**City of Albion**

**Calhoun County, Michigan**

**FINANCIAL STATEMENTS**

**December 31, 2014**

Calhoun County, Michigan

December 31, 2014

CITY COUNCIL AND ADMINISTRATION

Joseph Domingo Mayor

Maurice Barnes, Jr. Council member

Lenn Reid Council member

Garrett Brown Council member

William Wheaton Council member

Cheryl Krause Council member

Andrew French Council member

Sheryl Mitchell City Manager

Tom Mead City Treasurer/

Finance Director

Jill Domingo Clerk

TABLE OF CONTENTS

December 31, 2014

|  |  |  |
| --- | --- | --- |
|  |  | Page |
| INDEPENDENT AUDITOR’S REPORT |  | i-iii |
| MANAGEMENT’S DISCUSSION AND ANALYSIS    BASIC FINANCIAL STATEMENTS    Government-wide Financial Statements |  | iv-xi |
| Statement of Net Position |  | 1 |
| Statement of Activities    Fund Financial Statements  Governmental Funds |  | 2 |
| Balance Sheet |  | 3-4 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position |  | 5 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances  Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances |  | 6-7 |
| of the Governmental Funds to the Statement of Activities Proprietary Funds |  | 8 |
| Statement of Net Position |  | 9 |
| Statement of Revenues, Expenses, and Changes in Net Position |  | 10 |
| Statement of Cash Flows Fiduciary Funds |  | 11-12 |
| Statement of Net Position |  | 13 |
| Statement of Changes in Net Position    Component Unit Financial Statements |  | 14 |
| Combining Statement of Net Position |  | 15-16 |
| Combining Statement of Activities |  | 17 |
| Notes to Financial Statements    REQUIRED SUPPLEMENTARY INFORMATION |  | 18-46 |
| Budgetary Comparison Schedule - General Fund |  | 47-49 |
| Budgetary Comparison Schedule - Albion Trust Fund |  | 50 |
| Schedules of Funding Progress |  | 51 |
| Schedules of Employer Contributions |  | 52 |
| Schedules of Changes in City’s Net Pension Liability and Related Ratios |  | 53 |
| Schedule of City’s Contributions |  | 54 |
| Schedule of Investment Returns |  | 55 |
| Notes to Required Supplementary Information    OTHER SUPPLEMENTARY INFORMATION    Nonmajor Governmental Funds |  | 56-57 |
| Combining Balance Sheet |  | 58-61 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances |  | 62-65 |
| Combining Statement of Fiduciary Assets and Liabilities - Agency Funds |  | 66 |
| Combining Statement of Fiduciary Net Position - Pension and Employee Benefit Trust Funds Combining Statement of Changes in Fiduciary Net Position - Pension and Employee |  | 67 |
| Benefit Trust Funds |  | 68 |

TABLE OF CONTENTS - CONTINUED

December 31, 2014

|  |  |
| --- | --- |
| OTHER SUPPLEMENTARY INFORMATION - CONTINUED    COMPONENT UNIT FUNDS    ECONOMIC DEVELOPMENT CORPORATION | Page |
| Combining Balance Sheet | 69 |
| Reconciliation of the Combining Balance Sheet to the Statement of Net Position | 70 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  Reconciliation of the Combining Statement of Revenues, Expenditures, and Changes in | 71 |
| Fund Balances of the Governmental Funds to the Statement of Activities    DOWNTOWN DEVELOPMENT AUTHORITY | 72 |
| Balance Sheet | 73 |
| Reconciliation of the Balance Sheet to the Statement of Net Position | 74 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance  Reconciliation of the Statement of Revenues, Expenditures, and Changes in | 75 |
| Fund Balance of the Governmental Funds to the Statement of Activities    TAX INCREMENT FINANCE AUTHORITY | 76 |
| Balance Sheet | 77 |
| Reconciliation of the Balance Sheet to the Statement of Net Position | 78 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance  Reconciliation of the Statement of Revenues, Expenditures, and Changes in | 79 |
| Fund Balance of the Governmental Funds to the Statement of Activities | 80 |



Principals 3511 Coolidge Road

---———--—— Suite 100

Dale J. Abraham, CPA East Lansing, MI 48823

Michael T. Gaffney, CPA (517) 351-6836

Steven R. Kirinovic, CPA  **ABRAHAM & GAFFNEY, P.C.** FAX: (517) 351-6837

Aaron M. Stevens, CPA Certified Public Accountants

Eric J. Glashouwer, CPA

Alan D. Panter, CPA

William I. Tucker IV, CPA

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, 2014, 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 87 percent, 90 percent, and 53 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.

Auburn Hills ▪ East Lansing ▪ Grand Rapids ▪ St. Johns

#### ***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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Changes in Accounting Principles***

As discussed in Note O, during the year the City implemented GASB Statement No. 67, *Financial Reporting for Pension Plans.* As a result, the financial statements now include substantially different note disclosures and required supplementary information related to the pension trust fund. 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 22, 2015, on our consideration of the City of Albion, Michigan’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Albion’s internal control over financial reporting and compliance.

ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

June 22, 2015

This discussion and analysis is intended to provide an overview of the City’s financial condition for the year ended December 31, 2014, 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 2014 fiscal year.

##### Government-Wide Financial Statements

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

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

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

* Governmental Activities - Most of the City’s basic services are reported here, including, but not limited to, police, fire, general administration, parks and recreation, public works, and major and local streets. Taxes, charges for services and intergovernmental revenue primarily fund these services.

* Business-type Activities - These activities operate like private business. The City charges fees to recover the cost of the services provided. The City’s water and sewer activities are reported here.

* Component Units - Component units are legally separate organizations for which the City Council appoints a majority of the organizations board and there is a degree of financial accountability to the City. Component units for the City of Albion are the Downtown Development Authority (DDA), the Economic Development Corporation (EDC) and the Tax Increment Finance Authority (TIFA).

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

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

|  |  |  |
| --- | --- | --- |
| 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, Street Improvement, 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.

##### 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 noneconomic 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, 2014 and 2013

**Total**

**Governmental Business-type Primary**

**Activities Activities Government**

2014

2013

2014

2013

2014

2013

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Current and |  |  |  |  |  |  |
| Other Assets | $ 5,375,191 | $ 5,373,387 | $ 1,897,411 | $ 1,884,436 | $ 7,272,602 | $ 7,257,823 |
| Capital Assets | 9,195,241 | 8,585,112 | 8,896,554 | 9,297,772 | 18,091,795 |  |

**Total Assets ,570,432$ 14 ,958,499$13 ,793,965$10 ,182,208$11 ,364,397$ 25 ,140,707$25**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Current Liabilities | $ 956,573 | $ 963,388 | $ 223,345 | $ 271,885 | $ 1,179,918 | $ 1,235,273 |
| Noncurrent Liabilities | 2,917,588 | 3,295,400 | 376,754 | 597,927 | 3,294,342 | 3,893,327 |
| **Total Liabilities** | **,874,161$ 3** | **,258,788$ 4** | **$ 600,099** | **$ 869,812** | **,474,260$ 4** | **,128,600$ 5** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Net Position  Net investment in Capital |  |  |  |  |  |  |
| Assets | $ 6,225,942 | $ 5,244,692 | $ 8,451,554 | $ 8,712,772 | $ 14,677,496 | $ 13,957,464 |
| Restricted | 3,141,517 | 3,046,751 | 61,990 | 61,990 | 3,203,507 | 3,108,741 |
| Unrestricted | 1,328,812 | 1,408,268 | 1,680,322 | 1,537,634 | 3,009,134 | 2,945,902 |
| **Total Net Position** | **,696,271$ 10** | **,699,711$ 9** | **,193,866$10** | **,312,396$10** | **,890,137$ 20** | **,012,107$20** |

The total net position for Governmental Activities increased by $996,560, which is primarily a result of a purchase of a new fire truck with grant funding. The total net position for business-type activities decreased by $172,670 mainly as a result of operating losses in the sewer fund and transfers.

##### Changes in Net Position for the Fiscal Year Ended December 31, 2014 and 2013

**Total**

**Governmental Business-type Primary**

**Activities Activities Government**

2014

2013

2014

2013

2014

2013

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Revenues  Program Revenues |  |  |  |  |  |  |
| Charges for Services  Grants and | $ 985,880 | $ 955,236 | $ 2,004,350 | $ 2,041,858 | $ 2,990,230 | $ 2,997,094 |
| Contributions General Revenues | 1,933,077 | 1,440,027 | - | - | 1,933,077 | 1,440,027 |
| Property Taxes | 1,558,176 | 1,793,506 | - | - | 1,558,176 | 1,793,506 |
| Income Taxes State Shared | 979,477 | 1,019,280 | - | - | 979,477 | 1,019,280 |
| Revenues | 1,020,273 | 992,635 | - | - | 1,020,273 | 992,635 |
| Investment Earnings | 64,747 | 105,335 | 4,210 | 4,683 | 68,957 | 110,018 |
| Miscellaneous | 630,989 | 360,583 | 65,222 | 40,562 | 696,211 | 401,145 |
| Transfers | 164,739 | 172,375 | (164,739) | (172,375) | -0- | -0- |
| **Total Revenues** | **,337,358$ 7** | **,838,977$ 6** | **,909,043$ 1** | **,914,728$ 1** | **,246,401$ 9** | **,753,705$ 8** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Expenses |  |  |  |  |  |  |
| General Government | $ 1,249,645 | $ 994,963 | $ - | $ - | $ 1,249,645 | $ 994,963 |
| Public Safety | 1,929,994 | 2,250,452 | - | - | 1,929,994 | 2,250,452 |
| Public Works | 1,827,001 | 1,412,465 | - | - | 1,827,001 | 1,412,465 |
| Health and Welfare  Community and | 33,181 | 9,041 | - | - | 33,181 | 9,041 |
| Econ. Development  Recreation | 735,189 | 679,783 | - | - | 735,189 | 679,783 |
| and Cultural  Interest on Long | 432,640 | 370,612 | - | - | 432,640 | 370,612 |
| Term Debt | 133,148 | 150,081 | - | - | 133,148 | 150,081 |
| Other | - | - | 2,081,713 | 2,170,593 | 2,081,713 | 2,170,593 |
| **Total Expenses** | **,340,798 6** | **,867,397 5** | **,081,713 2** | **,170,593 2** | **,422,511 8** | **,037,990 8** |
| Change in Net Position | 996,560 | 971,580 | (172,670) | (255,865) | 823,890 | 715,715 |
| Restated Net Position- Beginning  **Net Position** | 9,699,711 | 8,728,131 | 10,366,536 | 10,568,261 | 20,066,247 | 19,696,768 |
|  | | |
| **Ending** | **,696,271$ 10** | **,699,711$ 9** | **,193,866$10** | **,312,396$10 ,890,137$ 20 ,012,107$20** | | |

*Governmental Activities*

**Revenues:**

The three largest revenue sources under the governmental activities category are operating grants and contributions at 26%, property taxes at 21% and state shared revenue at 14%. Grants and contributions reflected the largest change from 2013 as it increased 34%, or $493,000. The reason for this increase was the $950,000 grant the City received in 2014 for the new ladder truck, offset by the $470,000 absence of the DIGG grant received in 2013 for the downtown sidewalk improvements. Property taxes continued their downward trend, as the City saw a $235,000 decline in 2014 when compared to the prior year. This represents a 13% drop in 2014. Unfortunately, the City expects this decline to continue for the next year or two, which will create some challenges when preparing future budgets. Some of this property tax decline is attributable to an unexpected Tax Tribunal adjustment to a sizable parcel. On a positive note, the state shared revenues actually increased in 2014 exceeding the 2013 mark by $27,600, or about 3%. In early 2015, City voters renewed a three-year 1.5 mill levy for recreation, which extends this income stream out through 2018. This, along with a Street millage that was also renewed in early 2015, will help alleviate some of the future budget concerns.

**Expenses:**

The largest governmental activities expense item is Public Safety at 40% of total expenses. The next largest expense item is Public Works at 25% of total expenses. Total expenses increased by about $1,435,947 from approximately $5.87 million in 2013 to approximately $7.30 million in 2014. However, it should be noted that the purchase of the new ladder truck accounts for the majority ($996,331) of this increase. The balance of the increase is attributable to a number of factors, including but not limited to the higher utility charges, snow and ice removal due to the harsh winter, the absence of a large street light credit adjustment received in 2013, and the insurance cost increase that exceeded 19% over 2013.

##### Business-Type Activities

The Statement of Net Position shows that for business-type activities as of December 31, 2014, there was a total net position of $10,193,866, which represents a decrease of $172,670 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, 2014, the General Fund had a nonspendable fund balance of $236,037, an assigned fund balance of $82,692 and an unassigned fund balance of $723,128. Total fund balance had a decrease of $50,542 from the fund balance on December 31, 2013.

From a budgetary standpoint, General Fund budgeted revenues and other financing sources were greater than actual revenues by $103,411 and expenditures and other financing uses came in under budget by $55,464.

**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 $34,959. Fund balance for this fund was $1,202,048 at year-end.

**Street Improvement:**

Fund balance increased by $61,695 during the year. The Street Improvement fund balance was $274,629 as of December 31, 2014.

**Sewer:**

The City operates a wastewater treatment plant and collection system that serves the City and a small portion of a neighboring township. For the last several years, the City has increased rates; however, the system has not been able to cover all of its operating costs, including depreciation. Net position for the sewer system decreased by $180,190 to a December 31, 2014, level of $4,681,804. The majority of these assets are invested in facilities and equipment. The City has recognized that additional rate increases may be required. The goal of the City is to have a rate study conducted in the very near future to determine what level the rates should be set at, and to determine if the current rate structure is maximizing revenues.

**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; as a result, the City had operating income of $27,954 in the current year. Net position for the water system increased by $7,520 to a December 31, 2014, level of $5,512,062.

##### Capital Assets and Debt Administration

At the end of the year, the City had invested $9,195,241 and $8,896,554 (net of accumulated depreciation) for governmental and business-type capital assets respectively. Depreciation charges for the fiscal year totaled $407,460 for the governmental activities and $440,149 for the business-type activities. The following chart provides more detail on these capital assets.

**Business-**

**Governmental Type**

### Activities Activities Total

|  |  |  |  |
| --- | --- | --- | --- |
| Land and construction in progress | $ 487,975 | $ 93,700 | $ 581,675 |
| Buildings and improvements, net | 4,972,811 | 5,350,926 | 10,323,737 |
| Infrastructure, net | 2,502,730 | - | 2,502,730 |
| Vehicles and equipment, net | 1,231,725 | 147,369 | 1,379,094 |
| Sewer system, net | - | 1,467,509 | 1,467,509 |
| Water system, net | - | 1,837,050 | 1,837,050 |
| Capital Assets, net | **$ 9,195,241** | **,896,554$ 8** | **,091,795$ 18** |

Long-term Debt:

As of December 31, 2014, the City had the following bond debt outstanding:

### Primary Government

**Jan. 1, 2014 Additions Deletions Dec. 31, 2014**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Governmental Activities |  |  |  |  |
| General Obligation Bonds | $ 1,645,000 | $ - | $ (120,000) | $ 1,525,000 |
| Refunding Bonds | 525,000 | - | (125,000) | 400,000 |
| Installment Purchase Agreement | 36,863 | - | (18,579) | 18,284 |
| EPA Liability | 91,737 | - | (5,866) | 85,871 |
| Building Authority Bonds | 980,000 | - | (80,000) | 900,000 |
| Land contract | 153,557 | - | (27,542) | 126,015 |
| Compensated Absences | 293,346 | 112,532 | (153,198) | 252,680 |
| Business-type Activities | 3,725,503 | 112,532 | (530,185) | 3,307,850 |
| Revenue Refunding Bonds | 585,000 | - | (140,000) | 445,000 |
| Compensated Absences | 220,472 | 43,350 | (155,850) | 107,972 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 805,472 | 43,350 | (295,850) | 552,972 |
| **Total Primary Government** | **,530,975$ 4** | **$ 155,882** | **$ (826,035)** | **,860,822$ 3** |

As of December 31, 2014, the City had total outstanding debt for governmental activities (including compensated absences) of $3,307,850. For business-type activities, the outstanding debt (including compensated absences) was $552,972 as of December 31, 2014. 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.

#### Economic Factors and Next Year’s Budget

In 2008, because of the approved special millage to fund the new Albion District Library, the City lowered its operating millage to 10.3802 mills. For 2014, the City has raised the general operating millage by 0.0934 mills to a total of 11.9736 mills. In addition, the City has several special millages that have been approved by the voters. For 2014 these were:

1. Water plant bonds - 1.30 mills
2. Street reconstruction - 3.00 mills
3. Recreation - 1.50 mills

In addition, the City levies 2.0 mills for solid waste under existing state statute. Thus, the 2014 total City millage levy was 19.7736 mills. While the revenue mix has changed, the overall revenues seemed to stabilize somewhat for 2014. However, there are continued concerns with declining taxable values within the City and as the State has passed legislation to eliminate personal property taxes. Additionally, a continuation in the rising costs of insurance, utilities and other major expenses seems to surpass any recognized revenue gains. The direction of the State economy combined with future legislation will be key components in the City’s success over the next several years.

In the area of expenses, the City currently has contracts with all of its four unions, which do not expire until December 31, 2015. For the 2015 fiscal year, there was a negotiated 1% pay increase.

Just like other employers, the City has struggled with significant increases in the cost for medical insurance for its employees’ (during 2014 health insurance premiums increased 19% because of new fees derived from the Affordable Care Act). Although the City was able to negotiate a change to its drug card policy which held the 2015 health insurance premiums to a modest 3.5% increase over 2014, there continues to be significant concerns about the future costs of health insurance for the City’s employees. The Affordable Care Act will require the City to make major changes in this area starting in 2016, and many of these changes remain unknown at this time.

The City continues to pursue grants to assist with capital projects, as well as activities that can spur economic development and job creation in the City. As a result of the special voted millage (the current 3.0 mill annual levy was renewed in 2015 for another 5 years) for street reconstruction, the City is able to have an active street reconstruction program each year. Because of this special Street millage, and in collaboration with Albion College, over $550,000 was spent on improving City streets in 2014. In addition, State and Federal grants awarded in 2014 enabled the City to acquire a $1 million ladder truck for its Public Safety Department, and allowed for $360,000 in contributions towards the renovation of the Historic Bohm Theatre.

In 2008, the City implemented a special assessment process for the repair and replacement of city sidewalks. This process and construction is expected to last for 10 years. (There will be 2 years remaining on this program after 2015). Because of this program, nearly $100,000 in sidewalk repairs were completed in 2014.

The City has experienced no specific events that it believes will materially impact the finances of the City for the next few years. However, the continued lagging of the economy in southcentral Michigan, as well as the limitations on tax millage, will provide on-going challenges to the City to provide necessary services within existing resources.

#### 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**

STATEMENT OF NET POSITION

December 31, 2014

Primary Government

Governmental Business-type Component Activities Activities Total Units

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| ASSETS  Current assets |  |  |  |  |
| Cash and cash equivalents | $ 2,147,788 | $ 832,360 | $ 2,980,148 | $ 473,250 |
| Cash and cash equivalents - restricted | - | 61,990 | 61,990 | - |
| Investments | 1,701,278 | - | 1,701,278 | 326,090 |
| Receivables | 910,597 | 578,091 | 1,488,688 | 31,568 |
| Due from other governmental units | 279,910 | - | 279,910 | 32,187 |
| Inventories | 34,176 | 8,154 | 42,330 | - |
| Prepaids | 259,589 | 17,243 | 276,832 | 24,641 |
| Internal balances | 21 | (21) | -0- | - |
| Total current assets  Noncurrent assets | 5,333,359 | 1,497,817 | 6,831,176 | 887,736 |
| Investments | - | 399,594 | 399,594 | - |
| Due from other governmental units | 41,832 | - | 41,832 | - |
| Capital assets not being depreciated | 487,975 | 93,700 | 581,675 | 211,661 |
| Capital assets, net of accumulated depreciation | 8,707,266 | 8,802,854 | 17,510,120 | 3,895,012 |
| Total noncurrent assets | 9,237,073 | 9,296,148 | 18,533,221 | 4,106,673 |
| TOTAL ASSETS  LIABILITIES  Current liabilities | 14,570,432 | 10,793,965 | 25,364,397 | 4,994,409 |
| Accounts payable | 257,602 | 20,169 | 277,771 | 63,519 |
| Accrued wages | 58,238 | 23,567 | 81,805 | - |
| Accrued liabilities | 102,930 | 3,391 | 106,321 | 55,130 |
| Due to other governmental units | 6,464 | - | 6,464 | 41,832 |
| Accrued interest payable | 32,593 | - | 32,593 | 1,559 |
| Unearned revenue | 36,000 | - | 36,000 | 61,224 |
| Current portion of compensated absences | 81,094 | 31,218 | 112,312 | 12,558 |
| Current portion of long-term debt | 381,652 | 145,000 | 526,652 | 3,877 |
| Total current liabilities  Noncurrent liabilities | 956,573 | 223,345 | 1,179,918 | 239,699 |
| Net OPEB obligation | 72,484 | - | 72,484 | - |
| Noncurrent portion of compensated absences | 171,586 | 76,754 | 248,340 | 68,472 |
| Noncurrent portion of long-term debt | 2,673,518 | 300,000 | 2,973,518 | 28,212 |
| Total noncurrent liabilities | 2,917,588 | 376,754 | 3,294,342 | 96,684 |
| TOTAL LIABILITIES  NET POSITION | 3,874,161 | 600,099 | 4,474,260 | 336,383 |
| Net investment in capital assets Restricted for:  Nonexpendable | 6,225,942 | 8,451,554 | 14,677,496 | 4,106,673 |
| Perpetual care Expendable | 215,000 | - | 215,000 | - |
| Debt service | 43,471 | 61,990 | 105,461 | - |
| Streets and highways | 570,438 | - | 570,438 | - |
| Sidewalks | 205,193 | - | 205,193 | - |
| Perpetual care | 50,340 | - | 50,340 | - |
| Community and economic development | 1,921,511 | - | 1,921,511 | 32,409 |
| Solid waste | 103,493 | - | 103,493 | - |
| Law enforcement | 32,071 | - | 32,071 | - |
| Unrestricted | 1,328,812 | 1,680,322 | 3,009,134 | 518,944 |
| TOTAL NET POSITION | $ 10,696,271 | $ 10,193,866 | $ 20,890,137 | $ 4,658,026 |

City of Albion

STATEMENT OF ACTIVITIES

Year Ended December 31, 2014

Operating

Component

Business-type

Governmental

Charges for

Grants and

Functions/Programs

Units

Total

Expenses

Activities

Activities

Services

Contributions

Primary Government

Net (Expense) Revenue and Changes in Net Position

Program Revenues

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Primary government Governmental activities |  |  |  |  |  |  |  |
| General government | $ 1,249,645 | $ 486,019 | $ - | $ (763,626) | $ - | $ (763,626) | $ - |
| Public safety | 1,929,994 | 11,345 | 961,528 | (957,121) | - | (957,121) | - |
| Public works | 1,827,001 | 163,398 | 728,684 | (934,919) | - | (934,919) | - |
| Health and welfare | 33,181 | - | - | (33,181) | - | (33,181) | - |
| Community and economic development | 735,189 | 311,403 | 205,995 | (217,791) | - | (217,791) | - |
| Recreation and cultural | 432,640 | 13,715 | 36,870 | (382,055) | - | (382,055) | - |
| Interest on long-term debt | 133,148 | - | - | (133,148) | - | (133,148) | - |
| Total governmental activities  Business-type activities | 6,340,798 | 985,880 | 1,933,077 | (3,421,841) | -0- | (3,421,841) | -0- |
| Sewer system | 1,201,872 | 1,157,838 | - | - | (44,034) | (44,034) | - |
| Water system | 879,841 | 846,512 | - | - | (33,329) | (33,329) | - |
| Total business-type activities | 2,081,713 | 2,004,350 | -0- | -0- | (77,363) | (77,363) | -0- |
| Total primary government | $ 8,422,511 | $ 2,990,230 | $ 1,933,077 | (3,421,841) | (77,363) | (3,499,204) | -0- |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Component units |  |  |  |  |  |  |  |
| Economic Development Corporation | $ 357,208 | $ 100,070 | $ 276,877 | - | - | - | 19,739 |
| Downtown Development Authority | 421,582 | - | 360,000 | - | - | - | (61,582) |
| Tax Increment Finance Authority | 189,563 | - | - | - | - | - | (189,563) |
| Albion Housing Commission | 1,447,749 | 415,396 | 737,375 | - | - | - | (294,978) |
| Total component units | $ 2,416,102 | $ 515,466 | $ 1,374,252 | -0- | -0- | -0- | (526,384) |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| General revenues |  |  |  |  |
| Property taxes | 1,558,176 | - | 1,558,176 | 265,562 |
| Income taxes | 979,477 | - | 979,477 | - |
| State shared revenue | 1,020,273 | - | 1,020,273 | - |
| Investment earnings | 64,747 | 4,210 | 68,957 | 3,590 |
| Miscellaneous | 630,989 | 65,222 | 696,211 | 15,348 |
| Transfers | 164,739 | (164,739) | -0- | - |
| Total general revenues and transfers | 4,418,401 | (95,307) | 4,323,094 | 284,500 |
| Change in net position | 996,560 | (172,670) | 823,890 | (241,884) |
| Restated net position, beginning of the year | 9,699,711 | 10,366,536 | 20,066,247 | 4,899,910 |
| Net position, end of the year | $ 10,696,271 | $ 10,193,866 | $ 20,890,137 | $ 4,658,026 |

See accompanying notes to financial statements.

- 2 -

Governmental Funds

BALANCE SHEET

December 31, 2014

|  |  |  |
| --- | --- | --- |
|  | Special Revenue | Capital Projects |
|  | Albion | Street |
| General | Trust | Improvement |

|  |  |  |  |
| --- | --- | --- | --- |
| ASSETS |  |  |  |
| Cash and cash equivalents | $ 529,912 | $ - | $ 218,007 |
| Investments  Receivables | 199,941 | 1,202,048 | - |
| Interest | - | - | - |
| Accounts | 162,465 | - | - |
| Taxes | 127,416 | - | 14,920 |
| Loans | - | - | - |
| Due from other funds | 18,983 | - | - |
| Due from other governmental units | 3,664 | - | 131,430 |
| Prepaids | 236,037 | - | - |
| Inventories | - | - | - |

TOTAL ASSETS

$ 1,278,418

1,202,048

$

$ 364,357

|  |  |  |  |
| --- | --- | --- | --- |
| LIABILITIES |  |  |  |
| Accounts payable | $ 52,547 | $ - | $ 80,067 |
| Accrued liabilities | 46,863 | - | - |
| Accrued wages | 56,001 | - | - |
| Due to other funds | 6,000 | - | - |
| Due to other governmental units | - | - | - |
| Unearned revenue | 35,000 | - | - |

|  |  |  |  |
| --- | --- | --- | --- |
| TOTAL LIABILITIES  DEFERRED INFLOWS OF RESOURCES | 196,411 | -0- | 80,067 |
| Unavailable revenue  FUND BALANCES | 8,664 | - | 9,661 |
| Nonspendable | 236,037 | - | - |
| Restricted | - | 1,202,048 | 274,629 |
| Assigned | 82,692 | - | - |
| Unassigned | 754,614 | - | - |

TOTAL FUND BALANCES

1,073,343

1,202,048

274,629

TOTAL LIABILITIES, DEFERRED INFLOWS

### OF RESOURCES, AND FUND BALANCES $ 1,278,418 $ 1,202,048 $ 364,357

Nonmajor Total

Governmental Governmental

Funds Funds

|  |  |
| --- | --- |
| $ 1,343,417 | $ 2,091,336 |
| 299,289 | 1,701,278 |
| 13,208 | 13,208 |
| 21,816 | 184,281 |
| 24,791 | 167,127 |
| 545,981 | 545,981 |
| 29,201 | 48,184 |
| 186,648 | 321,742 |
| 15,655 | 251,692 |
| 26,020 | 26,020 |

2,506,026

$

$ 5,350,849

|  |  |
| --- | --- |
| $ 31,818 | $ 164,432 |
| 56,067 | 102,930 |
| - | 56,001 |
| 42,163 | 48,163 |
| 6,464 | 6,464 |
| 1,000 | 36,000 |

|  |  |
| --- | --- |
| 137,512 | 413,990 |
| 37,126 | 55,451 |
| 844,488 | 1,080,525 |
| 1,482,433 | 2,959,110 |
| 4,467 | 87,159 |
| - | 754,614 |

2,331,388

4,881,408

#### $ 2,506,026 $ 5,350,849

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET

TO THE STATEMENT OF NET POSITION

December 31, 2014

#### **Total fund balances - governmental funds** $ 4,881,408

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 | $ 13,384,510 |  |
| Accumulated depreciation is | (4,429,381) |  |
| Capital assets, net  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 |  | 8,955,129 |
| in the Government-wide Statement of Net Position.  Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds. These consist of: |  | 198,926 |
| Unavailable revenue  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: |  | 55,451 |
| Direct City obligations | (3,036,886) |  |
| Accrued interest payable | (32,593) |  |
| Net other post-employment benefits obligation | (72,484) |  |
| Compensated absences | (252,680) | (3,394,643) |

#### **Net position of governmental activities**

10,696,271

$

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

|  |  |  |
| --- | --- | --- |
| Year Ended December 31, 2014 |  |  |
|  | Special Revenue | Capital Projects |
|  | Albion | Street |
| General | Trust | Improvement |

|  |  |  |  |
| --- | --- | --- | --- |
| REVENUES |  |  |  |
| Taxes | $ 1,989,622 | $ - | $ 225,305 |
| Licenses and permits | 81,949 | - | - |
| Intergovernmental | 1,978,801 | - | - |
| Charges for services | 317,333 | - | - |
| Fines and forfeits | 41,663 | - | - |
| Interest and rents | 6,873 | 34,959 | - |
| Other | 72,009 | - | 354,296 |

|  |  |  |  |
| --- | --- | --- | --- |
| TOTAL REVENUES  EXPENDITURES  Current | 4,488,250 | 34,959 | 579,601 |
| General government | 903,677 | - | - |
| Public safety | 2,069,358 | - | - |
| Public works | 216,449 | - | - |
| Health and welfare | 25,096 | - | - |
| Community and economic development | 6,294 | - | - |
| Recreation and cultural | 153,193 | - | - |
| Other | 115,220 | - | - |
| Debt service | - | - | - |
| Capital outlay | 996,331 | - | 554,738 |

TOTAL EXPENDITURES

4,485,618

-0-

554,738

|  |  |  |  |
| --- | --- | --- | --- |
| EXCESS OF REVENUES OVER |  |  |  |
| (UNDER) EXPENDITURES  OTHER FINANCING SOURCES (USES) | 2,632 | 34,959 | 24,863 |
| Transfers in | 32,450 | - | 36,832 |
| Transfers out | (54,138) | - | - |

|  |  |  |  |
| --- | --- | --- | --- |
| TOTAL OTHER FINANCING |  |  |  |
| SOURCES (USES) | (21,688) | -0- | 36,832 |

|  |  |  |  |
| --- | --- | --- | --- |
| NET CHANGE IN FUND BALANCES | (19,056) | 34,959 | 61,695 |
| Fund balances, beginning of year | 1,092,399 | 1,167,089 | 212,934 |

Fund balances, end of year

1,073,343

$

$ 1,202,048

274,629

$

Nonmajor Total

Governmental Governmental

Funds Funds

|  |  |
| --- | --- |
| $ 378,053 | $ 2,592,980 |
| - | 81,949 |
| 970,111 | 2,948,912 |
| 34,142 | 351,475 |
| 3,000 | 44,663 |
| 337,753 | 379,585 |
| 344,613 | 770,918 |
| 2,067,672 | 7,170,482 |
| 9 | 903,686 |
| 85,000 | 2,154,358 |
| 1,025,422 | 1,241,871 |
| - | 25,096 |
| 486,469 | 492,763 |
| 172,822 | 326,015 |
| - | 115,220 |
| 485,986 | 485,986 |
| 31,436 | 1,582,505 |

2,287,144

7,327,500

(219,472) (157,018)

441,137 510,419

(299,257) (353,395)

141,880 157,024

(77,592) 6 2,408,980 4,881,402

2,331,388

$

$ 4,881,408

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2014

#### **Net change in fund balances - total governmental funds** $ 6

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 $ 996,331

Depreciation expense (365,653)

Excess of capital outlay over depreciation expense 630,678

Internal service funds are used by management to charge the costs of

certain activities to individual funds. (16,670)

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 2,137

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 358,408

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 accrued interest payable | (5,570) |  |
| (Increase) in other post-employment benefits obligation | (13,095) |  |
| Decrease in accrued compensated absences | 40,666 | 22,001 |
| **Change in net position of governmental activities** |  | $ 996,560 |

STATEMENT OF NET POSITION

December 31, 2014

Governmental

Business-type Activities Activities

Internal

Service

Sewer

Water

Total

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| ASSETS  Current assets |  |  |  |  |
| Cash and cash equivalents Cash and cash equivalents - | $ 169,836 | $ 662,524 | $ 832,360 | $ 56,452 |
| restricted | - | 61,990 | 61,990 | - |
| Receivables | 336,375 | 241,716 | 578,091 | - |
| Inventories | 2,115 | 6,039 | 8,154 | 8,156 |
| Prepaids | 11,808 | 5,435 | 17,243 | 7,897 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Total current assets  Noncurrent assets | 520,134 | 977,704 | 1,497,838 | 72,505 |
| Investments | - | 399,594 | 399,594 | - |
| Capital assets not being depreciated Capital assets, net of | - | 93,700 | 93,700 | - |
| accumulated depreciation | 4,277,662 | 4,525,192 | 8,802,854 | 240,112 |

Total noncurrent assets

4,277,662

5,018,486

9,296,148

240,112

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| TOTAL ASSETS  LIABILITIES  Current liabilities | 4,797,796 | 5,996,190 | 10,793,986 | 312,617 |
| Accounts payable | 12,254 | 7,915 | 20,169 | 93,170 |
| Accrued wages | 15,376 | 8,191 | 23,567 | 2,237 |
| Accrued liabilities | 1,197 | 2,194 | 3,391 | - |
| Due to other funds Current portion of | 21 | - | 21 | - |
| compensated absences | 24,973 | 6,245 | 31,218 | - |
| Current portion of long-term debt | - | 145,000 | 145,000 | 18,284 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Total current liabilities  Noncurrent liabilities  Noncurrent portion of | 53,821 | 169,545 | 223,366 | 113,691 |
| compensated absences | 62,171 | 14,583 | 76,754 | - |
| Noncurrent portion of long-term debt | - | 300,000 | 300,000 | - |

314,583

62,171

-0-

376,754

484,128

115,992

113,691

600,120

Total noncurrent liabilities

TOTAL LIABILITIES

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| NET POSITION |  |  |  |  |
| Net investment in capital assets | 4,277,662 | 4,173,892 | 8,451,554 | 221,828 |
| Restricted for debt service | - | 61,990 | 61,990 | - |
| Unrestricted | 404,142 | 1,276,180 | 1,680,322 | (22,902) |

TOTAL NET POSITION

$ 4,681,804

5,512,062

$

$ 10,193,866

198,926

$

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended December 31, 2014

Governmental Business-type Activities Activities

Internal

Service

Sewer

Water

Total

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| OPERATING REVENUES |  |  |  |  |
| Charges for services | $ 1,157,838 | $ 846,512 | $ 2,004,350 | $ 272,853 |
| Other | 16,107 | 49,115 | 65,222 | 6,299 |
| TOTAL OPERATING REVENUES  OPERATING EXPENSES | 1,173,945 | 895,627 | 2,069,572 | 279,152 |
| Salaries and wages | 391,326 | 146,033 | 537,359 | 36,326 |
| Fringe benefits | 207,977 | 107,753 | 315,730 | 22,231 |
| Contractual services | 57,751 | 84,058 | 141,809 | 3,169 |
| Supplies | 106,099 | 140,273 | 246,372 | 137,576 |
| Utilities | 128,913 | 112,944 | 241,857 | 20,181 |
| Insurance and bonds | 22,842 | 10,513 | 33,355 | 15,780 |
| Administrative services | 36,502 | 36,332 | 72,834 | 10,918 |
| Building and equipment rental | 7,087 | 18,372 | 25,459 | - |
| Other | 5,551 | 2,410 | 7,961 | 149 |
| Depreciation | 237,824 | 208,985 | 446,809 | 56,496 |
| TOTAL OPERATING EXPENSES | 1,201,872 | 867,673 | 2,069,545 | 302,826 |
| OPERATING INCOME (LOSS) NONOPERATING REVENUES (EXPENSES) | (27,927) | 27,954 | 27 | (23,674) |
| Interest earned | 737 | 7,418 | 8,155 | 382 |
| (Loss) on investments | - | (3,945) | (3,945) | - |
| Interest expense and fees  TOTAL NONOPERATING | - | (12,168) | (12,168) | (1,093) |
| REVENUES (EXPENSES) | 737 | (8,695) | (7,958) | (711) |
| INCOME (LOSS) BEFORE TRANSFERS  TRANSFERS | (27,190) | 19,259 | (7,931) | (24,385) |
| Transfers in | - | - | -0- | 25,980 |
| Transfers out | (153,000) | (11,739) | (164,739) | (18,265) |
| TOTAL NET TRANSFERS | (153,000) | (11,739) | (164,739) | 7,715 |
| CHANGE IN NET POSITION | (180,190) | 7,520 | (172,670) | (16,670) |
| Restated net position, beginning of year | 4,861,994 | 5,504,542 | 10,366,536 | 215,596 |
| Net position, end of year | $ 4,681,804 | $ 5,512,062 | $ 10,193,866 | $ 198,926 |

STATEMENT OF CASH FLOWS

Year Ended December 31, 2014

Governmental Business-type Activities Activities

Internal

Service

Sewer

Water

Total

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| CASH FLOWS FROM OPERATING ACTIVITIES |  |  |  |  |
| Cash receipts from customers | $ 1,196,146 | $ 940,305 | $ 2,136,451 | $ 279,152 |
| Cash paid to suppliers | (426,840) | (360,998) | (787,838) | (202,707) |
| Cash paid for employee benefits/wages  NET CASH PROVIDED BY | (594,173) | (316,708) | (910,881) | (56,320) |
| OPERATING ACTIVITIES  CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | 175,133 | 262,599 | 437,732 | 20,125 |
| Payments of borrowing | - | (140,000) | (140,000) | (18,579) |
| Purchase of capital assets | (7,181) | (38,410) | (45,591) | (35,947) |
| Transfers in | - | - | -0- | 25,980 |
| Interest expense and fees | - | (12,168) | (12,168) | (1,093) |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| NET CASH (USED) BY CAPITAL |  |  |  |  |
| AND RELATED FINANCING ACTIVITIES  CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | (7,181) | (190,578) | (197,759) | (29,639) |
| Transfers out  CASH FLOWS FROM INVESTING ACTIVITIES | (153,000) | (11,739) | (164,739) | (18,265) |
| Sale of investments | - | 97,000 | 97,000 | - |
| Interest earned  NET CASH PROVIDED BY | 737 | 7,418 | 8,155 | 382 |
| INVESTING ACTIVITIES  NET INCREASE (DECREASE) IN CASH | 737 | 104,418 | 105,155 | 382 |
| AND CASH EQUIVALENTS | 15,689 | 164,700 | 180,389 | (27,397) |
| Cash and cash equivalents, beginning of year | 154,147 | 559,814 | 713,961 | 83,849 |
| Cash and cash equivalents, end of year | $ 169,836 | $ 724,514 | $ 894,350 | $ 56,452 |

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended December 31, 2014

Governmental

Business-type Activities Activities

Internal

Service

Sewer

Water

Total

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Reconciliation of operating income (loss) to net cash provided by operating activities |  |  |  |  |
| Operating income (loss)  Adjustments to reconcile operating income (loss) to net cash provided by operating activities | $ (27,927) | $ 27,954 | $ 27 | $ (23,674) |
| Depreciation  (Increase) decrease in: | 237,824 | 208,985 | 446,809 | 56,496 |
| Accounts receivable | 22,201 | 44,678 | 66,879 | - |
| Due from other funds | 668 | 48,231 | 48,899 | - |
| Inventories | 675 | (1,089) | (414) | (2,706) |
| Prepaids  Increase (decrease) in: | (774) | (357) | (1,131) | (14) |
| Accounts payable | (15,100) | (2,681) | (17,781) | (12,214) |
| Accrued wages | 5,130 | (4,562) | 568 | 2,237 |
| Due to other funds | (47,564) | (200) | (47,764) | - |
| Compensated absences | - | (58,360) | (58,360) | - |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| NET CASH PROVIDED BY |  |  |  |  |
| OPERATING ACTIVITIES | $ 175,133 | $ 262,599 | $ 437,732 | $ 20,125 |

Fiduciary Funds

STATEMENT OF NET POSITION

December 31, 2014

Pension and

Employee

Benefit

Agency Trusts

ASSETS

Cash and cash equivalents $ 836,720 $ 714,534 Investments - 20,940,937

Interest receivable - 72,324

TOTAL ASSETS

$ 836,720

21,727,795

$

|  |  |  |
| --- | --- | --- |
| LIABILITIES |  |  |
| Due to County | $ 6,456 | $ - |
| Due to State | 17,307 | - |
| Due to schools | 2,589 | - |
| Due to others | 810,368 | - |
| TOTAL LIABILITIES | $ 836,720 | -0- |

NET POSITION

Held in trust for pension and employee benefits $ 21,727,795

Fiduciary Funds

STATEMENT OF CHANGES IN NET POSITION

Year Ended December 31, 2014

Pension and

Employee

Benefit

Trusts

|  |  |
| --- | --- |
| ADDITIONS  Investment income |  |
| Interest and dividends | $ 728,592 |
| Net increase in fair value of investments | 1,041,444 |
| Net investment income | 1,770,036 |
| Contributions | 56,449 |
| TOTAL ADDITIONS  DEDUCTIONS | 1,826,485 |
| Benefit payments | 653,737 |

|  |  |
| --- | --- |
| CHANGE IN NET POSITION | 1,172,748 |
| Restated net position, beginning of year | 20,555,047 |

Net position, end of year $ 21,727,795

Component Units

COMBINING STATEMENT OF NET POSITION

December 31, 2014

|  |  |  |
| --- | --- | --- |
|  |  | Tax |
| Economic | Downtown | Increment |
| Development | Development | Finance |
| Corporation | Authority | Authority |

|  |  |  |  |
| --- | --- | --- | --- |
| ASSETS  Current assets |  |  |  |
| Cash | $ 116,517 | $ 48,483 | $ 68,617 |
| Investments | - | - | - |
| Receivables | 2,335 | - | 28,130 |
| Due from other governmental units | 32,187 | - | - |
| Prepaids | - | 692 | - |

|  |  |  |  |
| --- | --- | --- | --- |
| Total current assets  Noncurrent assets | 151,039 | 49,175 | 96,747 |
| Capital assets not being depreciated  Capital assets, net of | 32,517 | - | 160,000 |
| accumulated depreciation | 9,600 | 139,376 | - |

|  |  |  |  |
| --- | --- | --- | --- |
| Total noncurrent assets | 42,117 | 139,376 | 160,000 |
| TOTAL ASSETS  LIABILITIES  Current liabilities | 193,156 | 188,551 | 256,747 |
| Accounts payable | 17,489 | 25 | 95 |
| Accrued liabilities | 2,214 | - | 5,954 |
| Due to other governmental units | 41,832 | - | - |
| Accrued interest payable | 1,559 | - | - |
| Unearned revenue | 55,941 | - | - |
| Current portion of compensated absences | - | - | 5,716 |
| Current portion of long-term debt | 3,877 | - | - |

|  |  |  |  |
| --- | --- | --- | --- |
| Total current liabilities  Noncurrent liabilities | 122,912 | 25 | 11,765 |
| Noncurrent portion of compensated absences | - | - | 13,735 |
| Noncurrent portion of long-term debt | 28,212 | - | - |

Total noncurrent liabilities 13,735

28,212

-0-

|  |  |  |  |
| --- | --- | --- | --- |
| TOTAL LIABILITIES  NET POSITION | 151,124 | 25 | 25,500 |
| Net investment in capital assets | 42,117 | 139,376 | 160,000 |
| Restricted for community and economic development | 32,409 | - | - |
| Unrestricted | (32,494) | 49,150 | 71,247 |
| TOTAL NET POSITION | $ 42,032 | $ 188,526 | $ 231,247 |

|  |  |
| --- | --- |
| Albion | Total |
| Housing | Component |
| Commission | Units |

|  |  |
| --- | --- |
| $ 239,633 | $ 473,250 |
| 326,090 | 326,090 |
| 1,103 | 31,568 |
| - | 32,187 |
| 23,949 | 24,641 |
| 590,775 | 887,736 |
| 19,144 | 211,661 |
| 3,746,036 | 3,895,012 |
| 3,765,180 | 4,106,673 |
| 4,355,955 | 4,994,409 |
| 45,910 | 63,519 |
| 46,962 | 55,130 |
| - | 41,832 |
| - | 1,559 |
| 5,283 | 61,224 |
| 6,842 | 12,558 |
| - | 3,877 |
| 104,997 | 239,699 |
| 54,737 | 68,472 |
| - | 28,212 |
| 54,737 | 96,684 |
| 159,734 | 336,383 |
| 3,765,180 | 4,106,673 |
| - | 32,409 |
| 431,041 | 518,944 |
| $ 4,196,221 | $ 4,658,026 |

City of Albion

Component Units

COMBINING STATEMENT OF ACTIVITIES

Year Ended December 31, 2014

Program Revenues Net (Expense) Revenues and Changes in Net Position

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | Tax |  |  |
|  |  |  | Operating | Economic | Downtown | Increment | Albion | Total |
|  |  | Charges for | Grants and | Development | Development | Finance | Housing | Component |
| Functions/Programs | Expenses | Services | Contributions | Corporation | Authority | Authority | Commission | Units |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Economic Development Corporation | $ 357,208 | $ 100,070 | $ 276,877 | $ 19,739 | $ - | $ - | $ - | $ 19,739 |
| Downtown Development Authority | 421,582 | - | 360,000 | - | (61,582) | - | - | (61,582) |
| Tax Increment Finance Authority | 189,563 | - | - | - | - | (189,563) | - | (189,563) |
| Albion Housing Commission | 1,447,749 | 415,396 | 737,375 | - | - | - | (294,978) | (294,978) |
| TOTALS | $ 2,416,102 | $ 515,466 | $ 1,374,252 | 19,739 | (61,582) | (189,563) | (294,978) | (526,384) |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| General revenues |  |  |  |  |  |
| Property taxes | - | 22,199 | 243,363 | - | 265,562 |
| Investment earnings | 408 | 222 | 234 | 2,726 | 3,590 |
| Miscellaneous | 7,804 | 15 | 832 | 6,697 | 15,348 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Total general revenues 8,212 | 22,436 | 244,429 | 9,423 | 284,500 |
| CHANGE IN NET POSITION 27,951 | (39,146) | 54,866 | (285,555) | (241,884) |
| Net position, beginning of year 14,081 | 227,672 | 176,381 | 4,481,776 | 4,899,910 |
| Net position, end of year $ 42,032 | $ 188,526 | $ 231,247 | $ 4,196,221 | $ 4,658,026 |

See accompanying notes to financial statements.

- 17 -

### 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. The financial statements contain the following discretely presented component units:

### CONTINUED

#### 3. Discretely Presented Component Units - continued

1. 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.

1. 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.

1. 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.

1. Albion Housing Commission - The Albion Housing Commission (the Commission) was established by City Council to provide low rent housing. The Commission’s governing body, which consists of five (5) members, is selected by the Mayor and City Council. The financial activity has been included as part of the City’s financial statements. The financial statements of the Commission are audited separately and are available by contacting the Commission at 1300 Cooper Street, Albion, Michigan 49224.

#### 4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

### CONTINUED

#### 4. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS

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

The City reports the following major governmental funds:

1. 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.

1. 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.

1. The Street Improvements Fund is used to account for tax and special assessment revenues used to improve the City’s streets.

The City reports the following major enterprise funds:

1. 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.

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

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

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

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

#### 5. Measurement Focus

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

### CONTINUED

#### 5. Measurement Focus - continued

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

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

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

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

#### 7. Budgets and Budgetary Accounting

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

1. 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.

1. A Public Hearing is conducted to obtain taxpayers’ comments.

1. On or before the second regular council meeting in December, the budget is legally enacted through passage of a resolution.

### CONTINUED

#### 7. Budgets and Budgetary Accounting - continued

1. 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.

1. 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.

1. 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 market value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

#### 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.

### 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, 2014, 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, 2.0000 mills for solid waste services, 1.3000 mills for debt service payments, and 1.5000 mills for recreational services. The total taxable value for the 2014 levy for property within the City was $93,899,265.

#### 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 net current assets.

#### 15. Prepaids

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

#### 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.

### 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 fair market value on the date received.

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

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

#### 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. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and balance sheet, when applicable, will report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position/fund balance that applies to a future period and so will not be recognized as an outflows of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and balance sheet, when applicable, will report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position/fund balance that applies to a future period and so will not be recognized as an inflows of resources (revenue) until then.

### CONTINUED

#### 21. Deferred Outflows/Inflows of Resources - continued

At this time, the City has 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.

22. Unearned Revenue

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

#### 23. Federal Programs

Federal programs are accounted for in the funds to which the programs pertain. The City has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

#### 24. 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:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

1. 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 Sates 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.

1. 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.

1. The United States government or federal agency obligations repurchase agreements.

1. Bankers’ acceptances of United States banks.

1. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

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

#### Deposits

As of December 31, 2014, the carrying amounts and bank balances for each type of bank account are as follows:

Carrying Bank

ACCOUNT TYPE Amount Balance

|  |  |  |
| --- | --- | --- |
| PRIMARY GOVERNMENT |  |  |
| Checking and savings | $ 2,829,499 | $ 2,572,752 |
| Certificates of deposit | 1,188,415 | 1,188,415 |
| Total Primary Government  FIDUCIARY FUNDS | 4,017,914 | 3,761,167 |
| Checking    COMPONENT UNITS | 883,044 | 883,044 |
| Checking and savings | 473,005 | 307,944 |
| Certificates of deposit | 326,090 | 326,090 |

Total Component Units

799,095

634,034

5,700,053

$

$ 5,278,245

TOTAL REPORTING ENTITY

The primary government and component units’ cash and cash equivalents captions on the basic financial statements include $377 and $245, respectively, of imprest cash.

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of December 31, 2014, the City accounts were insured by the FDIC for $1,541,213 and the amount of $3,737,032 was uninsured and uncollateralized.

#### Investments

As of December 31, 2014, the carrying amounts and market values for each investment are as follows:

Weighted

Carrying Market Average

|  |  |  |  |
| --- | --- | --- | --- |
| PRIMARY GOVERNMENT |  |  |  |
| Federal National Mortgage Association | $ 139,515 | $ 139,515 | 2.80 years |
| Municipal Investments | 515,000 | 515,000 | N/A |
| Federal Home Loan Mortgage Corp. | 24,641 | 24,641 | 3.98 years |
| Federal Farm Credit Bureau | 69,572 | 69,572 | 3.36 years |
| Michigan CLASS | 315,060 | 315,060 | 0.13 years |
| International Bank Bonds | 60,931 | 60,931 | N/A |

INVESTMENT TYPE Amount Value Maturity

|  |  |  |
| --- | --- | --- |
| Total Primary Government | 1,124,719 | 1,124,719 |

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

|  |  |  |  |
| --- | --- | --- | --- |
| Investments - continued |  |  | Weighted |
|  | Carrying | Market | Average |
| INVESTMENT TYPE - CONTINUED | Amount | Value | Maturity |

|  |  |  |  |
| --- | --- | --- | --- |
| FIDUCIARY FUNDS |  |  |  |
| Federal National Mortgage Association | $ 45,965 | $ 45,965 | 17.92 years |
| Federal Home Loan Mortgage Corp. | 853,591 | 853,591 | 8.52 years |
| Governmental National Mortgage Association | 507,751 | 507,751 | 48.15 years |
| Michigan CLASS | 25,777 | 25,777 | 0.13 years |
| U.S. Treasury Obligations | 1,835,315 | 1,835,315 | 20.76 years |
| Corporate Bonds and Notes | 6,106,237 | 6,106,237 | 14.08 years |
| Common Equity Securities | 10,815,638 | 10,815,638 | N/A |
| Fixed Income Mutual Funds | 716,901 | 716,901 | N/A |
| Uncategorized pooled investment funds | 701,972 | 701,972 | N/A |
| Total Fiduciary Funds | 21,609,147 | 21,609,147 |  |
| TOTAL REPORTING ENTITY | $ 22,733,866 | $ 22,733,866 |  |

As of December 31, 2014, the credit ratings for the City of Albion’s investments are as follows:

Carrying Market Standard and Poor's Rating Amount Value

|  |  |  |
| --- | --- | --- |
| PRIMARY GOVERNMENT |  |  |
| AAA | $ 375,991 | $ 375,991 |
| AA+ | 118,962 | 118,962 |
| Not Rated | 629,766 | 629,766 |
| Total Primary Government  FIDUCIARY FUNDS | 1,124,719 | 1,124,719 |
| AAA | 1,080,457 | 1,080,457 |
| AA | 2,117,696 | 2,117,696 |
| A | 3,111,717 | 3,111,717 |
| BBB | 5,013,322 | 5,013,322 |
| BB | 86,437 | 86,437 |
| Not Rated | 10,199,518 | 10,199,518 |
| Total Fiduciary Funds | 21,609,147 | 21,609,147 |
| TOTAL REPORTING ENTITY | $ 22,733,866 | $ 22,733,866 |

#### 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, 2014, rating information on the City’s investments is presented above.

### 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, 2014:

|  |  |  |  |
| --- | --- | --- | --- |
| Primary | Component | Fiduciary | Reporting |
| Government | Units | Funds | Entity |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Cash and cash equivalents | $ 2,980,148 | $ 473,250 | $ 1,551,254 | $ 5,004,652 |
| Cash and cash equivalents - restricted | 61,990 | - | - | 61,990 |
| Investments - current | 1,701,278 | 326,090 | 20,940,937 | 22,968,305 |
| Investments - noncurrent | 399,594 | - | - | 399,594 |

5,143,010

$

$ 799,340

22,492,191

$

$ 28,434,541

### NOTE C: CASH AND CASH EQUIVALENTS - RESTRICTED

The following summarizes the restricted cash and cash equivalents as of December 31, 2014:

#### Bond Reserve

Enterprise Funds $ 61,990

### NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details primary government and component unit interfund receivables and payables at December 31, 2014:

PRIMARY GOVERNMENT

Due to General Fund from:

Nonmajor governmental funds $ 18,983

|  |  |
| --- | --- |
| Due to nonmajor governmental funds from: |  |
| General Fund | $ 6,000 |
| Sewer Fund | 21 |
| Nonmajor governmental funds | 23,180  $ 29,201 |

|  |  |
| --- | --- |
| COMPONENT UNIT  Economic Development Corporation Due to Business Incubator from: |  |
| Economic Development | $ 4,796 |

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

### NOTE E: INTERFUND TRANSFERS

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

Transfers to General Fund from:

Nonmajor governmental funds $ 32,450

|  |  |
| --- | --- |
| Transfer to Street Improvement Fund from: |  |
| Nonmajor governmental funds | $ 36,832 |

|  |  |
| --- | --- |
| Transfers to nonmajor governmental funds from: |  |
| General Fund | $ 54,138 |
| Nonmajor governmental funds | 203,995 |
| Sewer Fund | 153,000 |
| Water Fund | 11,739 |
| Internal service fund | 18,265  $ 441,137 |

|  |  |
| --- | --- |
| Transfer to Internal service fund |  |
| Nonmajor governmental funds | $ 25,980 |

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

### NOTE F: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014, was as follows:

PRIMARY GOVERNMENT

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Balance | Additions/ | Deletions/ | Balance |
| Governmental activities  Capital assets not being depreciated | Jan. 1, 2014 | Reclassifications | Reclassifications | Dec. 31, 2014 |
| Land | $ 487,975 | $ - | $ - | $ 487,975 |
| Construction in progress | 493,199 | - | (493,199) | -0- |
| Subtotal  Capital assets being depreciated | 981,174 | -0- | (493,199) | 487,975 |
| Buildings and improvements | 6,521,306 | 493,199 | - | 7,014,505 |
| Infrastructure | 3,850,625 | - | (15,196) | 3,835,429 |
| Equipment and furniture | 995,018 | 73,473 | - | 1,068,491 |
| Vehicles | 1,548,324 | 958,805 | - | 2,507,129 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Subtotal  Less accumulated depreciation for: | 12,915,273 | 1,525,477 | (15,196) | 14,425,554 |
| Buildings and improvements | (1,872,286) | (169,408) | - | (2,041,694) |
| Infrastructure | (1,207,792) | (125,414) | 507 | (1,332,699) |
| Equipment and furniture | (914,755) | (28,762) | - | (943,517) |
| Vehicles | (1,316,502) | (83,876) | - | (1,400,378) |

Subtotal

(5,311,335)

(407,460)

(5,718,288)

507

1,118,017

7,603,938

8,707,266

(14,689)

$ 8,585,112

1,118,017

9,195,241

$ (507,888)

$

$

Net capital assets being depreciated

Capital assets, net

The current year depreciation expenses of $407,460 has been adjusted by $14,689 for deletions of capital assets that occurred during the year in accordance with GASB Statement No. 34 implementation guide, which states that certain immaterial losses may be handled as an adjustment to the current period’s depreciation expense.

Depreciation expense was charged to the following governmental activities:

General government $ 73,855 Public safety 77,946 Public works 185,064

Community and economic development 83,684

Recreation and cultural 1,600

Total depreciation expense

$ 422,149

### NOTE F: CAPITAL ASSETS - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

Balance Balance

Jan. 1, 2014 Additions Deletions Dec. 31, 2014

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Business-type activities  Capital assets not being depreciated |  |  |  |  |
| Land  Capital assets being depreciated | $ 93,700 | $ - | $ - | $ 93,700 |
| Buildings and improvements | 11,215,671 | 7,181 | - | 11,222,852 |
| Equipment | 1,022,859 | 20,760 | - | 1,043,619 |
| Water system | 4,533,959 | 17,650 | - | 4,551,609 |
| Sewer system | 2,255,491 | - | - | 2,255,491 |
| Vehicles | 461,515 | - | - | 461,515 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Subtotal Less accumulated depreciation for: | 19,489,495 | 45,591 | -0- | 19,535,086 |
| Buildings and improvements | (5,601,222) | (270,704) | - | (5,871,926) |
| Equipment | (932,909) | (17,020) | - | (949,929) |
| Water system | (2,606,957) | (107,602) | - | (2,714,559) |
| Sewer system | (747,342) | (40,640) | - | (787,982) |
| Vehicles | (396,993) | (10,843) | - | (407,836) |

Subtotal

(10,285,423)

(446,809)

(10,732,232)

-0-

(401,218)

9,204,072

8,802,854

-0-

$ 9,297,772

(401,218)

8,896,554

$ -0-

$

$

Net capital assets being depreciated

Capital assets, net

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

|  |  |
| --- | --- |
| Sewer | $ 237,824 |
| Water | 208,985 |

Total depreciation expense

$ 446,809

### NOTE F: CAPITAL ASSETS - CONTINUED

COMPONENT UNITS

Balance Balance

Jan. 1, 2014 Additions Deletions Dec. 31, 2014

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Component unit - EDC  Capital assets not being depreciated |  |  |  |  |
| Land  Capital assets being depreciated | $ 26,655 | $ 5,862 | $ - | $ 32,517 |
| Buildings  Less accumulated depreciation for: | 20,000 | - | - | 20,000 |
| Buildings | (9,600) | (800) | - | (10,400) |

Net capital assets being depreciated

10,400

(800)

-0-

9,600

$ 37,055

5,062

$

$ -0-

42,117

$

Capital assets, net

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Component unit - DDA  Capital assets being depreciated |  |  |  |  |
| Buildings | $ 61,588 | $ - | $ - | $ 61,588 |
| Infrastructure | 557,494 | - | - | 557,494 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Subtotal  Less accumulated depreciation for: | 619,082 | -0- | -0- | 619,082 |
| Buildings | (61,588) | - | - | (61,588) |
| Infrastructure | (362,369) | (55,749) | - | (418,118) |

Subtotal

(423,957)

(55,749)

-0-

(479,706)

$ 195,125

(55,749)

$

$ -0-

139,376

$

Capital assets, net

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Component unit - TIFA  Capital assets not being depreciated |  |  |  |  |
| Land | $ 160,000 | $ - | $ - | $ 160,000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Component unit - Housing Commission |  |  |  |  |
| Capital assets not being depreciated | $ 19,144 | $ - | $ - | $ 19,144 |
| Capital assets being depreciated | 14,412,898 | 263,225 | (289,408) | 14,386,715 |
| Less accumulated depreciation: | (10,358,657) | (340,810) | 58,788 | (10,640,679) |

Net capital assets being depreciated

4,054,241

(77,585)

(230,620)

3,746,036

$ 4,073,385

(77,585)

$

$ (230,620)

3,765,180

$

Capital assets, net

### NOTE G: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended December 31, 2014.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  | Amounts |
| Balance |  |  | Balance | Due Within |
| Jan. 1, 2014 | Additions | Reductions | Dec. 31, 2014 | One Year |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| PRIMARY GOVERNMENT  Governmental activities |  |  |  |  |  |
| 2010 General Obligation Bonds | $ 1,645,000 | $ - | $ (120,000) | $ 1,525,000 | $ 120,000 |
| 2013 Refunding Bonds | 525,000 | - | (125,000) | 400,000 | 130,000 |
| Installment purchase agreement | 36,863 | - | (18,579) | 18,284 | 18,284 |
| EPA landfill liability | 91,737 | - | (5,866) | 85,871 | 5,482 |
| Building Authority bonds | 980,000 | - | (80,000) | 900,000 | 80,000 |
| Land contracts | 153,557 | - | (27,542) | 126,015 | 27,886 |
| Compensated absences | 293,346 | 112,532 | (153,198) | 252,680 | 81,094 |
| Business-type activities | 3,725,503 | 112,532 | (530,185) | 3,307,850 | 462,746 |
| 2013 Revenue Refunding Bonds | 585,000 | - | (140,000) | 445,000 | 145,000 |
| Compensated absences | 220,472 | 43,350 | (155,850) | 107,972 | 31,218 |
|  | 805,472 | 43,350 | (295,850) | 552,972 | 176,218 |
| TOTAL PRIMARY GOVERNMENT  COMPONENT UNITS  Economic Development Corporation | 4,530,975 | 155,882 | (826,035) | 3,860,822 | 638,964 |
| ABA loan  Tax Increment Finance Authority | 35,781 | - | (3,692) | 32,089 | 3,877 |
| Compensated absences Albion Housing Commission | 22,862 | 7,978 | (11,388) | 19,451 | 5,716 |
| Compensated absences | 88,719 | - | (27,140) | 61,579 | 6,842 |
| TOTAL COMPONENT UNITS | 147,362 | 7,978 | (42,220) | 113,119 | 16,435 |
| TOTAL REPORTING ENTITY | $ 4,678,337 | $ 163,860 | $ (868,255) | $ 3,973,941 | $ 655,399 |

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

PRIMARY GOVERNMENT

#### 2010 General Obligation Limited Tax Bonds Payable

$2,000,000 General Obligation Limited Tax Bonds Series 2010 dated December 9, 2010, due in annual installments ranging from $120,000 to $165,000 through October 1, 2025, with

interest ranging from 3.00 to 4.63 percent, payable semi-annually. $ 1,525,000

PRIMARY GOVERNMENT - CONTINUED

#### 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.    Installment Purchase Agreement    $90,000 Installment purchase agreement (dump truck) dated December 1, 2010, due in semiannual installments ranging from $9,520 to $9,681 through December 1, 2015, with interest at | $ | 85,871 |
| 3.25 percent, payable semi-annually.    2013 General Obligation Unlimited Tax Refunding Bonds Payable    $640,000 General Obligation Unlimited Tax Refunding Bonds Series 2013 dated February 5, 2013, due in annual installments ranging from $130,000 to $140,000 through October 1, 2017, | $ | 18,284 |
| with interest of 2.08 percent, payable semi-annually.    2013 Revenue Refunding Bonds    $620,000 Revenue Bonds dated February 5, 2013, due in annual installments ranging from  $145,000 to $155,000 through October 1, 2017, with interest of 2.08 percent, payable semi- | $ | 400,000 |
| annually.    Land Contracts    $88,100 Land contract dated May 6, 2006, due in semi-annual installments of $4,405 through | $ | 445,000 |
| September 1, 2015, with interest at 3.99 percent, payable semi-annually.    $207,000 Land contract dated June 30, 2006, due in annual installments ranging from $5,750 | $ | 8,810 |
| to $14,396 through July 1, 2023, with interest at 3.0 percent, payable annually.    $70,000 Land contract dated September 1, 2006, due in semi-annual installments of $3,684 |  | 109,834 |
| through September 1, 2015, with interest at 3.5 percent, payable semi-annually. |  | 7,371 |
| Building Authority Bonds    $700,000 Building Authority Bonds dated January 15, 2009, due in annual installments ranging from $30,000 to $65,000 through October 1, 2028, with interest ranging from 4.50 to 6.25 | $ | 126,015 |
| percent, payable semi-annually.    $500,000 Building Authority Bonds dated July 17, 2009, due in annual installments ranging from $50,000 to $60,000 through April 1, 2019, with interest ranging from 4.0 to 5.0 percent, | $ | 620,000 |
| payable semi-annually. |  | 280,000 |
|  | $ | 900,000 |

PRIMARY GOVERNMENT - CONTINUED

#### Advance Refunding - Prior

On February 5, 2013, the City defeased the 1997 General Obligation Bonds which are due and payable October 1, 2014 through October 1, 2017. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The City issued General Obligation 2013 Refunding Bonds in the amount of $640,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City’s financial statements. At December 31, 2014, bonds due and payable October 1, 2015 through October 1, 2017 for the 1997 General Obligation Bonds in the amount of $395,000 are considered defeased.

On February 5, 2013, the City defeased the 1997 Water Supply and Sewage Disposal System Revenue Bonds which are due and payable October 1, 2014 through October 1, 2017. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The City issued 2013 Water Supply and Sewage Disposal System Revenue Refunding Bonds in the amount of $620,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City’s financial statements. At December 31, 2014, bonds due and payable October 1, 2015 through October 1, 2017 for the 1997 Water Supply and Sewage Disposal System Revenue Bonds in the amount of $440,000 are considered defeased.

#### Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused sick and vacation. The dollar amounts of these vested rights include related payroll taxes, which have been accrued on the government-wide financial statements. The total liability amounted to $441,682 at December 31, 2014. Of this amount, $252,680, $107,972, and $81,030 are shown as accrued liabilities within the governmental activities, business-type activities, and component units, respectively, in accordance with criteria disclosed in Note A.

COMPONENT UNITS - DISCRETELY PRESENTED

#### ABA Loan

$57,246 Albion Building Authority Loan to the Economic Development Corporation dated May 23, 2007, due in annual installments ranging from $3,877 to $5,720 through January 10, 2021,

with interest at 5.0 percent, payable annually. $ 32,089 The annual requirements to pay the debt principal and interest outstanding for the Bonds and other obligations are as follows:

PRIMARY GOVERNMENT

2010 General Obligation

Year Ending Limited Tax Bonds 2013 Refunding Bonds

December 31, Principal Interest Principal Interest

2015 $ 120,000 $ 62,200 $ 130,000 $ 8,320 2016 125,000 58,600 130,000 5,616

2017 125,000 54,850 140,000 2,912 2018 130,000 49,850 - -

2019 135,000 44,650 - -

2020-2024 725,000 137,538 - 2025 165,000 7,631 - -

1,525,000

$

$ 415,319

400,000

$

$ 16,848

Installment

Year Ending Revenue Bonds Purchase Agreements

December 31, Principal Interest Principal Interest

2015 $ 145,000 $ 9,256 $ 18,284 $ 475 2016 145,000 6,240 - -

2017 155,000 3,224 - -

Year Ending

445,000

$

$ 18,720

18,284

$

$ 475

Principal

Interest

Principal

Interest

EPA Landfill Liability

Land Contracts

##### December 31,

2015 $ 5,482 $ 2,741 $ 27,886 $ 3,752 2016 5,124 2,562 12,056 2,944

2017 4,789 2,394 12,418 2,582 2018 5,057 2,528 12,790 2,210 2019 3,505 1,753 13,174 1,826 2020-2024 14,787 7,394 47,691 3,232

##### 2025-2028 47,127 23,563 - -

85,871

$

$ 42,935

126,015

$

$ 16,546

PRIMARY GOVERNMENT - CONTINUED

Year Ending Building Authority Bonds

December 31, Principal Interest

|  |  |  |
| --- | --- | --- |
|  | $ | 47,578  43,990  40,090  35,603  30,678 122,475 37,675 |
|  | $ | 358,089 |

1. $ 80,000
2. 85,000
3. 90,000
4. 95,000
5. 95,0002020-2024 220,000 2025-2028 235,000

#### $ 900,000

|  |  |
| --- | --- |
| COMPONENT UNITS |  |
| Year Ending | ABA Loan |

December 31, Principal Interest

|  |  |  |
| --- | --- | --- |
| 2015 | $ 3,877 | $ 1,604 |
| 2016 | 4,070 | 1,411 |
| 2017 | 4,274 | 1,207 |
| 2018 | 4,488 | 993 |
| 2019 | 4,712 | 769 |
| 2020-2021 | 10,668 | 819 |

32,089

$

6,803

$

### NOTE H: RETIREMENT PLANS

PRIMARY GOVERNMENT (EXCEPT PUBLIC SAFETY)

#### Plan Description

The City participates in the Michigan Municipal Employees Retirement System (MERS), an agent multipleemployer 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.

PRIMARY GOVERNMENT (EXCEPT PUBLIC SAFETY) - CONTINUED

#### Annual Pension Cost

For the year ended December 31, 2014, the City’s annual pension cost of $28,390 for the plan was equal to the City’s actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2012, using the entry actual age cost method. Actual contributions to the retirement system are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return; (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation; and (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority, and merit.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty (30) years.

#### Three (3) Year Trend Information

|  |  |  |
| --- | --- | --- |
|  | As of December 31, |  |
| 2011 | 2012 | 2013 |

|  |  |  |
| --- | --- | --- |
| Actuarial value of assets | $ 15,020,999 $ 14,815,305 | $ 14,815,807 |
| Actuarial accrued liability (AAL) (entry age) | 12,436,531 12,582,357 | 12,983,740 |
| Unfunded (overfunded) AAL | (2,584,468) (2,232,948) | (1,832,067) |
| Funded ratio | 121 % 118 % | 114 % |
| Covered payroll | 1,652,337 1,590,085 | 1,306,754 |
| UAAL as a percentage of covered payroll | (156) % (140) % Year Ended December 31, | (140) % |
|  | 2012 2013 | 2014 |

|  |  |  |  |
| --- | --- | --- | --- |
| Annual pension cost | $ - | $ 43,700 | $ 28,390 |
| Percentage of APC contributed | 100 % | 100 % | 100 % |
| Net pension obligation | - | - | - |

This trend information was obtained from the most recently issued actuarial reports.

PUBLIC SAFETY

#### Plan Description

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

#### Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the City Council and by negotiation with the City’s collective bargaining units. The plan requires a 4% contribution from the employees.

#### Annual Pension Cost

For the year ended December 31, 2014, the City did not contribute to the plan because their actuarial accrued liability was overfunded. The annual required contribution was determined as part of an actuarial valuation at December 31, 2012, using the entry actual age cost method. Actual contributions to the retirement system are based on a level percent of payroll. Significant actuarial assumptions used include (a) a 6.00 percent investment rate of return; (b) projected salary increases of 4.0 percent per year compounded annually, attributable to inflation; and (c) additional salary increases ranging from 0.2% to 4.0% per year depending on age, seniority, and merit.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five (5) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a remaining period of fifteen (15) years.

As of

December 31, 2013

|  |  |
| --- | --- |
| Actuarial value of assets  Actuarial accrued liability (AAL) (entry age)  Unfunded (overfunded) AAL  Funded ratio  Covered payroll  UAAL as a percentage of covered payroll | $ 18,198,275  12,295,864  (5,902,411)  148 % 1,048,533  (563) %  Year Ended  December 31, 2014 |

|  |  |
| --- | --- |
| Annual pension cost  Percentage of APC contributed  Net pension obligation | $ -0-  N/A  - |

#### Actuarial Assumptions

The total pension liability was determined based on the annual actuarial valuation as of December 31, 2014. The following actuarial assumptions were applied to compute the total pension liability:

Actuarial cost method Entry age normal

Amortization method Level percentage of payroll, open

Remaining amortization period 15 years

Asset valuation method 5 years smoothed market

Inflation 4.00%

Salary increases 8.0%-4.0%, includes inflation

Cost of Living Adjustments None

Investment rate of return 6.0%, net of pension plan investment expense, including inflation

Mortality rates RP 2000 Combined Healthy Mortality Table

2014

|  |  |
| --- | --- |
| CHANGES IN TOTAL PENSION LIABILITY |  |
| Service cost | $ 340,366 |
| Interest | 728,402 |
| Differences between expected and actual experience | 126,170 |
| Benefit payments, including refunds of member contributions | (652,027) |
| NET CHANGE IN TOTAL PENSION LIABILITY | 542,911 |
| TOTAL PENSION LIABILITY, BEGINNING | 12,295,864 |
| TOTAL PENSION LIABILITY, ENDING (A) | $ 12,838,775 |

|  |  |
| --- | --- |
| CHANGES IN PLAN FIDUCIARY NET POSITION |  |
| Contributions - employer | $ - |
| Contributions - member | 56,449 |
| Net investment income | 1,769,846 |
| Benefit payments, including refunds of member contributions | (652,027) |
| NET CHANGE IN PLAN FIDUCIARY NET POSITION | 1,174,268 |
| PLAN FIDUCIARY NET POSITION, BEGINNING | 20,498,559 |
| PLAN FIDUCIARY NET POSITION, ENDING (B) | $ 21,672,827 |

CITY'S NET PENSION LIABILITY (ASSET), ENDING (A)-(B) $ (8,834,052)

|  |  |
| --- | --- |
| Plan fiduciary net position as a percentage |  |
| of the total pension liability | 168.81% |
| Covered-employee payroll  City's net pension liability (asset) as a percentage | $ 992,149 |
| of covered-employee payroll | -890.40% |

#### 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 67, paragraph 44.

#### 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 plan’s target asset allocation as of December 31, 2014, these best estimates are summarized in the following table.

Asset Allocation

Asset Class

Target Allocation

Cash 5.00%

High Yield and Bank Loans 5.00%

Stocks 60.00% Bonds 30.00%

Total

100.00

%

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

The following presents the City’s net pension liability (asset), calculated using the discount rate of 6.0%, as well as what the City’s net pension liability (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:

|  |  |  |
| --- | --- | --- |
| 1% | Current | 1% |
| Decrease | Discount | Increase |
| Rate 5.0% | Rate 6.0% | Rate 7.0% |

City's net pension liability (asset)

$(7,262,976)

(8,834,052)

$

$ (10,141,525)

### NOTE I: RISK MANAGEMENT

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

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

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

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

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

#### Funding Policy

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

#### Funding Progress

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

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

Annual required contribution (ARC) $ 39,966 Interest on net OPEB Obligation 3,563

Adjustment to annual required contribution (2,624)

Annual OPEB cost (expense) 40,905

Amounts contributed:

Payments of current premiums 27,810

Increase in Net OPEB obligation 13,095

OPEB obligation - Beginning of year 59,389

OPEB obligation - End of year $ 72,484

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

2012 2013 2014

Annual OPEB cost $ 44,790 $ 45,036 $ 40,905

Percentage contributed 69 % 60 % 68 %

Net OPEB obligation 41,487 59,389 72,484

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

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

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

### NOTE K: CONSTRUCTION CODE FEES

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

|  |  |
| --- | --- |
| Deficit at December 31, 2013 | $ (502,843) |
| Construction code revenue | 76,770 |
| Related expenditures - Direct costs | (78,350) |

Deficit at December 31, 2014 $ (504,423)

### NOTE L: CONTINGENCIES

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

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

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

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

### NOTE L: CONTINGENCIES - CONTINUED

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

### NOTE M: DETAILS OF FUND BALANCE CLASSIFICATIONS

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

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

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

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

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

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

#### Fund Balance Classification Policies and Procedures

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

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

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

### NOTE M: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED

#### Fund Balance Classification Policies and Procedures - continued

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  | Nonmajor |  |
| General | Albion | Street | Governmental |  |
| Fund | Trust | Improvement | Funds | Total |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Fund Balances Nonspendable: |  |  |  |  |  |
| Prepaids | $ 236,037 | $ - | $ - | $ 15,655 | $ 251,692 |
| Inventory | - | - | - | 26,020 | 26,020 |
| Long-term receivable | - | - | - | 587,813 | 587,813 |
| Perpetual Care Restricted for: | - | - | - | 215,000 | 215,000 |
| Streets and highways | - | - | 274,629 | 295,809 | 570,438 |
| Sidewalks | - | - | - | 205,193 | 205,193 |
| Community enrichment | - | 1,202,048 | - | 719,463 | 1,921,511 |
| Solid Waste | - | - | - | 103,493 | 103,493 |
| Law enforcement | - | - | - | 32,071 | 32,071 |
| Debt service | - | - | - | 76,064 | 76,064 |
| Perpetual Care Assigned to: | - | - | - | 50,340 | 50,340 |
| Insurance deductible | 41,347 | - | - | - | 41,347 |
| Communications | 41,345 | - | - | - | 41,345 |
| Capital projects | - | - | - | 4,467 | 4,467 |
| Unassigned: | 754,614 | - | - | - | 754,614 |

TOTAL FUND BALANCES

$ 1,073,343

1,202,048

$

$ 274,629

2,331,388

$

$ 4,881,408

### NOTE N: UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The Statement requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability/asset for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this Statement are effective for financial statements for the City’s 2015 fiscal year.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*. The statement addresses an issue regarding the application of the transition provisions of GASB Statement No. 68 and amends paragraph 137 of GASB Statement No. 68 and requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this statement are required to be applied simultaneously with the provisions of GASB Statement No. 68. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2015 fiscal year.

### NOTE N: UPCOMING ACCOUNTING PRONOUNCEMENTS - CONTINUED

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

### NOTE O: CHANGES IN ACCOUNTING PRINCIPLES

During the year, the City adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*. The statement will establish accounting and financial reporting requirements related to defined benefit pension plans and specify the required approach to measuring the pension liability of employers. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI).

### NOTE P: DEFICIT IN UNRESTRICTED NET POSITION

The City’s Internal Service Fund had a negative unrestricted net position of ($22,902) as of December 31, 2014. The total net position of the fund was $198,926.

### NOTE Q: RESTATEMENT OF NET POSITION

During the year, the City restated the beginning net position of the Water Fund and the business-type activities by $54,140 to account for overstated compensated absences in prior periods.

Also, the City restated beginning net position of the Public Safety Officers’ Pension Trust Fund by ($21,167) to account for overstated cash and investments in prior periods.

**REQUIRED SUPPLEMENTARY INFORMATION**

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2014

Variance with

Budgeted Amounts Final Budget

Positive

Original

Final

Actual

(Negative)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| REVENUES  Taxes |  |  |  |  |
| Property taxes | $ 1,032,400 | $ 879,500 | $ 925,609 | $ 46,109 |
| Income taxes | 1,000,000 | 985,000 | 979,477 | (5,523) |
| Payments in lieu of taxes | 9,400 | 3,800 | 3,853 | 53 |
| Penalties and interest | 22,000 | 17,000 | 23,219 | 6,219 |
| Administration fees | 60,000 | 50,000 | 57,464 | 7,464 |
| Total taxes | 2,123,800 | 1,935,300 | 1,989,622 | 54,322 |
| Licenses and permits  Intergovernmental | 74,800 | 41,578 | 81,949 | 40,371 |
| Federal/State | 1,960,516 | 1,969,080 | 1,977,911 | 8,831 |
| Local | - | - | 890 | 890 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Total intergovernmental  Charges for services | 1,960,516 | 1,969,080 | 1,978,801 | 9,721 |
| Cemetery | 35,000 | 33,000 | 36,363 | 3,363 |
| Other fees | 264,200 | 277,550 | 280,970 | 3,420 |
| Total charges for services | 299,200 | 310,550 | 317,333 | 6,783 |
| Fines and forfeits | 32,000 | 32,500 | 41,663 | 9,163 |
| Interest and rents  Other | 7,100 | 5,600 | 6,873 | 1,273 |
| Reimbursements | 73,300 | 76,230 | 70,057 | (6,173) |
| Other | 5,800 | 960 | 1,952 | 992 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Total other | 79,100 | 77,190 | 72,009 | (5,181) |
| TOTAL REVENUES | 4,576,516 | 4,371,798 | 4,488,250 | 116,452 |

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended December 31, 2014

Variance with

Budgeted Amounts Final Budget

Positive

Original

Final

Actual

(Negative)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| EXPENDITURES  Current  General government |  |  |  |  |
| City Council | $ 34,168 | $ 33,645 | $ 40,151 | $ (6,506) |
| City Manager | 71,241 | 80,640 | 83,092 | (2,452) |
| Human resources | 36,003 | 31,040 | 33,713 | (2,673) |
| Assessor | 72,668 | 61,800 | 59,995 | 1,805 |
| Attorney | 89,500 | 96,430 | 102,211 | (5,781) |
| Clerk | 101,681 | 98,306 | 98,195 | 111 |
| Treasurer | 213,420 | 211,220 | 209,168 | 2,052 |
| Municipal building | 70,181 | 68,691 | 64,484 | 4,207 |
| Cemetery | 142,395 | 165,675 | 158,672 | 7,003 |
| Other | 75,416 | 62,000 | 53,996 | 8,004 |
|  |  |  |  |  |
| Total general government | 906,673 | 909,447 | 903,677 | 5,770 |
| Public safety |  |  |  |  |
| Police and fire | 1,956,143 | 1,912,135 | 1,908,451 | 3,684 |
| Building inspection | 38,000 | 75,750 | 78,350 | (2,600) |
| Code enforcement | 104,694 | 88,710 | 82,557 | 6,153 |
| Total public safety  Public works | 2,098,837 | 2,076,595 | 2,069,358 | 7,237 |
| Engineering | 7,199 | 9,217 | 8,049 | 1,168 |
| Highways and streets | 241,847 | 213,745 | 194,412 | 19,333 |
| Tree trimming | 39,053 | 26,995 | 13,988 | 13,007 |
| Total public works  Health and welfare | 288,099 | 249,957 | 216,449 | 33,508 |
| Environmental expenditures  Community and economic development | 17,500 | 22,750 | 25,096 | (2,346) |
| Planning  Recreation and cultural | 14,481 | 7,155 | 6,294 | 861 |
| Parks | 166,575 | 164,590 | 153,193 | 11,397 |
| Other | 100,000 | 118,250 | 115,220 | 3,030 |
| Capital outlay | 1,010,190 | 995,650 | 996,331 | (681) |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| TOTAL EXPENDITURES  EXCESS OF REVENUES OVER | 4,602,355 | 4,544,394 | 4,485,618 | 58,776 |
| (UNDER) EXPENDITURES | (25,839) | (172,596) | 2,632 | 175,228 |

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended December 31, 2014

Variance with

Budgeted Amounts Final Budget

Positive

Original

Final

Actual

(Negative)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| OTHER FINANCING SOURCES (USES) |  |  |  |  |
| Transfers in | $ 82,000 | $ 32,450 | $ 32,450 | $ -0- |
| Transfers out  TOTAL OTHER FINANCING | (54,138) | (54,138) | (54,138) | -0- |
| SOURCES (USES) | 27,862 | (21,688) | (21,688) | -0- |
| NET CHANGE IN FUND BALANCE | 2,023 | (194,284) | (19,056) | 175,228 |
| Fund balance, beginning of year | 1,092,399 | 1,092,399 | 1,092,399 | -0- |
| Fund balance, end of year | $ 1,094,422 | $ 898,115 | $ 1,073,343 | $ 175,228 |

Albion Trust Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2014

Variance with

Budgeted Amounts Final Budget

Positive

Original

Final

Actual

(Negative)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| REVENUES |  |  |  |  |
| Interest  EXPENDITURES  Current | $ 53,000 | $ 78,850 | $ 34,959 | $ (43,891) |
| Community and economic development | - | 50,000 | - | 50,000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| NET CHANGE IN FUND BALANCE | 53,000 | 28,850 | 34,959 | 6,109 |
| Fund balance, beginning of year | 1,167,089 | 1,167,089 | 1,167,089 | -0- |
| Fund balance, end of year | $ 1,220,089 | $ 1,195,939 | $ 1,202,048 | $ 6,109 |

SCHEDULES OF FUNDING PROGRESS

Year Ended December 31, 2014

#### Public Safety - Retirement Plan

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | Actuarial |  |  |  |  |
| Actuarial  Valuation  Date | Actuarial  Value of  Assets | Accrued  Liability  (AAL) Entry  Age | Unfunded  (Overfunded)  AAL (UAAL) | Funded Ratio | Covered  Payroll | UAAL as a % of  Covered  Payroll |

|  |  |  |
| --- | --- | --- |
| 12/31/2013 | $ 18,198,275 $ 12,295,864 $ (5,902,411) 148 % $ 1,048,533 | (563) % |
| 12/31/2012 | 16,865,839 12,776,752 (4,089,087) 132 % 1,055,148 | (388) % |
| 12/31/2011 | 16,720,968 12,287,885 (4,433,083) 136 % 1,162,556 | (381) % |
| 12/31/2010 | 16,800,492 11,720,126 (5,080,366) 143 % 1,222,264 | (416) % |
| 12/31/2009 | 16,439,590 11,470,010 (4,969,580) 143 % 1,341,984 | (370) % |
| 12/31/2008 | 16,109,321 11,275,568 (4,833,753) 143 % 1,381,175 | (350) % |
| 12/31/2007 | 15,969,390 11,081,000 (4,888,390) 144 % 1,270,325 | (385) % |
| 12/31/2006 | 14,891,706 10,173,543 (4,718,163) 146 % 1,237,654 | (381) % |
| 12/31/2005 | 14,306,560 10,146,419 (4,160,141) 141 % 1,288,530 | (323) % |
| 12/31/2004 | 14,189,742 9,217,404 (4,972,338) 154 % 1,290,940 | (385) % |
| Actuarial  Valuation  Date | City Employees - Post-Employment Health Care Benefits  Actuarial  Accrued  Actuarial Liability Unfunded  Value of (AAL) Entry (Overfunded) Funded Covered  Assets Age AAL (UAAL) Ratio Payroll | UAAL as a % of  Covered  Payroll |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 12/31/2014 | $ 54,932 | $ 497,517 | $ 442,585 | 11 | % | $ - | not applicable |
| 12/31/2011 | 203,242 | 627,442 | 424,200 | 32 | % | 216,003 | 196 % |
| 12/31/2008 | 179,123 | 539,823 | 360,700 | 33 | % | 1,592,118 | 23 % |

SCHEDULES OF EMPLOYER CONTRIBUTIONS

Year Ended December 31, 2014

#### Public Safety - Retirement Plan

|  |  |  |
| --- | --- | --- |
|  | Annual |  |
| Year Ended December 31, | Pension Cost | Percentage Contributed |

2014 $ - N/A

2013 - N/A

2012 - N/A

2011 - N/A

2010 - N/A

2009 - N/A

2008 - N/A 2007 - N/A

2006 - N/A

2005 - N/A

#### City Employees - Post-Employment Health Care Benefits

Annual

Year Ended OPEB Percentage

December 31, Cost Contributed

|  |  |  |
| --- | --- | --- |
| 2014 | $ 40,906 | 68 % |
| 2013 | 45,036 | 60 % |
| 2012 | 44,790 | 69 % |
| 2011 | 44,306 | 79 % |
| 2010 | 40,350 | 141 % |

Public Safety Officers Retirement System

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

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

2014

|  |  |
| --- | --- |
| CHANGES IN TOTAL PENSION LIABILITY |  |
| Service cost | $ 340,366 |
| Interest | 728,402 |
| Differences between expected and actual experience | 126,170 |
| Benefit payments, including refunds of member contributions | (652,027) |
| NET CHANGE IN TOTAL PENSION LIABILITY | 542,911 |
| TOTAL PENSION LIABILITY, BEGINNING | 12,295,864 |
| TOTAL PENSION LIABILITY, ENDING (A) | $ 12,838,775 |

|  |  |
| --- | --- |
| CHANGES IN PLAN FIDUCIARY NET POSITION |  |
| Contributions - employer | $ - |
| Contributions - member | 56,449 |
| Net investment income | 1,769,846 |
| Benefit payments, including refunds of member contributions | (652,027) |
| NET CHANGE IN PLAN FIDUCIARY NET POSITION | 1,174,268 |
| PLAN FIDUCIARY NET POSITION, BEGINNING | 20,498,559 |
| PLAN FIDUCIARY NET POSITION, ENDING (B) | $ 21,672,827 |

CITY'S NET PENSION LIABILITY (ASSET), ENDING (A)-(B) $ (8,834,052)

|  |  |
| --- | --- |
| Plan fiduciary net position as a percentage |  |
| of the total pension liability | 168.81% |
| Covered-employee payroll  City's net pension liability (asset) as a percentage | $ 992,149 |
| of covered-employee payroll | -890.40% |

City of Albion

Public Safety Officers Retirement System

SCHEDULE OF CITY CONTRIBUTIONS

Last Ten Fiscal Years

2014 2013 2012 2011 2010 2009 2008 2007 2006 2005

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Actuarially determined contribution  Contributions in relation to the actuarially | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| determined contribution | - | - | - | - | - | - | - | - | - | - |
| Contribution excess (deficiency) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |

|  |  |  |  |
| --- | --- | --- | --- |
| Covered-employee payroll  Actuarially determined contributions as a percentage of covered-employee | | $ 992,149 $ 1,048,533 $ 1,055,148 $ 1,162,556 $ 1,222,264 $ 1,341,984 $ 1,381,175 $ 1,270,325 $ 1,237,654 | $ 1,288,530 |
| payroll | NOTE TO SCHEDULE: | 0% 0% 0% 0% 0% 0% 0% 0% 0% | 0% |
|  | Valuation Date: | Actuarially determined contribution rates are calculated as of the December 31, the year prior to the end of the fiscal year in which contributions are reported. Covered-employee payroll is as of December 31 of the current fiscal year. |  |
|  |  |  |  |

- 54 -

Public Safety Officers Retirement System

SCHEDULE OF CITY CONTRIBUTIONS

Last Ten Fiscal Years

Nominal rate of

Year Ended return on smoothed December 31, value of assets

2014 10.5%

2013 11.7%

2012 3.9%

2011 2.8%

2010 5.4%

2009 5.0%

2008 4.0%

2007 10.8%

2006 8.2%

2005 5.4%

City of Albion

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended December 31, 2014

### 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 Actuarial assumptions: | 5-year smoothed market |
| Investment rate of return | 6.0% |
| Projected salary increases | (includes inflation at 4.00%) 4.00 - 8.00% |
| Cost of living adjustments | None |
| Mortality rates | RP 2000 combined healthy mortality table |

#### City Employees - Post-Employment Health Care Benefits

|  |  |
| --- | --- |
| Actuarial Valuation: |  |
| Frequency | Triennial |
| Latest valuation date | 12/31/2011 |
| Actuarial cost method | Individual Entry Age |
| Amortization method | Level dollar |
| Remaining amortization period | 30 years |
| Asset valuation method | Market |
| Actuarial assumptions:  Projected salary increases | Investment rates of return 6.0% |
| Includes inflation at: | 4.0% |

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED

Year Ended December 31, 2014

### NOTE B: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

The City’s budgeted expenditures in the General Fund and Albion Trust Fund have been shown at the functional classification level. The City’s budgeted expenditures for nonmajor Special Revenue Funds are not required to be reported in the financial statements. The approved budgets of the City have been adopted at the total expenditure level for all governmental funds.

During the year ended December 31, 2014, the City incurred expenditures in the Recreation, Drug Law Enforcement, and Revolving Loan Funds in excess of the amounts appropriated as follows:

|  |  |  |
| --- | --- | --- |
| Amounts | Amounts |  |
| Appropriated | Expended | Variance |

|  |  |  |  |
| --- | --- | --- | --- |
| PRIMARY GOVERNMENT |  |  |  |
| Recreation | $ 160,233 | $ 172,822 | $ 12,589 |
| Drug Law Enforcement | 98,498 | 102,912 | 4,414 |
| Revolving Loan | 10,213 | 10,463 | 250 |

**OTHER SUPPLEMENTARY INFORMATION**

COMBINING BALANCE SHEET

December 31, 2014

Special Revenue

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  | Community |
| Major | Local | Recreation | Solid | Development |
| Street | Street | Fund | Waste | Block Grant |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| ASSETS |  |  |  |  |  |
| Cash and cash equivalents | $ 158,986 | $ 42,246 | $ 868 | $ - | $ 13,788 |
| Investments | - | - | - | 99,061 | - |
| Accounts receivable | - | - | 50 | 17,273 | - |
| Interest receivable | - | - | - | - | 13,208 |
| Taxes receivable | - | - | 4,575 | 9,956 | - |
| Loans receivable | - | - | - | - | 145,934 |
| Due from other funds | - | - | - | - | 21 |
| Due from other governmental units | 98,241 | 44,412 | - | - | - |
| Prepaids | 5,257 | 5,188 | 889 | - | - |
| Inventories | 9,650 | - | - | - | - |

TOTAL ASSETS

$ 272,134

91,846

$

$ 6,382

126,290

$

$ 172,951

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
| LIABILITIES |  |  |  |  |  |
| Accounts payable | $ 3,248 | $ 51 | $ 1,463 | $ 165 | $ - |
| Accrued liabilities | 12,459 | 5,070 | 2,267 | 1,893 | - |
| Due to other funds | - | - | - | 14,289 | - |
| Due to other governmental units | - | - | - | - | - |
| Unearned revenue | - | - | 1,000 | - | - |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| TOTAL LIABILITIES  DEFERRED INFLOWS OF RESOURCES | 15,707 | 5,121 | 4,730 | 16,347 | -0- |
| Unavailable revenue | 13,624 | 13,624 | - | 6,450 | - |
| FUND BALANCES |  |  |  |  |  |
| Nonspendable | 14,907 | 5,188 | 889 | - | 145,934 |
| Restricted | 227,896 | 67,913 | 763 | 103,493 | 27,017 |
| Assigned | - | - | - | - | - |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| TOTAL FUND BALANCES  TOTAL LIABILITIES, DEFERRED  INFLOWS OF RESOURCES, | 242,803 | 73,101 | 1,652 | 103,493 | 172,951 |
| AND FUND BALANCES | $ 272,134 | $ 91,846 | $ 6,382 | $ 126,290 | $ 172,951 |

Debt Service

Funds Funds

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Albion | Maple |  | Energy 425 |
| Drug Law | Building | Grove | Revolving | Generator |
| Enforcement | Authority | Apartments | Loan | Bonds |

$ 50,526 $ 68,385 $ 359,272 $ 306,209 $ 32,716

- - - - -

255 3,000 - - - - - - -

* - - - - 32,089 - 367,958 - 6,000 - - - - - - - 1,468 2,853 - -
* 1,970 - - -

50,781

$

$ 112,912

362,125

$

$ 674,167

32,716

$

$ 4,628 $ 4,891 $ 2,675 $ 141 $ 14,082 - 20,060 236 - 23,180 - - - - - - -

* - - - -

18,710 28,071 22,735 377 -0-

* - - - -
* 35,527 2,853 367,958 32,071 49,314 336,537 305,832 32,716
* - - - -

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 32,071 | 84,841 | 339,390 | 673,790 | 32,716 |
| $ 50,781 | $ 112,912 | $ 362,125 | $ 674,167 | $ 32,716 |

COMBINING BALANCE SHEET - CONTINUED

December 31, 2014

Debt Service Funds

DPW

111 Center Building G.O. Water 201 N. Clinton

Street Debt Debt Bonds Debt

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| ASSETS |  |  |  |  |
| Cash and cash equivalents | $ 3,184 | $ 295 | $ 15,573 | $ 130 |
| Investments | - | - | - | - |
| Accounts receivable | - | - | 1,238 | - |
| Interest receivable | - | - | - | - |
| Taxes receivable | - | - | 5,707 | - |
| Loans receivable | - | - | - | - |
| Due from other funds | - | - | - | - |
| Due from other governmental units | - | - | 2,163 | - |
| Prepaids | - | - | - | - |
| Inventories | - | - | - | - |

TOTAL ASSETS

$ 3,184

295

$

$ 24,681

130

$

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| LIABILITIES |  |  |  |  |
| Accounts payable | $ - | $ - | $ - | $ - |
| Accrued liabilities | - | - | - | - |
| Due to other funds | - | - | - | - |
| Due to other governmental units | - | - | - | - |
| Unearned revenue | - | - | - | - |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| TOTAL LIABILITIES  DEFERRED INFLOWS OF RESOURCES | -0- | -0- | -0- | -0- |
| Unavailable revenue  FUND BALANCES | - | - | 3,428 | - |
| Nonspendable | - | - | - | - |
| Restricted | 3,184 | 295 | 21,253 | 130 |
| Assigned | - | - | - | - |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| TOTAL FUND BALANCES  TOTAL LIABILITIES, DEFERRED  INFLOWS OF RESOURCES, | 3,184 | 295 | 21,253 | 130 |
| AND FUND BALANCES | $ 3,184 | $ 295 | $ 24,681 | $ 130 |

Capital Project Permanent

Fund Fund Total

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | MDOT |  | Nonmajor |
| ABA | Sidewalk | Street | Cemetery | Governmental |
| Bonds | Program | Reconstruction | Trust | Funds |

$ - 215,196 $ 4,467 $ 71,576 $ 1,343,417

* - - 200,228 299,289 - - - - 21,816
* - - - 13,208
* 4,553 - - 24,791
* - - - 545,981

23,180 - - - 29,201 - - - 41,832 186,648 - - - - 15,655

* 14,400 - - 26,020

23,180

$

$ 234,149

4,467

$

$ 313,636

2,506,026

$

$ - 14,556 $ - $ - $ 31,818 - - - - 56,067

4,694 - - - 42,163 - - - 6,464 6,464

#### - - - - 1,000

4,694 14,556 -0- 6,464 137,512

* - - - 37,126

* 14,400 - 256,832 844,488 18,486 205,193 - 50,340 1,482,433 - - 4,467 - 4,467

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 18,486 | 219,593 | 4,467 |  | 307,172 | 2,331,388 |
| $ 23,180 | $ 234,149 | $ 4,467 |  | $ 313,636 | $ 2,506,026 |

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCES

Year Ended December 31, 2014

Special Revenue

Community

Major Local Recreation Solid Development

Street Street Fund Waste Block Grant

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| REVENUES |  |  |  |  |  |
| Taxes | $ - | $ - | $ 114,592 | $ 151,089 | $ - |
| Intergovernmental | 5 57,575 | 171,109 | 3 5,432 | - | - |
| Charges for services | 7,115 | - | 13,715 | - | - |
| Fines and Forfeits | - | - | - | - | - |
| Interest and rents | 997 | 102 | 19 | 1,699 | 417 |
| Other | 42,885 | 2,797 | 1,437 | 39,547 | 3,227 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| TOTAL REVENUES  EXPENDITURES  Current | 608,572 | 174,008 | 165,195 | 192,335 | 3 ,644 |
| General government | - | - | - | - | - |
| Public safety | - | - | - | - | - |
| Public works | 4 80,574 | 291,050 | - | 195,440 | - |
| Community and economic development | - | - | - | - | 153,620 |
| Recreation and cultural Debt service | - | - | 172,822 | - | - |
| Principal | - | - | - | - | - |
| Interest and fiscal fees | - | - | - | - | - |
| Capital outlay | - | - | - | - | - |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| TOTAL EXPENDITURES  EXCESS OF REVENUES OVER | 480,574 | 291,050 | 172,822 | 195,440 | 153,620 |
| (UNDER) EXPENDITURES  OTHER FINANCING SOURCES (USES) | 127,998 | (117,042) | (7,627) | (3,105) | (149,976) |
| Transfers in | - | 115,000 | - | - | - |
| Transfers out | (118,000) | (3,000) | - | (6,500) | - |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| TOTAL OTHER FINANCING |  |  |  |  |  |
| SOURCES (USES) | (118,000) | 112,000 | -0- | (6,500) | -0- |
| NET CHANGE IN FUND BALANCES | 9,998 | (5,042) | (7,627) | (9,605) | (149,976) |
| Fund balances, beginning of year | 232,805 | 78,143 | 9,279 | 113,098 | 322,927 |

Fund balances, end of year Debt Service

$ 242,803

73,101

$

$ 1,652

103,493

$

$ 172,951

Funds Funds

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Albion | Maple |  | Energy 425 |
| Drug Law | Building | Grove | Revolving | Generator |
| Enforcement | Authority | Apartments | Loan | Bonds |

$ - $ - $ - $ - $ - 1,789 204,206 - -

* - - - -

3,000 - - - - 90,206 220,716 17,332 62,880 2,800 8,572 - -

65,880 94,795 433,494 1 7,332 -0-

* - - - 85,000 - - - - - - - -
* 66,588 255,798 10,463 -
* - - - -
* - - - 120,000 - - - - 66,550 17,912 - 13,524 - -

##### 102,912 66,588 269,322 1 0,463 186,550

(37,032) 28,207 164,172 6 ,869 (186,550)

- - - - 186,140 - (17,295) (64,200) - -

##### -0- (17,295) (64,200) -0- 186,140

(37,032) 10,912 99,972 6,869 (410)

69,103 73,929 239,418 666,921 33,126

32,071

$

$ 84,841

339,390

$

$ 673,790

32,716

$

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2014

Debt Service Funds

DPW

111 Center Building G.O. Water 201 N. Clinton

Street Debt Debt Bonds Debt

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| REVENUES |  |  |  |  |
| Taxes | $ - | $ - | $ 112,372 | $ - |
| Intergovernmental | - | - | - | - |
| Charges for services | - | - | 13,312 | - |
| Fines and Forfeits | - | - | - | - |
| Interest and rents | - | - | - | - |
| Other | - | - | - | - |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| TOTAL REVENUES  EXPENDITURES  Current | -0- | -0- | 125,684 | -0- |
| General government | - | - | - | - |
| Public safety | - | - | - | - |
| Public works | - | - | - | - |
| Community and economic development | - | - | - | - |
| Recreation and cultural  Debt service | - | - | - | - |
| Principal | 7,368 | 11,364 | 125,000 | 8,810 |
| Interest and fiscal fees | 365 | 3,636 | 10,919 | 621 |
| Capital outlay | - | - | - | - |

TOTAL EXPENDITURES 15,000

7 ,733

1 35,919

9,431

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| EXCESS OF REVENUES OVER |  |  |  |  |
| (UNDER) EXPENDITURES  OTHER FINANCING SOURCES (USES) | ( 7,733) | (15,000) | ( 10,235) | (9,431) |
| Transfers in | 7,820 | 15,000 | - | 9,475 |
| Transfers out | - | - | - | - |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| TOTAL OTHER FINANCING |  |  |  |  |
| SOURCES (USES) | 7,820 | 15,000 | -0- | 9,475 |
| NET CHANGE IN FUND BALANCES | 87 | -0- | (10,235) | 44 |
| Fund balances, beginning of year | 3,097 | 295 | 31,488 | 86 |

Fund balances, end of year Capital Project Permanent

$ 3,184

295

$

$ 21,253

130

$

Funds Fund Total

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | MDOT |  | Nonmajor |
| ABA | Sidewalk | Street | Cemetery | Governmental |
| Bonds | Program | Reconstruction | Trust | Funds |

$ - $ - $ - $ - $ 378,053 - - - - 970,111 - - - - 34,142 - - - - 3,000

- 881 - 5,384 337,753

##### 23,760 156,708 - - 344,613

23,760 157,589 -0- 5,384 2,067,672

* - - 9 9 - - - - 85,000 - 58,358 - - 1,025,422 - - - - 486,469 - - - - 172,822

80,000 - - - 352,542 51,353 - - - 133,444

* - - - 31,436

##### 131,353 58,358 -0-

9

2,287,144

(107,593) 99,231 -0- 5,375 (219,472)

107,702 - - - 441,137

##### - (36,832) - (53,430) (299,257)

107,702 (36,832) -0- (53,430) 141,880

109 62,399 -0- (48,055) (77,592)

##### 18,377 157,194 4,467 355,227 2,408,980

18,486

$

$ 219,593

4,467

$

$ 307,172

2,331,388

$

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

December 31, 2014

Trust and Current Tax

Agency Collections Total

ASSETS

$ 91,592

745,128

$

$ 836,720

Cash and cash equivalents

|  |  |  |  |
| --- | --- | --- | --- |
| LIABILITIES |  |  |  |
| Due to County | $ - | $ 6,456 | $ 6,456 |
| Due to State | 292 | 17,015 | 17,307 |
| Due to schools | - | 2,589 | 2,589 |
| Due to others | 91,300 | 719,068 | 810,368 |

TOTAL LIABILITIES

$ 91,592

745,128

$

$ 836,720

Pension and Employee Benefit Trust Funds

COMBINING STATEMENT OF FIDUCIARY NET POSITION

December 31, 2014

|  |  |  |
| --- | --- | --- |
| Public Safety |  |  |
| Officers' | Retiree |  |
| Pension | Health Care | Total |

|  |  |  |  |
| --- | --- | --- | --- |
| ASSETS |  |  |  |
| Cash and cash equivalents | $ 659,566 | $ 54,968 | $ 714,534 |
| Investments | 20,940,937 | - | 20,940,937 |
| Interest receivable | 72,324 | - | 72,324 |
| TOTAL ASSETS | 21,672,827 | 54,968 | 21,727,795 |
| LIABILITIES | - | - | -0- |

|  |  |  |  |
| --- | --- | --- | --- |
| NET POSITION |  |  |  |
| Held in trust for pension and employee benefits | $ 21,672,827 | $ 54,968 | $ 21,727,795 |

Pension and Employee Benefit Trust Funds

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended December 31, 2014

|  |  |  |
| --- | --- | --- |
| Public Safety |  |  |
| Officers' | Retiree |  |
| Pension | Health Care | Total |

|  |  |  |  |
| --- | --- | --- | --- |
| ADDITIONS  Investment income |  |  |  |
| Interest and dividends | $ 728,402 | $ 190 | $ 728,592 |
| Net increase in fair value of investments | 1,041,444 | - | 1,041,444 |
| Net investment income | 1,769,846 | 190 | 1,770,036 |
| Contributions - employee | 56,449 | - | 56,449 |
| TOTAL ADDITIONS  DEDUCTIONS | 1,826,295 | 190 | 1,826,485 |
| Benefit payments | 652,027 | 1,710 | 653,737 |
| CHANGE IN NET POSITION | 1,174,268 | (1,520) | 1,172,748 |
| Restated net position, beginning of year | 20,498,559 | 56,488 | 20,555,047 |
| Net position, end of year | $ 21,672,827 | $ 54,968 | $ 21,727,795 |

COMBINING BALANCE SHEET - ECONOMIC DEVELOPMENT CORPORATION

December 31, 2014

Economic

Special

Revenue

Business

Incubator

Total

#### Development

|  |  |  |  |
| --- | --- | --- | --- |
| ASSETS |  |  |  |
| Cash | $ - | $ 116,517 | $ 116,517 |
| Accounts receivable | - | 2,335 | 2,335 |
| Due from other funds | - | 4,796 | 4,796 |
| Due from other governmental units | 31,187 | 1,000 | 32,187 |
| TOTAL ASSETS | $ 31,187 | $ 124,648 | $ 155,835 |

|  |  |  |  |
| --- | --- | --- | --- |
| LIABILITIES |  |  |  |
| Accounts payable | $ 15,522 | $ 1,967 | $ 17,489 |
| Accrued liabilities | 1,861 | 353 | 2,214 |
| Due to other funds | 4,796 | - | 4,796 |
| Due to other governmental units | - | 41,832 | 41,832 |
| Unearned revenue | 768 | 55,173 | 55,941 |

|  |  |  |  |
| --- | --- | --- | --- |
| TOTAL LIABILITIES  FUND BALANCES | 22,947 | 99,325 | 122,272 |
| Nonspendable | - | 1,154 | 1,154 |
| Restricted | 8,240 | 24,169 | 32,409 |
| TOTAL FUND BALANCES | 8,240 | 25,323 | 33,563 |
| TOTAL LIABILITIES AND FUND BALANCES | $ 31,187 | $ 124,648 | $ 155,835 |

RECONCILIATION OF THE COMBINING BALANCE SHEET TO

THE STATEMENT OF NET POSITION - ECONOMIC DEVELOPMENT CORPORATION

December 31, 2014

#### **Total fund balances - governmental funds** $ 33,563

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 | $ 52,517 |
| Accumulated depreciation is | (10,400) |

|  |  |  |
| --- | --- | --- |
| Capital assets, net  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: |  | 42,117 |
| ABA loan | (32,089) |  |
| Accrued interest payable | (1,559) |  |

#### **Net position of governmental activities**

(33,648)

42,032

$

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

Year Ended December 31, 2014

Economic

Special

Revenue

Business

Incubator

Total

##### Development

|  |  |  |  |
| --- | --- | --- | --- |
| REVENUES |  |  |  |
| Intergovernmental | $ 241,797 | $ 34,651 | $ 276,448 |
| Interest and rents | 73,359 | 27,119 | 100,478 |
| Other | 33 | 8,200 | 8,233 |

|  |  |  |  |
| --- | --- | --- | --- |
| TOTAL REVENUES  EXPENDITURES  Current | 315,189 | 69,970 | 385,159 |
| Community and economic development Debt service | 295,606 | 59,193 | 354,799 |
| Principal | 3,692 | - | 3,692 |
| Interest and fiscal fees | 1,789 | - | 1,789 |
| Capital outlay | 5,862 | - | 5,862 |

|  |  |  |  |
| --- | --- | --- | --- |
| TOTAL EXPENDITURES | 306,949 | 59,193 | 366,142 |
| NET CHANGE IN FUND BALANCES | 8,240 | 10,777 | 19,017 |
| Fund balances, beginning of year | - | 14,546 | 14,546 |

Fund balances, end of year

8,240

$

$ 25,323

33,563

$

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, 2014

#### **Net change in fund balances - governmental funds** $ 19,017

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 $ 5,862

Depreciation expense (800)

|  |  |
| --- | --- |
| Excess of capital outlay over depreciation expense  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: | 5,062 |
| ABA loan payments  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: | 3,692 |
| Decrease in accrued interest payable | 180 |
| **Change in net position of governmental activities** | $ 27,951 |

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

December 31, 2014

ASSETS

Cash $ 48,483

Prepaids 692

#### TOTAL ASSETS $ 49,175

LIABILITIES

Accounts payable $ 25

FUND BALANCES

Nonspendable 692

Unassigned 48,458

TOTAL FUND BALANCES 49,150

TOTAL LIABILITIES AND FUND BALANCES $ 49,175

RECONCILIATION OF THE BALANCE SHEET TO

THE STATEMENT OF NET POSITION - DOWNTOWN DEVELOPMENT AUTHORITY

December 31, 2014

##### **Total fund balance - governmental fund** $ 49,150

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: $ 619,082

Accumulated depreciation is: (479,706)

Capital assets, net

139,376

188,526

$

##### **Net position of governmental activities**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended December 31, 2014

REVENUES

Taxes $ 22,199

Intergovernmental 360,000 Interest 222

Other 15

TOTAL REVENUES 382,436

EXPENDITURES

Current

Community and economic development 365,833

NET CHANGE IN FUND BALANCE 16,603

Fund balance, beginning of year 32,547

Fund balance, end of year $ 49,150

RECONCILIATION OF THE STATEMENT OF REVENUES,

EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL

FUNDS TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended December 31, 2014

##### **Net change in fund balance - governmental fund** $ 16,603

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

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

|  |  |
| --- | --- |
| Depreciation expense | (55,749) |
| **Change in net position of governmental activities** | $ (39,146) |

BALANCE SHEET - TAX INCREMENT FINANCE AUTHORITY

December 31, 2014

ASSETS

Cash $ 68,617

Interest receivable 538

Taxes receivable 27,592

#### TOTAL ASSETS $ 96,747

LIABILITIES

Accounts payable $ 95

Accrued liabilities 5,954

TOTAL LIABILITIES 6,049

FUND BALANCE

Unassigned 90,698

TOTAL LIABILITIES AND FUND BALANCES

$ 96,747

RECONCILIATION OF THE BALANCE SHEET TO

THE STATEMENT OF NET POSITION - TAX INCREMENT FINANCE AUTHORITY

December 31, 2014

##### **Total fund balance - governmental fund** $ 90,698

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:  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: | 160,000 |
| Compensated absences | (19,451) |

##### **Net position of governmental activities**

231,247

$

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - TAX INCREMENT FINANCE AUTHORITY

Year Ended December 31, 2014

|  |  |
| --- | --- |
| REVENUES |  |
| Taxes | $ 243,363 |
| Interest | 234 |
| Other | 832 |

|  |  |
| --- | --- |
| TOTAL REVENUES  EXPENDITURES  Current | 244,429 |
| Community and economic development  Debt service | 192,715 |
| Interest and fiscal fees | 259 |
| TOTAL EXPENDITURES | 1 92,974 |
| NET CHANGE IN FUND BALANCE | 5 1,455 |
| Fund balance, beginning of year | 39,243 |
| Fund balance, end of year | $ 90,698 |

RECONCILIATION OF THE STATEMENT OF REVENUES,

EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL

FUNDS TO THE STATEMENT OF ACTIVITIES - TAX INCREMENT FINANCE AUTHORITY

Year Ended December 31, 2014

##### **Net change in fund balance - governmental fund** $ 51,455

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 | 3,411 |
| **Change in net position of governmental activities** | $ 54,866 |

**City of Albion**

**Calhoun County, Michigan**

**SUPPLEMENTARY INFORMATION**

**TO FINANCIAL STATEMENTS (FEDERAL AWARDS)**

**December 31, 2014**

TABLE OF CONTENTS

December 31, 2014

Page

# INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR

EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER

COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 1-2

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards 3

Notes to Schedule of Expenditures of Federal Awards 4

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL

REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN

AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH

*GOVERNMENT AUDITING STANDARDS* 5-6

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 7-9

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS 10

Principals ---———--—— Dale J. Abraham, CPA

Michael T. Gaffney, CPA

Steven R. Kirinovic, CPA

Aaron M. Stevens, CPA

Eric J. Glashouwer, CPA

Alan D. Panter, CPA

William I. Tucker IV, CPA 3511 Coolidge Road Suite 100



East Lansing, MI 48823

(517) 351-6836

**ABRAHAM & GAFFNEY, P.C.** FAX: (517) 351-6837

Certified Public Accountants

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Honorable Mayor and

Members of the City Council

City of Albion, Michigan

### Report on Compliance for Each Major Federal Program

We have audited the City of Albion, Michigan’s (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the year ended December 31, 2014. The City’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

The City’s basic financial statements include the operations of the Albion Housing Commission, a discretely presented component unit, which received $737,375 in federal awards which are not included in the schedule of federal awards during the year ended December 31, 2014. Our audit, described below, did not include the operations of the Albion Housing Commission, a discretely presented component unit, because the component unit engaged other auditors to perform a separate audit in accordance with OMB Circular A-133.

#### ***Management’s Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### ***Auditor’s Responsibility***

Our responsibility is to express an opinion on compliance for each of the City’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City’s compliance.

#### ***Opinion on Major Federal Program***

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

Auburn Hills ▪ East Lansing ▪ Grand Rapids ▪ St. Johns

### Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine that auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

### Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Albion, Michigan, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements. We issued our report thereon dated June 22, 2015, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the Albion Housing Commission, which represents 87%, 90%, and 53%, respectively of the total assets, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Albion Housing Commission, are based solely on the reports of the other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

### Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

June 22, 2015

City of Albion

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2014

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Pass-Through |  |
|  | CFDA | Grantors |  |
| Federal Grantor/Pass Through Grantor/Program Title | Number | Number | Expenditures |

|  |  |  |  |
| --- | --- | --- | --- |
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  Passed through Michigan Economic Development Corporation |  |  |  |
| Community Development Block Grant | 14.228 |  |  |
| Downtown Infrastructure Grant (DIG)  Passed through Michigan State Housing Development Authority |  | MSC 212014-ESB | $ 360,000 |
| Lower Income Housing Assistance Program | 14.856 | N/A | 204,206 |
| Total U.S. Department of Housing and Urban Development  U.S. DEPARTMENT OF JUSTICE  Passed through the City of Battle Creek |  |  | 564,206 |
| Edward Byrne Memorial Justice Assistance Grant  U.S. ENVIRONMENTAL PROTECTION AGENCY  Direct Award | 16.738 | N/A | 1,280 |
| Brownfields Assessment and Cleanup Cooperative | 66.818 |  |  |
| Agreements  U.S. DEPARTMENT OF HOMELAND SECURITY  Direct Award |  | BF-00E01243 | 128,956 |
| FY 2012 Assistance to Firefighters Grant (a) | 97.044 | EMW-2012-FV-00860 | 950,190 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS |  |  | $ 1,644,632 |

(a)

Denotes programs tested as “major programs”.

City of Albion

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2014

### NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the City of Albion, Michigan, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

### NOTE B: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the federal revenues reported in the December 31, 2014 basic financial statements to the expenditures of the City administered federal programs reported on the Schedule of Expenditures of Federal Awards:

|  |  |  |
| --- | --- | --- |
| Federal/ | Less | Federal |
| State | State | Award |
| Revenue | Revenue | Expenditures |

|  |  |  |  |
| --- | --- | --- | --- |
| PRIMARY GOVERNMENT  GENERAL FUND |  |  |  |
| Edward Byrne Memorial Justice Assistance Grant | $ 1,280 | $ - | $ 1,280 |
| Assistance to Firefighters Grant | 950,190 | - | 950,190 |
| Other Programs | 1,026,441 | 1,026,441 | -0- |

|  |  |  |  |
| --- | --- | --- | --- |
| TOTAL GENERAL FUND NONMAJOR GOVERNMENTAL FUNDS | 1,977,911 | 1,026,441 | 951,470 |
| Maple Grove Apartments | 204,206 | - | 204,206 |
| Other Funds | 765,905 | 765,905 | -0- |

|  |  |  |  |
| --- | --- | --- | --- |
| TOTAL NONMAJOR GOVERNMENTAL FUNDS | 970,111 | 765,905 | 204,206 |
| TOTAL GOVERNMENTAL FUNDS  COMPONENT UNITS | 2,948,022 | 1,792,346 | 1,155,676 |
| ECONOMIC DEVELOPMENT CORPORATION | 276,448 | 147,492 | 128,956 |
| DOWNTOWN DEVELOPMENT CORPORATION | 360,000 | - | 360,000 |

TOTAL REPORTING ENTITY

$ 3,584,470

1,939,838

$

$ 1,644,632

Principals ---———--—— Dale J. Abraham, CPA

Michael T. Gaffney, CPA

Steven R. Kirinovic, CPA

Aaron M. Stevens, CPA

Eric J. Glashouwer, CPA

Alan D. Panter, CPA

William I. Tucker IV, CPA 3511 Coolidge Road Suite 100



East Lansing, MI 48823

(517) 351-6836

**ABRAHAM & GAFFNEY, P.C.** FAX: (517) 351-6837

Certified Public Accountants

# INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND

ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and

Members of the City Council

City of Albion, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Albion, Michigan (the City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated June 22, 2015. Our report includes a reference to other auditors who audited the financial statements of Albion Housing Commission, as described in our report on the City’s financial statements. This report does not include the results of the other auditor’s testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2014-001 to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned cost as 2014-002 and 2014-003 to be significant deficiencies.

Auburn Hills ▪ East Lansing ▪ Grand Rapids ▪ St. Johns

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and is identified in the following schedule of findings and questioned cost as 2014-004.

### City of Albion’s Responses to Findings

The City of Albion’s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of This Report

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

ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

June 22, 2015

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2014

### Section I - Summary of Auditor’s Results *Financial Statements*

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Material weakness(es) identified? |  | X | Yes |  | No |
| Significant deficiency(ies) identified? |  | X | Yes |  | None reported |
| Noncompliance material to financial statements noted? |  |  | Yes | X | No |

|  |  |  |  |
| --- | --- | --- | --- |
| ***Federal Awards***    Internal control over major programs: |  |  |  |
| Material weakness(es) identified? | Yes | X | No |
| Significant deficiency(ies) identified? | Yes | X | None reported |
| Type of auditor’s report issued on compliance for major programs:    Any audit findings disclosed that are required to be reported in | Unmodified |  |  |
| accordance with Section 510(a) of Circular A-133? | Yes | X | No |

Identification of major programs:

#### CFDA Number(s) Name of Federal Program or Cluster

97.044 Assistance to Firefighters Grant

Dollar threshold used to distinguish between Type A and

Type B programs: $ 300,000

Auditee qualified as low-risk auditee? Yes X No

### Section II - Financial Statement Findings

#### 2014-001 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries for the adjustment of compensated absences, accrued payroll, and pension trust investments were proposed by the auditors. These misstatements were not detected by the City’s internal control over financial reporting. These entries were brought to the attention of management and were subsequently recorded in the City’s general ledger. A similar issue was noted and reported in our audit comments last year.

Criteria: Statement on Auditing Standards No. 115 (SAS 115), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (where applicable), including the notes to the financial statements, in conformity with U.S. generally accepted accounting principles.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2014

**Section II - Financial Statement Findings - Continued**

#### 2014-001 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS - CONTINUED

Cause: Misstatements were not identified and corrected by management.

Effect: Material journal entries that were not otherwise identified by management were proposed by the City’s auditors. These journal entries were necessary for the fair presentation of the City’s financial statements.

Recommendation: We recommend that the City take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: The City’s framework of internal controls over financial reporting have been designed to provide reasonable, rather than absolute assurance that necessary adjustments and journal entries will be detected to prevent any misstatements. In reality there will probably always be some journal entries made by the auditors as part of the review process. We will continue our efforts to reduce the number of journal entries that have to be made by the auditors.

#### 2014-002 PAYROLL PROCESS

Condition: During our analysis of the internal controls over the payroll process it was determined that the payroll is processed and checks are signed automatically without an independent review of the payroll register before payroll is processed.

Criteria: An individual independent of the payroll process should be reviewing payroll to reduce the risk of error or fraud which could lead to material misstatement of the financial statements.

Cause: The City’s current payroll process does not require approval from anyone independent of the payroll process before paychecks are issued.

Effect: Unauthorized amounts could be disbursed either as a result of an error or fraud and those transactions could go undetected by management.

Recommendation: We recommend that the City evaluate procedures related to the payroll process and institute a review by an individual independent of the payroll process prior to the issuance of the payroll to reduce the chance for error or fraud related to the payroll process.

Corrective Action Response: Going forward, the City will establish a process of review where an employee independent of the payroll process will review the payroll register. In addition a check log will be maintained and monitored as part of each payroll run. However, because of the limited staff size, it is not always possible to provide a thorough, independent review for all areas of the department.

#### 2014-003 POLICIES AND PROCEDURES

Condition: During the course of our audit and through discussions with the City Finance Director/ Treasurer and examination of policies, we noted that the City has not formally adopted written policies and procedures for capitalizing assets.

Criteria: Documenting specific policies and procedures allows employees to have a clearer understanding of management’s expectations. It also allows management to have greater visibility over those areas for which they are responsible.

Cause: Unknown.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2014

**Section II - Financial Statement Findings - Continued**

#### 2014-003 POLICIES AND PROCEDURES - CONTINUED

Effect: The City increases the risk of materially misstating the financial statements by failing to define a dollar threshold for capitalization of material, long lived assets.

Recommendation: We recommend that the City develop and formally implement a written capitalization policy and formally adopt the policy through Board action, which should specify the dollar threshold to be used for asset capitalization and indicate estimated useful lives for each major classification of capital assets.

Corrective Action Response: The City agrees with this recommendation and will establish and adopt a policy for capitalizing assets.

#### 2014-004 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the City’s compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated in the three (3) special revenue funds. A similar issue was noted and reported in our prior year audit comments.

Criteria: Michigan Public Act 621 of 1978, as amended, provides that the City adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

Cause: The City did not sufficiently amend the budget when it became apparent spending was going to exceed the amounts appropriated.

Effect: The City has not maintained adequate control over budgetary compliance in accordance with State law in the certain areas where the overages occurred.

Recommendation: We recommend the City monitor expenditures against adopted budgets in all applicable funds and make appropriated budget adjustments as needed.

Corrective Action Response: In the future the City will perform periodic reviews of the expenditures and monitor them against the adopted budgets in all applicable funds so appropriate budget adjustments can be made as needed.

##### **Section III - Federal Award Findings and Questioned Costs**

None noted.

# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended December 31, 2014

FINDINGS/NONCOMPLIANCE

Significant Deficiencies and Material Weaknesses Related to Internal Controls Over the Financial Statements.

#### 2013-001 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries for the adjustment of compensated absences, pension investments, and bonds payable were proposed by the auditors. These misstatements were not detected by the City’s internal control over financial reporting. These entries were brought to the attention of management and were subsequently recorded in the City’s general ledger. A similar issue was noted and reported in our audit comments last year.

Resolution: A similar issue was noted in the current year as 2014-001. We do not consider this issue resolved.

#### 2013-002 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the City’s compliance with budgeting act, we noted that some of the activities of the City exceeded the amounts appropriated. The variances were noted in one (1) of the City’s special revenue funds.

Resolution: This issue is examined independently each year as a part of the audit process. We consider this issue resolved as it relates to 2013.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings noted.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings noted.