

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Albion	County Calhoun
Fiscal Year End 12/31/2007	Opinion Date 5/19/2008	Date Audit Report Submitted to State 6/3/2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).



Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number 517-351-6836	
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Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens, CPA	License Number 1101024055	

**City of Albion
Calhoun County, Michigan**

FINANCIAL STATEMENTS

December 31, 2007

City of Albion

Calhoun County, Michigan

December 31, 2007

CITY COUNCIL AND ADMINISTRATION

William M. Wheaton	Mayor
Ron Gant	Council member
Betty Branche	Council member
Ken Karl Waito	Council member
Andrew Zblewski	Council member
Cheryl Krause	Council member
George Strander	Council member
Mike Herman	City Manager
Kerry Helmick	Clerk/Treasurer/ Finance Director

City of Albion

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INDEPENDENT AUDITOR'S REPORT

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

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 as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, 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 as of December 31, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2008 on our consideration of the City of Albion'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Albion's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 19, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

This discussion and analysis is intended to provide an overview of the City's financial condition for the year ended December 31, 2007, as well as an analysis of what this financial condition means for the future financial operations of the City. This is the fourth year that the requirements of the Governmental Accounting Standards Board (GASB) Statement Number 34 will be implemented for the City. Therefore it is possible to provide direct comparisons with financial information from the prior year's operations. 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 2007 fiscal year.

Government-Wide Financial Statements

Under GASB 34 government-wide financial statements have been added to the audit process 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 Assets, presents information on all of the City's assets and liabilities with the difference shown as net assets. Over time, increases or decreases in the City's net assets 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 assets changed during the fiscal year. All changes in net assets 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 Assets 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 Assets, which are not included in the Governmental Funds Balance Sheet. Also, there is a difference related to the timing of reporting capital outlays and debt principal repayment in the Governmental Funds Financial Statements and a difference in the timing of the recognition of certain revenues and expenditures such as bond proceeds, accrued interest and accrued employee leave time in the Governmental Funds Financial Statements versus the Government-wide Statements. (See following table)

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

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, CDBG, Albion Trust, Library Trust, and Sewer and Water. All other funds will be classified as nonmajor 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 Assets. 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 nonmajor governmental funds, component unit funds and schedules of outstanding debt.

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Government-Wide (City as a Whole) Financial Analysis

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

The largest portion of the City's net assets 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 Assets as of December 31, 2007 and 2006

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and Other Assets	\$ 5,724,843	\$ 6,813,771	\$ 2,594,215	\$ 2,307,345	\$ 8,319,058	\$ 9,121,116
Capital Assets	<u>5,119,000</u>	<u>5,096,829</u>	<u>9,149,231</u>	<u>9,490,307</u>	<u>14,268,231</u>	<u>14,587,136</u>
Total Assets	<u>\$10,843,843</u>	<u>\$11,910,600</u>	<u>\$11,743,446</u>	<u>\$11,797,652</u>	<u>\$22,587,289</u>	<u>\$23,708,252</u>
Current Liabilities	\$ 1,308,229	\$ 1,284,096	\$ 198,419	\$ 214,494	\$ 1,506,648	\$ 1,498,590
Noncurrent Liabilities	<u>2,195,123</u>	<u>2,279,959</u>	<u>1,288,724</u>	<u>1,396,903</u>	<u>3,483,847</u>	<u>3,676,862</u>
Total Liabilities	<u>\$ 3,503,352</u>	<u>\$ 3,564,055</u>	<u>\$ 1,487,143</u>	<u>\$ 1,611,397</u>	<u>\$ 4,990,495</u>	<u>\$ 5,175,452</u>
Net Assets						
Invested in Capital Assets (net of related debt)	\$ 3,036,986	\$ 2,874,864	\$ 7,944,231	\$ 8,200,307	\$ 10,981,217	\$ 11,075,171
Restricted	301,346	428,229	-	-	301,346	428,229
Unrestricted	<u>4,002,159</u>	<u>5,043,452</u>	<u>2,312,072</u>	<u>1,985,948</u>	<u>6,314,231</u>	<u>7,029,400</u>
Total Net Assets	<u>\$ 7,340,491</u>	<u>\$ 8,346,545</u>	<u>\$10,256,303</u>	<u>\$10,186,255</u>	<u>\$17,596,794</u>	<u>\$18,532,800</u>

The Total Net Assets for Governmental Activities decreased by about \$1,000,000 which is a result of the transfer of assets from the Library Trust Fund to the newly formed Albion District Library. The Total Net Assets for Business-type Activities increased by about \$70,048 which is a result of about a \$162,000 increase in the Water fund balance, offset by a short fall in operating revenues to cover current operating expenses in the Sewer fund by about \$91,000.

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Changes in Net Assets for the Fiscal Year Ended December 31, 2007 and 2006

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues						
Program Revenues						
Charges for Services	\$ 750,424	\$ 848,089	\$ 1,960,918	\$ 1,891,458	\$ 2,711,342	\$ 2,739,547
Grants and Contributions	1,193,118	1,220,895	19,710	208,980	1,212,828	1,429,875
General Revenues						
Property Taxes	2,328,543	2,238,658	-	-	2,328,543	2,238,658
Income Taxes	1,146,740	1,216,623	-	-	1,146,740	1,216,623
State Shared Revenues	1,220,037	1,274,408	-	-	1,220,037	1,274,408
Investment Earnings	115,155	251,874	87,028	49,358	202,183	301,232
Miscellaneous	263,415	232,007	23,276	58,031	286,691	290,038
Total Revenues	\$ 7,078,153	\$ 7,282,554	\$ 2,090,932	\$ 2,207,827	\$ 9,169,085	\$ 9,490,381
Expenses						
General Government	\$ 1,274,943	\$ 1,769,996	\$ -	\$ -	\$ 1,274,943	\$ 1,769,996
Public Safety	2,545,273	2,405,815	-	-	2,545,273	2,405,815
Public Works	1,526,082	1,408,020	-	-	1,526,082	1,408,020
Health and Welfare	16,161	90,112	-	-	16,161	90,112
Community and Econ. Development	644,950	509,226	-	-	644,950	509,226
Recreation and Cultural	1,992,816	388,525	-	-	1,992,816	388,525
Interest on Long Term Debt	83,982	98,409	-	-	83,982	98,409
Other	-	-	2,020,884	2,125,423	2,020,884	2,125,423
Total Expenses	8,084,207	6,670,103	2,020,884	2,125,423	10,105,091	8,795,526
Change in Net Assets	(1,006,054)	612,451	70,048	82,404	(936,006)	694,855
Net Assets - Beginning Prior Period	8,346,545	7,734,024	10,066,986	9,984,582	18,413,531	17,718,606
Adjustments	-	-	119,269	-	119,269	-
Net Assets Ending	\$ 7,340,491	\$ 8,346,475	\$10,256,303	\$10,066,986	\$17,596,794	\$18,413,461

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Governmental Activities

Revenues:

The three largest single revenue sources under the Governmental Activities category are Property Taxes at 33%, State Revenue Sharing at 17%, and City Income Tax at 16%. From 2006 to 2007 there was a decrease in state shared revenue of \$54,371. In May of 2006, City voters approved a three year 1.5 mill levy for Recreation. It is anticipated that property taxes in the future will increase at the rate of inflation from the level in 2007.

As a result of the closing of Trillium Hospital, Harvard Industries, and K-Mart in the spring of 2002, the City lost over 800 local jobs. This, along with a prolonged downturn in the economy, has resulted in about a \$303,000 reduction in the annual revenue generated by the local city income tax. The city income tax revenue has leveled off at about \$1.2 million from a previous high of about \$1.5 million. From 2006 to 2007 income tax revenues decreased by about 6.0%. However, it is anticipated that we will continue to see modest increases each year if the economy continues to improve.

Annual State Revenue Sharing, as a result of the downturn in the State economy, has likewise seen a significant reduction to about \$1.22 million from a previous high of just over \$1.5 million. The State revenue sharing amount has also been negatively impacted as a result of the City's continued population decline of about 1,000 people per decade since 1970. The City's current (2000 census) population is 9,144, as compared to its highest level of 12,749 residents in 1960. It is anticipated that State Revenue Sharing payments will remain relatively flat for the next few years.

Expenses:

The largest Governmental Activities expense item is Public Safety at 31% of total expenses. The next largest expense item is Recreation and Cultural at 25% of total expenses. It is important to note that the Recreation and Cultural expense includes about \$978,000 of net assets transferred from the Library Trust fund to the newly formed Albion District Library.

Business-Type Activities

The Statement of Net Assets shows that for Business-type Activities as of December 31, 2007 there were Total Net Assets of \$10,256,303, which represents an increase of \$70,048 from the prior year. The Statement of Net Assets 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.

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, 2007, the General Fund had an undesignated fund balance of \$984,402 and a reserved fund balance of \$82,770. This amount is an increase of \$84,902 from the fund balance on December 31, 2006. Included in the General Fund balance is \$114,816 that was designated for the purchase of E-911 equipment. Removing this amount from the General Fund leaves an undesignated General Fund balance of \$869,586 for December 31, 2007.

From a budgetary standpoint, General Fund revenues exceeded the budgeted amount by \$8,154 and expenditures were below budget by \$59,650. The majority of the departments and activities were under budget for expenditures for 2007. There are a couple areas that exceeded the budgeted amount for expenditures and these areas need to be more closely monitored in the future.

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Community Development Block Grant Fund:

The CDBG Fund is used to account for the specific financial resources used to improve the quality of the City. The CDBG Fund reflected an increase in fund balance related to current year activity of \$22,696. Fund balance for this fund was \$366,744 as of December 31, 2007.

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 \$14,793. Fund balance for this fund was \$1,119,132 at year end.

Library Trust Fund:

The Library Trust Fund is used to account for the financial resources of the Albion Public Library to endow its future for the citizens of Albion. As of April 1, 2007, the assets, liabilities, fund balance of this fund were transferred to the newly formed Albion District Library.

Water:

The City operates a water treatment plant and distribution system that serves the City and a small portion of the neighboring townships. In 2002 the City implemented a 5-year rate increase schedule for the water system. As a result of these rate changes, the water system in 2007 was able to cover all of its operating costs, including depreciation. Net assets for the water system increased by \$161,993 to a December 31, 2007 level of \$5,471,077. The water system had a cash balance of about \$1,178,966 at year end.

Sewer:

The City operates a wastewater treatment plant and collection system that serves the City and a small portion of a neighboring township. In 2004 the City approved a 3-year rate increase schedule for the sewer system. For several years, the sewer system has not been able to cover all of its operating costs, including depreciation. The new rate schedule is expected to correct this shortfall situation by the end of the third year of the phased in rate increases. Net assets for the sewer system decreased by \$91,945 to a December 31, 2007 level of \$4,785,226. The majority of these assets are invested in facilities and equipment. The sewer system had a cash balance of about \$593,415 at year end.

Other Funds:

The Recreation Fund is partially funded by a special voted millage of 1.50 mills per year (revenues estimated at \$167,000). In order to meet the anticipated expenditures for the program, it is necessary to raise additional revenues at the local level. Activities for the Recreation Department were moved into their own fund during 2007. Expenditures for the Recreation Fund increased in 2007 in an effort to provide after school program activities which the public schools could no longer provide as a result of the loss of grant funding. As a result of these extra expenditures and a shortfall in grant dollars received, the Recreation Fund had more expenditures than revenues and ended the year in a deficit position of \$16,174. The 2008 Recreation budget will be adjusted to cover this deficit amount.

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Capital Assets and Debt Administration

At the end of the year, the City had invested \$5,119,000 and \$9,149,231 (net of accumulated depreciation) for governmental and business-type capital assets respectively. Depreciation charges for the fiscal year totaled \$360,966 for the governmental activities and \$393,203 for the business-type activities. The following chart provides more detail on these capital assets.

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Component Units</u>	<u>Total</u>
Land and construction in progress	\$ 509,888	\$ 93,700	\$ 201,655	\$ 805,243
Infrastructure, net	2,436,798	-	529,619	2,966,417
Buildings and improvements, net	1,418,240	5,948,246	67,261	7,433,747
Vehicles and equipment, net	754,074	159,903	-	913,977
Sewer system, net	-	774,247	-	774,247
Water system, net	-	<u>2,173,135</u>	-	<u>2,173,135</u>
Capital assets, net	<u>\$ 5,119,000</u>	<u>\$ 9,149,231</u>	<u>\$ 798,535</u>	<u>\$ 15,066,766</u>

Long-term Debt:

As of December 31, 2007 the City had the following bond debt outstanding:

Primary Government

	<u>Jan. 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Dec. 31, 2007</u>
Governmental Activities				
General Obligation Bonds	\$ 1,160,000	\$ -	\$ 80,000	\$ 1,080,000
Installment Purchase Agreement	431,106	-	96,904	334,202
EPA Liability	148,015	-	9,420	138,595
Loans Payable	27,771	-	15,869	11,902
Building Authority Loan	77,742	-	6,720	71,022
Land contract	337,606	-	25,418	312,188
Capital leases	39,725	128,333	33,953	134,105
Compensated Absences	<u>480,026</u>	<u>267,133</u>	<u>246,573</u>	<u>500,586</u>
	2,701,991	395,466	514,857	2,582,600
Business-type Activities				
Revenue Bonds	1,290,000	-	85,000	1,205,000
Compensated Absences	<u>233,166</u>	<u>75,939</u>	<u>59,249</u>	<u>249,856</u>
	<u>1,523,166</u>	<u>75,939</u>	<u>144,249</u>	<u>1,454,856</u>
Total Primary Government	<u>4,225,137</u>	<u>471,405</u>	<u>659,106</u>	<u>4,037,456</u>
Component Unit				
Revenue Bonds	120,000	-	60,000	60,000
Land Contract	45,922	-	45,922	-
Loans Payable	<u>39,964</u>	<u>-</u>	<u>22,836</u>	<u>17,128</u>
Total Reporting Entity	<u>\$ 4,431,043</u>	<u>\$ 471,405</u>	<u>\$ 787,864</u>	<u>\$ 4,114,584</u>

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

As of December 31, 2007, the City had total outstanding debt for governmental activities (including accumulated vacation and sick time) of \$2,582,600. For business-type activities the outstanding debt (including accumulated vacation and sick time) was \$1,454,856 as of December 31, 2007. 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

For several years the City has levied its maximum millage amount, authorized under Headlee, for operating purposes. For 2007 this millage amount was 11.9736 mills, however because of the recently approved special millage to fund the new Albion District Library, the City will lower its operating millage to 10.3802 mills for 2008. It is expected that the City will continue to levy this amount of millage in the future. In addition, the City has several special millages that have been approved by the voters.

- | | |
|-------------------------------------|--------------|
| a. Water plant bonds - currently at | 1.2 mills |
| b. Street reconstruction | 2.9937 mills |
| c. Recreation | 1.50 mills |

Also, the City levies 2.0 mills for solid waste under existing state statute. Thus, the 2007 total City millage levy was 19.6673 mills. The last year of the special millage for Recreation is 2009 and it is anticipated that the City will seek renewal of this special millage.

State revenue sharing continues to be of concern. Revenues have been fairly flat for the last couple of years as a result of the poor state economy. The prospect of an increase in funding in the next couple of years is not good.

The local City income tax has also experienced a significant reduction over the last 3 years. Improvements to this funding source are dependent upon improvements to the Michigan economy and an increase in the number of local jobs.

In the area of expenses, the City recently settled contracts with all of its four unions, which do not expire until December 31, 2011. Pay increases have been set at 2% for 2008 & 2009. For fiscal years 2010 & 2011 there is a 1.5% pay increase every 6 months.

Just like other employers, the City continues to struggle with the significant increases in cost for medical insurance for its employees. Although changes have been made in the coverages provided, the City continues to expect to see double digit increases for the next few years.

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 approved in August 2005 to extend until 2010) for street reconstruction, the City will continue to have an active street reconstruction program each year.

The City recently implemented a special assessment process for the repair and replacement of city sidewalks. This process and construction is expected to last for about 10 years.

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 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

City of Albion

STATEMENT OF NET ASSETS

December 31, 2007

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 3,280,063	\$ 1,532,745	\$ 4,812,808	\$ 53,365
Investments	453,954	290,220	744,174	42,915
Receivables	722,774	490,319	1,213,093	36,991
Due from other governmental units	407,960	-	407,960	-
Prepays	88,870	15,852	104,722	689
Inventories	16,719	4,687	21,406	-
Total current assets	4,970,340	2,333,823	7,304,163	133,960
Noncurrent assets				
Cash and cash equivalents - restricted	-	239,636	239,636	-
Investments	754,503	20,756	775,259	-
Capital assets not being depreciated	509,888	93,700	603,588	201,655
Capital assets, net of accumulated depreciation	4,609,112	9,055,531	13,664,643	596,880
Total noncurrent assets	5,873,503	9,409,623	15,283,126	798,535
TOTAL ASSETS	10,843,843	11,743,446	22,587,289	932,495
LIABILITIES				
Current liabilities				
Accounts payable	110,056	29,226	139,282	3,077
Accrued liabilities	166,900	3,061	169,961	2,994
Accrued wages	94,780	-	94,780	-
Due to other governmental units	3,824	-	3,824	57,246
Accrued interest payable	25,201	-	25,201	923
Deferred revenue	519,991	-	519,991	6,445
Current portion of compensated absences	100,214	76,132	176,346	-
Current portion of long-term debt	287,263	90,000	377,263	77,128
Total current liabilities	1,308,229	198,419	1,506,648	147,813
Noncurrent liabilities				
Noncurrent portion of compensated absences	400,372	173,724	574,096	-
Noncurrent portion of long-term debt	1,794,751	1,115,000	2,909,751	-
Total noncurrent liabilities	2,195,123	1,288,724	3,483,847	-0-
TOTAL LIABILITIES	3,503,352	1,487,143	4,990,495	147,813
NET ASSETS				
Invested in capital assets, net of related debt	3,036,986	7,944,231	10,981,217	721,407
Restricted for:				
Debt service	14,987	-	14,987	-
Streets and highways	286,359	-	286,359	-
Unrestricted	4,002,159	2,312,072	6,314,231	63,275
TOTAL NET ASSETS	\$ 7,340,491	\$ 10,256,303	\$ 17,596,794	\$ 784,682

See accompanying notes to financial statements.

City of Albion
STATEMENT OF ACTIVITIES
Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 1,274,943	\$ 432,159	\$ 3,263	\$ -	\$ (839,521)	\$ -	\$ (839,521)	\$ -
Public safety	2,545,273	32,249	2,492	-	(2,510,532)	-	(2,510,532)	-
Public works	1,526,082	8,003	854,693	-	(663,386)	-	(663,386)	-
Health and welfare	16,161	-	-	-	(16,161)	-	(16,161)	-
Community and economic development	644,950	267,810	240,294	-	(136,846)	-	(136,846)	-
Recreation and cultural	1,992,816	10,203	92,376	-	(1,890,237)	-	(1,890,237)	-
Interest on long-term debt	83,982	-	-	-	(83,982)	-	(83,982)	-
Total governmental activities	8,084,207	750,424	1,193,118	-0-	(6,140,665)	-0-	(6,140,665)	-0-
Business-type activities								
Sewer system	1,179,009	1,028,965	-	19,710	-	(130,334)	(130,334)	-
Water system	841,875	931,953	-	-	-	90,078	90,078	-
Total business-type activities	2,020,884	1,960,918	-0-	19,710	-0-	(40,256)	(40,256)	-0-
Total primary government	\$ 10,105,091	\$ 2,711,342	\$ 1,193,118	\$ 19,710	(6,140,665)	(40,256)	(6,180,921)	-0-
Component units								
Economic Development Corporation	\$ 193,274	\$ 90,935	\$ 67,490	\$ -	-	-	-	(34,849)
Downtown Development Authority	112,065	-	147,000	-	-	-	-	34,935
Tax Increment Finance Authority	200,398	-	22,836	-	-	-	-	(177,562)
Total component units	\$ 505,737	\$ 90,935	\$ 237,326	\$ -0-	-0-	-0-	-0-	(177,476)
General revenues								
Property taxes					2,328,543	-	2,328,543	262,758
Income taxes					1,146,740	-	1,146,740	-
State shared revenue					1,220,037	-	1,220,037	-
Investment earnings					175,876	87,028	262,904	10,835
Miscellaneous					258,593	28,098	286,691	106,993
Transfers					4,822	(4,822)	-0-	-
Total general revenues and transfers					5,134,611	110,304	5,244,915	380,586
Change in net assets					(1,006,054)	70,048	(936,006)	203,110
Restated net assets, beginning of the year					8,346,545	10,186,255	18,532,800	581,572
Net assets, end of the year					\$ 7,340,491	\$ 10,256,303	\$ 17,596,794	\$ 784,682

See accompanying notes to financial statements.

City of Albion

GOVERNMENTAL FUNDS BALANCE SHEET

December 31, 2007

	General	Special Revenue	
		Community Development Block Grant	Albion Trust
ASSETS			
Cash and cash equivalents	\$ 870,471	\$ 338,040	\$ -
Investments	71,514	-	1,119,132
Receivables			
Accounts	27,682	11,738	-
Taxes	125,795	-	-
Loans	-	426,632	-
Due from other governmental units	232,489	-	-
Prepays	65,955	-	-
Inventories	-	-	-
TOTAL ASSETS	\$ 1,393,906	\$ 776,410	\$ 1,119,132
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 77,784	\$ -	\$ -
Accrued liabilities	136,137	-	-
Accrued wages	94,780	-	-
Due to other governmental units	-	-	-
Deferred revenue	18,033	409,666	-
TOTAL LIABILITIES	326,734	409,666	-0-
FUND BALANCES			
Reserved for			
Prepays	65,955	-	-
Inventory	-	-	-
Park fence	16,815	-	-
Perpetual care	-	-	-
Debt service	-	-	-
Unreserved			
Undesignated, reported in:			
General fund	984,402	-	-
Special revenue funds	-	366,744	1,119,132
Debt service funds	-	-	-
Capital project funds	-	-	-
TOTAL FUND BALANCES	1,067,172	366,744	1,119,132
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,393,906	\$ 776,410	\$ 1,119,132

See accompanying notes to financial statements.

<u>Permanent</u>			
Library Trust	Nonmajor Governmental Funds	Total Governmental Funds	
\$ -	\$ 2,004,522	\$ 3,213,033	
-	17,811	1,208,457	
-	117,020	156,440	
-	13,907	139,702	
-	-	426,632	
-	175,471	407,960	
-	15,444	81,399	
-	7,568	7,568	
<u>\$ -0-</u>	<u>\$ 2,351,743</u>	<u>\$ 5,641,191</u>	
\$ -	\$ 21,960	\$ 99,744	
-	30,763	166,900	
-	-	94,780	
-	3,824	3,824	
-	125,321	553,020	
-0-	181,868	918,268	
-	15,444	81,399	
-	7,568	7,568	
-	-	16,815	
-	389,874	389,874	
-	40,168	40,168	
-	-	984,402	
-	1,669,571	3,155,447	
-	20	20	
-	47,230	47,230	
<u>-0-</u>	<u>2,169,875</u>	<u>4,722,923</u>	
<u>\$ -0-</u>	<u>\$ 2,351,743</u>	<u>\$ 5,641,191</u>	

City of Albion

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

December 31, 2007

Total fund balances - governmental funds **\$ 4,722,923**

Amounts reported for the governmental activities in the statement of net assets 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	\$ 9,023,647	
Accumulated depreciation is	<u>(3,904,647)</u>	
Capital assets, net		5,119,000

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

Net assets of governmental activities accounted for in Internal Service Funds	381,902	
Net capital assets of Internal Service Funds included in total capital assets above	(379,535)	
Long-term liabilities of Internal Service Funds included in total long-term liabilities below	67,612	
Net compensated absences of Internal Service Funds included in total compensated absences below	<u>3,361</u>	
		73,340

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

Deferred revenue		33,029
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Direct City obligations	2,082,014	
Accrued interest payable	25,201	
Compensated absences	<u>500,586</u>	
		<u>(2,607,801)</u>

Net assets of governmental activities **\$ 7,340,491**

See accompanying notes to financial statements.

City of Albion

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2007

	General	Special Revenue	
		Community Development Block Grant	Albion Trust
REVENUES			
Taxes	\$ 2,602,626	\$ -	\$ -
Licenses and permits	52,745	-	-
Intergovernmental	1,220,409	-	-
Charges for services	318,837	-	-
Fines and forfeits	55,791	-	-
Interest and rents	34,569	22,691	64,793
Other	233,928	405	-
TOTAL REVENUES	4,518,905	23,096	64,793
EXPENDITURES			
Current			
General government	981,342	-	-
Public safety	2,344,047	-	-
Public works	244,776	-	-
Health and welfare	15,736	-	-
Community and economic development	76,834	400	50,000
Recreation and cultural	301,233	-	-
Other	196,189	-	-
Debt service	38,559	-	-
Capital outlay	118,551	-	-
TOTAL EXPENDITURES	4,317,267	400	50,000
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	201,638	22,696	14,793
OTHER FINANCING SOURCES (USES)			
Transfers in	13,411	-	-
Transfers out	(158,345)	-	-
Capital lease	28,198	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(116,736)	-0-	-0-
NET CHANGE IN FUND BALANCES	84,902	22,696	14,793
Fund balances, beginning of year	982,270	344,048	1,104,339
Fund balances, end of year	<u>\$ 1,067,172</u>	<u>\$ 366,744</u>	<u>\$ 1,119,132</u>

See accompanying notes to financial statements.

<u>Permanent</u>		
<u>Library Trust</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 960,192	\$ 3,562,818
-	-	52,745
-	1,183,138	2,403,547
-	76,729	395,566
-	20,007	75,798
27,176	325,582	474,811
-	17,732	252,065
<u>27,176</u>	<u>2,583,380</u>	<u>7,217,350</u>
-	117	981,459
-	11,065	2,355,112
-	1,154,209	1,398,985
-	-	15,736
-	451,301	578,535
1,004,975	632,676	1,938,884
-	-	196,189
-	315,333	353,892
-	343,513	462,064
<u>1,004,975</u>	<u>2,908,214</u>	<u>8,280,856</u>
(977,799)	(324,834)	(1,063,506)
-	464,247	477,658
(13,562)	(297,929)	(469,836)
-	32,523	60,721
<u>(13,562)</u>	<u>198,841</u>	<u>68,543</u>
(991,361)	(125,993)	(994,963)
<u>991,361</u>	<u>2,295,868</u>	<u>5,717,886</u>
<u>\$ -0-</u>	<u>\$ 2,169,875</u>	<u>\$ 4,722,923</u>

City of Albion

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

Year Ended December 31, 2007

Net change in fund balances - total governmental funds \$ (994,963)

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	\$ 618,205	
Depreciation expense	<u>(360,966)</u>	
Excess of capital outlay over depreciation expense		257,239

Governmental funds report revenue from sale of assets. However, an adjustment is needed to reflect loss on sale of capital assets. (235,068)

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

(Decrease) in net assets of Internal Service Funds	(115,915)	
Capital outlay of the Internal Service Fund included in the total above	(121,148)	
Depreciation expense of Internal Service Funds included in the total above	91,557	
Increase in long-term liabilities of Internal Service Funds included in the total below	67,612	
Increase in compensated absences of Internal Service Funds included in the total below	<u>22</u>	
		(77,872)

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

Deferred revenue		(76,407)
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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 assets. In the current year, these amounts consist of:

Debt proceeds	(128,333)	
Long-term debt principal retirements	<u>268,284</u>	
		139,951

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

Decrease in accrued interest payable	1,626	
(Increase) in accrued compensated absences	<u>(20,560)</u>	
		<u>(18,934)</u>

Change in net assets of governmental activities \$ (1,006,054)

See accompanying notes to financial statements.

City of Albion

Proprietary Funds

STATEMENT OF NET ASSETS

December 31, 2007

	Business-type Activities			Governmental Activities
	Sewer	Water	Total	Internal Service
ASSETS				
Current assets				
Cash and cash equivalents	\$ 593,207	\$ 939,538	\$ 1,532,745	\$ 67,030
Investments	290,220	-	290,220	-
Accounts receivable	256,898	233,421	490,319	-
Inventories	2,683	2,004	4,687	9,151
Prepays	10,715	5,137	15,852	7,471
Total current assets	1,153,723	1,180,100	2,333,823	83,652
Noncurrent assets				
Cash and cash equivalents - restricted	208	239,428	239,636	-
Investments	-	20,756	20,756	-
Capital assets not being depreciated	-	93,700	93,700	-
Capital assets, net of accumulated depreciation	3,813,776	5,241,755	9,055,531	379,535
Total noncurrent assets	3,813,984	5,595,639	9,409,623	379,535
TOTAL ASSETS	4,967,707	6,775,739	11,743,446	463,187
LIABILITIES				
Current liabilities				
Accounts payable	17,991	11,235	29,226	10,312
Accrued liabilities	1,067	1,994	3,061	-
Current portion of compensated absences	50,978	25,154	76,132	769
Current portion of long-term debt	-	90,000	90,000	-
Total current liabilities	70,036	128,383	198,419	11,081
Noncurrent liabilities				
Noncurrent portion of compensated absences	112,445	61,279	173,724	2,592
Noncurrent portion of long-term debt	-	1,115,000	1,115,000	67,612
Total noncurrent liabilities	112,445	1,176,279	1,288,724	70,204
TOTAL LIABILITIES	182,481	1,304,662	1,487,143	81,285
NET ASSETS				
Invested in capital assets, net of related debt	3,813,776	4,130,455	7,944,231	311,923
Unrestricted	971,450	1,340,622	2,312,072	69,979
TOTAL NET ASSETS	\$ 4,785,226	\$ 5,471,077	\$ 10,256,303	\$ 381,902

See accompanying notes to financial statements.

City of Albion

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2007

	Business-type Activities			Governmental Activities
	Sewer	Water	Total	Internal Service
OPERATING REVENUES				
Charges for services	\$ 1,028,965	\$ 931,953	\$ 1,960,918	\$ 210,102
Other	5,778	22,320	28,098	423
TOTAL OPERATING REVENUES	1,034,743	954,273	1,989,016	210,525
OPERATING EXPENSES				
Salaries and wages	420,067	209,582	629,649	52,201
Fringe benefits	181,115	90,858	271,973	25,164
Contractual services	20,525	77,514	98,039	4,390
Supplies	145,566	89,411	234,977	97,716
Utilities	125,156	76,781	201,937	22,205
Insurance and bonds	25,199	12,079	37,278	17,570
Administrative services	42,765	42,765	85,530	12,829
Building and equipment rental	-	8,398	8,398	-
Other	5,159	3,873	9,032	4,267
Depreciation	213,457	179,746	393,203	91,557
TOTAL OPERATING EXPENSES	1,179,009	791,007	1,970,016	327,899
OPERATING INCOME (LOSS)	(144,266)	163,266	19,000	(117,374)
NONOPERATING REVENUES (EXPENSES)				
Interest earned	35,326	51,702	87,028	4,459
Interest expense and fees	-	(50,868)	(50,868)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	35,326	834	36,160	4,459
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(108,940)	164,100	55,160	(112,915)
CAPITAL CONTRIBUTIONS				
Intergovernmental	19,710	-	19,710	-
TRANSFERS OUT	(2,715)	(2,107)	(4,822)	(3,000)
CHANGE IN NET ASSETS	(91,945)	161,993	70,048	(115,915)
Restated net assets, beginning of year	4,877,171	5,309,084	10,186,255	497,817
Net assets, end of year	\$ 4,785,226	\$ 5,471,077	\$ 10,256,303	\$ 381,902

See accompanying notes to financial statements.

City of Albion

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended December 31, 2007

	Business-type Activities			Governmental Activities
	Sewer	Water	Total	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	\$ 1,037,112	\$ 946,272	\$ 1,983,384	\$ 210,525
Cash paid to suppliers	(399,596)	(315,258)	(714,854)	(150,745)
Cash paid for employee benefits	(582,473)	(319,316)	(901,789)	(77,343)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	55,043	311,698	366,741	(17,563)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Intergovernmental revenue	19,710	-	19,710	-
Payments of borrowing	-	(85,000)	(85,000)	(53,536)
Purchase of capital assets	(26,981)	(25,146)	(52,127)	-
Interest expense and fees	-	(50,868)	(50,868)	-
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(7,271)	(161,014)	(168,285)	(53,536)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers out	(2,715)	(2,107)	(4,822)	(3,000)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest earned	35,326	51,702	87,028	4,459
Purchase of investments	(9,633)	(685)	(10,318)	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	25,693	51,017	76,710	4,459
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	70,750	199,594	270,344	(69,640)
Cash and cash equivalents, beginning of year	522,665	979,372	1,502,037	136,670
Cash and cash equivalents, end of year	\$ 593,415	\$ 1,178,966	\$ 1,772,381	\$ 67,030

City of Albion

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended December 31, 2007

	Business-type Activities			Governmental Activities
	Sewer	Water	Total	Internal Service
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (144,266)	\$ 163,266	\$ 19,000	\$ (117,374)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	213,457	179,746	393,203	91,557
(Increase) decrease in accounts receivable	2,369	(8,001)	(5,632)	-
(Increase) decrease in prepaids	(765)	63	(702)	129
(Increase) decrease in inventories	280	(154)	126	1,564
Increase (decrease) in accounts payable	(34,741)	(4,346)	(39,087)	6,539
Increase (decrease) in compensated absences	18,709	(2,019)	16,690	22
(Decrease) in accrued liabilities	-	(16,857)	(16,857)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 55,043	\$ 311,698	\$ 366,741	\$ (17,563)

See accompanying notes to financial statements.

City of Albion

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

December 31, 2007

	<u>Agency</u>	<u>Private Purpose Trusts</u>
ASSETS		
Cash and cash equivalents	\$ 772,537	\$ 560,298
Investments	-	16,842,638
Interest receivable	-	64,119
	<u>772,537</u>	<u>17,467,055</u>
TOTAL ASSETS	<u>\$ 772,537</u>	<u>\$ 17,467,055</u>
LIABILITIES		
Due to State	\$ 39,097	\$ -
Due to County	32,879	-
Due to Schools	463,249	-
Due to others	<u>237,312</u>	<u>-</u>
	<u>772,537</u>	<u>-0-</u>
TOTAL LIABILITIES	<u>\$ 772,537</u>	<u>-0-</u>
NET ASSETS		
Held in trust for private purposes		<u>\$ 17,467,055</u>

See accompanying notes to financial statements.

City of Albion

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended December 31, 2007

	<u>Private Purpose Trusts</u>
ADDITIONS	
Investment income	
Interest and dividends	\$ 652,492
Net decrease in fair value of investments	(444,183)
Gain on sales of investments	1,138,867
Less investment expenses	<u>(21,266)</u>
Net investment income	1,325,910
Contributions	
Employer	<u>49,412</u>
TOTAL ADDITIONS	1,375,322
DEDUCTIONS	
Benefit payments	544,072
Health insurance premiums	37,322
Administrative expenses	<u>119,141</u>
TOTAL DEDUCTIONS	<u>700,535</u>
CHANGE IN NET ASSETS	674,787
Net assets, beginning of year	<u>16,792,268</u>
Net assets, end of year	<u><u>\$ 17,467,055</u></u>

See accompanying notes to financial statements.

City of Albion

Component Units

COMBINING STATEMENT OF NET ASSETS

December 31, 2007

	Economic Development Corporation	Downtown Development Authority	Tax Increment Finance Authority	Total Component Units
ASSETS				
Current assets				
Cash and cash equivalents	\$ 419	\$ 102,567	\$ (49,621)	\$ 53,365
Investments	-	-	42,915	42,915
Receivables	7,450	10,205	19,336	36,991
Prepays	-	614	75	689
Total current assets	7,869	113,386	12,705	133,960
Noncurrent assets				
Capital assets not being depreciated	41,655	-	160,000	201,655
Capital assets, net of accumulated depreciation	15,200	581,680	-	596,880
Total noncurrent assets	56,855	581,680	160,000	798,535
TOTAL ASSETS	64,724	695,066	172,705	932,495
LIABILITIES				
Current liabilities				
Accounts payable	1,308	1,689	80	3,077
Accrued liabilities	-	147	2,847	2,994
Accrued interest payable	-	923	-	923
Deferred revenue	6,445	-	-	6,445
Due to other governmental units	57,246	-	-	57,246
Current portion of long-term debt	-	60,000	17,128	77,128
TOTAL LIABILITIES	64,999	62,759	20,055	147,813
NET ASSETS				
Invested in capital assets, net of related debt	56,855	521,680	142,872	721,407
Unrestricted	(57,130)	110,627	9,778	63,275
TOTAL NET ASSETS	\$ (275)	\$ 632,307	\$ 152,650	\$ 784,682

See accompanying notes to financial statements.

City of Albion

Component Units

STATEMENT OF ACTIVITIES

Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Economic Development Corporation	\$ 193,274	\$ 90,935	\$ 67,490	\$ (34,849)
Downtown Development Authority	112,065	-	147,000	34,935
Tax Increment Finance Authority	200,398	-	22,836	(177,562)
TOTALS	\$ 505,737	\$ 90,935	\$ 237,326	(177,476)
General revenues				
Property taxes				262,758
Investment earnings				10,835
Miscellaneous				106,993
Total general revenues				380,586
CHANGE IN NET ASSETS				203,110
Restated net assets, beginning of year				581,572
Net assets, end of year				\$ 784,682

See accompanying notes to financial statements.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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 9,144. 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 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; GASB Statement 14, *The Financial Reporting Entity* (as amended by GASB Statement 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, 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.

Based upon the application of these criteria, the basic financial statements of the City of Albion contain all the funds controlled by the City Council other than the Albion Housing Commission Fund.

The Albion Housing Commission is a component unit that was established by City Council to provide low rent housing. The financial activity has not been included as part of the City's financial statements because audited information is not available in a timely manner. The following summarized information is provided in accordance with the Michigan Committee on Governmental Accounting and Auditing Statement No. 5.

The most recent audited financial statements for the Albion Housing Commission are for the year ended September 30, 2006. Total assets, liabilities, and equity as of September 30, 2006, were \$3,728,842, \$152,912, and \$3,575,930, respectively. Total revenues, expenses, and net increase in equity were \$1,316,385, \$1,064,669, and \$251,716, respectively.

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 and Debt Service fund categories.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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

2. Blended Component Units - continued

For the period January 1, 2007 to March 31, 2007, the Library was governed by a five (5) member board, who were all appointed by the Mayor and City Council. Its purpose is to provide access to books, periodicals, and other printed media to the residents of the City. It is reported as a Special Revenue Fund. As of April 1, 2007, the Library became a legally separate governmental entity called the Albion District Library.

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:

- a. Economic Development Corporation - The Economic Development Corporation (EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC is governed jointly by a nine (9) member board with the Tax Increment Finance Authority.
- b. Downtown Development Authority - The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of 9-12 members, is selected by the Mayor and City Council. In addition, the DDA's budget is subject to approval by the City Council.
- c. Tax Increment Finance Authority - The Tax Increment Finance Authority (TIFA) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The TIFA is governed jointly by a nine (9) member board with the Economic Development Corporation. The TIFA also acts as an agent for the Revolving Loan Fund, which is included as a Special Revenue Fund of the City.

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide 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 statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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

4. Basis of Presentation - continued

GOVERNMENT-WIDE FINANCIAL STATEMENTS - CONTINUED

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

FUND FINANCIAL STATEMENTS

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

The major funds of the City are:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Community Development Block Grant Fund is used to account for the financial resources used to improve the quality of the community.
- c. 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.
- d. The Library Trust Fund is used to account for the financial resources of the Albion Public Library to endow its future for the citizens of Albion.
- e. 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.
- f. 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.

5. Measurement Focus

The government-wide, proprietary, and 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 statements are provided that explain the differences in detail.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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

5. Measurement Focus - continued

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities 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 net current assets.

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 a receivable and deferred 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.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with, or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when, both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

7. Budgets and Budgetary Accounting

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

- a. Six weeks prior to December 31, the City Manager submits to City Council the proposed operating budgets for the fiscal year commencing the following January 1. The operating budgets include proposed expenditures and resources to finance them.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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

7. Budgets and Budgetary Accounting - continued

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

8. Cash and Cash Equivalents

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

9. Investments

Investments consist of certificates of deposit and U.S. Government Securities with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 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 29 are turned over to the Calhoun County Treasurer for collection. The Calhoun County Treasurer purchases the receivables of all taxing districts on any delinquent real property taxes. Delinquent personal property taxes receivable are retained by the City for subsequent collection.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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

12. Property Tax - continued

The City is permitted by charter to levy taxes up to 12.50 mills (\$12.50 per \$1,000 of taxable valuation) for general governmental services other than the payment of Debt Service Fund expenditures. For the year ended December 31, 2007, the City levied 11.9736 mills per \$1,000 of taxable valuation for general governmental services. In addition, the City levied 2.9937 mills for street maintenance, 2.0000 mills for solid waste services, 1.2000 mills for debt service payments, and 1.5000 mills for recreational services. The total taxable value for the 2007 levy for property within the City was \$116,591,242.

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 a fund balance reserve, which indicates that they do not constitute "available expendable resources" even though they are a component of net current assets.

15. Prepays

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

16. Accrued Compensated Absences

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

17. Interfund Transactions

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

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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

18. Capital Assets

Capital assets include buildings and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. 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	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 long-term.

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. Comparative Data

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

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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

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

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143 to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

As of December 31, 2007, the carrying amounts and bank balances for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking and savings	\$ 4,308,999	\$ 4,167,547
Certificates of deposit	<u>443,216</u>	<u>443,216</u>
Total Primary Government	4,752,215	4,610,763
FIDUCIARY FUNDS		
Checking	1,332,835	1,332,835
COMPONENT UNITS		
Checking and savings	37,335	37,335
Certificates of deposit	<u>42,915</u>	<u>42,915</u>
Total Component Units	<u>80,250</u>	<u>80,250</u>
TOTAL REPORTING ENTITY	<u>\$ 6,165,300</u>	<u>\$ 6,023,848</u>

The primary government and component units' cash and cash equivalents captions on the basic financial statements include \$1,827 and \$50, respectively, of imprest cash.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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

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, 2007, the City accounts were insured by the FDIC for \$615,980 and the amount of \$6,467,002 was uninsured and uncollateralized.

As of December 31, 2007, the carrying amounts and market values for each investment are as follows:

Investments

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>S & P Rating</u>	<u>Weighted Average Maturity</u>
PRIMARY GOVERNMENT				
Federal Farm Credit Bureau	\$ 42,000	\$ 42,000	AAA	1,149 days
Federal National Mortgage Association	300,504	300,504	AAA	595 days
Federal Home Loan Marketing Association	349,964	349,964	AAA	652 days
Financing Corporation	60,988	60,988	AAA	179 days
Resolution Funding Corporation	62,035	62,035	AAA	562 days
Medium Term Note	199,822	199,822	AAA	15 days
UBS Bank Money Funds	103,819	103,819	N/A	N/A
Uncategorized pooled investment funds	239,428	239,428	N/A	N/A
Uncategorized pooled investment funds	306,962	306,962	N/A	N/A
Uncategorized pooled investment funds	<u>152,313</u>	<u>152,313</u>	N/A	N/A
Total primary government	1,817,835	1,817,835		
FIDUCIARY FUNDS				
U.S. Government Securities	4,267,529	4,267,529	AAA	129 days
Corporate Bonds and Notes	2,860,666	2,860,666	AAA	93 days
Common Equity Securities	<u>9,714,443</u>	<u>9,714,443</u>	AAA	N/A
Total fiduciary funds	16,842,638	16,842,638		
COMPONENT UNITS				
Public Funds Investment Trust	<u>15,980</u>	<u>15,980</u>	N/A	N/A
TOTAL REPORTING ENTITY	<u>\$18,676,453</u>	<u>\$18,676,453</u>		

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, 2007, rating information on the City's investments is presented above.

Interest rate risk

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

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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

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 Commission and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business in accordance with Commission 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, 2007:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 4,812,808	\$ 53,365	\$ 1,332,835	\$ 6,199,008
Cash and cash equivalents - restricted	239,636	-	-	239,636
Investments	<u>1,519,433</u>	<u>42,915</u>	<u>16,842,638</u>	<u>18,404,986</u>
	<u>\$ 6,571,877</u>	<u>\$ 96,280</u>	<u>\$18,175,473</u>	<u>\$24,843,630</u>

NOTE C: CASH AND CASH EQUIVALENTS - RESTRICTED

The following summarizes the restricted cash and cash equivalents as of December 31, 2007:

	<u>Bond Reserve</u>
Enterprise Funds	<u>\$ 239,636</u>

NOTE D: POOLING OF CASH AND CASH EQUIVALENTS

The City's balance sheet reflects cash and cash equivalents with a negative balance. These amounts do not represent actual bank overdrafts; rather, they merely reflect that specific funds have disbursed amounts from the City's common checking account in excess of the amount recorded as an asset. In total, the bank account has a positive balance.

Cash disbursed in excess of amounts recorded as assets as of December 31, 2007, are as follows:

<u>Fund</u>	<u>Negative Pooled Cash</u>	<u>Nonpooled Cash and Cash Equivalents</u>	<u>Financial Statements</u>
PRIMARY GOVERNMENT			
Recreation Fund	\$(13,963)	\$ -	\$(13,963)
COMPONENT UNIT			
Tax Increment Finance Authority	(49,671)	50	(49,621)

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE E: INTERFUND TRANSFERS

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

Transfers to General Fund from:		
Nonmajor governmental funds		<u>\$ 13,411</u>
Transfers to nonmajor governmental funds from:		
General Fund	\$ 158,345	
Library Trust Fund	13,562	
Nonmajor governmental funds	284,518	
Sewer Fund	2,715	
Water Fund	2,107	
Internal service funds	<u>3,000</u>	
		<u>\$ 464,247</u>
Transfers to Component unit funds from:		
Component unit funds		<u>\$ 67,820</u>

NOTE F: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 was as follows:

Primary Government

	Balance <u>Jan. 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Dec. 31, 2007</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 455,906	\$ 5,600	\$(3,501)	\$ 458,005
Construction in progress	<u>36,687</u>	<u>15,196</u>	<u>-</u>	<u>51,883</u>
Subtotal	492,593	20,796	(3,501)	509,888
Buildings and improvements	3,542,967	-	(470,027)	3,072,940
Infrastructure	2,522,000	375,828	-	2,897,828
Equipment and furniture	859,706	34,074	-	893,780
Vehicles	<u>1,565,216</u>	<u>187,507</u>	<u>(103,512)</u>	<u>1,649,211</u>
Subtotal	8,489,889	597,409	(573,539)	8,513,759
Less accumulated depreciation for:				
Buildings and improvements	(1,858,160)	(63,140)	266,600	(1,654,700)
Infrastructure	(365,832)	(95,198)	-	(461,030)
Equipment and furniture	(545,243)	(69,835)	-	(615,078)
Vehicles	<u>(1,116,418)</u>	<u>(132,793)</u>	<u>75,372</u>	<u>(1,173,839)</u>
Subtotal	<u>(3,885,653)</u>	<u>(360,966)</u>	<u>341,972</u>	<u>(3,904,647)</u>
Net capital assets being depreciated	<u>4,604,236</u>	<u>236,443</u>	<u>(231,567)</u>	<u>4,609,112</u>
Capital assets, net	<u>\$ 5,096,829</u>	<u>\$ 257,239</u>	<u>\$(235,068)</u>	<u>\$ 5,119,000</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE F: CAPITAL ASSETS - CONTINUED

Primary Government - continued

Depreciation expense was charged to the following governmental activities:

General government	\$ 148,533
Public safety	60,696
Public works	99,337
Community and economic development	50,800
Recreation and cultural	<u>1,600</u>
Total depreciation expense	<u>\$ 360,966</u>

	<u>Restated Balance Jan. 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2007</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 93,700	\$ -	\$ -	\$ 93,700
Construction in progress	<u>395,850</u>	<u>-</u>	<u>(395,850)</u>	<u>-0-</u>
	489,550	-0-	(395,850)	93,700
Capital assets being depreciated				
Buildings and improvements	9,740,075	419,925	-	10,160,000
Equipment	883,453	18,128	-	901,581
Water system	4,190,667	9,924	-	4,200,591
Sewer system	1,348,620	-	-	1,348,620
Vehicles	<u>568,796</u>	<u>-</u>	<u>-</u>	<u>568,796</u>
Subtotal	16,731,611	447,977	-0-	17,179,588
Less accumulated depreciation for:				
Buildings and improvements	(4,008,425)	(203,329)	-	(4,211,754)
Equipment	(797,589)	(40,609)	-	(838,198)
Water system	(1,939,395)	(88,061)	-	(2,027,456)
Sewer system	(552,637)	(21,736)	-	(574,373)
Vehicles	<u>(432,808)</u>	<u>(39,468)</u>	<u>-</u>	<u>(472,276)</u>
Subtotal	<u>(7,730,854)</u>	<u>(393,203)</u>	<u>-0-</u>	<u>(8,124,057)</u>
Net capital assets being depreciated	<u>9,000,757</u>	<u>54,774</u>	<u>-0-</u>	<u>9,055,531</u>
Capital assets, net	<u>\$ 9,490,307</u>	<u>\$ 54,774</u>	<u>\$(395,850)</u>	<u>\$ 9,149,231</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE F: CAPITAL ASSETS - CONTINUED

	Restated Balance <u>Jan. 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Dec. 31, 2007</u>
Component Units				
Component unit - EDC				
Capital assets not being depreciated:				
Land	\$ 41,655	\$ -	\$ -	\$ 41,655
Capital assets being depreciated				
Buildings	20,000	-	-	20,000
Less accumulated depreciation for Buildings	<u>(4,000)</u>	<u>(800)</u>	<u>-</u>	<u>(4,800)</u>
Net capital assets being depreciated	<u>16,000</u>	<u>(800)</u>	<u>-0-</u>	<u>15,200</u>
Capital assets, net	<u>\$ 57,655</u>	<u>\$ (800)</u>	<u>\$ -0-</u>	<u>\$ 56,855</u>
Component unit - TIFA				
Capital assets not being depreciated:				
Land	\$ 160,000	\$ -	\$ -	\$ 160,000
Capital assets being depreciated				
Buildings	45,000	-	(45,000)	-0-
Less accumulated depreciation for Buildings	<u>(21,600)</u>	<u>-</u>	<u>21,600</u>	<u>-0-</u>
Net capital assets being depreciated	<u>23,400</u>	<u>-0-</u>	<u>(23,400)</u>	<u>-0-</u>
Capital assets, net	<u>\$ 183,400</u>	<u>\$ -0-</u>	<u>\$ (23,400)</u>	<u>\$ 160,000</u>
Component unit - DDA				
Capital assets not being depreciated:				
Construction in progress	\$ 301,685	\$ -	\$(301,685)	\$ -0-
Capital assets being depreciated				
Buildings	61,588	-	-	61,588
Infrastructure	<u>-</u>	<u>557,494</u>	<u>-</u>	<u>557,494</u>
Subtotal	61,588	557,494	-0-	619,082
Less accumulated depreciation for:				
Buildings	(733)	(8,794)	-	(9,527)
Infrastructure	<u>-</u>	<u>(27,875)</u>	<u>-</u>	<u>(27,875)</u>
Subtotal	<u>(733)</u>	<u>(36,669)</u>	<u>-0-</u>	<u>(37,402)</u>
Net capital assets being depreciated	<u>60,855</u>	<u>520,825</u>	<u>-0-</u>	<u>581,680</u>
Capital assets, net	<u>\$ 362,540</u>	<u>\$ 520,825</u>	<u>\$ (301,685)</u>	<u>\$ 581,680</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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, 2007.

	Balance Jan. 1, 2007	Additions	Reductions	Balance Dec. 31, 2007	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental activities					
1997 General Obligation Bonds	\$ 1,160,000	\$ -	\$ 80,000	\$ 1,080,000	\$ 80,000
Installment purchase agreements	431,106	-	96,904	334,202	108,142
EPA landfill liability	148,015	-	9,420	138,595	9,947
CDBG loan	27,771	-	15,869	11,902	11,902
Building Authority loan	77,742	-	6,720	71,022	7,099
Land contracts	337,606	-	25,418	312,188	25,695
Capital leases	39,725	128,333	33,953	134,105	44,478
Accumulated compensated absences	<u>480,026</u>	<u>267,133</u>	<u>246,573</u>	<u>500,586</u>	<u>100,214</u>
	2,701,991	395,466	514,857	2,582,600	387,477
Business-type activities					
Revenue Bonds	1,290,000	-	85,000	1,205,000	90,000
Accumulated compensated absences	<u>233,166</u>	<u>75,939</u>	<u>59,249</u>	<u>249,856</u>	<u>76,132</u>
	<u>1,523,166</u>	<u>75,939</u>	<u>144,249</u>	<u>1,454,856</u>	<u>166,132</u>
TOTAL PRIMARY GOVERNMENT	4,225,157	471,405	659,106	4,037,456	553,609
COMPONENT UNITS					
Economic Development Corporation					
Land contract	45,922	-	45,922	-0-	-
Downtown Development Authority					
Revenue Bonds	120,000	-	60,000	60,000	60,000
Tax Increment Finance Authority					
CDBG loan	<u>39,964</u>	<u>-</u>	<u>22,836</u>	<u>17,128</u>	<u>17,128</u>
TOTAL COMPONENT UNITS	<u>205,886</u>	<u>-0-</u>	<u>128,758</u>	<u>77,128</u>	<u>77,128</u>
TOTAL REPORTING ENTITY	<u>\$ 4,431,043</u>	<u>\$ 471,405</u>	<u>\$ 787,864</u>	<u>\$ 4,114,584</u>	<u>\$ 630,737</u>

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

PRIMARY GOVERNMENT

General Obligation Unlimited Tax Bonds Payable

\$1,700,000 General Obligation Unlimited Tax Bonds Series 1997 dated June 1, 1997, due in annual installments ranging from \$80,000 to \$140,000 through October 1, 2017, with interest ranging from 5.10 to 5.25 percent, payable semi-annually. \$ 1,080,000

Revenue Bonds

\$1,800,000 Revenue Bonds dated June 1, 1997, due in annual installments ranging from \$90,000 to \$155,000 through October 1, 2017, with interest ranging from 5.20 to 5.25 percent, payable semi-annually. \$ 1,205,000

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE G: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

Capital Leases

The City has entered into a lease purchase agreement to finance the acquisition of two 2006 Chevrolet Tahoes. The lease agreement qualifies as a capital lease for accounting purposes (title transfers at end of lease term at bargain price) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. The cost of equipment acquired under the lease purchase agreement amounted to \$54,710. The lease is due in annual installments \$14,985 through February 6, 2009, with interest at 6.45 percent, payable annually. \$ 27,302

The City has entered into a lease purchase agreement to finance the acquisition of John Deere Loader. The lease agreement qualifies as a capital lease for accounting purposes (title transfers at end of lease term at bargain price) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. The cost of equipment acquired under the lease purchase agreement amounted to \$67,612. The lease is due in annual installments of \$15,594 through December 1, 2012, with interest at 4.75 percent, payable annually. 67,612

The City has entered into a lease purchase agreement to finance the acquisition of two 2007 Chevrolet Impala. The lease agreement qualifies as a capital lease for accounting purposes (title transfers at end of lease term at bargain price) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. The cost of equipment acquired under the lease purchase agreement amounted to \$60,721. The lease is due in annual installments \$21,530 through August 3, 2009, with interest at 6.50 percent, payable annually. 39,191

\$ 134,105

EPA Liability

The City is liable for half the operations and maintenance costs for the landfill cleanup, with annual installments ranging from \$2,202 to \$9,947 through 2028. \$ 138,595

Installment Purchase Agreements

\$400,000 Installment purchase agreement (fire truck) dated September 7, 2001, due in annual installments ranging from \$50,000 to \$60,000 through April 1, 2011, with interest at 4.40 percent, payable semi-annually. \$ 210,000

\$225,000 Installment purchase agreement (computers) dated June 14, 2004, due in annual installments ranging from \$45,739 to \$46,503 through September 1, 2009, with interest at 3.34 percent, payable semi-annually. 92,241

\$50,000 Installment purchase agreement (in-car video systems) dated May 3, 2006, due in semi-annual installments of \$6,787 through March 1, 2010, with interest at 4.05 percent, payable semi-annually. 31,961

\$ 334,202

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE G: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

Land Contracts

\$88,100 Land contract dated May 6, 2006, due in semi-annual installments of \$4,405 through September 1, 2015, with interest at 3.99 percent, payable semi-annually.	\$ 70,480
\$207,000 Land contract dated June 30, 2006, due in annual installments of \$15,000 through July 1, 2023, with interest at 3.00 percent, payable annually.	182,760
\$70,000 Land contract dated September 1, 2006, due in semi-annual installments ranging from \$3,749 to \$4,716 through September 1, 2015, with interest at 3.50 percent, payable semi-annually.	<u>58,948</u>
	<u>\$ 312,188</u>

Building Authority Loan

\$110,000 Installment purchase agreement (EDC/DDA Building) dated February 1, 2001, due in monthly installments of \$577 with a balloon payment of \$47,733 through January 1, 2011, with interest at 5.5 percent, payable monthly.	<u>\$ 71,022</u>
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Accrued 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 approximately \$750,442 at December 31, 2007. Of this amount, \$500,586 and \$249,856 are shown as accrued liabilities within the governmental and business-type activities, respectively, in accordance with criteria disclosed in Note A.

COMPONENT UNITS - DISCRETELY PRESENTED

Revenue Bonds

\$500,000 DDA Streetscape Revenue Bonds dated November 1, 1998, due in annual installments of \$60,000 through April 1, 2008, with interest of 6.15 percent.	<u>\$ 60,000</u>
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CDBG Loan

\$193,526 2003 CDBG Loan received by the City from the State for industrial park improvements. The City will be required to make quarterly payments of \$9,676 through November 1, 2008.

Since the land purchase benefited both the TIFA district and the City as a whole, the loan proceeds were recorded in both the Tax Increment Finance Authority Fund and the Major Street Fund.

The outstanding balances as of December 31, 2007, were as follows:

Major Street Fund	\$ 11,902
Tax Increment Finance Authority Fund	<u>17,128</u>
	<u>\$ 29,030</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE G: LONG-TERM DEBT - CONTINUED

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

Primary Government

Year Ending December 31,	Revenue Bonds		General Obligation Unlimited Tax Bonds		Loans Payable		Land Contracts	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 90,000	\$ 126,010	\$ 80,000	\$ 56,450	\$ 7,099	\$ 3,687	\$ 25,695	\$ 10,206
2009	95,000	116,650	85,000	52,370	7,499	3,286	25,982	9,311
2010	105,000	106,770	90,000	47,993	7,922	2,863	26,276	8,407
2011	110,000	95,850	100,000	43,313	48,502	219	26,579	7,495
2012	115,000	84,410	105,000	38,063	-	-	26,890	6,573
2013-2017	690,000	226,276	620,000	101,587	-	-	107,111	19,623
2018-2022	-	-	-	-	-	-	67,905	7,095
2023	-	-	-	-	-	-	5,750	173
	<u>\$ 1,205,000</u>	<u>\$ 755,966</u>	<u>\$ 1,080,000</u>	<u>\$ 339,776</u>	<u>\$ 71,022</u>	<u>\$ 10,055</u>	<u>\$ 312,188</u>	<u>\$ 68,883</u>

Year Ending December 31,	Installment Purchase Agreements		Capital Leases		EPA Liability		CDBG Loan	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 108,142	\$ 12,391	\$ 44,478	\$ 7,591	\$ 9,947	\$ -	\$ 11,902	\$ -
2009	109,415	8,156	47,154	4,909	8,228	-	-	-
2010	56,645	3,875	13,492	2,062	7,689	-	-	-
2011	60,000	1,320	14,147	1,407	7,150	-	-	-
2012	-	-	14,834	720	6,716	-	-	-
2013-2017	-	-	-	-	30,417	-	-	-
2018-2022	-	-	-	-	26,494	-	-	-
2023-2027	-	-	-	-	39,752	-	-	-
2028	-	-	-	-	2,202	-	-	-
	<u>\$ 334,202</u>	<u>\$ 25,742</u>	<u>\$ 134,105</u>	<u>\$ 16,689</u>	<u>\$ 138,595</u>	<u>\$ -0-</u>	<u>\$ 11,902</u>	<u>\$ -0-</u>

Component Units

Year Ending December 31,	General Obligation Bonds		CDBG Loan	
	Principal	Interest	Principal	Interest
2008	<u>\$ 60,000</u>	<u>\$ 7,380</u>	<u>\$ 17,128</u>	<u>\$ -0-</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE H: RETIREMENT PLAN

PRIMARY GOVERNMENT (EXCEPT PUBLIC SAFETY)

Plan Description

The City participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees (other than public safety employees) of the City. The City also participates in the MERS defined contribution plan. That plan is administered by the ICMA. 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.

Annual Pension Cost

For the year ended December 31, 2007, 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, 2005, 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

	Year Ended December 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$14,600,587	\$14,786,834	\$15,227,692
Actuarial accrued liability (AAL) (entry age)	10,696,728	10,987,489	11,114,781
Unfunded (overfunded) AAL	(3,903,859)	(3,799,345)	(4,112,911)
Funded ratio	136 %	135 %	137 %
Covered payroll	1,595,627	1,620,191	1,606,459
UAAL as a percentage of covered payroll	(245) %	(235) %	(256) %

	Year Ended December 31,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual pension cost	\$ -0-	\$ -0-	\$ -0-
Percentage of APC contributed	N/A	N/A	N/A
Net pension obligation	-	-	-

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

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE H: RETIREMENT PLAN - CONTINUED

PUBLIC SAFETY

Plan Description

The City participates in the Public Safety Officers' Pension Fund, a single-employer defined benefit pension plan that covers all eligible full-time public safety employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Public Safety Officers' Pension Fund does not issue a publicly available 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, 2007, the City did not contribute to the plan because their actuarial accrued liability was over funded. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, 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 sixteen (16) years.

Three (3) Year Trend Information

	Year Ended December 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$14,189,742	\$14,306,560	\$14,891,706
Actuarial accrued liability (AAL) (entry age)	9,217,404	10,146,419	10,173,543
Unfunded (overfunded) AAL	(4,975,338)	(4,160,141)	(4,718,163)
Funded ratio	154 %	141 %	146%
Covered payroll	1,290,940	1,288,530	1,237,654
UAAL as a percentage of covered payroll	(385) %	(323) %	(381) %

	Year Ended December 31,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual pension cost	\$ -0-	\$ -0-	\$ -0-
Percentage of APC contributed	N/A	N/A	N/A
Net pension obligation	-	-	-

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

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE I: RISK MANAGEMENT

The City participates in a pool, the Michigan Municipal 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, 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: FUND EQUITY RESERVES

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are the various fund balance reserves as of December 31, 2007:

Fund Balances

Primary Government	
General Fund	
Reserved for park fence	\$ 16,815
Reserved for prepaids	<u>65,955</u>
	82,770
Nonmajor Funds	
Reserved for prepaids	15,444
Reserved for inventories	7,568
Reserved for perpetual care	389,874
Reserved for debt service	<u>40,168</u>
	<u>447,273</u>
Total primary government	<u>\$ 535,824</u>
Fiduciary Fund	
Private Purpose Trust	
Held in Trust for Private Purposes	<u>\$17,467,055</u>
Component Units	
Downtown Development Authority	
Reserved for prepaids	\$ 614
Tax Increment Finance Authority	
Reserved for prepaids	<u>75</u>
Total component units	<u>\$ 689</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE K: RESTRICTED NET ASSETS

Restrictions of net assets 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. The following are the various net asset restrictions as of December 31, 2007:

PRIMARY GOVERNMENT			
Governmental Activities			
Debt service		\$	14,987
Streets and highways			<u>286,359</u>
		\$	<u>301,346</u>

NOTE L: POST-EMPLOYMENT HEALTH CARE BENEFITS

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. Substantially all of the City's employees may become eligible for these benefits if they reach the normal retirement age of 55 with at least 25 years of credited service while working for the City. These benefits are provided until age 65, at which time the individuals are eligible for Medicare coverage.

The cost of retiree health care benefits is recognized as an expenditure as insurance premiums are paid. For the year ended December 31, 2007, those costs for employees that retired from departments other than public safety totaled \$1,710. For the year ended December 31, 2007, the cost for public safety retirees paid to the City of Albion Public Safety Officers' Retirement System totaled \$37,323.

The Governmental Accounting Standards Board has released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. This pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the new employee, rather than at the time the health care premiums are paid. This pronouncement is effective for the City of Albion for the year ended December 31, 2009.

NOTE M: 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.

In the body of the required supplementary information, the City's budgeted expenditures in the General and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the City have been adopted at the activity level for the General Fund and the total expenditure level for the Special Revenue Funds.

During the year ended December 31, 2007, the City incurred expenditures in the General Fund and Special Revenue Funds in excess of the amount appropriated as follows:

	<u>Amounts</u> <u>Appropriated</u>	<u>Amounts</u> <u>Expended</u>	<u>Variance</u>
General Fund			
General government			
Human resources	\$ 47,023	\$ 48,540	\$ 1,517

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE M: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund - continued			
Public works			
Highways and streets	\$ 190,000	\$ 190,277	\$ 277
Health and welfare			
Environmental expenditures	15,000	15,736	736
Other	167,347	196,190	28,843
Debt service			
Principal	13,574	36,916	23,342
Capital outlay	35,225	118,550	83,325
Transfers out	147,245	158,345	11,100
Special Revenue Funds			
Major Street Fund	892,588	903,349	10,761
Community Development Block Grant Fund	-	400	400
Recreation Fund	282,759	289,215	6,456
Drug Law Enforcement Fund	26,900	27,771	871
Revolving Loan Fund	6,765	6,914	149

NOTE N: 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, 2006	\$(246,858)
Construction code revenue	5,784
Related expenses - Direct costs	<u>(99,736)</u>
Deficit at December 31, 2007	<u>\$(340,810)</u>

NOTE O: 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.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE O: CONTINGENCIES - CONTINUED

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

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

NOTE P: RESTATED NET ASSETS

Beginning net assets for the Sewer Fund and the DDA were restated to correctly record the historical cost of capital assets. Beginning net assets for the Sewer Fund were increased by \$119,269 from \$4,757,902 to \$4,877,171 and beginning net assets for the DDA were increased by \$301,685 from \$68,972 to \$370,657.

NOTE Q: FUND DEFICITS

The following funds had fund deficits at December 31, 2007:

Recreation Fund	\$ 16,174
Drug Law Enforcement Fund	2,070
Economic Development Fund	<u>57,992</u>
	<u>\$ 76,236</u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Albion

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 1,333,000	\$ 1,333,000	\$ 1,351,245	\$ 18,245
Income taxes	1,165,000	1,165,000	1,146,740	(18,260)
Payments in lieu of taxes	12,000	12,000	12,068	68
Penalties and interest	25,000	25,000	20,813	(4,187)
Administration fees	60,000	60,000	71,760	11,760
Total taxes	2,595,000	2,595,000	2,602,626	7,626
Licenses and permits	54,800	54,800	52,745	(2,055)
Intergovernmental				
Federal/State	1,293,530	1,293,530	1,217,704	(75,826)
Local	3,500	3,500	2,705	(795)
Total intergovernmental	1,297,030	1,297,030	1,220,409	(76,621)
Charges for services				
Cemetery	40,500	40,500	56,722	16,222
Other fees	247,800	247,800	262,115	14,315
Total charges for services	288,300	288,300	318,837	30,537
Fines and forfeits	68,000	68,000	55,791	(12,209)
Interest and rents	23,600	23,600	34,569	10,969
Other				
Reimbursements	128,901	128,901	154,959	26,058
Other	55,120	55,120	78,969	23,849
Total other	184,021	184,021	233,928	49,907
TOTAL REVENUES	4,510,751	4,510,751	4,518,905	8,154

City of Albion

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended December 31, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES				
General government				
City Council	\$ 32,509	\$ 40,000	\$ 35,684	\$ 4,316
City Manager	84,371	84,371	81,020	3,351
Human resources	47,023	47,023	48,540	(1,517)
Assessor	97,241	97,241	88,578	8,663
Attorney	72,255	72,255	67,792	4,463
Clerk/treasurer	342,493	342,493	322,015	20,478
Municipal building	76,313	93,466	89,333	4,133
Cemetery	149,687	149,687	137,401	12,286
Other	121,586	121,586	110,979	10,607
Total general government	1,023,478	1,048,122	981,342	66,780
Public safety				
Police and fire	2,425,330	2,363,189	2,244,311	118,878
Code enforcement	86,838	100,000	99,736	264
Total public safety	2,512,168	2,463,189	2,344,047	119,142
Public works				
Engineering	22,744	33,000	31,946	1,054
Highways and streets	177,262	190,000	190,277	(277)
Tree trimming	15,217	30,000	22,553	7,447
Total public works	215,223	253,000	244,776	8,224
Health and welfare				
Environmental expenditures	15,000	15,000	15,736	(736)
Community and economic development				
Planning	76,864	76,864	76,834	30
Recreation and cultural				
Parks	152,938	152,938	151,233	1,705
Library	150,000	150,000	150,000	-0-
Total Recreation and cultural	302,938	302,938	301,233	1,705
Other	151,789	167,347	196,189	(28,842)

City of Albion

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended December 31, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES - CONTINUED				
Debt service				
Principal	\$ 13,574	\$ 13,574	\$ 36,916	\$ (23,342)
Interest and fiscal fees	1,658	1,658	1,643	15
Total debt service	15,232	15,232	38,559	(23,327)
Capital outlay	64,225	35,225	118,551	(83,326)
TOTAL EXPENDITURES	4,376,917	4,376,917	4,317,267	59,650
EXCESS OF REVENUES OVER EXPENDITURES	133,834	133,834	201,638	67,804
OTHER FINANCING SOURCES (USES)				
Transfers in	13,411	13,411	13,411	-0-
Transfers out	(147,245)	(147,245)	(158,345)	(11,100)
Capital lease	-	-	28,198	28,198
TOTAL OTHER FINANCING SOURCES (USES)	(133,834)	(133,834)	(116,736)	17,098
NET CHANGE IN FUND BALANCE	-0-	-0-	84,902	84,902
Fund balance, beginning of year	982,270	982,270	982,270	-0-
Fund balance, end of year	\$ 982,270	\$ 982,270	\$ 1,067,172	\$ 84,902

City of Albion
Community Development Block Grant Fund
BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest and rents	\$ 7,500	\$ 7,500	\$ 22,691	\$ 15,191
Other	-	-	405	405
TOTAL REVENUES	7,500	7,500	23,096	15,596
EXPENDITURES				
Community and economic development	-	-	400	(400)
NET CHANGE IN FUND BALANCE	7,500	7,500	22,696	15,196
Fund balance, beginning of year	344,048	344,048	344,048	-0-
Fund balance, end of year	<u>\$ 351,548</u>	<u>\$ 351,548</u>	<u>\$ 366,744</u>	<u>\$ 15,196</u>

City of Albion

Albion Trust Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest	\$ 40,000	\$ 50,000	\$ 64,793	\$ 14,793
EXPENDITURES				
Community and economic development	-	50,000	50,000	-0-
NET CHANGE IN FUND BALANCE	40,000	-0-	14,793	14,793
Fund balance, beginning of year	<u>1,104,339</u>	<u>1,104,339</u>	<u>1,104,339</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 1,144,339</u>	<u>\$ 1,104,339</u>	<u>\$ 1,119,132</u>	<u>\$ 14,793</u>

OTHER SUPPLEMENTARY INFORMATION

City of Albion

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

December 31, 2007

	Special Revenue			
	Major Street	Local Street	Recreation Fund	Solid Waste
ASSETS				
Cash and cash equivalents	\$ 57,438	\$ 94,078	\$ (13,963)	\$ 290,602
Investments	-	-	-	-
Accounts receivable	-	-	-	4,443
Taxes receivable	-	-	2,448	4,381
Due from other governmental units	94,796	23,429	-	-
Prepays	5,781	5,781	865	-
Inventories	7,568	-	-	-
TOTAL ASSETS	\$ 165,583	\$ 123,288	\$ (10,650)	\$ 299,426
LIABILITIES AND FUND BALANCES (DEFICITS)				
LIABILITIES				
Accounts payable	\$ 2,461	\$ -	\$ 1,524	\$ -
Accrued liabilities	51	-	-	-
Due to other governmental units	-	-	-	-
Deferred revenue	-	-	4,000	5,842
TOTAL LIABILITIES	2,512	-0-	5,524	5,842
FUND BALANCES				
Reserved for				
Prepays	5,781	5,781	865	-
Inventories	7,568	-	-	-
Perpetual care	-	-	-	-
Debt service	-	-	-	-
Unreserved				
Undesignated, reported in:				
Special revenue funds	149,722	117,507	(17,039)	293,584
Debt service funds	-	-	-	-
Capital project funds	-	-	-	-
TOTAL FUND BALANCES (DEFICITS)	163,071	123,288	(16,174)	293,584
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ 165,583	\$ 123,288	\$ (10,650)	\$ 299,426

Funds				Debt Service Funds	
Drug Law Enforcement	Library	Albion Building Authority	Revolving Loan	Michigan Transportation Bond	G.O. Water Bonds
\$ 12,099	\$ 3,824	\$ 537,314	\$ 558,503	\$ -	\$ 38,012
-	-	-	-	-	-
-	-	347	112,002	-	228
-	-	-	-	-	-
-	-	57,246	-	-	-
-	-	3,017	-	-	-
-	-	-	-	-	-
<u>\$ 12,099</u>	<u>\$ 3,824</u>	<u>\$ 597,924</u>	<u>\$ 670,505</u>	<u>\$ -0-</u>	<u>\$ 38,240</u>
\$ 503	\$ -	\$ 8,791	\$ -	\$ -	\$ -
13,666	-	16,752	-	-	294
-	3,824	-	-	-	-
-	-	-	112,002	-	1,284
<u>14,169</u>	<u>3,824</u>	<u>25,543</u>	<u>112,002</u>	<u>-0-</u>	<u>1,578</u>
-	-	3,017	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	36,662
(2,070)	-	569,364	558,503	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>(2,070)</u>	<u>-0-</u>	<u>572,381</u>	<u>558,503</u>	<u>-0-</u>	<u>36,662</u>
<u>\$ 12,099</u>	<u>\$ 3,824</u>	<u>\$ 597,924</u>	<u>\$ 670,505</u>	<u>\$ -0-</u>	<u>\$ 38,240</u>

City of Albion

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2007

	Debt Service Funds -			
	EDC & DDA Building	111 Center Street Debt	DPW Building Debt	Fire Truck Loan
ASSETS				
Cash and cash equivalents	\$ 3	\$ 3,412	\$ -	\$ 17
Investments	-	-	-	-
Accounts receivable	-	-	-	-
Taxes receivable	-	-	-	-
Due from other governmental units	-	-	-	-
Prepays	-	-	-	-
Inventories	-	-	-	-
TOTAL ASSETS	\$ 3	\$ 3,412	\$ -0-	\$ 17
LIABILITIES AND FUND BALANCES (DEFICITS)				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-
Due to other governmental units	-	-	-	-
Deferred revenue	-	-	-	-
TOTAL LIABILITIES	-0-	-0-	-0-	-0-
FUND BALANCES				
Reserved for				
Prepays	-	-	-	-
Inventories	-	-	-	-
Perpetual care	-	-	-	-
Debt service	-	3,412	-	-
Unreserved				
Undesignated, reported in:				
Special revenue funds	-	-	-	-
Debt service funds	3	-	-	17
Capital project funds	-	-	-	-
TOTAL FUND BALANCES (DEFICITS)	3	3,412	-0-	17
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ 3	\$ 3,412	\$ -0-	\$ 17

Continued	Capital Projects Funds			Permanent Fund	Total Nonmajor Governmental Funds
201 N. Clinton Debt	Street Improvements	Computer Information Systems	MDOT Street Reconstruction	Cemetery Trust	
\$ 94	\$ 21,016	\$ 1,655	\$ 28,355	\$ 372,063	\$ 2,004,522
-	-	-	-	17,811	17,811
-	-	-	-	-	117,020
-	7,078	-	-	-	13,907
-	-	-	-	-	175,471
-	-	-	-	-	15,444
-	-	-	-	-	7,568
<u>\$ 94</u>	<u>\$ 28,094</u>	<u>\$ 1,655</u>	<u>\$ 28,355</u>	<u>\$ 389,874</u>	<u>\$ 2,351,743</u>
\$ -	\$ 8,681	\$ -	\$ -	\$ -	\$ 21,960
-	-	-	-	-	30,763
-	-	-	-	-	3,824
-	2,193	-	-	-	125,321
-0-	10,874	-0-	-0-	-0-	181,868
-	-	-	-	-	15,444
-	-	-	-	-	7,568
-	-	-	-	389,874	389,874
94	-	-	-	-	40,168
-	-	-	-	-	-
-	-	-	-	-	1,669,571
-	-	-	-	-	20
-	17,220	1,655	28,355	-	47,230
94	17,220	1,655	28,355	389,874	2,169,875
<u>\$ 94</u>	<u>\$ 28,094</u>	<u>\$ 1,655</u>	<u>\$ 28,355</u>	<u>\$ 389,874</u>	<u>\$ 2,351,743</u>

City of Albion

Nonmajor Governmental Funds

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

Year Ended December 31, 2007

	Special Revenue			
	Major Street	Local Street	Recreation Fund	Solid Waste
REVENUES				
Taxes	\$ -	\$ -	\$ 160,771	\$ 236,174
Intergovernmental	699,161	155,532	82,768	-
Charges for services	8,003	-	9,953	-
Fines and forfeits	-	-	-	-
Interest and rents	2,255	4,568	9	12,633
Other	633	-	8,540	-
TOTAL REVENUES	710,052	160,100	262,041	248,807
EXPENDITURES				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	656,729	306,600	-	190,880
Community and economic development	94,536	-	-	-
Recreation and cultural	-	-	288,305	-
Debt service				
Principal	15,869	-	-	-
Interest and fiscal fees	-	-	-	-
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	767,134	306,600	288,305	190,880
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(57,082)	(146,500)	(26,264)	57,927
OTHER FINANCING SOURCES (USES)				
Transfers in	55,143	186,553	11,000	-
Transfers out	(136,215)	(3,000)	(910)	(1,500)
Capital lease	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(81,072)	183,553	10,090	(1,500)
NET CHANGE IN FUND BALANCES	(138,154)	37,053	(16,174)	56,427
Fund balances, beginning of year	301,225	86,235	-	237,157
Fund balances (deficits), end of year	<u>\$ 163,071</u>	<u>\$ 123,288</u>	<u>\$ (16,174)</u>	<u>\$ 293,584</u>

Funds			Debt Service Funds		
Drug Law Enforcement	Library	Albion Building Authority	Revolving Loan	Michigan Transportation Bond	G.O. Water Bonds
\$ -	\$ 72,801	\$ -	\$ -	\$ -	\$ 151,465
-	5,383	240,294	-	-	-
-	6,569	-	49,204	-	-
6,306	13,701	-	-	-	-
1,004	2,661	247,818	31,011	-	2,120
-	1,854	6,705	-	-	-
7,310	102,969	494,817	80,215	-0-	153,585
-	-	-	-	-	-
11,065	-	-	-	-	-
-	-	-	-	-	-
-	-	348,954	6,914	-	-
-	344,371	-	-	-	-
11,530	-	-	-	-	80,000
-	-	-	-	-	60,846
37,699	-	12,825	-	-	-
60,294	344,371	361,779	6,914	-0-	140,846
(52,984)	(241,402)	133,038	73,301	-0-	12,739
-	63,562	-	-	-	-
-	-	(33,197)	-	(40,143)	-
32,523	-	-	-	-	-
32,523	63,562	(33,197)	-0-	(40,143)	-0-
(20,461)	(177,840)	99,841	73,301	(40,143)	12,739
18,391	177,840	472,540	485,202	40,143	23,923
\$ (2,070)	\$ -0-	\$ 572,381	\$ 558,503	\$ -0-	\$ 36,662

City of Albion

Nonmajor Governmental Funds

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

Year Ended December 31, 2007

	Debt Service Funds -			
	EDC & DDA Building	111 Center Street Debt	DPW Building Debt	Fire Truck Loan
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and Forfeits	-	-	-	-
Interest and rents	-	-	-	-
Other	-	-	-	-
TOTAL REVENUES	-0-	-0-	-0-	-0-
EXPENDITURES				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Community and economic development	897	-	-	-
Recreation and cultural	-	-	-	-
Debt service				
Principal	6,720	7,368	9,240	40,000
Interest and fiscal fees	4,066	2,243	5,760	10,203
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	11,683	9,611	15,000	50,203
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(11,683)	(9,611)	(15,000)	(50,203)
OTHER FINANCING SOURCES (USES)				
Transfers in	11,686	9,625	15,000	50,220
Transfers out	-	-	-	-
Capital lease	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	11,686	9,625	15,000	50,220
NET CHANGE IN FUND BALANCES	3	14	-0-	17
Fund balances, beginning of year	-	3,398	-	-
Fund balances (deficits), end of year	\$ 3	\$ 3,412	\$ -0-	\$ 17

Continued	Capital Projects Funds			Permanent Fund	Total Nonmajor Governmental Funds
201 N. Clinton Debt	Street Improvements	Computer Information Systems	MDOT Street Reconstruction	Cemetery Trust	
\$ -	\$ 338,981	\$ -	\$ -	\$ -	\$ 960,192
-	-	-	-	-	1,183,138
-	-	-	-	3,000	76,729
-	-	-	-	-	20,007
-	1,662	1,574	-	18,267	325,582
-	-	-	-	-	17,732
-0-	340,643	1,574	-0-	21,267	2,583,380
-	-	117	-	-	117
-	-	-	-	-	11,065
-	-	-	-	-	1,154,209
-	-	-	-	-	451,301
-	-	-	-	-	632,676
8,810	-	44,988	-	-	224,525
3,114	-	4,576	-	-	90,808
-	290,494	-	1,464	1,031	343,513
11,924	290,494	49,681	1,464	1,031	2,908,214
(11,924)	50,149	(48,107)	(1,464)	20,236	(324,834)
11,886	-	49,572	-	-	464,247
-	(69,553)	-	-	(13,411)	(297,929)
-	-	-	-	-	32,523
11,886	(69,553)	49,572	-0-	(13,411)	198,841
(38)	(19,404)	1,465	(1,464)	6,825	(125,993)
132	36,624	190	29,819	383,049	2,295,868
\$ 94	\$ 17,220	\$ 1,655	\$ 28,355	\$ 389,874	\$ 2,169,875

City of Albion

Agency Funds

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

December 31, 2007

	<u>Trust and Agency</u>	<u>Current Tax Collections</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	<u>\$ 204,142</u>	<u>\$ 568,395</u>	<u>\$ 772,537</u>
LIABILITIES			
Due to State	\$ -	\$ 39,097	\$ 39,097
Due to County	28	32,851	32,879
Due to Schools	-	463,249	463,249
Due to others	<u>204,114</u>	<u>33,198</u>	<u>237,312</u>
TOTAL LIABILITIES	<u>\$ 204,142</u>	<u>\$ 568,395</u>	<u>\$ 772,537</u>

City of Albion

Private Purpose Trust Funds

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

December 31, 2007

	Public Safety Officers' Pension	Retiree Health Care	Total
ASSETS			
Cash	\$ 401,007	\$ 159,291	\$ 560,298
Investments	16,842,638	-	16,842,638
Interest receivable	64,119	-	64,119
	<u>\$ 17,307,764</u>	<u>\$ 159,291</u>	<u>\$ 17,467,055</u>
TOTAL ASSETS			
	<u>\$ 17,307,764</u>	<u>\$ 159,291</u>	<u>\$ 17,467,055</u>
NET ASSETS			
Held in trust for private purposes	<u>\$ 17,307,764</u>	<u>\$ 159,291</u>	<u>\$ 17,467,055</u>

City of Albion

Private Purpose Trust Funds

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended December 31, 2007

	Public Safety Officers' Pension	Retiree Health Care	Total
ADDITIONS			
Investment income			
Interest and dividends	\$ 620,501	\$ 31,991	\$ 652,492
Net decrease in fair value of investments	(444,183)	-	(444,183)
Gain on sales of investments	1,138,867	-	1,138,867
Less investment expenses	(21,266)	-	(21,266)
Net investment income	1,293,919	31,991	1,325,910
Contributions			
Employer	49,412	-	49,412
TOTAL ADDITIONS	1,343,331	31,991	1,375,322
DEDUCTIONS			
Benefit payments	504,613	39,459	544,072
Health insurance premiums	37,322	-	37,322
Administrative expenses	118,701	440	119,141
TOTAL DEDUCTIONS	660,636	39,899	700,535
CHANGE IN NET ASSETS	682,695	(7,908)	674,787
Net assets, beginning of year	16,625,069	167,199	16,792,268
Net assets, end of year	<u>\$ 17,307,764</u>	<u>\$ 159,291</u>	<u>\$ 17,467,055</u>

City of Albion

Component Unit Funds

COMBINING BALANCE SHEET - ECONOMIC DEVELOPMENT CORPORATION

December 31, 2007

	Special Revenue		Total
	Economic Development	Business Incubator	
ASSETS			
Cash and cash equivalents	\$ 195	\$ 224	\$ 419
Accounts receivable	88	7,362	7,450
TOTAL ASSETS	\$ 283	\$ 7,586	\$ 7,869
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 261	\$ 1,047	\$ 1,308
Due to other governmental units	57,246	-	57,246
Deferred revenue	768	5,677	6,445
TOTAL LIABILITIES	58,275	6,724	64,999
FUND BALANCES (DEFICITS)			
Unreserved - undesignated, reported in:			
Special revenue funds	(57,992)	862	(57,130)
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ 283	\$ 7,586	\$ 7,869

City of Albion

Component Unit Funds

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

December 31, 2007

Total fund balances - governmental funds \$ (57,130)

Amounts reported for the governmental activities in the statement of net assets 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	\$ 61,655	
Accumulated depreciation is	<u>(4,800)</u>	
Capital assets, net		<u>56,855</u>
Net assets of governmental activities		<u>\$ (275)</u>

City of Albion

Component Unit Funds

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

Year Ended December 31, 2007

	Special Revenue		Total
	Economic Development	Business Incubator	
REVENUES			
Intergovernmental - local	\$ 67,490	\$ -	\$ 67,490
Interest and rents	72,395	19,436	91,831
Other	27	13,295	13,322
TOTAL REVENUES	139,912	32,731	172,643
EXPENDITURES			
Current			
Community and economic development	155,378	35,698	191,076
Debt service	47,320	-	47,320
TOTAL EXPENDITURES	202,698	35,698	238,396
NET CHANGE IN FUND BALANCES	(62,786)	(2,967)	(65,753)
Fund balances, beginning of year	4,794	3,829	8,623
Fund balances (deficits), end of year	\$ (57,992)	\$ 862	\$ (57,130)

City of Albion

Component Unit Funds

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

Year Ended December 31, 2007

Net change in fund balances - governmental funds \$ (65,753)

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

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

Depreciation expense (800)

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 assets. In the current year, these amounts consist of:

Land contract payments 45,922

Change in net assets of governmental activities \$ (20,631)

City of Albion

Component Unit Funds

COMBINING BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

December 31, 2007

	Special Revenue	Debt Service	
	DDA	DDA Bond	Total
ASSETS			
Cash	\$ 93,017	\$ 9,550	\$ 102,567
Taxes receivable	10,205	-	10,205
Prepays	614	-	614
TOTAL ASSETS	\$ 103,836	\$ 9,550	\$ 113,386
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 1,689	\$ -	\$ 1,689
Accrued liabilities	147	-	147
TOTAL LIABILITIES	1,836	-0-	1,836
FUND BALANCES			
Reserved for prepaids	614	-	614
Unreserved			
Undesignated, reported in:			
Special revenue fund	101,386	-	101,386
Debt service fund	-	9,550	9,550
TOTAL FUND BALANCES	102,000	9,550	111,550
TOTAL LIABILITIES AND FUND BALANCES	\$ 103,836	\$ 9,550	\$ 113,386

City of Albion

Component Unit Funds

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

December 31, 2007

Total fund balances - governmental funds \$ 111,550

Amounts reported for the governmental activities in the statement of net assets 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	<u>(37,402)</u>	
Capital assets, net		581,680

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Accrued interest payable	923	
Revenue bonds	<u>60,000</u>	
		<u>(60,923)</u>

Net assets of governmental activities \$ 632,307

City of Albion

Component Unit Funds

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

Year Ended December 31, 2007

	Special Revenue	Debt Service	Total
	DDA	DDA Bond	
REVENUES			
Taxes	\$ 127,965	\$ -	\$ 127,965
Intergovernmental - local	147,000	-	147,000
Interest	4,435	1,315	5,750
Other	93,000	-	93,000
TOTAL REVENUES	372,400	1,315	373,715
EXPENDITURES			
Current			
Community and economic development	325,935	-	325,935
Debt service			
Principal	-	60,000	60,000
Interest and fiscal fees	-	6,177	6,177
TOTAL EXPENDITURES	325,935	66,177	392,112
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	46,465	(64,862)	(18,397)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	67,820	67,820
Transfers out	(67,820)	-	(67,820)
TOTAL OTHER FINANCING SOURCES (USES)	(67,820)	67,820	-0-
NET CHANGE IN FUND BALANCES	(21,355)	2,958	(18,397)
Fund balances, beginning of year	123,355	6,592	129,947
Fund balances, end of year	<u>\$ 102,000</u>	<u>\$ 9,550</u>	<u>\$ 111,550</u>

City of Albion

Component Unit Funds

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

Year Ended December 31, 2007

Net change in fund balances - governmental funds \$ (18,397)

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	\$ 255,809	
Depreciation expense	<u>(36,669)</u>	
Excess of capital outlay over depreciation expense		219,140

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 assets. In the current year, these amounts consist of:

Bond principal retirements		60,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental fund. These activities consist of:

Decrease in accrued interest payable		<u>907</u>
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Change in net assets of governmental activities \$ 261,650

City of Albion

Component Unit Fund

BALANCE SHEET - TAX INCREMENT FINANCE AUTHORITY

December 31, 2007

ASSETS

Cash and cash equivalents	\$	(49,621)
Investments		42,915
Accounts receivable		539
Taxes receivable		18,797
Prepays		<u>75</u>

TOTAL ASSETS \$ 12,705

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$	80
Accrued liabilities		<u>2,847</u>

TOTAL LIABILITIES 2,927

FUND BALANCE

Reserved for prepaids		75
Unreserved - undesignated		<u>9,703</u>

TOTAL FUND BALANCE 9,778

TOTAL LIABILITIES AND FUND BALANCE \$ 12,705

City of Albion

Component Unit Fund

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

December 31, 2007

Total fund balance - governmental fund \$ 9,778

Amounts reported for the governmental activities in the statement of net assets 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 160,000

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

CDBG loan (17,128)

Net assets of governmental activities \$ 152,650

City of Albion

Component Unit Fund

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

Year Ended December 31, 2007

REVENUES	
Taxes	\$ 134,793
Intergovernmental	22,836
Interest and rents	4,189
Other	<u>671</u>
TOTAL REVENUES	162,489
EXPENDITURES	
Current	
Community and economic development	176,998
Debt service	
Principal	<u>22,836</u>
TOTAL EXPENDITURES	<u>199,834</u>
NET CHANGE IN FUND BALANCE	(37,345)
Fund balance, beginning of year	<u>47,123</u>
Fund balance, end of year	<u><u>\$ 9,778</u></u>

City of Albion

Component Unit Fund

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

Year Ended December 31, 2007

Net change in fund balance - governmental fund \$ (37,345)

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

Governmental funds report revenue from sale of assets. However, an adjustment is needed to reflect the loss on sale of capital assets (23,400)

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 assets. In the current year, these amounts consist of:

CDBG loan payments 22,836

Change in net assets of governmental activities \$ (37,909)

Principals

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**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 City Council
City of Albion
Albion, Michigan

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 the City of Albion as of and for the year ended December 31, 2007, which collectively comprise the City of Albion's basic financial statements and have issued our report thereon dated May 19, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Albion's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

2004-2 SEGREGATION OF DUTIES

Condition: During our consideration and assessment of fraud risk, we noted that at the present time, the City does not have sufficient segregation of duties in various functions, especially in the areas of cash receipts and disbursements. This issue was noted and reported in our audit comments last year. During the course of our audit, the following specific conditions were noted:

2004-2 SEGREGATION OF DUTIES - CONTINUED

- a. One individual is able to create new vendors and also process and mail accounts payable disbursements.
- b. One individual is able to open the mail and also enter receipts into the general ledger. In addition, a log of mail receipts is not maintained and reviewed at an appropriate level of management.
- c. Income taxes are billed, collected, and reconciled by the same individual. This individual is also responsible for performing cashier functions, including the receipting of payments.
- d. Utility receivable amounts are billed, collected, and reconciled by the same individual. This individual is also responsible for performing cashier functions, including the receipting of payments.
- e. Payroll reports and disbursements are not reviewed by someone independent of the payroll preparation process.

Criteria: Duties and responsibilities for handling receipts and disbursements should be arranged and separated so that an employee does not perform more than one of the following functions:

- a. Opening the mail.
- b. Receipting payments.
- c. Balancing receipts to the accounting records.
- d. Performing the bank reconciliation.

Cause: The City has specific individuals for each operational process and has not changed these individuals functions to segregate those duties.

Effect: While this is a common occurrence in many organizations due to the limited number of employees, the City Council should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated. In smaller entities, where the number of employees is limited and duties cannot be adequately separated, the City's management must provide a greater review and supervision of employee functions and procedures.

Corrective Action Response: As a result of limited staffing, we cannot accomplish the desired segregation of duties. In order to provide appropriate oversight, we will develop a checklist of periodic review tasks to be accomplished each year by management.

2006-1 BANK RECONCILIATIONS

Condition: During the auditing of the City's bank accounts, we noted that the bank account for security deposits at Maple Grove were not reconciled for the entire year and the listing of residents' deposits does not reconcile to the bank account, at December 31, 2007 the bank balance for this account was \$44,515.73. This issue was noted and reported in our audit comments last year. During the current year the City has determined which residents' are owed there security deposits and are currently working on reconciling this account.

Criteria: The Department of Housing and Urban Development requires that security deposits be held in this account and refunded to residents, plus 2 percent, when they move out.

Cause: Unknown

Effect: The City has not maintained adequate interfund controls over cash activities.

Recommendation: We recommend that bank reconciliations be completed on a monthly basis and that completed reconciliations be periodically reviewed by management and tied to the computerized general ledger.

Corrective Action Response: Although the bank reconciliation had been completed for Maple Grove prior to the audit for 2007, there is still work needed to reconcile the security deposit account for funds remaining from prior years. This will be accomplished during the 2008 fiscal year.

2006-2 MATERIAL JOURNAL ENTRIES

Condition: Material journal entries for the adjustment of accounts receivable and accounts payable were proposed by the auditors. These misstatements were not detected by the City's internal control over financial reporting. By definition, independent auditors cannot be part of the government's internal controls. This issue was noted and reported in our audit comments last year.

2006-2 MATERIAL JOURNAL ENTRIES - CONTINUED

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *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 (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. Responsibility for the financial statements of the City rests with the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting). The auditor cannot be a part of internal controls.

Effect: Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the City's internal controls.

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: In a perfect world, there would be no journal entries that would have to be made by the auditors. However, in reality, there are always some adjustments to our accounts payable and receivable based on the oversight provided by the auditors as they do the fieldwork for the audit. We do need to work to keep the number of entries to a minimum and in fact, there was a significant reduction in the number of journal entries from 2006 to the 2007 audit.

2007-1 PREPARATION OF FINANCIAL STATEMENTS

Condition: It has historically been common for many governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors.

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *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 (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. Responsibility for the financial statements of the Department rests with the Department's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting). The auditor cannot be a part of internal controls.

Effect: The City relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP. This reliance makes the independent auditors effectively part of the City's internal controls. By definition, independent auditors cannot be part of the City's internal controls.

Recommendation: Statement on Auditing Standards No. 112 titled "*Communicating Internal Control Related Matters Identified in an Audit*", requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. We are communicating these circumstances as required by professional standards; however, we do not see a need for any changes in the situation at this time.

Corrective Action Response: As is noted in the auditor's comments, it is common for communities to rely on the auditors to assist in the preparation of the financial statements to meet the GAAP requirements. Again, we need to limit the amount of assistance needed. As indicated in the comments section, no additional changes are needed in this area at this time.

2007-2 RESTATEMENT OF NET ASSETS

Condition: During the course of our audit, it was noted that previously issued financial statements were materially misstated. A restatement of beginning net assets was recorded to reflect the correction of misstated capital assets.

2007-2 RESTATEMENT OF NET ASSETS - CONTINUED

Criteria: 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, including the notes to the financial statement, in conformity with accounting principles generally accepted in the United States of America.

Effect: Since this error was not detected by the City's internal control over financial reporting in the prior year, the City's internal controls did not effectively allow management to detect material misstatements in the City's financial statements in a timely manner.

Recommendation: We recommend that the City review procedures related to the review of financial reporting and take steps to ensure that similar issues do not occur in the future.

Corrective Action Response: In the 2006 audit, both the city staff and the auditors failed to properly record the additional asset from the wastewater treatment plant construction project. As a result, the assets were misstated and therefore a prior year adjustment was needed in the 2007 audit to correct this situation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Albion's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 2004-2 and 2006-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 are required to be reported under *Government Auditing Standards* and which are described below.

2006-3 UNFAVORABLE BUDGET VARIANCES

Condition: As noted in the financial statements, some of the activities and funds of the City exceeded the amounts appropriated. The variances noted were in the General and Special Revenue Funds. This issue was noted and reported in our audit comments last year.

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's budget was not amended as it became apparent that expenditures would exceed the amounts appropriated.

Effect: Although adjustments were made to adjust budgets for expenditures accrued at year-end the City had activities where amounts expended were greater than amounts appropriated which is a violation of State law.

Recommendation: We recommend the City Council monitor budgeted expenditures against actual expenditures on a more frequent basis and amend the original adopted budget to alleviate future unfavorable budget variances in a timely manner.

Corrective Action Response: Although we always make year end adjustments to the annual budget to try to anticipate the final expenditure and revenue amounts, sometimes we end up with expenditures that exceed the amount appropriated by the City Council.

2007-3 FUND DEFICITS

Condition: As of December 31, 2007, the Recreation Fund, Drug Law Enforcement Fund, and Economic Development Fund are reporting fund deficits of \$16,174, \$2,070, and \$57,992, respectively.

Criteria: Public Act 275 of 1980 requires local units of government that end its year in a deficit condition to formulate and file a financial plan within 90 days after the beginning of the fiscal year to correct the condition.

Effect: The City will need to comply with the financial plan that it files with the State of Michigan.

Recommendation: We recommend that the City continue to follow the corrective action plan filed with the State of Michigan. The City's management will be required to update the plan previously filed with the Michigan Department of Treasury.

Corrective Action Response: In these cases, we need to file a financial plan with the State Treasurer to address how we will cover these deficit amounts. For 2007 we had three (3) funds that had such a deficit situation.

- a. The Economic Development Fund had a deficit of \$57,992. Of this amount, \$47,320 was for a land purchase that had to be recorded as a current liability. The remaining amount was for the demolition of houses owned by the EDC, the cost of which was not budgeted. This cost will be covered by a transfer of funds from the TIFA Fund.
- b. The Drug Law Enforcement Fund had a deficit of \$2,070. Although adequate funds were on-hand, we had not yet received approval to book the funds. Therefore, funds will be available in the 2008 fiscal year to cover this deficit.
- c. The Recreation Fund had a deficit of \$16,174. Expenditures for the Recreation Fund increased in 2007 in an effort to provide after school program activities which the public schools could no longer provide as a result of the loss of grant funding. As a result of these extra expenditures and a shortfall in grant dollars received, the Recreation Fund had more expenditures than revenues. The 2008 Recreation Fund budget will be adjusted to cover this deficit.

The City's responses to the findings identified in our audit are described above. We did not audit the City's responses and, accordingly, we express no opinion on them.

We noted certain matters that we reported to management of the City of Albion in a separate letter dated May 19, 2008.

This report is intended solely for the information and use of management, Members of the City Council of the City of Albion, others within the City, the federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 19, 2008

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MANAGEMENT LETTER

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

As you know, we have recently completed our audit of the records of the City of Albion for the year ended December 31, 2007. During the performance of your audit, we noted items related to your operations that we would like to bring to your attention. The suggestions provided are the results of our evaluation of the City's internal controls and our discussions with management.

1. Transfers between Major and Local Street Funds.

Public Act 9 of 2004 allows an entity to transfer surplus Major Street system funds for the preservation of the Local Street system. This authorization will end December 31, 2008. Effective January 1, 2009, Major Street funds may not be transferred to Local Streets except to the extent matched by local revenues expended on the Major Street system of State Trunkline highways.

2. Management and the City Council should be aware of the requirements of GASB Statement No. 45.

The Governmental Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting By Employers for Postemployment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions, such as life insurance). Implementing this accounting standard will cause the financial statements to recognize the cost of providing retiree health care coverage and other benefits over the working life of the employee, rather than at the time the premiums are paid. This pronouncement is effective for the City of Albion for the year ending December 31, 2009.

One of the most significant requirements of GASB Statement No. 45 is the inclusion of certain actuarial information in the notes to the financial statements that is not required or disclosed for the current or past fiscal years. A Schedule of Funding Progress will be required that will disclose funding progress in relation to the Annual Required Contribution, or ARC. The ARC will be calculated annually by an actuary and will be composed of two components: required contributions for current employee service and required contributions for past employee service. Calculation of the ARC requires an amortization period of past service cost of no longer than thirty (30) years.

The City of Albion will be required by GASB Statement No. 45 to recognize in its government-wide financial statements an asset or liability for any excess or deficiency of contributions to the other post-employment benefits plan over or under the ARC.

We would like management and City Council to be aware of this upcoming change and also suggest that discussions be held to initiate the planning process for implementing this new standard.

3. The City should evaluate policies and procedures with respect to use of City credit cards.

During the course of our audit, it was noted that the City's credit card had been used by employees for the purchase of food, games, and other items without documenting the business purpose. In addition, according to the City policy, tips on the purchases of meals should not be more than 15%. It was noted that two receipts showed more than a 30% tip, which violates the policy.

We suggest that the City review the current credit card policy and ensure that all users of the card are aware of appropriate expenditures. We also suggest that the City carefully monitor credit card transactions so as not to incur unlawful expenditures.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated May 19, 2008.

This report is intended solely for the use of management and the City Council of the City of Albion and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 19, 2008