompanying notes to financial statements.

City of Albion

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended December 31, 2018

| | Business-type Activities | | | Governmental |
|--|--------------------------|-------------------|---------------------|---------------------|
| | Sewer | Water | Total | Internal Service |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash receipts from customers | \$ 1,198,527 | \$ 921,924 | \$ 2,120,451 | \$ 321,792 |
| Cash paid to suppliers | (207,286) | (430,954) | (638,240) | (187,494) |
| Cash paid for employee benefits/wages | (630,265) | (398,729) | (1,028,994) | (78,377) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 360,976 | 92,241 | 453,217 | 55,921 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Proceeds on issuance of long-term debt | 60,375 | 151,125 | 211,500 | - |
| Payments of borrowing | - | - | - | (8,015) |
| Receipt of grants | 97,103 | 500,000 | 597,103 | - |
| Proceeds on sale of capital assets | 10,000 | - | 10,000 | - |
| Purchase of capital assets | (449,746) | (740,575) | (1,190,321) | - |
| NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | (282,268) | (89,450) | (371,718) | (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 | - | 300,000 | 300,000 | - |
| Interest proceeds | 7,504 | 15,652 | 23,156 | 1,476 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 7,504 | 315,652 | 323,156 | 1,476 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (62,188) | 306,993 | 244,805 | 31,439 |
| Cash and cash equivalents, beginning of year | 437,660 | 594,631 | 1,032,291 | 213,238 |
| Cash and cash equivalents, end of year | <u>\$ 375,472</u> | <u>\$ 901,624</u> | <u>\$ 1,277,096</u> | <u>\$ 244,677</u> |

See accompanying notes to financial statements.

City of Albion

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended December 31, 2018

| | 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) | \$ (111,654) | \$ (110,957) | \$ (222,611) | \$ 24,151 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities | | | | |
| Depreciation | 273,787 | 266,154 | 539,941 | 41,227 |
| Decrease (increase) in: | | | | |
| Accounts receivable | (24,763) | (15,089) | (39,852) | - |
| Due from other funds | - | 50,000 | 50,000 | - |
| Due from other governmental units | 512,121 | - | 512,121 | - |
| Inventories | 1,424 | (4,909) | (3,485) | - |
| Prepays | (724) | (294) | (1,018) | (299) |
| Increase (decrease) in: | | | | |
| Accounts payable | (142,750) | (83,320) | (226,070) | (10,330) |
| Accrued liabilities | - | - | - | - |
| Accrued wages | 4,472 | 3,222 | 7,694 | 1,345 |
| Due to other funds | - | - | -0- | - |
| Due to other governmental units | (135,430) | (1,734) | (137,164) | - |
| Compensated absences | (15,507) | (10,832) | (26,339) | (173) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 360,976 | \$ 92,241 | \$ 453,217 | \$ 55,921 |

City of Albion

Fiduciary Funds

STATEMENT OF NET POSITION

December 31, 2018

| | <u>Agency</u> | <u>Pension and Employee Benefit Trusts</u> |
|---|-----------------------------|--|
| ASSETS | | |
| Cash and cash equivalents | \$ 600,784 | \$ 562,018 |
| Investments | - | 19,792,405 |
| Interest receivable | - | 66,684 |
| | <u> </u> | <u> </u> |
| TOTAL ASSETS | <u>\$ 600,784</u> | 20,421,107 |
| LIABILITIES | | |
| Due to County | \$ 32,283 | - |
| Due to State | 5,888 | - |
| Due to schools | 89,938 | - |
| Due to others | 472,675 | - |
| | <u> </u> | <u> </u> |
| TOTAL LIABILITIES | <u>\$ 600,784</u> | <u>-0-</u> |
| NET POSITION | | |
| Held in trust for pension and employee benefits | | <u>\$ 20,421,107</u> |

See accompanying notes to financial statements.

City of Albion

Fiduciary Funds

STATEMENT OF CHANGES IN NET POSITION

Year Ended December 31, 2018

| | <u>Pension and Employee Benefit Trusts</u> |
|---------------------------------|--|
| ADDITIONS | |
| Net investment income | \$ (1,380,739) |
| Contributions | <u>39,089</u> |
| TOTAL ADDITIONS | (1,341,650) |
| DEDUCTIONS | |
| Benefit payments | 805,841 |
| Administrative expense | <u>13,473</u> |
| TOTAL DEDUCTIONS | <u>819,314</u> |
| CHANGE IN NET POSITION | (2,160,964) |
| Net position, beginning of year | <u>22,582,071</u> |
| Net position, end of year | <u><u>\$ 20,421,107</u></u> |

City of Albion

Component Units

COMBINING STATEMENT OF NET POSITION

December 31, 2018

| | Economic Development Corporation | Downtown Development Authority | Tax Increment Finance Authority | Albion Housing Commission | Brownfield Authority | Total Component Units |
|--|--|--------------------------------------|--|---------------------------------|-------------------------|-----------------------------|
| ASSETS | | | | | | |
| Current assets | | | | | | |
| Cash | \$ 154,365 | \$ 58,652 | \$ 257,006 | \$ 155,113 | \$ 68,327 | \$ 693,463 |
| Investments | - | - | - | 416,772 | - | 416,772 |
| Receivables | - | 9,998 | 31,630 | 188,833 | 87,962 | 318,423 |
| Due from other governmental units | - | 617,138 | - | - | 7,433 | 624,571 |
| Prepays | 3,964 | 669 | - | 15,631 | - | 20,264 |
| Total current assets | 158,329 | 686,457 | 288,636 | 776,349 | 163,722 | 2,073,493 |
| Noncurrent assets | | | | | | |
| Capital assets not being depreciated | 26,655 | - | 160,000 | 19,144 | - | 205,799 |
| Capital assets, net of accumulated depreciation | 215,644 | 190,185 | - | 3,087,693 | - | 3,493,522 |
| Total noncurrent assets | 242,299 | 190,185 | 160,000 | 3,106,837 | -0- | 3,699,321 |
| TOTAL ASSETS | 400,628 | 876,642 | 448,636 | 3,883,186 | 163,722 | 5,772,814 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | |
| Deferred outflows of resources related to pensions | - | - | - | 86,947 | - | 86,947 |
| LIABILITIES | | | | | | |
| Current liabilities | | | | | | |
| Accounts payable | 3,148 | 617,158 | 28 | 78,354 | 158,722 | 857,410 |
| Accrued liabilities | 4,734 | - | 6,604 | 51,354 | - | 62,692 |
| Due to other governmental units | - | 7,433 | - | - | - | 7,433 |
| Accrued interest payable | 748 | - | - | - | - | 748 |
| Unearned revenue | 2,100 | - | - | 4,402 | - | 6,502 |
| Current portion of compensated absences | 5,539 | - | 7,142 | 74,732 | - | 87,413 |
| Current portion of long-term debt | 4,712 | - | - | - | - | 4,712 |
| Total current liabilities | 20,981 | 624,591 | 13,774 | 208,842 | 158,722 | 1,026,910 |
| Noncurrent liabilities | | | | | | |
| Net pension liability | - | - | - | 381,954 | - | 381,954 |
| Noncurrent portion of compensated absences | 3,842 | - | 2,778 | 8,304 | - | 14,924 |
| Noncurrent portion of long-term debt | 10,668 | - | - | - | - | 10,668 |
| Total noncurrent liabilities | 14,510 | -0- | 2,778 | 390,258 | -0- | 407,546 |
| TOTAL LIABILITIES | 35,491 | 624,591 | 16,552 | 599,100 | 158,722 | 1,434,456 |
| NET POSITION | | | | | | |
| Net investment in capital assets | 226,919 | 190,185 | 160,000 | 3,106,837 | - | 3,683,941 |
| Restricted for community and economic development | 38,238 | - | - | - | - | 38,238 |
| Unrestricted | 99,980 | 61,866 | 272,084 | 264,196 | 5,000 | 703,126 |
| TOTAL NET POSITION | \$ 365,137 | \$ 252,051 | \$ 432,084 | \$ 3,371,033 | \$ 5,000 | \$ 4,425,305 |

See accompanying notes to financial statements.

City of Albion

Component Units

COMBINING STATEMENT OF ACTIVITIES

Year Ended December 31, 2018

| 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 | Brownfield Redevelopment Authority | Total Component Units |
| Economic Development Corporation | \$ 265,465 | \$ 129,764 | \$ 63,771 | \$ - | \$ (71,930) | \$ - | \$ - | \$ - | \$ - | \$ (71,930) |
| Downtown Development Authority | 1,573,633 | - | 842,741 | - | - | (730,892) | - | - | - | (730,892) |
| Tax Increment Finance Authority | 158,125 | - | - | - | - | - | (158,125) | - | - | (158,125) |
| Albion Housing Commission | 1,582,682 | 513,532 | 700,419 | 216,231 | - | - | - | (152,500) | - | (152,500) |
| Brownfield Redevelopment Authority | 158,722 | - | 75,760 | - | - | - | - | - | (82,962) | (82,962) |
| TOTALS | \$ 3,738,627 | \$ 643,296 | \$ 1,682,691 | \$ 216,231 | (71,930) | (730,892) | (158,125) | (152,500) | (82,962) | (1,196,409) |
| General revenues | | | | | | | | | | |
| Property taxes | | | | | - | 72,899 | 234,570 | - | 87,962 | 395,431 |
| Investment earnings | | | | | 823 | 594 | 1,107 | 5,383 | - | 7,907 |
| Miscellaneous | | | | | 97,575 | 657,696 | 57,047 | 7,363 | - | 819,681 |
| Total general revenues | | | | | 98,398 | 731,189 | 292,724 | 12,746 | 87,962 | 1,223,019 |
| CHANGE IN NET POSITION | | | | | 26,468 | 297 | 134,599 | (139,754) | 5,000 | 26,610 |
| Net position, beginning of year | | | | | 338,669 | 251,754 | 297,485 | 3,510,787 | - | 4,398,695 |
| Net position, end of year | | | | | \$ 365,137 | \$ 252,051 | \$ 432,084 | \$ 3,371,033 | \$ 5,000 | \$ 4,425,305 |

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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, 2018

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.
- e. Brownfield Redevelopment Authority - The Brownfield Redevelopment Authority is responsible for promoting the revitalization, redevelopment, and reuse of certain properties. The Authority's governing body, which consists of nine (9) members, is selected by the Mayor and City Council. The financial statements of the Authority are included in the City's financial statements and are not audited separately.

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

4. Basis of Presentation - continued

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.

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

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.

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

7. Budgets and Budgetary Accounting - continued

- 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.

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

12. Property Tax - continued

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, 2018, 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, and 1.5000 mills for recreational services. The total taxable value for the 2018 levy for property within the City was \$86,337,117.

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.

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

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 |

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

22. Deferred Outflows/Inflows of Resources - continued

The City has several items that qualify for reporting in these categories. These items correspond to the City's net pension/OPEB asset (liability) and are related to differences between expected and actual experience, changes in assumptions, differences between projected and actual pension/OPEB 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

The net pension asset is deemed to be a noncurrent item and is recognized on the City's government-wide financial statements.

25. Net Other Post-Employment Benefits (OPEB) Liability

The net other post-employment benefits (OPEB) liability is deemed to be a noncurrent item and is recognized on the City's government-wide financial statements.

26. 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.

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

- 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, 2018, 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 | \$ 5,215,180 | \$ 6,608,831 |
| Certificates of deposit | <u>573,556</u> | <u>573,556</u> |
| Total Primary Government | 5,788,736 | 7,182,387 |
| FIDUCIARY FUNDS | | |
| Checking | 608,271 | 608,271 |
| COMPONENT UNITS | | |
| Checking and savings | 693,168 | 693,168 |
| Certificates of deposit | <u>416,772</u> | <u>416,772</u> |
| Total Component Units | <u>1,109,940</u> | <u>1,109,940</u> |
| TOTAL REPORTING ENTITY | <u><u>\$ 7,506,947</u></u> | <u><u>\$ 8,900,598</u></u> |

The primary government and component units' cash and cash equivalents captions on the basic financial statements include \$1,206 and \$295, 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, 2018, the City accounts were insured by the FDIC for \$748,912 and the amount of \$8,151,686 was uninsured and uncollateralized.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

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.

| <u>INVESTMENT TYPE</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Fair Value</u> | <u>Moody's/ S & P Rating</u> | <u>Weighted Average Maturity</u> |
|--|----------------------|----------------------|----------------|----------------------|--|--|
| PRIMARY GOVERNMENT | | | | | | |
| Uncategorized Pooled Investments | \$ 747,434 | \$ - | \$ - | \$ 747,434 | Aaa/AA+ | N/A |
| Municipal Bonds | - | 295,320 | - | 295,320 | Aaa/AA+ | 4.45 years |
| Michigan CLASS | - | 1,606,790 | - | 1,606,790 | Aaa/AA+ | N/A |
| TOTAL PRIMARY GOVERNMENT | \$ 747,434 | \$ 1,902,110 | \$ -0- | \$ 2,649,544 | | |
| Fiduciary Accounts | | | | | | |
| Uncategorized Pooled Investments | \$ 527,746 | \$ - | \$ - | \$ 527,746 | N/R | N/A |
| US Treasury Notes | 318,668 | - | - | 318,668 | Aaa/AA+ | 5.50 years |
| US Treasury Bonds | - | 12,745 | - | 12,745 | Aaa/AA+ | 24.49 years |
| Federal National Mortgage Association | - | 105,378 | - | 105,378 | Aaa/AA+ | 24.19 years |
| Federal Home Loan Mortgage Corporation | - | 2,550,851 | - | 2,550,851 | Aaa/AA+ | 5.35 years |
| Governmental National Mortgage Association | - | 443,006 | - | 443,006 | Aaa/AA+ | 45.51 years |
| Corporate Bonds | - | 5,849,709 | - | 5,849,709 | Various | 8.77 years |
| International Bond Fund | - | 659,859 | - | 659,859 | Various | |
| Michigan CLASS | - | 26,785 | - | 26,785 | N/A | N/A |
| Common Equity Securities | 9,852,189 | - | - | 9,852,189 | N/A | N/A |
| TOTAL PENSION TRUST FUND | \$ 10,698,603 | \$ 9,648,333 | \$ -0- | \$ 20,346,936 | | |
| TOTAL REPORTING ENTITY | \$ 11,446,037 | \$ 11,550,443 | \$ -0- | \$ 22,996,480 | | |

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, 2018, rating information on the City's investments is presented above.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

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, 2018:

| | <u>Primary Government</u> | <u>Component Units</u> | <u>Fiduciary Funds</u> | <u>Reporting Entity</u> |
|--|-------------------------------|----------------------------|----------------------------|-----------------------------|
| Cash and cash equivalents | \$ 6,249,605 | \$ 693,463 | \$ 1,162,802 | \$ 8,105,870 |
| Cash and cash equivalents - restricted | 61,990 | - | - | 61,990 |
| Investments - current | 1,892,571 | 416,772 | 19,792,405 | 22,101,748 |
| Investments - noncurrent | 235,320 | - | - | 235,320 |
| | <u>\$ 8,439,486</u> | <u>\$ 1,110,235</u> | <u>\$ 20,955,207</u> | <u>\$ 30,504,928</u> |

NOTE C: CASH AND CASH EQUIVALENTS - RESTRICTED

The following summarizes the restricted cash and cash equivalents as of December 31, 2018:

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

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE D: 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: | | |
| Major Street Fund | \$ | 3,000 |
| Nonmajor governmental funds | | 51,000 |
| | | <u>54,000</u> |
| | \$ | <u>54,000</u> |
| Transfer to Major Street Fund from: | | |
| General Fund | \$ | 1,202 |
| | | <u>1,202</u> |
| | \$ | <u>1,202</u> |
| Transfers to nonmajor governmental funds from: | | |
| General Fund | \$ | 53,422 |
| Major Street Fund | | 190,000 |
| Nonmajor governmental funds | | 72,250 |
| Sewer Fund | | 148,400 |
| Water Fund | | 11,450 |
| Internal Service Fund | | 17,850 |
| | | <u>493,372</u> |
| | \$ | <u>493,372</u> |

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

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018, was as follows:

PRIMARY GOVERNMENT

| | Balance Jan. 1, 2018 | Additions | Deletions | Balance Dec. 31, 2018 |
|--------------------------------------|-------------------------|-----------|-------------|--------------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 457,704 | \$ - | \$ (20,000) | \$ 437,704 |
| Construction in progress | - | 111,364 | - | 111,364 |
| Subtotal | 457,704 | 111,364 | (20,000) | 549,068 |
| Capital assets being depreciated | | | | |
| Buildings and improvements | 6,834,782 | - | (240,000) | 6,594,782 |
| Infrastructure | 7,743,337 | 33,079 | - | 7,776,416 |
| Equipment and furniture | 1,113,094 | - | - | 1,113,094 |
| Vehicles | 2,723,412 | - | - | 2,723,412 |
| Subtotal | 18,414,625 | 33,079 | (240,000) | 18,207,704 |

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE E: CAPITAL ASSETS - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

| | Balance Jan. 1, 2018 | Additions | Deletions | Balance Dec. 31, 2018 |
|--|-------------------------|---------------------|---------------------|--------------------------|
| Governmental activities - continued | | | | |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | \$ (2,645,926) | \$ (184,257) | \$ 86,400 | \$ (2,743,783) |
| Infrastructure | (2,827,354) | (290,602) | - | (3,117,956) |
| Equipment and furniture | (1,002,388) | (20,062) | - | (1,022,450) |
| Vehicles | (1,869,130) | (114,768) | - | (1,983,898) |
| Subtotal | <u>(8,344,798)</u> | <u>(609,689)</u> | <u>86,400</u> | <u>(8,868,087)</u> |
| Net capital assets being depreciated | <u>10,069,827</u> | <u>(576,610)</u> | <u>(153,600)</u> | <u>9,339,617</u> |
| Capital assets, net | <u>\$ 10,527,531</u> | <u>\$ (465,246)</u> | <u>\$ (173,600)</u> | <u>\$ 9,888,685</u> |

Depreciation expense was charged to the following governmental activities:

| | |
|------------------------------------|-------------------|
| General government | \$ 58,210 |
| Public safety | 108,024 |
| Public works | 356,481 |
| Community and economic development | 83,684 |
| Recreation and cultural | 3,290 |
| Total depreciation expense | <u>\$ 609,689</u> |

| | Restated Balance Jan. 1, 2018 | Additions/ Reclassifications | Deletions/ Reclassifications | Balance Dec. 31, 2018 |
|--------------------------------------|-------------------------------------|---------------------------------|---------------------------------|--------------------------|
| Business-type activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 93,700 | \$ - | \$ - | \$ 93,700 |
| Construction in progress | 852,893 | - | (852,893) | -0- |
| Subtotal | 946,593 | -0- | (852,893) | 93,700 |
| Capital assets being depreciated | | | | |
| Buildings and improvements | 11,222,852 | - | - | 11,222,852 |
| Equipment | 1,088,599 | - | (165,249) | 923,350 |
| Water system | 4,777,229 | 589,449 | - | 5,366,678 |
| Sewer system | 2,291,985 | 1,242,265 | - | 3,534,250 |
| Vehicles | 461,515 | 211,500 | (193,312) | 479,703 |
| Subtotal | 19,842,180 | 2,043,214 | (358,561) | 21,526,833 |

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE E: CAPITAL ASSETS - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

| | Restated Balance Jan. 1, 2018 | Additions/ Reclassifications | Deletions/ Reclassifications | Balance Dec. 31, 2018 |
|---|-------------------------------------|---------------------------------|---------------------------------|--------------------------|
| Business-type activities - continued | | | | |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | \$ (6,684,754) | \$ (264,784) | \$ - | \$ (6,949,538) |
| Equipment | (1,009,255) | (21,017) | 165,249 | (865,023) |
| Water system | (3,051,371) | (153,703) | - | (3,205,074) |
| Sewer system | (905,321) | (69,400) | - | (974,721) |
| Vehicles | (440,368) | (31,037) | 193,312 | (278,093) |
| Subtotal | (12,091,069) | (539,941) | 358,561 | (12,272,449) |
| Net capital assets being depreciated | 7,751,111 | 1,503,273 | -0- | 9,254,384 |
| Capital assets, net | <u>\$ 8,697,704</u> | <u>\$ 1,503,273</u> | <u>\$ (852,893)</u> | <u>\$ 9,348,084</u> |

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

| | |
|----------------------------|-------------------|
| Water | \$ 273,787 |
| Sewer | 266,154 |
| Total depreciation expense | <u>\$ 539,941</u> |

COMPONENT UNITS

| | Restated Balance Jan. 1, 2018 | Additions | Deletions | Balance Dec. 31, 2018 |
|--------------------------------------|-------------------------------------|-----------|-----------|--------------------------|
| 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 |

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE E: CAPITAL ASSETS - CONTINUED

COMPONENT UNITS - CONTINUED

| | Restated Balance Jan. 1, 2018 | Additions | Deletions | Balance Dec. 31, 2018 |
|--|-------------------------------------|---------------------|---------------|--------------------------|
| Component unit - EDC - continued | | | | |
| Less accumulated depreciation for: | | | | |
| Buildings | \$ (12,000) | \$ (800) | \$ - | \$ (12,800) |
| Equipment | (23,634) | (11,816) | - | (35,450) |
| Land Improvements | (890) | (444) | - | (1,334) |
| Subtotal | (36,524) | (13,060) | -0- | (49,584) |
| Net capital assets being depreciated | 228,704 | (13,060) | -0- | 215,644 |
| Capital assets, net | <u>\$ 255,359</u> | <u>\$ (13,060)</u> | <u>\$ -0-</u> | <u>\$ 242,299</u> |
| | Balance Jan. 1, 2018 | Additions | Deletions | Balance Dec. 31, 2018 |
| Component unit - DDA | | | | |
| Capital assets being depreciated | | | | |
| Buildings | \$ 211,317 | \$ - | \$ - | \$ 211,317 |
| Equipment | 61,558 | - | - | 61,558 |
| Subtotal | 272,875 | -0- | -0- | 272,875 |
| Less accumulated depreciation for: | | | | |
| Buildings | (14,088) | (7,044) | - | (21,132) |
| Equipment | (61,558) | - | - | (61,558) |
| Subtotal | (75,646) | (7,044) | -0- | (82,690) |
| Capital assets, net | <u>\$ 197,229</u> | <u>\$ (7,044)</u> | <u>\$ -0-</u> | <u>\$ 190,185</u> |
| Component unit - TIFA | | | | |
| Capital assets not being depreciated | | | | |
| Land | <u>\$ 160,000</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ 160,000</u> |
| Component unit - Housing Commission | | | | |
| Capital assets not being depreciated | \$ 19,144 | \$ - | \$ - | \$ 19,144 |
| Capital assets being depreciated | 14,920,051 | 226,494 | - | 15,146,545 |
| Less accumulated depreciation: | (11,691,543) | (367,309) | - | (12,058,852) |
| Net capital assets being depreciated | 3,228,508 | (140,815) | -0- | 3,087,693 |
| Capital assets, net | <u>\$ 3,247,652</u> | <u>\$ (140,815)</u> | <u>\$ -0-</u> | <u>\$ 3,106,837</u> |

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE F: 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, 2018.

| | Balance Jan. 1, 2018 | Additions | Reductions | Balance Dec. 31, 2018 | Amounts Due Within One Year |
|--|-------------------------|-------------------|---------------------|--------------------------|-----------------------------------|
| PRIMARY GOVERNMENT | | | | | |
| Governmental activities | | | | | |
| 2010 General Obligation Bonds | \$ 1,155,000 | \$ - | \$ (130,000) | \$ 1,025,000 | \$ 135,000 |
| EPA landfill liability | 70,475 | - | (5,057) | 65,418 | 3,505 |
| Building Authority bonds | 645,000 | - | (95,000) | 550,000 | 95,000 |
| Land contract | 73,655 | - | (12,790) | 60,865 | 13,174 |
| Installment note | 8,015 | - | (8,015) | -0- | - |
| Compensated absences | 295,091 | 261,298 | (286,309) | 270,080 | 124,401 |
| | 2,247,236 | 261,298 | (537,171) | 1,971,363 | 371,080 |
| Business-type activities | | | | | |
| Installment note | - | 211,500 | - | 211,500 | 35,465 |
| Compensated absences | 120,681 | 69,981 | (96,320) | 94,342 | 35,082 |
| | 120,681 | 281,481 | (96,320) | 305,842 | 70,547 |
| TOTAL PRIMARY GOVERNMENT | 2,367,917 | 542,779 | (633,491) | 2,277,205 | 441,627 |
| COMPONENT UNITS | | | | | |
| Economic Development Corporation (EDC) | | | | | |
| ABA loan | 19,868 | - | (4,488) | 15,380 | 4,712 |
| Compensated absences | - | 16,725 | (7,344) | 9,381 | 5,539 |
| Total EDC | 19,868 | 16,725 | (11,832) | 24,761 | 10,251 |
| Tax Increment Finance Authority | | | | | |
| Compensated absences | 22,721 | 10,065 | (22,866) | 9,920 | 7,142 |
| Albion Housing Commission | | | | | |
| Compensated absences | 82,278 | 758 | - | 83,036 | 74,732 |
| TOTAL COMPONENT UNITS | 124,867 | 27,548 | (34,698) | 117,717 | 92,125 |
| TOTAL REPORTING ENTITY | \$ 2,492,784 | \$ 570,327 | \$ (668,189) | \$ 2,394,922 | \$ 533,752 |

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE F: LONG-TERM DEBT - CONTINUED

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

PRIMARY GOVERNMENT

Governmental Activities

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 \$135,000 to \$165,000 through October 1, 2025, with interest ranging from 4.00 to 4.63 percent, payable semi-annually.

\$ 1,025,000

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.

\$ 65,418

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.

\$ 60,865

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.

\$ 490,000

\$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.

60,000

\$ 550,000

Business-type Activities

Installment note

\$211,500 installment purchase agreement dated September 17, 2018, due in annual installments ranging from \$35,465 to \$49,656 through September 1, 2023, with interest of 3.39%, payable annually.

\$ 211,500

Component Unit - EDC

ABA Loan

\$57,246 Albion Building Authority Loan to the Economic Development Corporation dated May 23, 2007, due in annual installments ranging from \$4,712 to \$5,720 through January 10, 2021, with interest at 5.0 percent, payable annually.

\$ 15,380

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE F: LONG-TERM DEBT - 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 \$466,759 at December 31, 2018. Of this amount, \$270,080, \$94,342, and \$102,337 are shown as accrued liabilities within the governmental activities, business-type activities, and component units, respectively, in accordance with criteria disclosed in Note A.

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

PRIMARY GOVERNMENT

Governmental Activities

| Year Ending December 31, | 2010 General Obligation Limited Tax Bonds | | Building Authority Bonds | |
|-----------------------------|--|-------------------|--------------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| 2019 | \$ 135,000 | \$ 44,650 | \$ 95,000 | \$ 32,603 |
| 2020 | 135,000 | 39,250 | 40,000 | 27,253 |
| 2021 | 140,000 | 33,850 | 40,000 | 25,053 |
| 2022 | 145,000 | 27,900 | 45,000 | 22,753 |
| 2023 | 150,000 | 21,738 | 45,000 | 20,165 |
| 2024-2028 | 320,000 | 22,431 | 285,000 | 55,253 |
| | <u>\$ 1,025,000</u> | <u>\$ 189,819</u> | <u>\$ 550,000</u> | <u>\$ 183,080</u> |
| Year Ending December 31, | EPA Landfill Liability | | Land Contract | |
| | Principal | Interest | Principal | Interest |
| 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 | 3,089 | 1,544 | 5,750 | 173 |
| 2024-2028 | 49,625 | 24,813 | - | - |
| | <u>\$ 65,418</u> | <u>\$ 32,710</u> | <u>\$ 60,865</u> | <u>\$ 5,058</u> |

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE F: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

Business-type Activities

| Year Ending December 31, | Sewer Truck | |
|-----------------------------|-------------------|-------------------|
| | Principal | Interest |
| 2019 | \$ 35,465 | \$ 32,603 |
| 2020 | 40,730 | 27,253 |
| 2021 | 42,111 | 25,053 |
| 2022 | 43,538 | 22,753 |
| 2023 | 49,656 | 20,165 |
| 2024-2028 | - | 55,253 |
| | <u>\$ 211,500</u> | <u>\$ 183,080</u> |

COMPONENT UNITS

| Year Ending December 31, | ABA Loan | |
|-----------------------------|------------------|-----------------|
| | Principal | Interest |
| 2019 | \$ 4,712 | \$ 769 |
| 2020 | 4,948 | 533 |
| 2021 | 5,720 | 286 |
| | <u>\$ 15,380</u> | <u>\$ 1,588</u> |

NOTE G: 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, 2018

NOTE G: 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, 2017 valuation date, the following employees were covered by the benefit terms:

| | |
|---|-------------------|
| Inactive employees or beneficiaries receiving benefits | 102 |
| Inactive employees entitled to but not yet receiving benefits | 15 |
| Active employees | <u>22</u> |
| Total employees covered by MERS | <u><u>139</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, 2018

NOTE G: 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, 2017, 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, 2016 | \$ 13,771,328 | \$ 12,945,481 | \$ 825,847 |
| Service Cost | 96,823 | - | 96,823 |
| Interest on Total Pension Liability | 1,063,285 | - | 1,063,285 |
| Difference between expected and actual experience | 78,786 | - | 78,786 |
| Employer contributions | - | 121,725 | (121,725) |
| Net investment income | - | 1,665,134 | (1,665,134) |
| Benefit payments, including employee refunds | (1,057,352) | (1,057,352) | -0- |
| Administrative expense | - | (26,448) | 26,448 |
| Other changes | (402) | - | (402) |
| Net changes | <u>181,140</u> | <u>703,059</u> | <u>(521,919)</u> |
| Balances at December 31, 2017 | <u>\$ 13,952,468</u> | <u>\$ 13,648,540</u> | <u>\$ 303,928</u> |

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

For the year ended December 31, 2018, the employer recognized pension expense of \$178,931. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> |
|--|---|
| Net difference between projected and actual earnings on pension plan investments | \$ 222,677 |
| Contributions subsequent to the measurement date* | <u>152,203</u> |
| Total | <u>\$ 374,880</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, 2019.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE G: 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 (\$152,203), which will impact the net pension liability in fiscal year 2019, 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> |
|-------------------------------------|----------------------------|
| 2019 | \$ 88,853 |
| 2020 | 40,018 |
| 2021 | (217,953) |
| 2022 | (133,595) |

Actuarial Assumptions

The total pension liability in the December 31, 2017, 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, 2018

NOTE G: 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>\$ 1,599,977</u> | <u>\$ 303,928</u> | <u>\$ (813,393)</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, 2018

NOTE G: 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, 2017 valuation date, the following employees were covered by the benefit terms:

| | |
|---|------------------|
| Inactive employees or beneficiaries receiving benefits | 32 |
| Inactive employees entitled to but not yet receiving benefits | 4 |
| Active employees | <u>18</u> |
| Total employees covered | <u><u>54</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 has 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.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE G: 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, 2018, 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, 2017 | \$ 13,435,967 | \$ 22,536,247 | \$ (9,100,280) |
| Service Cost | 337,260 | - | 337,260 |
| Interest on Total Pension Liability | 792,173 | - | 792,173 |
| Difference between expected and actual experience | 177,345 | - | 177,345 |
| Employee contributions | - | 39,089 | (39,089) |
| Net investment income | - | (1,381,401) | 1,381,401 |
| Benefit payments, including employee refunds | (803,441) | (803,441) | -0- |
| Administrative expense | - | (13,473) | 13,473 |
| Net changes | <u>503,337</u> | <u>(2,159,226)</u> | <u>2,662,563</u> |
| Balances at December 31, 2018 | <u>\$ 13,939,304</u> | <u>\$ 20,377,021</u> | <u>\$ (6,437,717)</u> |

Actuarial Assumptions

The total pension liability was determined based on the annual actuarial valuation as of December 31, 2018. 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, 2018

NOTE G: 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, 2018, 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>\$ (4,713,315)</u> | <u>\$ (6,437,717)</u> | <u>\$ (7,874,830)</u> |

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE G: 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, 2018, the employer recognized pension expenses of \$(397,508). 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 | \$ 138,814 | \$ 27,884 |
| Net difference between projected and actual earnings on pension plan investments | <u>2,028,760</u> | <u>-</u> |
| Total changes in assumptions | <u><u>\$ 2,167,574</u></u> | <u><u>\$ 27,884</u></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> |
|-------------------------------------|----------------------------|
| 2019 | \$ 747,970 |
| 2020 | 412,284 |
| 2021 | 437,387 |
| 2022 | 542,049 |

NOTE H: 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, 2018

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

Plan Description

The City of Albion Post-Employment Health Benefits Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the City. The Plan provides certain health care benefits, in accordance with union agreements and/or personnel policies to employees who have retired. Benefit provisions are established by the City. The plan does not issue a separate stand-alone financial statement.

Benefits Provided

General employees may become eligible for employer financed health coverage 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, 2018 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> |

Total OPEB Liability

The total OPEB liability of the County was measured as of December 31, 2018 and was determined by an actuarial valuation from December 31, 2017.

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.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

Change in Net OPEB Liability

The change in the net OPEB liability for the year ended December 31, 2018 is as follows:

| | <u>Increase (Decrease)</u> | | |
|--|---|--|---|
| | <u>Total OPEB Liability (a)</u> | <u>Plan Fiduciary Net Position (b)</u> | <u>Net OPEB Liability (a) - (b)</u> |
| Balances at 12/31/2017 | \$ 340,568 | \$ 45,824 | \$ 294,744 |
| Changes for the year: | | | |
| Service cost | 8,088 | - | 8,088 |
| Interest | 20,605 | - | 20,605 |
| Difference between expected and actual experience | (21,050) | - | (21,050) |
| Net investment income (loss) | - | 662 | (662) |
| Benefit payments | (2,400) | (2,400) | - |
| Net changes | <u>5,243</u> | <u>(1,738)</u> | <u>6,981</u> |
| Balances at 12/31/2018 | <u>\$ 345,811</u> | <u>\$ 44,086</u> | <u>\$ 301,725</u> |

Summary of Significant Accounting Policies

For purposes of measuring the total other post-employment benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the Plan and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported for the City. 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.

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>\$ 324,664</u> | <u>\$ 301,725</u> | <u>\$ 280,716</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, 2018

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

OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the City recognized OPEB expense of \$21,585. At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Difference between expected and actual experience | \$ - | \$ 17,954 |
| Net difference between projected and actual earnings on OPEB plan investments | <u>1,612</u> | <u>-</u> |
| | <u>\$ 1,612</u> | <u>\$ 17,954</u> |

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| <u>Year Ending December 31,</u> | <u>OPEB Expense</u> |
|-------------------------------------|-------------------------|
| 2019 | \$ (2,693) |
| 2020 | (2,693) |
| 2021 | (2,693) |
| 2022 | (2,693) |
| 2023 | (3,096) |
| Thereafter | (2,474) |

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, 2018, all assets of the trust were in investments and cash which earn about 1% interest.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE J: 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, 2017 | \$ (480,515) |
| Construction code revenue | 86,383 |
| Related expenditures - Direct costs | <u>(241,127)</u> |
| Deficit at December 31, 2018 | <u>\$ (635,259)</u> |

NOTE K: 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.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE L: 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 | \$ 223,436 | \$ - | \$ 5,425 | \$ 10,274 | \$ 239,135 |
| Inventory | - | - | 35,764 | 1,970 | 37,734 |
| Long-term receivable | - | - | - | 152,709 | 152,709 |
| Perpetual care | - | - | - | 215,000 | 215,000 |
| Restricted for: | | | | | |
| Streets and highways | - | - | 667,010 | 913,624 | 1,580,634 |
| Sidewalks | - | - | - | 465,826 | 465,826 |
| Community enrichment | - | 1,117,398 | - | 1,559,457 | 2,676,855 |
| Solid waste | - | - | - | 368,662 | 368,662 |
| Law enforcement | - | - | - | 5,827 | 5,827 |
| Debt service | - | - | - | 111,672 | 111,672 |
| Perpetual care | - | - | - | 24,371 | 24,371 |
| Assigned to: | | | | | |
| Subsequent year's expenditures | 86,220 | - | - | - | 86,220 |
| Communications | 41,345 | - | - | - | 41,345 |
| Unassigned: | 1,153,612 | - | - | - | 1,153,612 |
| TOTAL FUND BALANCES | \$ 1,504,613 | \$ 1,117,398 | \$ 708,199 | \$ 3,829,392 | \$ 7,159,602 |

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE M: UPCOMING ACCOUNTING PRONOUNCEMENTS

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.

In April 2018, the GASB issued Statements No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement will improve the financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2020 fiscal year.

NOTE N: CHANGE IN ACCOUNTING PRINCIPLES

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented during the year. This Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This 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. This Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI).

GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No.67, No.68, and No. 73* was also implemented during the year. This 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 classifications of payments made by employers to satisfy employee (plan member) contribution requirements.

NOTE O: RESTATEMENT OF NET POSITION

Beginning net position of the governmental activities was restated due to the implementation of GASB Statement No. 75, as described in Note N. In addition, beginning net position of the business-type activities and the Sewer Fund were restated due to understated capital assets in the prior period. Details of the restatements are below:

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Sewer Fund</u> |
|--|------------------------------------|-------------------------------------|-----------------------|
| Net position as of 12/31/17 | \$ 23,638,851 | \$ 10,534,661 | \$ 5,057,155 |
| Elimination of Net OPEB Obligation under GASB 45 | 105,483 | - | - |
| Beginning Net OPEB Liability under GASB 75 | (294,744) | - | - |
| Understated capital assets in Sewer Fund | - | 193,903 | 193,903 |
| | <u>\$ 23,449,590</u> | <u>\$ 10,728,564</u> | <u>\$ 5,251,058</u> |
| Restated net position as of 12/31/17 | | | |

REQUIRED SUPPLEMENTARY INFORMATION

City of Albion

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2018

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|----------------------------|------------------|------------|------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | | | | |
| Property taxes | \$ 954,000 | \$ 898,014 | \$ 942,551 | \$ 44,537 |
| Income taxes | 1,060,000 | 1,022,500 | 967,992 | (54,508) |
| Payments in lieu of taxes | 30,000 | 21,627 | 21,627 | -0- |
| Penalties and interest | 28,500 | 27,000 | 29,125 | 2,125 |
| Administration fees | 47,500 | 47,500 | 50,101 | 2,601 |
| Total taxes | 2,120,000 | 2,016,641 | 2,011,396 | (5,245) |
| Licenses and permits | 138,300 | 199,600 | 197,641 | (1,959) |
| Intergovernmental | | | | |
| Federal/State | 1,121,273 | 1,292,393 | 1,262,166 | (30,227) |
| Local | 25,000 | 18,856 | 12,856 | (6,000) |
| Total intergovernmental | 1,146,273 | 1,311,249 | 1,275,022 | (36,227) |
| Charges for services | | | | |
| Cemetery | 50,000 | 54,447 | 59,747 | 5,300 |
| Other fees | 303,665 | 229,480 | 235,066 | 5,586 |
| Total charges for services | 353,665 | 283,927 | 294,813 | 10,886 |
| Fines and forfeits | 20,000 | 17,500 | 11,990 | (5,510) |
| Interest and rents | 6,600 | 9,450 | 13,337 | 3,887 |
| Other | | | | |
| Reimbursements | 29,500 | 15,371 | 20,781 | 5,410 |
| Other | 13,450 | 125,953 | 125,872 | (81) |
| Total other | 42,950 | 141,324 | 146,653 | 5,329 |
| TOTAL REVENUES | 3,827,788 | 3,979,691 | 3,950,852 | (28,839) |

City of Albion

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended December 31, 2018

| EXPENDITURES | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|------------------|-----------|-----------|---|
| | Original | Final | | |
| Current | | | | |
| General government | | | | |
| City Council | \$ 45,255 | \$ 54,055 | \$ 40,843 | \$ 13,212 |
| City Manager | 141,268 | 98,480 | 81,391 | 17,089 |
| Human resources | 24,925 | 29,579 | 25,643 | 3,936 |
| Assessor | 50,050 | 48,300 | 45,879 | 2,421 |
| Attorney | 95,375 | 110,400 | 113,825 | (3,425) |
| Clerk | 132,175 | 129,375 | 129,169 | 206 |
| Treasurer | 369,465 | 371,682 | 320,112 | 51,570 |
| Municipal building | 71,450 | 151,370 | 136,844 | 14,526 |
| Cemetery | 163,194 | 170,826 | 152,253 | 18,573 |
| Other | 11,250 | 19,750 | 15,622 | 4,128 |
| Total general government | 1,104,407 | 1,183,817 | 1,061,581 | 122,236 |
| Public safety | | | | |
| Police and fire | 2,079,078 | 2,067,430 | 1,995,270 | 72,160 |
| Code enforcement | 192,289 | 198,167 | 179,975 | 18,192 |
| Total public safety | 2,271,367 | 2,265,597 | 2,175,245 | 90,352 |
| Public works | | | | |
| Engineering | 32,273 | 29,822 | 23,217 | 6,605 |
| Highways and streets | 52,073 | 54,747 | 38,852 | 15,895 |
| Tree trimming | 15,615 | 20,615 | 15,399 | 5,216 |
| Electricity | 142,500 | 169,500 | 161,667 | 7,833 |
| Total public works | 242,461 | 274,684 | 239,135 | 35,549 |
| Health and welfare | | | | |
| Environmental expenditures | 8,800 | 8,600 | 9,803 | (1,203) |
| Recreation and cultural | | | | |
| Parks | 255,008 | 305,406 | 283,960 | 21,446 |
| Other | 118,400 | 116,900 | 112,677 | 4,223 |
| TOTAL EXPENDITURES | 4,000,443 | 4,155,004 | 3,882,401 | 272,603 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (172,655) | (175,313) | 68,451 | 243,764 |

City of Albion

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended December 31, 2018

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|------------------|--------------|--------------|---|
| | Original | Final | | |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | \$ 54,000 | \$ 54,000 | \$ 54,000 | \$ -0- |
| Transfers out | (53,422) | (54,624) | (54,624) | -0- |
| TOTAL OTHER FINANCING SOURCES (USES) | 578 | (624) | (624) | -0- |
| NET CHANGE IN FUND BALANCE | (172,077) | (175,937) | 67,827 | 243,764 |
| Fund balance, beginning of year | 1,436,786 | 1,436,786 | 1,436,786 | -0- |
| Fund balance, end of year | \$ 1,264,709 | \$ 1,260,849 | \$ 1,504,613 | \$ 243,764 |

City of Albion

Albion Trust Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2018

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---------------------------------|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Interest | \$ 20,500 | \$ 15,500 | \$ 20,967 | \$ 5,467 |
| EXPENDITURES | - | - | - | -0- |
| NET CHANGE IN FUND BALANCE | 20,500 | 15,500 | 20,967 | 5,467 |
| Fund balance, beginning of year | 1,096,431 | 1,096,431 | 1,096,431 | -0- |
| Fund balance, end of year | <u>\$ 1,116,931</u> | <u>\$ 1,111,931</u> | <u>\$ 1,117,398</u> | <u>\$ 5,467</u> |

City of Albion

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2018

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|------------------|------------|------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental | \$ 736,170 | \$ 877,776 | \$ 795,383 | \$ (82,393) |
| Interest and rents | 2,500 | 3,500 | 5,031 | 1,531 |
| Other | 1,500 | 1,083 | 1,083 | - |
| TOTAL REVENUES | 740,170 | 882,359 | 801,497 | (80,862) |
| EXPENDITURES | | | | |
| Current | | | | |
| Public works | 504,949 | 567,735 | 457,163 | 110,572 |
| EXCESS OF REVENUES OVER EXPENDITURES | 235,221 | 314,624 | 344,334 | 29,710 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfer in | - | 1,202 | 1,202 | -0- |
| Transfer out | (193,000) | (193,000) | (193,000) | -0- |
| TOTAL OTHER FINANCING SOURCES (USES) | (193,000) | (191,798) | (191,798) | -0- |
| NET CHANGE IN FUND BALANCE | 42,221 | 122,826 | 152,536 | 29,710 |
| Fund balance, beginning of year | 555,663 | 555,663 | 555,663 | -0- |
| Fund balance, end of year | \$ 597,884 | \$ 678,489 | \$ 708,199 | \$ 29,710 |

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 Four Measurement Dates (Ultimately ten fiscal years will be displayed)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|----------------------|----------------------|----------------------|----------------------|
| Total Pension Liability | | | | |
| Service cost | \$ 96,823 | \$ 104,470 | \$ 110,870 | \$ 111,241 |
| Interest | 1,063,285 | 1,061,267 | 1,036,191 | 1,027,804 |
| Difference between expected and actual experience | 78,786 | (94,721) | (50,350) | - |
| Changes of assumptions | - | - | 642,057 | - |
| Benefit payments including employee refunds | (1,057,352) | (1,026,572) | (1,032,679) | (1,041,700) |
| Other | (402) | (1) | (1) | (3) |
| | <u>181,140</u> | <u>44,443</u> | <u>706,088</u> | <u>97,342</u> |
| Net Change in Total Pension Liability | | | | |
| Total Pension Liability, beginning | <u>13,771,328</u> | <u>13,726,885</u> | <u>13,020,797</u> | <u>12,923,455</u> |
| Total Pension Liability, ending | <u>\$ 13,952,468</u> | <u>\$ 13,771,328</u> | <u>\$ 13,726,885</u> | <u>\$ 13,020,797</u> |
| Plan Fiduciary Net Position | | | | |
| Contributions - employer | \$ 121,725 | \$ 62,729 | \$ 35,606 | \$ 29,258 |
| Net investment income | 1,665,134 | 1,386,172 | (195,914) | 863,867 |
| Benefit payments including employee refunds | (1,057,352) | (1,026,572) | (1,032,679) | (1,041,700) |
| Administrative expense | (26,448) | (27,407) | (29,331) | (31,504) |
| | <u>703,059</u> | <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>12,945,481</u> | <u>12,550,559</u> | <u>13,772,877</u> | <u>13,952,956</u> |
| Plan Fiduciary Net Position, ending | <u>\$ 13,648,540</u> | <u>\$ 12,945,481</u> | <u>\$ 12,550,559</u> | <u>\$ 13,772,877</u> |
| Employer Net Pension Liability (Asset) | <u>\$ 303,928</u> | <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 | 98% | 94% | 91% | 106% |
| Covered Employee Payroll | \$ 1,079,375 | \$ 1,157,642 | \$ 1,238,091 | \$ 1,243,368 |
| Employer's Net Pension Liability (Asset) as a percentage of covered employee payroll | 28.16% | 71.34% | 95.01% | (60.49%) |

City of Albion

Primary Government (except Public Safety) and Housing Commission

SCHEDULE OF CITY'S CONTRIBUTIONS

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

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|----------------|----------------|---------------|---------------|
| Actuarially determined contributions | \$ 152,203 | \$ 122,066 | \$ 62,729 | \$ 33,038 |
| Contributions in relation to the actuarially determined contribution | <u>152,203</u> | <u>122,066</u> | <u>62,729</u> | <u>33,038</u> |
| Contribution deficiency (excess) | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> |
| Covered employee payroll | \$ 1,093,341 | \$ 1,154,268 | \$ 1,255,473 | \$ 1,231,119 |
| Contributions as a percentage of covered employee payroll | 14% | 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 Five Fiscal Years (Ultimately ten fiscal years will be displayed)

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| CHANGES IN TOTAL PENSION LIABILITY | | | | | |
| Service cost | \$ 337,260 | \$ 283,929 | \$ 331,905 | \$ 310,957 | \$ 340,366 |
| Interest | 792,173 | 773,257 | 778,502 | 759,667 | 728,402 |
| Differences between expected and actual experience | 177,345 | 24,146 | (446,144) | (362,571) | 126,170 |
| Changes in assumptions | - | - | - | 265,250 | - |
| Benefit payments, including refunds of member contributions | (803,441) | (782,013) | (673,402) | (666,290) | (652,027) |
| Other changes | - | (1) | - | - | - |
| NET CHANGE IN TOTAL PENSION LIABILITY | 503,337 | 299,318 | (9,139) | 307,013 | 542,911 |
| TOTAL PENSION LIABILITY, BEGINNING | \$ 13,435,967 | 13,136,649 | 13,145,788 | 12,838,775 | 12,295,864 |
| TOTAL PENSION LIABILITY, ENDING (A) | \$ 13,939,304 | \$ 13,435,967 | \$ 13,136,649 | \$ 13,145,788 | \$ 12,838,775 |
| CHANGES IN PLAN FIDUCIARY NET POSITION | | | | | |
| Contributions - member | \$ 39,089 | \$ 48,446 | \$ 34,699 | \$ 39,001 | \$ 56,449 |
| Net investment income | (1,381,401) | 1,929,502 | 1,456,370 | (522,893) | 1,769,846 |
| Benefit payments, including refunds of member contributions | (803,441) | (782,013) | (673,402) | (666,290) | (652,027) |
| Administrative expenses | (13,473) | - | - | - | - |
| NET CHANGE IN PLAN FIDUCIARY NET POSITION | (2,159,226) | 1,195,935 | 817,667 | (1,150,182) | 1,174,268 |
| PLAN FIDUCIARY NET POSITION, BEGINNING | 22,536,247 | 21,340,312 | 20,522,645 | 21,672,827 | 20,498,559 |
| PLAN FIDUCIARY NET POSITION, ENDING (B) | \$ 20,377,021 | \$ 22,536,247 | \$ 21,340,312 | \$ 20,522,645 | \$ 21,672,827 |
| CITY'S NET PENSION (ASSET), ENDING (A)-(B) | \$ (6,437,717) | \$ (9,100,280) | \$ (8,203,663) | \$ (7,376,857) | \$ (8,834,052) |
| Plan fiduciary net position as a percentage of the total pension (asset) | 146.18% | 167.73% | 162.45% | 156.12% | 168.81% |
| Covered employee payroll | \$ 1,135,381 | \$ 1,092,550 | \$ 889,505 | \$ 1,037,365 | \$ 992,149 |
| City's net pension (asset) as a percentage of covered employee payroll | (567.01%) | (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

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|--------------|--------------|------------|--------------|------------|--------------|--------------|--------------|--------------|--------------|
| Actuarially determined contribution | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions in relation to the actuarially determined contribution | - | - | - | - | - | - | - | - | - | - |
| Contribution excess (deficiency) | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- |
| Covered-employee payroll | \$ 1,135,381 | \$ 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 |
| 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

Year Ended December 31, 2018

| <u>Year Ended December 31,</u> | <u>Nominal rate of return on smoothed value of assets</u> |
|------------------------------------|---|
| 2018 | 3.5% |
| 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% |

City of Albion

Retiree Health Care Plan

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

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

| | <u>2018</u> | <u>2017</u> |
|--|--------------------------|--------------------------|
| Change In Total OPEB Liability | | |
| Service cost | \$ 8,088 | \$ 5,444 |
| Interest | 20,605 | 19,063 |
| Difference between actual and expected experience | (21,050) | 2,269 |
| Benefit payments including employee refunds | <u>(2,400)</u> | <u>(2,400)</u> |
| Net Change in Total OPEB Liability | 5,243 | 24,376 |
| Total OPEB Liability - beginning | <u>340,568</u> | <u>316,192</u> |
| Total OPEB Liability - ending | <u><u>\$ 345,811</u></u> | <u><u>\$ 340,568</u></u> |
| Change in Plan Fiduciary Net Position | | |
| Net investment income | \$ 662 | \$ 428 |
| Benefit payments including employee refunds | <u>(2,400)</u> | <u>(2,400)</u> |
| Net Change in Plan Fiduciary Net Position | (1,738) | (1,972) |
| Plan Fiduciary Net Position - beginning | <u>45,824</u> | <u>47,796</u> |
| Plan Fiduciary Net Position - ending | <u><u>\$ 44,086</u></u> | <u><u>\$ 45,824</u></u> |
| Employer Net OPEB Liability | <u><u>\$ 301,725</u></u> | <u><u>\$ 294,744</u></u> |
| Plan Fiduciary Net Position as a percentage of the Total OPEB Liability | 12.75% | 13.46% |
| Covered Employee Payroll | \$ 1,093,341 | \$ 1,154,268 |
| Employer's Net OPEB Liability as a percentage of covered employee payroll | 27.60% | 25.54% |

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended December 31, 2018

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 | Biennial |
| 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 2018.

Changes in assumptions: There were no changes in assumptions during fiscal year 2018.

OTHER SUPPLEMENTARY INFORMATION

City of Albion
 Nonmajor Governmental Funds
 COMBINING BALANCE SHEET
 December 31, 2018

| | Special | | |
|--|--------------------------|--------------------------|--------------------------|
| | Local Street | Recreation Fund | Solid Waste |
| ASSETS | | | |
| Cash and cash equivalents | \$ 320,368 | \$ 119,822 | \$ 358,639 |
| Investments | - | - | - |
| Accounts receivable | - | - | 2,336 |
| Taxes receivable | - | 5,372 | 17,669 |
| Loans receivable | - | - | - |
| Due from other governmental units | 32,555 | - | - |
| Prepays | 5,202 | 718 | - |
| Inventories | - | - | - |
| TOTAL ASSETS | <u>\$ 358,125</u> | <u>\$ 125,912</u> | <u>\$ 378,644</u> |
| LIABILITIES | | | |
| Accounts payable | \$ 140 | \$ 1,132 | \$ 1,084 |
| Accrued liabilities | 5,994 | 3,194 | 1,973 |
| Due to other governmental units | 4,956 | - | - |
| Unearned revenue | - | 2,864 | - |
| TOTAL LIABILITIES | 11,090 | 7,190 | 3,057 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue | - | - | 6,925 |
| FUND BALANCES | | | |
| Nonspendable | 5,202 | 718 | - |
| Restricted | 341,833 | 118,004 | 368,662 |
| TOTAL FUND BALANCES | <u>347,035</u> | <u>118,722</u> | <u>368,662</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | <u>\$ 358,125</u> | <u>\$ 125,912</u> | <u>\$ 378,644</u> |

| Revenue Funds | | | | | Debt Service Funds |
|-----------------------------------|----------------------|---------------------------|------------------------|-------------------|----------------------------|
| Community Development Block Grant | Drug Law Enforcement | Albion Building Authority | Maple Grove Apartments | Revolving Loan | Energy 425 Generator Bonds |
| \$ 33,410 | \$ 9,775 | \$ 201,652 | \$ 690,645 | \$ 554,772 | \$ 35,410 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | 15,506 | - | 137,203 | - |
| - | - | - | - | - | - |
| - | - | 1,382 | 2,972 | - | - |
| - | - | 1,970 | - | - | - |
| <u>\$ 33,410</u> | <u>\$ 9,775</u> | <u>\$ 220,510</u> | <u>\$ 693,617</u> | <u>\$ 691,975</u> | <u>\$ 35,410</u> |
| \$ - | \$ 3,103 | \$ 4,376 | \$ 8,338 | \$ - | \$ - |
| - | 845 | - | 25,573 | 288 | - |
| - | - | - | - | 451 | - |
| - | - | - | - | - | - |
| -0- | 3,948 | 4,376 | 33,911 | 739 | -0- |
| - | - | - | - | - | - |
| - | - | 18,858 | 2,972 | 137,203 | - |
| 33,410 | 5,827 | 197,276 | 656,734 | 554,033 | 35,410 |
| <u>33,410</u> | <u>5,827</u> | <u>216,134</u> | <u>659,706</u> | <u>691,236</u> | <u>35,410</u> |
| <u>\$ 33,410</u> | <u>\$ 9,775</u> | <u>\$ 220,510</u> | <u>\$ 693,617</u> | <u>\$ 691,975</u> | <u>\$ 35,410</u> |

City of Albion

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2018

| | Debt Service Funds | | |
|--|-------------------------|---------------------|------------------|
| | DPW Building Debt | G.O. Water Bonds | ABA Bonds |
| ASSETS | | | |
| Cash and cash equivalents | \$ 295 | \$ 47,490 | \$ 28,514 |
| Investments | - | - | - |
| Accounts receivable | - | 503 | - |
| Taxes receivable | - | 3,834 | - |
| Loans receivable | - | - | - |
| Due from other governmental units | - | - | - |
| Prepays | - | - | - |
| Inventories | - | - | - |
| TOTAL ASSETS | <u>\$ 295</u> | <u>\$ 51,827</u> | <u>\$ 28,514</u> |
| LIABILITIES | | | |
| Accounts payable | \$ - | 540 | \$ - |
| Accrued liabilities | - | - | - |
| Due to other governmental units | - | - | - |
| Unearned revenue | - | - | - |
| TOTAL LIABILITIES | -0- | 540 | -0- |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue | - | 3,834 | - |
| FUND BALANCES | | | |
| Nonspendable | - | - | - |
| Restricted | 295 | 47,453 | 28,514 |
| TOTAL FUND BALANCES | <u>295</u> | <u>47,453</u> | <u>28,514</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | <u>\$ 295</u> | <u>\$ 51,827</u> | <u>\$ 28,514</u> |

| Capital Projects Funds | | | Permanent Fund | Total Nonmajor Governmental Funds |
|------------------------|----------------------------|-------------------|-------------------|-----------------------------------|
| Street Improvement | MDOT Street Reconstruction | Sidewalk Program | Cemetery Trust | |
| \$ 282,280 | \$ 49,883 | \$ 313,896 | \$ 97,173 | \$ 3,144,024 |
| 255,791 | - | 153,474 | 149,794 | 559,059 |
| - | - | - | - | 2,839 |
| 21,124 | - | - | - | 47,999 |
| - | - | - | - | 152,709 |
| - | - | - | - | 32,555 |
| - | - | - | - | 10,274 |
| - | - | - | - | 1,970 |
| <u>\$ 559,195</u> | <u>\$ 49,883</u> | <u>\$ 467,370</u> | <u>\$ 246,967</u> | <u>\$ 3,951,429</u> |
| \$ 1,186 | \$ 25,390 | \$ 1,544 | \$ - | \$ 46,833 |
| - | - | - | - | 37,867 |
| - | 331 | - | 7,596 | 13,334 |
| - | - | - | - | 2,864 |
| 1,186 | 25,721 | 1,544 | 7,596 | 100,898 |
| 10,380 | - | - | - | 21,139 |
| - | - | - | 215,000 | 379,953 |
| 547,629 | 24,162 | 465,826 | 24,371 | 3,449,439 |
| 547,629 | 24,162 | 465,826 | 239,371 | 3,829,392 |
| <u>\$ 559,195</u> | <u>\$ 49,883</u> | <u>\$ 467,370</u> | <u>\$ 246,967</u> | <u>\$ 3,951,429</u> |

City of Albion

Nonmajor Governmental Funds

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

Year Ended December 31, 2018

| | Special | | |
|---|-------------------|--------------------|-------------------|
| | Local Street | Recreation Fund | Solid Waste |
| REVENUES | | | |
| Taxes | \$ - | \$ 122,371 | \$ 245,057 |
| Intergovernmental | 326,743 | 6,549 | 18,498 |
| Charges for services | 300 | 13,770 | - |
| Interest and rents | 1,505 | 681 | 2,714 |
| Other | 1,113 | 8,356 | - |
| TOTAL REVENUES | 329,661 | 151,727 | 266,269 |
| EXPENDITURES | | | |
| Current | | | |
| Public safety | - | - | - |
| Public works | 375,874 | - | 128,094 |
| Community and economic development | - | - | - |
| Recreation and cultural | - | 138,938 | - |
| Debt service | | | |
| Principal | - | - | - |
| Interest and fiscal fees | - | - | - |
| Capital outlay | - | - | - |
| TOTAL EXPENDITURES | 375,874 | 138,938 | 128,094 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (46,213) | 12,789 | 138,175 |
| OTHER FINANCING SOURCES (USES) | | | |
| Proceeds from sale of assets | - | - | - |
| Transfers in | 190,000 | - | - |
| Transfers out | (3,000) | - | (25,500) |
| TOTAL OTHER FINANCING SOURCES (USES) | 187,000 | -0- | (25,500) |
| NET CHANGE IN FUND BALANCES | 140,787 | 12,789 | 112,675 |
| Fund balances, beginning of year | 206,248 | 105,933 | 255,987 |
| Fund balances, end of year | <u>\$ 347,035</u> | <u>\$ 118,722</u> | <u>\$ 368,662</u> |

| Revenue Funds | | | | | Debt Service Funds |
|-----------------------------------|----------------------|---------------------------|------------------------|----------------|----------------------------|
| Community Development Block Grant | Drug Law Enforcement | Albion Building Authority | Maple Grove Apartments | Revolving Loan | Energy 425 Generator Bonds |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | 235,771 | - | - |
| - | - | - | - | - | - |
| 185 | 31 | 40,383 | 228,764 | 7,723 | - |
| - | 29,674 | 4,300 | 6,827 | - | - |
| 185 | 29,705 | 44,683 | 471,362 | 7,723 | -0- |
| - | 39,074 | - | - | - | - |
| - | - | - | - | - | - |
| - | - | 84,743 | 313,660 | 5,122 | - |
| - | - | - | - | - | - |
| - | - | - | - | - | 130,000 |
| - | - | - | - | - | 50,600 |
| - | - | - | - | - | - |
| -0- | 39,074 | 84,743 | 313,660 | 5,122 | 180,600 |
| 185 | (9,369) | (40,060) | 157,702 | 2,601 | (180,600) |
| - | 6,000 | 135,125 | - | - | - |
| - | - | - | - | - | 180,600 |
| - | - | - | (64,750) | - | - |
| -0- | 6,000 | 135,125 | (64,750) | -0- | 180,600 |
| 185 | (3,369) | 95,065 | 92,952 | 2,601 | -0- |
| 33,225 | 9,196 | 121,069 | 566,754 | 688,635 | 35,410 |
| \$ 33,410 | \$ 5,827 | \$ 216,134 | \$ 659,706 | \$ 691,236 | \$ 35,410 |

City of Albion

Nonmajor Governmental Funds

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

Year Ended December 31, 2018

| | Debt Service Funds | | |
|---|-------------------------|---------------------|------------------|
| | DPW Building Debt | G.O. Water Bonds | ABA Bonds |
| REVENUES | | | |
| Taxes | \$ - | \$ 9,506 | \$ - |
| Intergovernmental | - | - | - |
| Charges for services | - | 12,302 | - |
| Interest and rents | - | - | - |
| Other | - | - | 26,226 |
| TOTAL REVENUES | -0- | 21,808 | 26,226 |
| EXPENDITURES | | | |
| Current | | | |
| Public safety | - | - | - |
| Public works | - | - | - |
| Community and economic development | - | - | - |
| Recreation and cultural | - | - | - |
| Debt service | | | |
| Principal | 12,790 | - | 95,000 |
| Interest and fiscal fees | 2,210 | - | 36,103 |
| Capital outlay | - | - | - |
| TOTAL EXPENDITURES | 15,000 | -0- | 131,103 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (15,000) | 21,808 | (104,877) |
| OTHER FINANCING SOURCES (USES) | | | |
| Proceeds from sale of assets | - | - | - |
| Transfers in | 15,000 | - | 107,772 |
| Transfers out | - | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | 15,000 | -0- | 107,772 |
| NET CHANGE IN FUND BALANCES | -0- | 21,808 | 2,895 |
| Fund balances, beginning of year | 295 | 25,645 | 25,619 |
| Fund balances, end of year | \$ 295 | \$ 47,453 | \$ 28,514 |

| Capital Projects Funds | | | Permanent Fund | Total Nonmajor Governmental Funds |
|------------------------|----------------------------|------------------|----------------|-----------------------------------|
| Street Improvement | MDOT Street Reconstruction | Sidewalk Program | Cemetery Trust | |
| \$ 244,750 | \$ - | \$ - | \$ - | \$ 621,684 |
| 18,498 | - | - | - | 606,059 |
| - | - | - | - | 26,372 |
| 5,982 | - | 5,129 | 5,729 | 298,826 |
| - | - | 20,561 | - | 97,057 |
| 269,230 | -0- | 25,690 | 5,729 | 1,649,998 |
| - | - | - | - | 39,074 |
| - | - | - | - | 503,968 |
| - | - | - | - | 403,525 |
| - | - | - | - | 138,938 |
| - | - | - | - | 237,790 |
| - | - | - | - | 88,913 |
| 1,138 | 116,943 | - | - | 118,081 |
| 1,138 | 116,943 | -0- | -0- | 1,530,289 |
| 268,092 | (116,943) | 25,690 | 5,729 | 119,709 |
| - | - | - | - | 141,125 |
| - | - | - | - | 493,372 |
| - | - | - | (30,000) | (123,250) |
| -0- | -0- | -0- | (30,000) | 511,247 |
| 268,092 | (116,943) | 25,690 | (24,271) | 630,956 |
| 279,537 | 141,105 | 440,136 | 263,642 | 3,198,436 |
| \$ 547,629 | \$ 24,162 | \$ 465,826 | \$ 239,371 | \$ 3,829,392 |

City of Albion

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

December 31, 2018

| | <u>Trust and Agency</u> | <u>Current Tax Collections</u> | <u>Total</u> |
|---------------------------|-----------------------------|------------------------------------|-------------------|
| ASSETS | | | |
| Cash and cash equivalents | <u>\$ 134,072</u> | <u>\$ 466,712</u> | <u>\$ 600,784</u> |
| LIABILITIES | | | |
| Due to County | \$ - | \$ 32,283 | \$ 32,283 |
| Due to State | 398 | 5,490 | 5,888 |
| Due to schools | 78,572 | 11,366 | 89,938 |
| Due to others | <u>55,102</u> | <u>417,573</u> | <u>472,675</u> |
| TOTAL LIABILITIES | <u>\$ 134,072</u> | <u>\$ 466,712</u> | <u>\$ 600,784</u> |

City of Albion

Pension and Employee Benefit Trust Funds

COMBINING STATEMENT OF FIDUCIARY NET POSITION

December 31, 2018

| | Public Safety Officers' Pension | Retiree Health Care | Total |
|---|---------------------------------------|------------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 517,932 | \$ 44,086 | \$ 562,018 |
| Investments | 19,792,405 | - | 19,792,405 |
| Interest receivable | 66,684 | - | 66,684 |
| | <u>20,377,021</u> | <u>44,086</u> | <u>20,421,107</u> |
| TOTAL ASSETS | 20,377,021 | 44,086 | 20,421,107 |
| LIABILITIES | <u>-</u> | <u>-</u> | <u>-0-</u> |
| NET POSITION | | | |
| Held in trust for pension and employee benefits | <u>\$ 20,377,021</u> | <u>\$ 44,086</u> | <u>\$ 20,421,107</u> |

City of Albion

Pension and Employee Benefit Trust Funds

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended December 31, 2018

| | Public Safety Officers' Pension | Retiree Health Care | Total |
|---------------------------------|---------------------------------------|------------------------|----------------------|
| ADDITIONS | | | |
| Net investment income | \$ (1,381,401) | \$ 662 | \$ (1,380,739) |
| Contributions - employee | 39,089 | - | 39,089 |
| TOTAL ADDITIONS | (1,342,312) | 662 | (1,341,650) |
| DEDUCTIONS | | | |
| Benefit payments | 803,441 | 2,400 | 805,841 |
| Administrative expense | 13,473 | - | 13,473 |
| TOTAL DEDUCTIONS | 816,914 | 2,400 | 819,314 |
| CHANGE IN NET POSITION | (2,159,226) | (1,738) | (2,160,964) |
| Net position, beginning of year | 22,536,247 | 45,824 | 22,582,071 |
| Net position, end of year | <u>\$ 20,377,021</u> | <u>\$ 44,086</u> | <u>\$ 20,421,107</u> |

City of Albion

Component Unit Funds

COMBINING BALANCE SHEET - ECONOMIC DEVELOPMENT CORPORATION

December 31, 2018

| | Economic Development | Special Revenue Business Incubator | Total |
|---|--------------------------|---|--------------------------|
| ASSETS | | | |
| Cash | \$ 118,109 | \$ 36,256 | \$ 154,365 |
| Prepays | 1,982 | 1,982 | 3,964 |
| TOTAL ASSETS | <u>\$ 120,091</u> | <u>\$ 38,238</u> | <u>\$ 158,329</u> |
| LIABILITIES | | | |
| Accounts payable | \$ 990 | \$ 2,158 | \$ 3,148 |
| Accrued liabilities | 3,102 | 1,632 | 4,734 |
| Unearned revenue | - | 2,100 | 2,100 |
| TOTAL LIABILITIES | 4,092 | 5,890 | 9,982 |
| FUND BALANCES | | | |
| Nonspendable - Prepays | 1,982 | 1,982 | 3,964 |
| Restricted for community and economic development | - | 30,366 | 30,366 |
| Unassigned | 114,017 | - | 114,017 |
| TOTAL FUND BALANCES | <u>115,999</u> | <u>32,348</u> | <u>148,347</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 120,091</u> | <u>\$ 38,238</u> | <u>\$ 158,329</u> |

City of Albion

Component Unit Funds

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

December 31, 2018

Total fund balances - governmental funds \$ 148,347

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>(49,584)</u> | |
| Capital assets, net | | 242,299 |

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 | (15,380) | |
| Compensated absences | (9,381) | |
| Accrued interest payable | <u>(748)</u> | |
| | | <u>(25,509)</u> |

Net position of governmental activities \$ 365,137

City of Albion

Component Unit Funds

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

Year Ended December 31, 2018

| | Economic Development | Special Revenue Business Incubator | Total |
|------------------------------------|-------------------------|---|-------------|
| REVENUES | | | |
| Intergovernmental | \$ 23,452 | \$ 40,319 | \$ 63,771 |
| Charges for services | - | 2,044 | 2,044 |
| Interest and rents | 85,614 | 42,929 | 128,543 |
| Other | 65,098 | 32,477 | 97,575 |
| | <hr/> | <hr/> | <hr/> |
| TOTAL REVENUES | 174,164 | 117,769 | 291,933 |
| EXPENDITURES | | | |
| Current | | | |
| Community and economic development | 126,377 | 115,871 | 242,248 |
| Debt service | | | |
| Principal | 4,488 | - | 4,488 |
| Interest and fiscal fees | 993 | - | 993 |
| | <hr/> | <hr/> | <hr/> |
| TOTAL EXPENDITURES | 131,858 | 115,871 | 247,729 |
| NET CHANGE IN FUND BALANCES | 42,306 | 1,898 | 44,204 |
| Fund balances, beginning of year | <hr/> | <hr/> | <hr/> |
| | 73,693 | 30,450 | 104,143 |
| Fund balances, end of year | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| | \$ 115,999 | \$ 32,348 | \$ 148,347 |

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, 2018

Net change in fund balances - governmental funds \$ 44,204

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 (13,060)

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 4,488

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

| | | |
|--------------------------------------|------------|----------------|
| (Increase) in compensated absences | \$ (9,381) | |
| Decrease in accrued interest payable | <u>217</u> | |
| | | <u>(9,164)</u> |

Change in net position of governmental activities \$ 26,468

City of Albion

Component Unit Funds

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

December 31, 2018

| | |
|-------------------------------------|--------------------------|
| ASSETS | |
| Cash | \$ 58,652 |
| Taxes receivable | 9,998 |
| Due from other governmental units | 617,138 |
| Prepays | <u>669</u> |
| TOTAL ASSETS | <u><u>\$ 686,457</u></u> |
| LIABILITIES | |
| Accounts payable | \$ 617,158 |
| Due to other governmental units | <u>7,433</u> |
| TOTAL LIABILITIES | 624,591 |
| FUND BALANCES | |
| Nonspendable | 669 |
| Unassigned | <u>61,197</u> |
| TOTAL FUND BALANCES | <u>61,866</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u><u>\$ 686,457</u></u> |

City of Albion

Component Unit Funds

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

December 31, 2018

Total fund balance - governmental fund \$ 61,866

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 | \$ 272,875 |
| Accumulated depreciation is | <u>(82,690)</u> |

| | |
|---------------------|----------------|
| Capital assets, net | <u>190,185</u> |
|---------------------|----------------|

Net position of governmental activities \$ 252,051

City of Albion

Component Unit Funds

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

Year Ended December 31, 2018

| | |
|------------------------------------|-------------------------|
| REVENUES | |
| Taxes | \$ 72,899 |
| Intergovernmental | 842,741 |
| Interest | 594 |
| Other | <u>657,696</u> |
| TOTAL REVENUES | 1,573,930 |
| EXPENDITURES | |
| Current | |
| Community and economic development | <u>1,566,589</u> |
| NET CHANGE IN FUND BALANCES | 7,341 |
| Fund balance, beginning of year | <u>54,525</u> |
| Fund balance, end of year | <u><u>\$ 61,866</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, 2018

Net change in fund balance - governmental fund \$ 7,341

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 \$ 297

City of Albion

Component Unit Funds

BALANCE SHEET - TAX INCREMENT FINANCE AUTHORITY

December 31, 2018

| | |
|-------------------------------------|-------------------|
| ASSETS | |
| Cash | \$ 257,006 |
| Interest receivable | 538 |
| Taxes receivable | <u>31,092</u> |
| TOTAL ASSETS | <u>\$ 288,636</u> |
| LIABILITIES | |
| Accounts payable | \$ 28 |
| Accrued liabilities | <u>6,604</u> |
| TOTAL LIABILITIES | 6,632 |
| FUND BALANCE | |
| Unassigned | <u>282,004</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 288,636</u> |

City of Albion

Component Unit Funds

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

December 31, 2018

Total fund balance - governmental fund \$ 282,004

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 (9,920)

Net position of governmental activities \$ 432,084

City of Albion

Component Unit Funds

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

Year Ended December 31, 2018

| | |
|------------------------------------|--------------------------|
| REVENUES | |
| Taxes | \$ 234,570 |
| Interest | 1,107 |
| Other | <u>57,047</u> |
| TOTAL REVENUES | 292,724 |
| EXPENDITURES | |
| Current | |
| Community and economic development | <u>170,926</u> |
| NET CHANGE IN FUND BALANCE | 121,798 |
| Fund balance, beginning of year | <u>160,206</u> |
| Fund balance, end of year | <u><u>\$ 282,004</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, 2018

Net change in fund balance - governmental fund \$ 121,798

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

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

Decrease in accrued compensated absences 12,801

Change in net position of governmental activities \$ 134,599

City of Albion

Component Unit Funds

BALANCE SHEET - BROWNFIELD DEVELOPMENT AUTHORITY

December 31, 2018

ASSETS

| | |
|-----------------------------------|-------------------|
| Cash | \$ 68,327 |
| Taxes receivable | 87,962 |
| Due from other governmental units | <u>7,433</u> |
| | <u>\$ 163,722</u> |

LIABILITIES

| | |
|------------------|------------|
| Accounts payable | \$ 158,722 |
|------------------|------------|

FUND BALANCES

| | |
|------------|-------------------|
| Unassigned | <u>5,000</u> |
| | <u>\$ 163,722</u> |

Note: Reconciliation of the component unit governmental fund balance sheet to the statement of net position for this component unit is not required as the component unit's fund balance was equal to the component unit's net position as of December 31, 2018.

City of Albion

Component Unit Funds

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

December 31, 2018

| | |
|------------------------------------|-----------------|
| REVENUES | |
| Taxes | \$ 87,962 |
| Intergovernmental | <u>75,760</u> |
| TOTAL REVENUES | 163,722 |
| EXPENDITURES | |
| Current | |
| Community and economic development | <u>158,722</u> |
| NET CHANGE IN FUND BALANCES | 5,000 |
| Fund balance, beginning of year | <u>-</u> |
| Fund balance, end of year | <u>\$ 5,000</u> |

Note: Reconciliation of the statement of revenues, expenditures, and changes in fund balance of this component unit's governmental fund to the statement of activities for the component unit is not required as the net change in fund balance of the component unit governmental fund was equal to the change in net position of the component unit for the year ended December 31, 2018.