

City of Hillsdale, Michigan

Financial Statements
And Independent Auditors' Report

Year Ended June 30, 2010

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City of Hillsdale, Michigan

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**Issued Under
Separate
Cover**



Independent Auditors' Report

The Honorable Mayor and
Members of the City Council
City of Hillsdale, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan, as of and for the year ended June 30, 2010, 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 financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, 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 a report dated November 4, 2010, on our consideration of the City's internal control over financial reporting and on our tests of 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 conjunction with this report in considering the results of our audit.

The management's discussion and analysis, budgetary comparison schedule and retirement system information, as listed in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

The Honorable Mayor and
Members of the City Council

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

Sincerely,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

November 4, 2010

Management's Discussion and Analysis

As management of the *City of Hillsdale, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2010.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$61,401,490 (*net assets*). Of this amount, \$16,980,349 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$1,183,691.
- Government wide total liabilities, long and short-term combined decreased \$617,115 or almost eleven percent (10.92%).
- As of the close of the current fiscal year, the City's Governmental funds reported combined ending fund balances of \$2,309,524. Approximately sixty-nine percent (69%) of this total or \$1,596,133 is *available for spending* at the government's discretion (*unreserved and undesignated*).
- At the end of the current fiscal year, total fund balance for the general fund was \$862,661, or twenty percent (20%) of total general fund expenditures. That is up three percent (3%) from the prior year.
- Total net assets for all business type activities increased \$619,229. This net increase is down almost fifty-two percent (51.8%) from 2009's net increase of \$1.3 million.
- The City's total bonded debt decreased more than twenty-one percent (21.1%) or \$674,000 during the current fiscal year, while the long-term debt for the City governmental activities decreased \$150,100 or more than seventeen percent (17.4%).

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net

assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public services, parks and recreation, community development, long-term debt. The business-type activities are electric, sewer, water, and transportation.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also two legally separate authorities – the Tax Increment Finance Authority and the Economic Development Corporation – for which the City is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 1-3 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, capital improvement, and airport improvement funds, each of which are considered to be major funds. Data from the other fifteen

governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 4-7 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its electric, sanitary sewer, water distribution, and public transportation operations. *Internal service funds* account for operations that provide services (such as leave and benefits, inventory purchasing, equipment rental and unemployment insurance) and accumulate and allocate costs internally among the City's various functions. Because this service predominantly benefits governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for three major enterprise funds; electric, water, and sewer, and one non-major fund, Dial-A-Ride.

The basic proprietary fund financial statements can be found on pages 8-11 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 12-13 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-30 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain other information. This includes required supplementary information, combining and individual fund financial statements and schedules, which can be found on pages 31-58 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Hillsdale, assets exceeded liabilities by \$61,401,490 at the close of the 2010 fiscal year.

By far the largest portion of the City's net assets, over sixty-eight percent (68.4%), reflects its investment in land, buildings, vehicles, equipment and infrastructure less any outstanding related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it is important to note that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City's Net Assets	Governmental		Business-type		Total		Total Percent Change
	Activities		Activities		Total		
	2009	2010	2009	2010	2009	2010	
Current and Other Assets	\$3,427,129	\$3,303,806	\$18,459,502	\$18,144,739	\$21,886,631	\$21,448,545	-2.00%
Capital Assets	\$21,936,132	\$22,514,447	\$22,045,529	\$22,471,877	\$43,981,661	\$44,986,324	2.28%
Total Assets	\$25,363,261	\$25,818,253	\$40,505,031	\$40,616,616	\$65,868,292	\$66,434,869	0.86%
Long-term Liabilities Outstanding	\$861,300	\$711,200	\$3,369,796	\$2,707,161	\$4,231,096	\$3,418,361	-19.21%
Other Liabilities	\$279,774	\$320,403	\$1,139,624	\$1,294,615	\$1,419,398	\$1,615,018	13.78%
Total Liabilities	\$1,141,074	\$1,031,603	\$4,509,420	\$4,001,776	\$5,650,494	\$5,033,379	-10.92%
Net Assets: Invested In Capital Assets Net of Related Debt	\$21,329,132	\$22,055,447	\$18,855,529	\$19,955,877	\$40,184,661	\$42,011,324	4.55%
Restricted	\$1,612,258	\$1,323,715	\$1,310,607	\$1,086,102	\$2,922,865	\$2,409,817	-17.55%
Unrestricted	\$1,280,797	\$1,407,488	\$15,829,475	\$15,572,861	\$17,110,272	\$16,980,349	-0.76%
Total Net Assets	\$24,222,188	\$24,786,650	\$35,995,611	\$36,614,840	\$60,217,798	\$61,401,490	1.97%

An additional portion of the City's net assets (\$2,409,817) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$16,980,349, may be used to meet the government's ongoing obligations to citizens and creditors.

During the current fiscal year the total government's net assets increased by \$1,183,691. The increase reflects the degree to which ongoing revenues exceed ongoing expenses in both the business-type and governmental activities municipality's. It also represents a 5.67% increase in capital investments, but shows a decline in restricted and unrestricted assets of about eighteen percent.

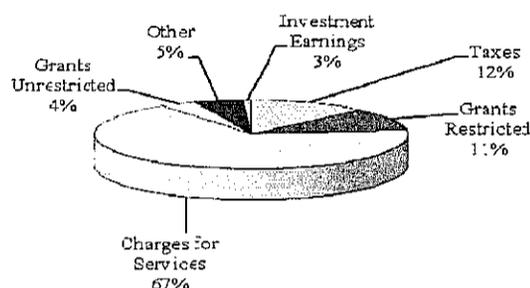
City's Changes in Net Assets

Revenues:	Governmental		Business-type		Total		Total Percentage Change
	Activities		Activities		Total		
	2009	2010	2009	2010	2009	2010	
Program Revenues:							
Charges for Services	\$237,648	\$226,882	\$15,218,175	\$14,112,246	\$15,455,823	\$14,339,128	-7.23%
Operating Grants & Contributions	1,216,394	1,208,798	252,192	792,369	\$1,468,586	\$2,001,167	36.26%
Capital Grants & Contributions	677,373	300,847	-	-	\$677,373	\$300,847	-55.59%
Total Program Revenues	\$2,131,415	\$1,736,527	\$15,470,367	\$14,904,615	\$17,601,782	\$16,641,142	-5.46%

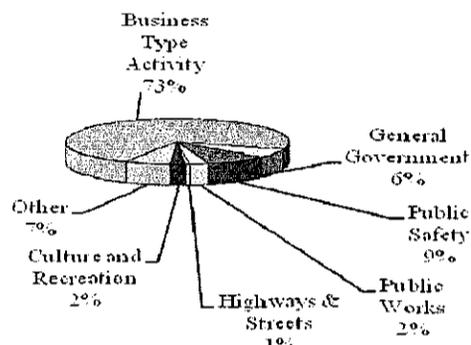
Expenses:							
	2009	2010	2009	2010	2009	2010	Change
General Government							
Public Safety	1,834,744	1,835,322			\$1,834,744	\$1,835,322	0.03%
Public Services	439,133	502,914			\$439,133	\$502,914	14.52%
Highways & Streets	1,143,644	110,905			\$1,143,644	\$110,905	-90.30%
Health (Building Inspect/Assessing)	157,741	142,561			\$157,741	\$142,561	-9.62%
Recreation & Culture	500,463	479,272			\$500,463	\$479,272	-4.23%
Interest on Long-term Debt	11,756	7,391			\$11,756	\$7,391	-37.13%
Other	626,504	1,127,183			\$626,504	\$1,127,183	79.92%
Unallocated Depreciation	36,368	36,368			\$36,368	\$36,368	0.00%
Electric			12,094,783	12,212,039	\$12,094,783	\$12,212,039	0.97%
Water			1,038,177	1,049,569	\$1,038,177	\$1,049,569	1.10%
Sewer			1,033,247	1,036,395	\$1,033,247	\$1,036,395	0.30%
Transportation			436,913	368,393	\$436,913	\$368,393	-15.68%
Total Expenses	\$5,920,167	\$5,433,593	\$14,603,120	\$14,666,396	\$20,523,287	\$20,099,989	-2.06%
Increase (Decrease) in							
Net assets Before Transfers	(\$3,788,752)	(\$3,697,066)	\$867,247	\$238,219	(\$2,921,505)	(\$3,458,847)	18.39%
General Revenues:							
Taxes	2,710,569	2,614,978			\$2,710,569	\$2,614,978	-3.53%
Grants & Contributions Not Restricted							
To Specific Programs	907,176	769,223			\$907,176	\$769,223	-15.21%
Unrestricted Investment Earnings	77,472	43,303	246,427	138,971	\$323,899	\$182,274	-43.73%
Other Revenues	562,358	861,763	13,768	108,706	\$576,126	\$970,469	68.45%
Transfers - Internal Activity	-244,249	-27,739	248,281	133,333	\$4,032	\$105,594	2518.90%
Total General Revenues	4,013,326	4,261,528	508,476	381,010	4,521,802	4,642,538	2.67%
Net Income	\$224,574	\$564,462	\$1,375,723	\$619,229	\$1,600,297	\$1,183,691	-26.03%
Net Assets - Beginning of Year	\$23,997,614	\$24,222,188	\$34,619,888	\$35,995,611	\$58,617,502	\$60,217,799	2.73%
Net Assets - End of Year	\$24,222,188	\$24,786,650	\$35,995,611	\$36,614,840	\$60,217,798	\$61,401,490	1.97%

The City's total program revenue, (including restricted and operating grants and contributions) was \$16,641,142. This is a decrease of approximately six percent (5.46%) from last year. More than eighty-four percent (84.8%) of that comes from charges for services in the business-type activities (Board of Public Utilities and Dial-A-Ride). Of those activities, the electric fund generated more than eighty percent (82.8%) of those charges. More than thirteen percent (13.7%) of the governmental activities revenue comes from charges for services as opposed to almost ninety-five percent (94.7%) for business-type activities. Tax revenues declined three and one-half percent (3.5%) from the prior period, while grants & contributions not restricted to specific programs declined just over fifteen percent (15.2%) for both governmental and business-type activities. Unrestricted investment earnings also declined collectively by almost forty-four percent (43.7%). On a more positive note, other revenues increased \$394,343 or sixty-eight percent (68.5%) from last year.

**Source of Revenue for Fiscal Yr 2010
Governmental & Business-type Activities**



**Functional Expenses for Fiscal Yr 2010
Governmental & Business-type Activities**



The pie graph above reveals the major sources of revenues collected by the municipality, governmental and business-type activities combined. While charges for services are the largest single portion of revenues received (67%), more than 84% of those monies come from the electric utility and are not used for general governmental operations. Taxes, used primarily to fund general governmental activities, constitute 12% of overall revenues. Grants, restricted and unrestricted combined, account for 15% of total revenues. Investment earnings and other miscellaneous revenue sources make up the remaining 8%.

Business type activities (electric, water, sewer, and transit operations) make up the largest portion of all expenditures, seventy-three percent (73%). The electric fund incurs more than sixty percent (60.8%) of all municipal expenditure costs. General governmental activities account for only six percent (6%) of total costs of both business and governmental activities; public safety makes up nine percent (9%), highways and streets amount to only one percent (1%), while recreation and culture and public works are both two percent (2%) each, and the remaining seven percent (7%) of costs come from miscellaneous operational costs.

Governmental activities. Governmental activities had a net income of \$564,462. That amounts to more than one hundred and fifty-one percent (151.3%) increase from last year's net income of \$224,574. Key elements from operations for the year are:

- Property tax revenue decreased three and one-half percent (3.53%) or \$95,591 from last year.
- Public safety expenditures were unchanged.
- Public services expenditures increase slightly (\$63,781). That increase was due to wage increases, increased health insurance costs and the addition of a seasonal staff position to monitor the compost site.
- Total overall expenditures of the governmental operations decreased more than eight percent (8.2). The biggest decline comes in highways and street activities, down more than ninety percent (90.3%). That is directly linked with the completion of the M-99 project and the reduction in discretionary capital revenues.
- The overall, governmental activities decline in operational costs of \$486,574 from the prior year is the result of the city's concerted effort to hold the line on costs. The City has taken a proactive approach to balancing the budget by: reducing staff via attrition and

layoffs; completion of the M-99 reconstruction project; suspending the capital sidewalk replacement/construction program; and forgoing any new construction projects or major capital purchases.

Business-type activities. Business-type activities increased the City's net assets by \$619,229, accounting for just over half, fifty-two percent (52.3%), of the total government's growth in net assets for the current year. Key elements of this increase are as follows:

- This year the electric fund had a net loss of \$70,578. This represents a 107% decrease in net income for this fund compared with the previous year's \$1,047,781 net income. This decline can be directly linked to the reduction in customer volume and higher cost of purchasing electricity.
- Charges for services for the electric utility declined in the past year by more than seven percent (7%). This is linked to the continued decline in overall utility usage primarily due to the loss of industrial customers.
- The water fund experienced a net income of \$385,755. The net income for this fund decreased about 15.6% from the previous year. Even with a slight rate increase this year, part of a planned multiyear rate increase to recoup shortages experienced in earlier years, revenues were down by over 2%.
- A few years ago the utility lowered sewer rates to expend excess earnings in that fund from previous years. Even so, this fund also felt the affects of the declining economy as it experienced a net loss of \$310,502.
- The transportation fund finished the year with a net change in assets of \$614,554. The major contribution to this 422% increase comes from capital activity. The transit agency completed construction on a new facility and also purchased a new bus. In February of 2010 the transit agency, Dial-A-Ride moved into its new facility at 981 Development Drive. This is the fruit of 7 years of labor to secure the federal and state grant funding and overcome design and location obstacles. The new bus was also purchased with federal and state capital grants.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of June 30, 2010 the City's governmental funds reported combined ending fund balances of \$2,309,524. That is a slight decrease of \$69,496 or about three percent (2.9%) in comparison with the prior year. Of that combined ending fund balance, \$1,596,133 is classified as unreserved, undesignated making it available for spending at the government's discretion. Overall, the total governmental fund revenues declined for the year by almost five percent (4.76%) from the prior year. The total expenditures decreased about one percent (.90%). Net operating transfers showed the biggest decline of more than \$222,000. That translates into a ninety-one percent (91.0%) decline in transfers between funds. The largest share of that activity is between the General Fund and the Capital Improvement Fund. The Capital Improvement Fund accounts for major capital expenditures such as infrastructure reconstruction and

improvements. The decline in General Fund money directly coincides with the amount of funds available for capital spending.

The *reserved* fund balance of \$713,391 in the governmental funds is not available for new spending because it has already been committed: 1) to generate income for the support and maintenance of R.L. Owen's Park (\$29,495); 2) to generate income to pay for the perpetual care of the two municipal cemeteries, and future maintenance of Mrs. Stocks Park (\$610,555); and 3) for prepaid expenditures, such as health and liability insurances in the various funds (\$73,341).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance of the general fund was \$862,661. Of that balance, \$69,731 is reserved for prepaid expenditures. The remaining \$792,930 is unreserved, undesignated and therefore available for spending at the government's discretion. This balance represents an increase from the prior fiscal year of \$89,323. This is primarily attributable to the city-wide cut-back on capital spending and staffing reductions.

The *Capital Improvement Fund* ended the year with a fund balance of \$253,099 which represents a 46% decrease from the prior year. This decline in fund balance was purposed and anticipated for payment of Phase III of the M-99 reconstruction project completed in September 2009.

The Airport Improvement Fund had a June 30, 2010 fund balance of \$147,913. That constitutes a fifteen percent (15.8%) decrease from a year ago. The municipality is still working with the Bureau of Aeronautics on a multi-million dollar runway expansion project. The city has received grant funding from the Federal Aviation Administration and the State of Michigan to facilitate this project. Approximately 97.5% of this project will be paid for with federal and state grants. The fund balance in this fund will be used to fund the local 2.5% grant match.

Other nonmajor governmental funds collectively experienced a combined net increase in fund balances for the year of \$85,899. About thirty-two percent (32.2%) of that increase is attributed to investment earnings received in the city's three Permanent Funds (R.L.Owens Memorial Fund, Cemetery Perpetual Care Fund, and Stocks Park Perpetual Maintenance Fund).

The Major Street Fund more than doubled its fund balance in the last year. That increase is due to unrealized budget assumptions on both the revenue and expenditure sides in that fund. This is depicted in the more than seventeen percent (17.2%) increase in the Special revenue funds unreserved, undesignated fund balance. Though these funds are listed as unreserved, undesignated they can only be used for expenditures in their respective special revenue fund, i.e. the Major Street Fund fund balance cannot be used to purchase items for the Library. The money in each special revenue fund can only be used for that designated activity.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail. Unrestricted net assets of the water, sewer, electric, and transportation funds at the end of the year declined more than one percent (1.6%). Net assets at fiscal year-end for all City proprietary funds increased \$619,229 or 1.7%.

Half of the proprietary funds realized an increase in change in net assets for the year and half experienced a net loss. The sewer fund ended the year with a negative change in net assets of \$310,502. The electric fund's net assets decreased \$70,578. The water fund had a net increase in assets of \$385,755, while Dial-A-Ride increased \$614,554.

General Fund Budgetary Highlights

The general fund revenue budget was increased by \$75,000 in this fiscal year to include Rental Rehabilitation revenue from federal and local sources not anticipated at budget time. The remaining \$5,000 increased the transfer-in from TIFA (247) to pay for a summer intern to work in the downtown area that was not included in the original budget. Differences between the original and final amended General Fund expenditure budgets totaled \$185,000. The adjustments made were as follows: the Parking Lots Department (266) equipment rentals increased by \$5,000 to cover cost of prep work done on Midtown Parking Lot; in the Police Department (301) sick time increased \$7,500 to cover cost of sick time payout for a retiring employee and the health insurance line item increased \$25,000 due to under budgeting; the Department of Public Services (441) wage line item increased \$25,000 and fringe benefits allocated went up \$7,500 to cover the cost of the compost site attendant's position, wages increases and increased health insurance costs; in the Parks Department (756) wages were increased \$10,000 to offset the cost for city crews used to haul material from the M-99 construction project not budgeted; the transfer out of General Fund (101) to the Capital Improvement Fund (401) was increased by \$150,000 to fund infrastructure improvements in subsequent years; \$50,000 was removed from the Local Street Fund (203) transfer because expenditures in that fund did not warrant it; transfer to the R.M.E.F. Fund (640) for \$5,000 to fund the mechanic's Health Reimbursement Account (HRA) missed in the original budget.

Capital Asset and Debt Administration

Capital assets. The City's cash outlay for capital assets in both its governmental and business type activities as of June 30, 2010, amounted to more than \$2 million. This investment in capital assets includes land, buildings and system improvements, machinery and equipment, Library books, recreational land improvements, roads, and storm sewers. The City's total capital assets, net of depreciation, increased by more than three percent (3.3%) in the current fiscal year for both types of activities combined.

Major capital asset events during the current fiscal year included the following:

- A variety of infrastructure projects (street resurfacings/reconstructions/storm sewer) were done throughout the year at a combined cost of approximately \$915,434.
- The utility (electric, water, and sewer funds) did a variety of projects throughout the year totaling \$944,363. The electric fund capital projects included: URD and overhead extensions; addition of energy efficient street lighting; energy efficient upgrades to warehouse; document management system; install static wire in Industrial Park; rebuild transformer in Sharp Street substation; rebuild power plant regulator; outdoor movie equipment. For the water and sewer funds: extend water main on Care Drive; heat exchanger in digester boiler.
- The transit system constructed a new facility to house their operations and purchased a replacement bus at a cost of \$653,453.
- The final phase of the Baw Beese Bike Path was completed in this year with donations from the Rotary Club of \$51,211.

- Constructed dugouts at Fields of Dreams in the amount of \$30,744 with money donated through the Community Foundation.
- Primary government purchased two police patrol cars, a pickup truck, a used forklift truck, and a zero-turn lawn mower for a total cost of \$81,968.
- The library purchased numerous books at a cost of \$21,941.
- The airport purchased \$210,139 in land and aviation easements that will be used to facilitate the multi-year runway project.

City's Capital Assets (Net of Depreciation)							
	Governmental		Business-type		Total		Total Percent Change 2009- 2010
	Activities		Activities				
	2009	2010	2009	2010	2009	2010	
Land	\$6,901,173	\$7,111,312	\$197,401	\$197,401	\$7,098,574	\$7,308,713	2.96%
Buildings and System Improvements	3,682,344	3,573,951	21,548,943	21,956,830	\$25,231,287	\$25,530,781	1.19%
Library Books	80,301	82,408			\$80,301	\$82,408	2.62%
Machinery and Equipment	784,752	696,534	22,023	84,562	\$806,775	\$781,096	-3.18%
Infrastructure	10,487,562	11,050,242			\$10,487,562	\$11,050,242	5.37%
Construction in Progress	0	0	277,162	233,084	277,162	233,084	-15.90%
Total	\$21,936,132	\$22,514,447	\$22,045,529	\$22,471,877	\$43,981,661	\$44,986,324	2.28%

Additional information on the City's capital assets can be found in note No. 5 on pages 23 -24 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$2,516,000, which consisted of revenue bonds, where the City has pledged the income to be received from the constructed assets to pay the debt service of the related bond issues. The City has no general obligation bonds outstanding.

City's Outstanding Debt Revenue Bonds				
	Business-type		Total	
	Activities			
	2009	2010	2009	2010
Revenue Bonds	\$3,190,000	\$2,516,000	\$3,190,000	\$2,516,000
Total	\$3,190,000	\$2,516,000	\$3,190,000	\$2,516,000

The City of Hillsdale has a revenue bond rating with Standard & Poor's of "A-" and is currently "non-rated" with Moody's.

The City's total bonded debt decreased during the current fiscal year by \$674,000 or twenty-one percent (21.1%). The City's long-term general obligation debt, decreased during the current fiscal year by \$148,000, which is more than a twenty-four percent (24.4%) reduction. No new debt was issued during the year.

The City's total outstanding long-term debt obligation as of June 30, 2010 was \$3,418,361. State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation, which in \$17,525,763 for Hillsdale. The City's current debt obligations amount to only about twenty percent of that limit.

Additional information on the City's long-term debt can be found in note No. 8 on pages 26-28 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2010-11 fiscal year:

- The unemployment rate for Hillsdale County (which includes the City) in April 2010 was 16.2%. That's down 2.3% from the 18.5% of one year ago. That rate was 2.5% higher than the State of Michigan's unemployment rate and 6.7% higher than the national unemployment rate of 9.5% for the same time period.
- The property tax inflationary rate for the 2010 tax year was -.30%. Industrial closings, downsizings, mortgage foreclosures, and declining property values all placed unprecedented downward pressure on tax revenues.
- All State shared revenues were projected to decrease from 5 – 10% due to declining sales and income taxes on the state level. These revenues are distributed back to the municipalities based on state constitution and statutory regulations.
- The projection for gas and weight taxes, used to maintain the road systems throughout the state was 3-5%. These taxes are collected by the state and disbursed to the local governmental agencies (cities, townships, road commissions, and counties) based on population and miles of roads maintained in each classification (major or local).

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 97 N. Broad Street, Hillsdale, Michigan 49242.

City of Hillsdale, Michigan
Statement of Net Assets
June 30, 2010

	<u>Primary Government</u>			<u>Component Units</u>	
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>	<u>Tax Increment</u>	<u>Economic</u>
	<u>Activities</u>	<u>Activities</u>		<u>Finance</u>	<u>Development</u>
				<u>Authority</u>	<u>Corporation</u>
Assets:					
Cash and investments	\$ 2,341,495	\$ 5,465,614	\$ 7,807,109	\$ 366,644	\$ 113,382
Receivables	625,642	1,203,386	1,829,028	-	-
Internal balances	72,723	(72,723)	-	-	-
Prepaid items and other assets	105,024	160,000	265,024	-	-
Inventory	158,922	859,858	1,018,780	-	-
Investment in M.S.C.P.A.	-	10,528,604	10,528,604	-	-
Capital assets, net					
Assets not being depreciated	7,111,312	430,485	7,541,797	65,000	176,058
Assets being depreciated	15,403,135	22,041,392	37,444,527	59,612	-
Total assets	<u>25,818,253</u>	<u>40,616,616</u>	<u>66,434,869</u>	<u>491,256</u>	<u>289,440</u>
Liabilities:					
Accounts payable	229,892	93,045	322,937	1,538	-
Accrued expenses	89,411	1,180,504	1,269,915	44,706	-
Accrued interest	1,100	21,066	22,166	-	-
Noncurrent liabilities:					
Due within one year	178,000	466,000	644,000	-	-
Due in more than one year	533,200	2,241,161	2,774,361	-	-
Total liabilities	<u>1,031,603</u>	<u>4,001,776</u>	<u>5,033,379</u>	<u>46,244</u>	<u>-</u>
Net Assets:					
Invested in capital assets, net of related debt	22,055,447	19,955,877	42,011,324	124,612	176,058
Restricted for:					
Debt service	3,994	1,086,102	1,090,096	-	-
Capital projects	679,671	-	679,671	-	-
Endowment and trust principal	640,050	-	640,050	-	-
Unrestricted	1,407,488	15,572,861	16,980,349	320,400	113,382
Total net assets	<u>\$ 24,786,650</u>	<u>\$ 36,614,840</u>	<u>\$ 61,401,490</u>	<u>\$ 445,012</u>	<u>\$ 289,440</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Activities
Year Ended June 30, 2010

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government					
Governmental activities:					
General government	\$ 1,191,677	\$ 102,597	\$ 459,320	\$ 95,962	\$ (533,798)
Public safety	1,835,322	-	26,875	-	(1,808,447)
Public works	502,914	10,707	-	204,885	(287,322)
Highways and streets	110,905	-	589,365	-	478,460
Health	142,561	-	-	-	(142,561)
Culture and recreation	479,272	113,578	133,238	-	(232,456)
Interest on long-term debt	7,391	-	-	-	(7,391)
Other	1,127,183	-	-	-	(1,127,183)
Unallocated depreciation, excluding direct portion	36,368	-	-	-	(36,368)
Total governmental activities	<u>5,433,593</u>	<u>226,882</u>	<u>1,208,798</u>	<u>300,847</u>	<u>(3,697,066)</u>
Business-type activities:					
Electric	12,212,039	11,938,775	-	-	(273,264)
Sewer	1,036,395	693,894	-	-	(342,501)
Water	1,049,569	1,422,332	-	-	372,763
Transportation	368,393	57,245	792,369	-	481,221
Total business-type activities	<u>14,666,396</u>	<u>14,112,246</u>	<u>792,369</u>	<u>-</u>	<u>238,219</u>
Total primary government	<u>\$ 20,099,989</u>	<u>\$ 14,339,128</u>	<u>\$ 2,001,167</u>	<u>\$ 300,847</u>	<u>\$ (3,458,847)</u>
Component Units					
Tax Increment Finance Authority	\$ 432,059	\$ -	\$ -	\$ -	\$ (432,059)
Economic Development Corporation	4,358	-	-	-	(4,358)
Total component units	<u>\$ 436,417</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (436,417)</u>

continued..

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Activities (Continued)
Year Ended June 30, 2010

	<u>Primary Government</u>			<u>Component Units</u>	
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>	<u>Tax Increment</u>	<u>Economic</u>
	<u>Activities</u>	<u>Activities</u>		<u>Finance</u>	<u>Development</u>
				<u>Authority</u>	<u>Corporation</u>
Changes in Net Assets					
Net (expense) revenue	\$ (3,697,066)	\$ 238,219	\$ (3,458,847)	\$ (432,059)	\$ (4,358)
General revenues:					
Property taxes	2,614,978	-	2,614,978	124,364	-
Unrestricted grants and contributions	769,223	-	769,223	-	-
Interest and investment earnings	43,303	138,971	182,274	902	272
Other revenues	861,763	108,706	970,469	66,520	-
Transfers - internal activities	(27,739)	133,333	105,594	(105,594)	-
Total general revenues, contributions and transfers	<u>4,261,528</u>	<u>381,010</u>	<u>4,642,538</u>	<u>86,192</u>	<u>272</u>
Changes in Net Assets	564,462	619,229	1,183,691	(345,867)	(4,086)
Net Assets - Beginning of Year	<u>24,222,188</u>	<u>35,995,611</u>	<u>60,217,799</u>	<u>790,879</u>	<u>293,526</u>
Net Assets - End of Year	<u>\$ 24,786,650</u>	<u>\$ 36,614,840</u>	<u>\$ 61,401,490</u>	<u>\$ 445,012</u>	<u>\$ 289,440</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Balance Sheet
Governmental Funds
June 30, 2010

	<u>General</u>	<u>Capital Improvement</u>	<u>Airport Improvement</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Assets</u>					
Cash and investments	\$ 717,866	\$ 255,310	\$ 142,318	\$ 959,054	\$ 2,074,548
Receivables:					
Accounts receivable	212,684	8,813	5,595	111,582	338,674
Special assessments	-	263,571	-	-	263,571
Due from other governmental units	1,614	-	-	21,783	23,397
Due from other funds	74,127	-	-	622	74,749
Prepaid expenditures	69,731	-	-	3,610	73,341
Total assets	<u>\$ 1,076,022</u>	<u>\$ 527,694</u>	<u>\$ 147,913</u>	<u>\$ 1,096,651</u>	<u>\$ 2,848,280</u>
 <u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 139,678	\$ 10,463	-	\$ 35,231	\$ 185,372
Due to other funds	299	-	-	1,727	2,026
Salaries payable	55,274	561	-	13,842	69,677
Due to other governmental units	18,110	-	-	-	18,110
Deferred revenue	-	263,571	-	-	263,571
Total liabilities	<u>213,361</u>	<u>274,595</u>	<u>-</u>	<u>50,800</u>	<u>538,756</u>
Fund Balances:					
Reserved:					
Reserved for prepaid expenditures	69,731	-	-	3,610	73,341
Reserved for perpetual care and endowment	-	-	-	640,050	640,050
Unreserved; undesignated	792,930	-	-	-	792,930
Unreserved; undesignated- reported in nonmajor:					
Special revenue funds	-	-	-	382,009	382,009
Debt service funds	-	-	-	5,094	5,094
Capital project funds	-	253,099	147,913	15,088	416,100
Total fund balances	<u>862,661</u>	<u>253,099</u>	<u>147,913</u>	<u>1,045,851</u>	<u>2,309,524</u>
Total liabilities and fund balances	<u>\$ 1,076,022</u>	<u>\$ 527,694</u>	<u>\$ 147,913</u>	<u>\$ 1,096,651</u>	<u>\$ 2,848,280</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
 Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets
 of Governmental Activities on the Statement of Net Assets
 June 30, 2010

Total Fund Balances - Governmental Funds		\$ 2,309,524
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		
The cost of the capital assets is	\$40,382,417	
Accumulated depreciation is	<u>(17,867,970)</u>	22,514,447
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and these are not included in fund balance.		
Deferred special assessments		263,571
Internal service funds are used by management to charge the costs of certain equipment usage and administrative costs to individual governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		
Net assets of governmental activities accounted for in the internal service funds	800,362	
Less portion included in capital assets	<u>(440,162)</u>	360,200
Long-term liabilities not due and payable in the current period and not reported in the funds:		
Contracts and loans payable		(459,000)
Accrued interest		(1,100)
Compensated absences		<u>(200,992)</u>
Total Net Assets - Governmental Activities		<u>\$ 24,786,650</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2010

	<u>General</u>	<u>Capital Improvement</u>	<u>Airport Improvement</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues:					
Taxes	\$ 2,530,679	\$ -	\$ -	\$ 158,166	\$ 2,688,845
Intergovernmental - federal and State	787,757	-	204,885	603,975	1,596,617
Charges for services	-	-	-	88,271	88,271
Fines and violations	-	-	-	47,262	47,262
Miscellaneous	1,051,668	449,856	12,024	155,802	1,669,350
Total revenues	<u>4,370,104</u>	<u>449,856</u>	<u>216,909</u>	<u>1,053,476</u>	<u>6,090,345</u>
Expenditures:					
General government	1,191,079	-	-	-	1,191,079
Public safety	1,782,740	-	-	9,286	1,792,026
Public works	406,228	-	-	-	406,228
Highways and streets	-	-	-	643,632	643,632
Health	142,561	-	-	-	142,561
Culture and recreation	142,784	-	-	325,788	468,572
Debt service:					
Principal payments	-	-	-	148,000	148,000
Interest and fiscal charges	-	-	-	8,391	8,391
Capital outlay	-	1,041,645	244,743	50,935	1,337,323
Total expenditures	<u>3,665,392</u>	<u>1,041,645</u>	<u>244,743</u>	<u>1,186,032</u>	<u>6,137,812</u>
Revenues Over (Under) Expenditures	<u>704,712</u>	<u>(591,789)</u>	<u>(27,834)</u>	<u>(132,556)</u>	<u>(47,467)</u>
Other Financing Sources (Uses):					
Gain (loss) on sale of investment	-	-	-	8,240	8,240
Operating transfers in	24,789	374,905	-	353,356	753,050
Operating transfers out	(640,178)	-	-	(143,141)	(783,319)
Total other financing sources (uses)	<u>(615,389)</u>	<u>374,905</u>	<u>-</u>	<u>218,455</u>	<u>(22,029)</u>
Net Changes in Fund Balances	89,323	(216,884)	(27,834)	85,899	(69,496)
Fund Balances - Beginning of Year	<u>773,338</u>	<u>469,983</u>	<u>175,747</u>	<u>959,952</u>	<u>2,379,020</u>
Fund Balances - End of Year	<u>\$ 862,661</u>	<u>\$ 253,099</u>	<u>\$ 147,913</u>	<u>\$ 1,045,851</u>	<u>\$ 2,309,524</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
 of Governmental Funds to the Statement of Activities
 Governmental Funds
 Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds \$ (69,496)

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

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	\$ (619,741)	
Capital outlay	<u>1,229,471</u>	609,730

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Current year deferred special assessments		(73,867)
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Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the Statement of Net Assets, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.

Repayment to bond holders		148,000
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An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.

Net income from governmental activities in the internal service fund		(50,923)
--	--	----------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Decrease in accrued interest payable on bonds		1,000
Increase in the accrual for compensated absences	<u>18</u>	

Change in Net Assets of Governmental Activities \$ 564,462

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Net Assets
Proprietary Funds
June 30, 2010

	<u>Business-type Activities - Enterprise Funds</u>					<u>Governmental</u>
	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor</u>	<u>Total</u>	<u>Activities -</u>
				<u>Fund</u>		<u>Internal</u>
			<u>Dial-A-Ride</u>			<u>Service Funds</u>
Assets:						
Current assets:						
Cash and cash equivalents	\$ 710,604	\$ 24,466	\$ -	\$ 66,680	\$ 821,750	\$ 223,536
Investments	-	-	-	-	-	43,411
Receivables:						
Accounts (net of allowance for bad debt of \$120,000)	1,041,306	92,382	39,331	5,864	1,178,883	-
Accrued interest	16,788	3,141	4,574	-	24,503	-
Due from other funds	7,892	178,598	590	-	187,080	-
Inventory, at cost	397,532	72,864	5,318	-	475,714	158,922
Prepaid expenses	91,722	23,958	37,276	7,044	160,000	31,663
Total current assets	2,265,844	395,409	87,089	99,588	2,847,930	457,552
Noncurrent assets:						
Restricted investments	-	251,894	340,496	-	592,390	-
Designated investments	2,965,372	496,409	589,693	-	4,051,474	-
Total noncurrent assets	2,965,372	748,303	930,189	-	4,643,864	-
Capital assets:						
Land	17,467	49,613	122,902	7,419	197,401	-
Plant and equipment	31,445,547	10,161,522	13,689,066	1,219,916	56,516,051	1,810,729
Construction in progress	140,736	59,585	32,763	-	233,084	-
	31,603,750	10,270,720	13,844,731	1,227,335	56,946,536	1,810,729
Less accumulated depreciation	(19,435,166)	(5,013,909)	(9,536,847)	(488,737)	(34,474,659)	(1,370,567)
Net capital assets	12,168,584	5,256,811	4,307,884	738,598	22,471,877	440,162
Other assets:						
Long-term inventories	384,144	-	-	-	384,144	-
Investment in M.S.C.P.A.	10,528,604	-	-	-	10,528,604	-
Total other assets	10,912,748	-	-	-	10,912,748	-
Total assets	28,312,548	6,400,523	5,325,162	838,186	40,676,419	897,714
Liabilities:						
Current liabilities (payable from current assets):						
Accounts payable	50,093	12,038	9,026	21,888	93,045	44,520
Accrued purchased power	887,412	-	-	-	887,412	-
Accrued expenses	189,614	6,206	12,344	16,087	224,251	1,624
Customer deposits	55,920	9,617	3,304	-	68,841	-
Due to other funds	27,848	3,397	180,359	48,199	259,803	-
Due to other governments	-	-	-	-	-	-
Total current liabilities (payable from current assets)	1,210,867	31,258	205,033	86,174	1,533,352	46,144
Current liabilities (payable from restricted assets):						
Bonds payable	-	311,000	155,000	-	466,000	-
Accrued interest	-	18,666	2,400	-	21,066	-
Total current liabilities (payable from restricted assets)	-	329,666	157,400	-	487,066	-
Noncurrent liabilities:						
Accrued compensated absences	102,777	38,608	43,798	5,978	191,161	51,208
General obligation and revenue bonds payable	-	1,725,000	325,000	-	2,050,000	-
Total noncurrent liabilities	102,777	1,763,608	368,798	5,978	2,241,161	51,208
Total liabilities	1,313,664	2,124,532	731,231	92,152	4,261,579	97,352
Net Assets:						
Invested in capital assets, net of related debt	12,168,584	3,220,811	3,827,884	738,598	19,955,877	440,162
Restricted investments	-	496,409	589,693	-	1,086,102	-
Unrestricted:						
Designated	2,965,372	251,894	340,496	-	3,557,762	-
Undesignated	11,864,928	306,877	(164,142)	7,436	12,015,099	360,200
Total net assets	\$ 26,998,884	\$ 4,275,991	\$ 4,593,931	\$ 746,034	\$ 36,614,840	\$ 800,362

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Revenues, Expenses
and Changes in Net Assets
Proprietary Funds
Year Ended June, 2010

	Business-type Activities - Enterprise Funds					Governmental
	Electric	Water	Sewer	Nonmajor	Totals	Internal
				Fund		Service
			Dial-A-Ride			Funds
Operating Revenues:						
Charges for services	\$ 11,938,775	\$ 1,422,332	\$ 693,894	\$ 56,646	\$ 14,111,647	\$ 436,030
Other	96,736	6,482	9,674	599	113,491	164,761
Total operating revenues	<u>12,035,511</u>	<u>1,428,814</u>	<u>703,568</u>	<u>57,245</u>	<u>14,225,138</u>	<u>600,791</u>
Operating Expenses:						
Purchased power	9,336,586	-	-	-	9,336,586	-
Production expense	675,910	64,405	-	-	740,315	-
Purification expense	-	242,622	-	-	242,622	-
Treatment expense	-	-	546,452	-	546,452	-
Transmission and distribution	1,236,258	361,894	-	-	1,598,152	-
Administrative	963,285	292,547	297,557	-	1,553,389	655,320
Sewer collection	-	-	180,461	-	180,461	-
Transportation	-	-	-	368,393	368,393	-
Total operating expenses	<u>12,212,039</u>	<u>961,468</u>	<u>1,024,470</u>	<u>368,393</u>	<u>14,566,370</u>	<u>655,320</u>
Operating Income (Loss)	<u>(176,528)</u>	<u>467,346</u>	<u>(320,902)</u>	<u>(311,148)</u>	<u>(341,232)</u>	<u>(54,529)</u>
Nonoperating Revenues (Expenses):						
Interest income	99,479	14,849	24,643	-	138,971	1,076
Interest expense	-	(88,101)	(11,925)	-	(100,026)	-
Other income (expense)	6,471	(8,339)	(2,318)	792,369	788,183	-
Transfers in from other funds	-	-	-	133,333	133,333	2,530
Total nonoperating revenues (expenses)	<u>105,950</u>	<u>(81,591)</u>	<u>10,400</u>	<u>925,702</u>	<u>960,461</u>	<u>3,606</u>
Changes in Net Assets	<u>(70,578)</u>	<u>385,755</u>	<u>(310,502)</u>	<u>614,554</u>	<u>619,229</u>	<u>(50,923)</u>
Net Assets - Beginning of Year	<u>27,069,462</u>	<u>3,890,236</u>	<u>4,904,433</u>	<u>131,480</u>	<u>35,995,611</u>	<u>851,285</u>
Net Assets - End of Year	<u>\$ 26,998,884</u>	<u>\$ 4,275,991</u>	<u>\$ 4,593,931</u>	<u>\$ 746,034</u>	<u>\$ 36,614,840</u>	<u>\$ 800,362</u>

See Notes to Financial Statements

City of Hillsdale, Michigan
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2010

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Electric	Water	Sewer	Nonmajor Fund		
				Dial-A-Ride	Total	
Cash Flows From Operating Activities:						
Cash received from customers, residents and users	\$ 10,649,069	\$ 1,424,494	\$ 703,608	\$ 50,782	\$12,827,953	\$ -
Other operating receipts	43,410	6,483	9,674	599	60,166	-
Receipts for interfund services provided						600,791
Cash paid to suppliers of goods and services	(10,418,413)	(740,037)	(296,163)	(335,951)	(11,790,564)	(503,856)
Cash paid to employees for services	(768,353)	(240,785)	(323,475)	-	(1,332,613)	-
Net cash provided by (used by) operating activities	(494,287)	450,155	93,644	(284,570)	(235,058)	96,935
Cash Flows From Noncapital Financing Activities:						
Intergovernmental nonoperating revenues	-	-	-	792,369	792,369	-
Transfers from other funds	-	-	-	133,333	133,333	2,530
Net cash provided by noncapital financing activities	-	-	-	925,702	925,702	2,530
Cash Flows From Capital and Related Financing Activities:						
Bond payments on capital debt	-	(519,000)	(155,000)	-	(674,000)	-
Interest on capital debt	-	(97,595)	(12,700)	-	(110,295)	-
Proceeds from the disposal of assets	-	-	-	-	-	-
Purchase of capital assets, net	(780,052)	(62,906)	(36,914)	(653,453)	(1,533,325)	(81,967)
Net cash used by capital and related financing activities	(780,052)	(679,501)	(204,614)	(653,453)	(2,317,620)	(81,967)
Cash Flows From Investing Activities:						
Unrealized gain on investments	-	-	-	-	-	-
Purchase of investments	(101,602)	(16,677)	(26,591)	-	(144,870)	-
Proceeds from the sale of investments	654,459	263,611	99,832	-	-	6,837
Other nonoperating income received	6,471	-	-	-	6,471	-
Other nonoperating expenses	-	(8,339)	(2,321)	-	(10,660)	-
Interest income received	100,163	15,217	24,646	-	140,026	1,076
Net cash provided by (used by) investing activities	659,491	253,812	95,566	-	1,008,869	7,913
Net Increase (Decrease) in Cash and Cash Equivalents	(614,848)	24,466	(15,404)	(12,321)	(618,107)	25,411
Cash and Cash Equivalents - Beginning of Year	1,325,452	-	15,404	99,001	1,439,857	198,125
Cash and Cash Equivalents - End of Year	\$ 710,604	\$ 24,466	\$ -	\$ 86,680	\$ 821,750	\$ 223,536

Continued..

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Cash Flows (Continued)
Proprietary Funds
Year Ended June 30, 2010

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Electric	Water	Sewer	Nonmajor Fund Dial-A-Ride	Total	
Balance Sheet Classification of Cash						
Current assets - cash and cash equivalents	\$ 710,604	\$ 24,466	\$ -	\$ 86,690	821,750	\$ 223,536
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Operating income (loss)	\$ (176,528)	\$ 467,346	\$ (320,902)	\$ (311,148)	(341,232)	\$ (54,529)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	709,075	216,717	166,503	14,682	1,106,977	113,383
Changes in:						
Receivables	121,232	(91)	8,375	(5,864)	123,652	-
Due from other funds	4,283	(178,598)	59,026	-	(115,289)	-
Inventories	17,437	9,646	(359)	-	26,724	(4,797)
Prepaid expenses	(1,672)	(70)	376	1,303	(63)	3,220
Investment in M.S.C.P.A.	(1,310,070)	-	-	-	(1,310,070)	-
Accounts payable	5,704	(1,608)	(324)	21,513	25,285	42,016
Accrued expenses	124,026	(5,828)	1,111	(103)	119,206	(2,358)
Due to other funds	(6,039)	(59,618)	178,499	(4,953)	107,889	-
Customer deposits	18,265	2,259	1,339	-	21,863	-
Net Cash Provided by (Used in) Operating Activities	\$ (494,287)	\$ 450,155	\$ 93,644	\$ (284,570)	\$ (235,058)	\$ 96,935

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

	Hospital Private Purpose Trust Fund	Agency Funds
Assets:		
Cash and investments	\$ 15,296	\$ 53,891
Liabilities:		
Due to other funds	-	\$ 20,421
Due to other agencies	-	33,470
Total liabilities	-	\$ 53,891
Net Assets:		
Unrestricted	15,296	
Total net assets	\$ 15,296	

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2010

	<u>Hospital Private Purpose Trust Fund</u>
Revenue:	
Interest income	\$ 681
Expenses:	
Other	<u>649</u>
Change in Net Assets	32
Net Assets - Beginning of Year	<u>15,264</u>
Net Assets - End of Year	<u>\$ 15,296</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

The City of Hillsdale, Michigan was organized in 1847 and covers an area of approximately 5.5 square miles in Hillsdale County. In 1957, the City adopted the Home Rule Charter. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter to its more than 8,233 residents (2000 census): public safety (police and fire), highways and streets, sanitation, health, housing, recreation, public improvements, planning and zoning, and general administrative services.

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

Reporting Entity

The City of Hillsdale (the "City") has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 34. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because the City is considered to be financially accountable for them.

Discretely Presented Component Units – The City maintains three component units, one which is inactive and thus has no financial data to report. The other two component units are reported in the component unit columns in the combined financial statements. These units are reported in separate columns to emphasize that they are legally separate from the City. The City's component units are the following:

Tax Increment Finance Authority – Operated as a separate Board, this Authority is responsible for directing improvements to a District in the City of Hillsdale using funds derived from the capturing of real and personal property taxes within that District. The City has the ability to significantly influence operations and has accountability for fiscal matters.

Economic Development Corporation – This entity is governed by a separate Board appointed by the City Council to grant loans to businesses operating in the City.

Brownfield Redevelopment Authority - This entity was established in order to revitalize environmentally distressed areas within a Brownfield Redevelopment Area and is operated by a separate Board. To date, the Authority has had no activity.

Related Organization – The Hillsdale Housing Commission was established by the City of Hillsdale to provide qualifying senior and low income family housing. The financial statements of the Hillsdale Housing Commission are excluded from the accompanying financial statements since the Housing Commission's operating and capital expenditures, including debt service, are financed entirely from federal grants and rentals, the City has no involvement in the determination of the Housing Commission's budget and rental rates, and it has no obligation for the Housing Commission's outstanding debt. The Hillsdale Housing Commission financial statements can be obtained at 45 North West Avenue, Hillsdale, Michigan 49242.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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 major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

Fund-Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

General Fund – This fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Improvement Fund – This fund is used to account for the financial resources to be used for the construction of major capital facilities projects (other than those financed by proprietary and trust funds).

Airport Improvement Fund - This fund is used to account for the financial resources to be used for the construction or acquisition of equipment and improvements of the airport.

The government reports the following major proprietary funds:

Electric Fund – The electric fund accounts for the activities of the government's electric generation and distribution system.

Water Fund – The water fund accounts for the activities of the government's water production, purification, and distribution systems.

Sewer Fund – The sewer fund accounts for the activities of the government's sewage collection and treatment systems.

Additionally, the government reports the following fund types:

Special Revenue Funds – These funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects).

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for and the payment of principal and interest on long-term general obligation debt of governmental funds not being financed by proprietary funds.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

Capital Project Funds – These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

Internal Service Funds – The internal service funds account for operations that provide services (such as leave and benefits, inventory purchasing, equipment rental and unemployment insurance) to other departments of the City on a cost-reimbursement basis.

Permanent Funds – Permanent funds account for monies held in trust to be used for specified activities. The City maintains the R.L. Owen Memorial Fund to account for monies to be used for the activities specified in the related trust agreement. The City also maintains the Cemetery Perpetual Care Fund and the Stock Park Maintenance Fund as permanent funds.

Proprietary Funds – In addition to the major proprietary funds noted above, the City maintains the Dial-A-Ride Fund which accounts for the operations of the local transportation system in the City of Hillsdale.

Trust and Agency Funds – These funds are held to account for monies that are not owned by the City, but are administered by the City. The City maintains the Hospital Private Purpose Trust Fund to account for contributions earmarked for hospital care. The City also maintains agency funds to account for assets held for other governments in an agency capacity.

Additional Financial Statement Presentation Information - Private-sector standards of accounting and financial reporting issued prior 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 nonoperating 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 electric, water and sewer enterprise funds and of the government's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Deposits and Investments – The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S.

Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

Receivables and Payables – All receivables are reported at their net value. They are reduced, where appropriate, by the estimated portion that is expected to be uncollectible.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Inventory – Inventory is valued at cost (purchase price), which approximates market, using the first-in, first-out method. Inventory of the Hillsdale Board of Public Utilities (reported as business-type activities, major proprietary funds) are valued using the average cost method. Inventories of governmental funds are recorded as expenditures when purchased.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets – Certain proceeds of the Enterprise Funds' revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Also, certain resources have been set aside to fund capital asset replacements.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued) - Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	50
Vehicles	5 - 12
Books	7
Equipment and vehicles	5 - 20
Infrastructure	15 - 50
Plant and systems	10 - 65

Compensated Absences – It is the government’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation, sick and personal days are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if the obligation is expected to be liquidated from expendable available financial resources.

Long-Term Obligations – In the government-wide financial statements (Statement of Net Assets) and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund types. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Property Taxes - The government’s property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 14; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Hillsdale County.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the City for 2010 had a taxable value of approximately \$160,760,000 (not including properties subject to Industrial Facilities Tax exemption), representing 50% of estimated current market value. The government’s general operating tax rate for fiscal year 2009-10 was 14.9205 mills, with an additional .9947 mills levied for operations of the Mitchell Public Library.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Taxes (Continued) - Property taxes for the Tax Increment Finance Authority (TIFA) are derived from a tax increment financing agreement between the TIFA and other related taxing districts. Under this arrangement, the TIFA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City of Hillsdale, which are within the DDA district. Property taxes are recognized in the fiscal year in which they are levied.

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. The Council holds public hearings and a final budget must be prepared and adopted prior to July 1.

The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. The adopted budgets of the City for these budgetary funds were adopted on a functional basis for the General Fund and a fund basis for the Special Revenue Funds. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Excess of Expenditures Over Appropriations

For the year ended June 30, 2010, expenditures that exceeded appropriations in the General Fund, if any, are disclosed in the Required Supplemental Information on pages 31-32.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 3 – Cash and Investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets to deposits and investments as classified for note disclosure purposes is as follows:

	Primary Government	Component Units
Statement of Net Assets:		
Cash and investments	\$7,807,109	\$ 480,026
Statement of Fiduciary Net Assets:		
Hospital Private Purpose Trust Fund:		
Cash and investments	15,296	-
Agency Funds:		
Cash and investments	53,891	-
	<u>\$7,876,296</u>	<u>\$ 480,026</u>
	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts and short-term CDs)	\$1,168,508	\$ (1,612)
Investments in securities, mutual funds and similar vehicles	6,706,038	481,638
Cash on hand	1,750	-
	<u>\$7,876,296</u>	<u>\$ 480,026</u>

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1. The City's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided in the following table that shows the distribution of the City's investments by maturity.

Rating S&P	Rating Moody's	Investment Type	Remaining Maturity		
			12 Months or Less	1 to 5 Years	Greater Than 5 Years
N/A	N/A	Certificates of Deposit	\$ 419,000	\$ 208,296	\$ -
AAAm	NR	Michigan CLASS Investments Pool	1,516,040	-	-
AAA	Aaa	U.S. Government Agency Bonds	-	1,271,778	571,096
AAA	Aaa	Financing Corporation Bond	505,798	1,603,668	29,819
N/A	N/A	Fidelity Investment Cash	1,062,181	-	-

City of Hillsdale, Michigan
Notes to Financial Statements

Note 3 – Cash and Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented above is the actual rating as of year-end for each investment type. The City's investment policy does not have specific limits in excess of State law on investment credit risk.

The Michigan CLASS investment pool is a Michigan public sector investment program invested under an interlocal trust agreement according to provisions of the Urban Cooperation Act of 1967. This investment pool in the amount of \$1,516,040 is held by a bank serving as custodian for Michigan CLASS and the pool is regulated by the SEC. Financial statements may be obtained via the Michigan CLASS website, michiganclass.org, or through Michigan CLASS, 3135 South State Street, Ann Arbor, Michigan 48108.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the name of the local unit. The City has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, \$973,973 of the City's bank balance of \$1,892,973 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. As of year-end, City investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the City to buy the securities - Federal agency securities in the reported amount of \$3,982,159.

Note 4 – Receivables

Receivables of the governmental activities of the primary government at June 30, 2010, consist of the following:

Other governmental units (primarily the State of Michigan)	\$ 23,397
Accounts receivable	338,674
Special assessments - short-term	75,000
Special assessments – long-term	<u>188,571</u>
	<u>\$625,642</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 5 - Capital Assets

Capital assets activity for the year ended June 30, 2010 was as follows:

Primary Government	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 6,901,173	\$ 210,139	\$ -	\$ 7,111,312
Capital assets being depreciated:				
Land improvements	349,744	-	-	349,744
Buildings and improvements	4,797,462	-	-	4,797,462
Books	538,087	21,941	-	560,028
Equipment and vehicles	2,813,799	81,969	96,011	2,799,757
Infrastructure	23,766,724	997,390	-	24,764,114
Total capital assets being depreciated	<u>32,265,816</u>	<u>1,101,300</u>	<u>96,011</u>	<u>33,271,105</u>
Accumulated depreciation:				
Land improvements	149,205	14,562	-	163,767
Buildings and improvements	1,315,657	93,831	-	1,409,488
Books	457,786	19,834	-	477,620
Equipment and vehicles	2,029,047	170,187	96,011	2,103,223
Infrastructure	13,279,162	434,710	-	13,713,872
Total accumulated depreciation	<u>17,230,857</u>	<u>733,124</u>	<u>96,011</u>	<u>17,867,970</u>
Total capital assets being depreciated - net	<u>15,034,959</u>	<u>368,176</u>	<u>-</u>	<u>15,403,135</u>
Governmental activities capital assets - net	<u>\$21,936,132</u>	<u>\$ 578,315</u>	<u>\$ -</u>	<u>\$22,514,447</u>
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 197,401	\$ -	\$ -	\$ 197,401
Construction in progress	277,162	20,413	(64,491)	233,084
Total capital assets not being depreciated	<u>474,563</u>	<u>20,413</u>	<u>(64,491)</u>	<u>430,485</u>
Capital assets being depreciated:				
Equipment	496,078	77,221	-	573,299
Plant and systems	54,442,569	1,500,182	-	55,942,751
Total capital assets being depreciated	<u>54,938,647</u>	<u>1,577,403</u>	<u>-</u>	<u>56,516,050</u>
Accumulated depreciation:				
Equipment	474,055	14,682	-	488,737
Plant and systems	32,893,626	1,092,295	-	33,985,921
Total accumulated depreciation	<u>33,367,681</u>	<u>1,106,977</u>	<u>-</u>	<u>34,474,658</u>
Total capital assets being depreciated - net	<u>21,570,966</u>	<u>470,426</u>	<u>-</u>	<u>22,041,392</u>
Business-type activities capital assets - net	<u>\$22,045,529</u>	<u>\$ 490,839</u>	<u>\$ (64,491)</u>	<u>\$22,471,877</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Public safety	\$ 42,291
Highways and streets	382,707
Culture and recreation	114,119
Public works	44,256
Unallocated	36,368
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	<u>113,383</u>
Total depreciation expense – governmental activities	<u>\$ 733,124</u>
Business-Type Activities:	
Electric	\$ 709,075
Water	216,717
Sewer	166,503
Transportation	<u>14,682</u>
Total depreciation expense – business-type activities	<u>\$ 1,106,977</u>

Note 6 - Interfund Receivables, Payables and Transfers

The City reports interfund balances between many of its funds. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and proprietary funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

	<u>Receivable</u>	<u>Payable</u>
Due from/to other funds:		
General Fund	\$ 74,127	\$ 299
Nonmajor Governmental Funds	622	1,727
Water Fund	178,598	3,397
Sewer Fund	590	180,359
Electric Fund	7,892	27,848
Nonmajor Enterprise Fund	<u>-</u>	<u>48,199</u>
	<u>\$ 261,829</u>	<u>\$ 261,829</u>
	<u>Transfers In</u>	<u>Transfers Out</u>
Transfers:		
General Fund	\$ 24,789	\$ 640,178
Capital Improvement	102,805	-
Airport Improvement	-	-
Nonmajor Governmental Funds	627,986	143,141
Component Units	-	105,594
Nonmajor Enterprise Fund	<u>133,333</u>	<u>-</u>
	<u>\$ 888,913</u>	<u>\$ 888,913</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 6 - Interfund Receivables, Payables and Transfers (Continued)

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 7 - Investment in Michigan South Central Power Agency

The Michigan South Central Power Agency (M.S.C.P.A.) was organized in 1978 under the authority of Michigan Public Act 448 of 1976, to supply electricity to member municipalities in South Central Michigan. The Act provides that the agency will establish rates and charges to produce revenues sufficient to cover its costs, but may not operate for profit, except for the benefit of the public. The agency is governed by a Board of Commissioners which is comprised of one representative from each participating municipality and the general manager of the agency.

Participating municipalities and their respective shares of ownership are as follows:

	Percent of Ownership
City of Coldwater	40.0%
City of Hillsdale	25.5
City of Marshall	24.0
Village of Clinton	6.5
Village of Union City	<u>4.0</u>
	<u>100.0%</u>

The City of Hillsdale Board of Public Utilities is accounting for its investment in M.S.C.P.A. as a joint venture in accordance with GASB Statement No. 14. Information presented below is taken from financial statements of the M.S.C.P.A. for the year ended June 30, 2010, audited by other auditors whose report dated August 30, 2010, expressed an unqualified opinion for those statements.

The Board has entered into a Power Sales Contract with M.S.C.P.A. which requires the Board to purchase all of its bulk power supply from M.S.C.P.A. and to pay its share of the agency's operating and debt service costs. The Board has also entered into an agreement for services to be provided by the M.S.C.P.A. in respect to substation facilities and an agreement which requires the Board to sell to the agency power generated by its facilities in certain instances.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 7 - Investment in Michigan South Central Power Agency (Continued)

Summary information of the Hillsdale Board of Public Utilities investment in the M.S.C.P.A. as of and for the year ended June 30, 2010, is as follows:

	<u>Total M.S.C.P.A.</u>	<u>Hillsdale Board of Public Utilities Portion 25.5%</u>
Total assets	\$68,401,608	\$17,442,410
Total liabilities	<u>27,112,961</u>	<u>6,913,805</u>
Net Assets	<u>\$41,288,647</u>	<u>\$10,528,605</u>
Operating revenues	\$47,647,783	\$12,150,185
Operating expenses	<u>39,554,687</u>	<u>10,086,445</u>
Operating Income	8,093,096	2,063,740
Other income and expenses	<u>(2,955,560)</u>	<u>(753,670)</u>
Changes in Net Assets	5,137,536	1,310,070
Net Assets, Beginning of Year	<u>36,151,111</u>	<u>9,218,534</u>
Net Assets, End of Year	<u>\$41,288,647</u>	<u>\$10,528,604</u>

Note 8 - Long-Term Debt

Long-term liability activity for the year ended June 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental activities:					
Contract and loans payable	\$ 607,000	\$ -	\$ 148,000	\$ 459,000	\$ 148,000
Compensated absences	<u>254,300</u>	<u>-</u>	<u>2,100</u>	<u>252,200</u>	<u>30,000</u>
	<u>\$ 861,300</u>	<u>\$ -</u>	<u>\$ 150,100</u>	<u>\$ 711,200</u>	<u>\$ 178,000</u>
Business-type activities:					
Revenue bonds	\$3,190,000	\$1,156,000	\$1,830,000	\$2,516,000	\$ 466,000
Compensated absences	<u>184,402</u>	<u>6,759</u>	<u>-</u>	<u>191,161</u>	<u>-</u>
	<u>\$3,374,402</u>	<u>\$1,162,759</u>	<u>\$1,830,000</u>	<u>\$2,707,161</u>	<u>\$ 466,000</u>

For the governmental activities, compensated absences are generally liquidated by the General Fund.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 8 - Long-Term Debt (Continued)

General Obligation Bonds - The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. No general obligation bonds were issued during the current year.

Other Obligations - The government has entered into various long-term loan and installment contract agreements.

Loan and installment obligations currently outstanding are as follows:

<u>Purpose</u>	<u>Due in Fiscal Year End</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities:			
Other government debt:			
Loan – Strategic Loan Fund – Road improvements	2013	0.00%	\$ 200,000
Municipal purchase contract - Library building improvements	2013	3.69%	175,000
Loan – Community Development Block Grant – Industrial park property acquisitions	2014	0.00%	<u>84,000</u>
			<u>\$ 459,000</u>

Annual debt service requirements to maturity for the loan and municipal service contract obligations are as follows:

<u>Year Ending June 30,</u>	<u>Other Governmental Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 148,000	\$ 5,812
2012	148,000	3,229
2013	113,000	646
2014	<u>50,000</u>	<u>-</u>
Total	<u>\$ 459,000</u>	<u>\$ 9,687</u>

Revenue Bonds - The government also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The 1999 Water Bonds were refunded during the current year. Revenue bonds outstanding at year-end are as follows:

<u>Business-Type Activities</u>	<u>Due in Fiscal Year End</u>	<u>Interest Rates</u>	<u>Amount</u>
2009 Water Refunding	2017	4.75% - 5.10%	\$1,156,000
2002 Water Refunding	2015	3.00% - 4.00%	880,000
1992 Sewer	2013	2%	<u>480,000</u>
			<u>\$2,516,000</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 8 - Long-Term Debt (Continued)

Revenue bond debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest
2011	\$ 466,000	\$ 79,011
2012	485,000	65,008
2013	499,000	50,201
2014	347,000	34,330
2015	361,000	20,751
2016 – 2017	<u>358,000</u>	<u>14,032</u>
Total	<u>\$2,516,000</u>	<u>\$263,333</u>

Note 9 - Segment Information – Enterprise Funds

The government issued revenue bonds to finance certain improvements to its water and sewer distribution and treatment systems. Because the Water and Sewer Funds, which are individual funds that account entirely for the government's water distribution and treatment and sewage disposal and treatment activities, are segments, and are reported as major funds in the fund financial statements, segment disclosures herein are not required.

Note 10 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2010, the City carried commercial insurance to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

Note 11 - Pension Plan

Plan Description - The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

Funding Policy - The City is required to contribute at an actuarially determined rate designed to accumulate sufficient assets to pay benefits when due. Employees are currently required to contribute 3-5% of covered wages to the Plan. The contribution requirements of the City are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the City.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 11 - Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2010, the City's pension cost of \$240,089 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 10.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability at December 31, 2009, the date of the latest actuarial valuation, is being amortized as a level percentage of projected payroll on an open basis over 28 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/07	\$220,196	100%	\$ -
6/30/08	231,791	100%	-
6/30/09	240,089	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Liability (AAL) – Entry Age</u>	<u>Assets in Excess of AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/07	\$16,926,763	\$16,134,278	\$792,485	105%	\$3,799,429	-20.9%
12/31/08	17,395,167	16,606,847	788,320	105%	3,893,506	-20.2
12/31/09	17,887,885	17,082,988	804,897	105%	3,769,712	-21.4

The required schedule of funding progress presented as required supplemental information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 12 - Commitments and Contingencies

The City participates in a number of federally-assisted grant programs. These programs are subject to program compliance audits. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 13 – Dial-A-Ride Enterprise Fund

Cost Allocation Plans - The Hillsdale Dial-A-Ride Enterprise Fund has three cost allocation plans where the methodology has been approved by the Bureau of Passenger Transportation (BPT). Currently, only the administrative cost allocation plan is needed and used. The cost allocation plan was adhered to in the preparation of the financial statements.

Nonfinancial Data - The methodology used for compiling mileage on OAR Schedule 4N (Nonurban) is an adequate and reliable method for recording vehicle mileage.

Depreciation – The depreciation charges do not include any eligible depreciation. Therefore all depreciation charges are ineligible for reimbursement and have been excluded from the computation of eligible costs to be reimbursed with State Formula Funds.

Capital Money – No capital money was used to pay for operating expenses and none are included in total expenses to be reimbursed with State Formula Funds.

Ineligible Expenses – Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense manual. Audit costs are the only cost in which eligibility differs from the State R&E Manual and the federal OMB Circular A-87. The Hillsdale Dial-A-Ride Enterprise Fund does not have any local revenues with associated expenses that would be required to be subtracted out as ineligible.

Required Supplemental Information

City of Hillsdale, Michigan
 Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>	
Revenues:			
City taxes:			
Property	\$ 2,205,000	\$ 2,205,000	\$ 2,299,419
Administrative fees	75,000	75,000	77,472
Interest and penalties	30,000	30,000	67,979
Industrial facilities tax	<u>90,000</u>	<u>90,000</u>	<u>85,809</u>
Total city taxes	2,400,000	2,400,000	2,530,679
State revenue	855,000	855,000	772,326
Federal revenue	-	50,000	15,431
Other revenue	<u>1,071,350</u>	<u>1,091,350</u>	<u>1,051,668</u>
Total revenues	<u>4,326,350</u>	<u>4,396,350</u>	<u>4,370,104</u>
Expenditures:			
General government:			
Council	29,825	29,825	25,975
Clerk	100,990	100,990	84,251
City manager	230,105	230,105	219,196
Assistant city manager	85,020	85,020	76,873
Economic development	100,000	100,000	121,351
Administrative	255,500	255,500	172,255
Treasurer	126,130	126,130	117,289
Street lights	58,000	58,000	62,705
Airport	80,985	80,985	70,703
Finance department	100,905	100,905	98,319
General operation	<u>164,275</u>	<u>169,275</u>	<u>142,162</u>
Total general government	<u>1,331,735</u>	<u>1,336,735</u>	<u>1,191,079</u>
Public safety:			
Police	1,311,425	1,343,925	1,340,226
Fire	<u>463,900</u>	<u>463,900</u>	<u>442,514</u>
Total public safety	<u>1,775,325</u>	<u>1,807,825</u>	<u>1,782,740</u>
Public works:			
Public services	297,310	329,810	309,402
Cemetery	<u>107,330</u>	<u>107,330</u>	<u>96,826</u>
Total public works	<u>404,640</u>	<u>437,140</u>	<u>406,228</u>

Continued..

City of Hillsdale, Michigan
 Budgetary Comparison Schedule (Continued)
 General Fund
 Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Expenditures (Continued):			
Health:			
Assessor	\$ 154,775	\$ 154,775	\$ 140,797
Building inspector	<u>3,750</u>	<u>3,750</u>	<u>1,764</u>
Total health	<u>158,525</u>	<u>158,525</u>	<u>142,561</u>
Culture and recreation	<u>140,475</u>	<u>150,475</u>	<u>142,784</u>
Total expenditures	<u>3,810,700</u>	<u>3,890,700</u>	<u>3,665,392</u>
Revenues Over (Under) Expenditures	<u>515,650</u>	<u>505,650</u>	<u>704,712</u>
Other Financing Sources (Uses):			
Transfers in	22,000	27,000	24,789
Transfers out	<u>(537,650)</u>	<u>(642,650)</u>	<u>(640,178)</u>
Total other financing sources (uses)	<u>(515,650)</u>	<u>(615,650)</u>	<u>(615,389)</u>
Net Changes in Fund Balances	-	(110,000)	89,323
Fund Balances - Beginning of Year	<u>773,338</u>	<u>773,338</u>	<u>773,338</u>
Fund Balances - End of Year	<u>\$ 773,338</u>	<u>\$ 663,338</u>	<u>\$ 862,661</u>

City of Hillsdale, Michigan
Municipal Employees Retirement System of Michigan
Year Ended June 30, 2010

Schedule of Funding Progress

(1)	(2)	(3)	(4)	(5)	(6)	
Actuarial Valuation Date December 31,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (Overfunded) (UAAL) (2-1)	Funded Ratio (1/2)	Covered Payroll	UAAL as a % of Covered Payroll (3/5)
2005	\$ 15,055,122	\$ 14,417,814	\$ (637,308)	104.4%	\$ 3,624,840	-17.6%
2006	15,928,490	15,021,669	(906,821)	106.0%	3,710,353	-24.4%
2007	16,926,763	16,134,278	(792,485)	104.9%	3,799,429	-20.9%
2008	17,395,167	16,606,847	(788,320)	104.7%	3,893,506	-20.2%
2009	17,887,885	17,082,988	(804,897)	104.7%	3,769,712	-21.4%

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Annual Actual Contribution	Percentage Contributed
2005	\$ 132,654	\$ 132,654	100%
2006	184,342	184,342	100%
2007	220,196	220,196	100%
2008	231,791	231,791	100%
2009	240,089	240,089	100%

Other Supplemental Information

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010

	<u>Special</u>	<u>Debt</u>	<u>Capital</u>	<u>Permanent</u>	<u>Total</u>
	<u>Revenue</u>	<u>Service</u>	<u>Project</u>	<u>Funds</u>	
<u>Assets</u>					
Cash and investments	\$ 300,719	\$ 5,094	\$ 13,191	\$ 640,050	\$ 959,054
Accounts receivable	106,582	-	5,000	-	111,582
Due from other governmental agencies	21,783	-	-	-	21,783
Due from other funds	622	-	-	-	622
Prepaid expenditures	3,610	-	-	-	3,610
Total assets	<u>\$ 433,316</u>	<u>\$ 5,094</u>	<u>\$ 18,191</u>	<u>\$ 640,050</u>	<u>\$ 1,096,651</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 32,128	\$ -	\$ 3,103	\$ -	\$ 35,231
Accrued payroll and related liabilities	13,842	-	-	-	13,842
Due to other funds	1,727	-	-	-	1,727
Total liabilities	<u>47,697</u>	<u>-</u>	<u>3,103</u>	<u>-</u>	<u>50,800</u>
Fund Balances:					
Reserved for prepaid items	3,610	-	-	-	3,610
Reserved for perpetual care and endowment	-	-	-	640,050	640,050
Unreserved:					
Unreserved; undesignated	382,009	5,094	15,088	-	402,191
Total fund balances	<u>385,619</u>	<u>5,094</u>	<u>15,088</u>	<u>640,050</u>	<u>1,045,851</u>
Total liabilities and fund balances	<u>\$ 433,316</u>	<u>\$ 5,094</u>	<u>\$ 18,191</u>	<u>\$ 640,050</u>	<u>\$ 1,096,651</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2010

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Permanent Funds</u>	<u>Total</u>
Revenues:					
Taxes	\$ 158,166	\$ -	\$ -	\$ -	\$ 158,166
Intergovernmental - federal and State	603,975	-	-	-	603,975
Charges for services	79,781	-	-	8,490	88,271
Fines and violations	47,262	-	-	-	47,262
Miscellaneous	<u>37,559</u>	<u>-</u>	<u>87,297</u>	<u>30,946</u>	<u>155,802</u>
Total revenues	<u>926,743</u>	<u>-</u>	<u>87,297</u>	<u>39,436</u>	<u>1,053,476</u>
Expenditures:					
Public safety	9,286	-	-	-	9,286
Highways and streets	643,632	-	-	-	643,632
Culture and recreation	325,788	-	-	-	325,788
Debt service:					
Principal payments	-	148,000	-	-	148,000
Interest and fiscal charges	-	8,391	-	-	8,391
Capital outlay	<u>-</u>	<u>-</u>	<u>50,935</u>	<u>-</u>	<u>50,935</u>
Total expenditures	<u>978,706</u>	<u>156,391</u>	<u>50,935</u>	<u>-</u>	<u>1,186,032</u>
Revenues Over (Under) Expenditures	<u>(51,963)</u>	<u>(156,391)</u>	<u>36,362</u>	<u>39,436</u>	<u>(132,556)</u>
Other Financing Sources (Uses):					
Gain (loss) on sale of investment	-	-	-	8,240	8,240
Operating transfers in	154,215	155,746	43,395	-	353,356
Operating transfers out	<u>(45,395)</u>	<u>-</u>	<u>(77,746)</u>	<u>(20,000)</u>	<u>(143,141)</u>
Total other financing sources (uses)	<u>108,820</u>	<u>155,746</u>	<u>(34,351)</u>	<u>(11,760)</u>	<u>218,455</u>
Changes in Fund Balances	56,857	(645)	2,011	27,676	85,899
Fund Balances - Beginning of Year	<u>328,762</u>	<u>5,739</u>	<u>13,077</u>	<u>612,374</u>	<u>959,952</u>
Fund Balances - End of Year	<u>\$ 385,619</u>	<u>\$ 5,094</u>	<u>\$ 15,088</u>	<u>\$ 640,050</u>	<u>\$ 1,045,851</u>

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2010

	<u>Library</u>	<u>Recreation Commission</u>	<u>Drug Forfeitures</u>	<u>Police Public Relations</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Fire Equipment</u>	<u>Total</u>
<u>Assets</u>								
Cash and cash equivalents	\$ 8,285	\$ 5,736	\$ 711	\$ 6,393	\$ 76,327	\$ 60,219	\$ -	\$ 157,671
Investments	88,899	-	-	-	-	-	54,149	143,048
Accounts receivable	40,690	743	-	-	65,149	-	-	106,582
Due from other governmental agencies	-	-	-	-	-	21,783	-	21,783
Due from other funds	622	-	-	-	-	-	-	622
Prepaid expenditures	1,546	2,064	-	-	-	-	-	3,610
Total assets	\$ 140,042	\$ 8,543	\$ 711	\$ 6,393	\$ 141,476	\$ 82,002	\$ 54,149	\$ 433,316
<u>Liabilities and Fund Balances</u>								
Liabilities:								
Accounts payable	\$ 7,899	\$ 309	\$ -	\$ -	\$ 13,178	\$ 10,742	\$ -	\$ 32,128
Accrued payroll and related liabilities	3,909	438	-	-	5,280	4,215	-	13,842
Due to other funds	204	40	-	-	1,240	243	-	1,727
Total liabilities	12,012	787	-	-	19,698	15,200	-	47,697
Fund Balances:								
Reserved for prepaid items	1,546	2,064	-	-	-	-	-	3,610
Unreserved; undesignated	126,484	5,692	711	6,393	121,778	66,802	54,149	382,009
Total fund balances	128,030	7,756	711	6,393	121,778	66,802	54,149	385,619
Total liabilities and fund balances	\$ 140,042	\$ 8,543	\$ 711	\$ 6,393	\$ 141,476	\$ 82,002	\$ 54,149	\$ 433,316

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2010

	Library	Recreation Commission	Drug Forfeitures	Police Public Relations	Major Street	Local Street	Fire Equipment	Total
Revenues:								
Property taxes	\$ 158,166	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	158,166
Intergovernmental - federal and State	14,610	-	-	-	444,059	145,306	-	603,975
Charges for services	25,060	54,721	-	-	-	-	-	79,781
Fines and violations	47,262	-	-	-	-	-	-	47,262
Miscellaneous	22,005	5,580	-	8,341	417	265	951	37,559
Total revenues	<u>267,103</u>	<u>60,301</u>	<u>-</u>	<u>8,341</u>	<u>444,476</u>	<u>145,571</u>	<u>951</u>	<u>926,743</u>
Expenditures:								
Public safety	-	-	400	8,886	-	-	-	9,286
Highways and streets	-	-	-	-	383,185	260,447	-	643,632
Culture and recreation	<u>222,195</u>	<u>103,593</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>325,788</u>
Total expenditures	<u>222,195</u>	<u>103,593</u>	<u>400</u>	<u>8,886</u>	<u>383,185</u>	<u>260,447</u>	<u>-</u>	<u>978,706</u>
Revenues Over (Under) Expenditures	<u>44,908</u>	<u>(43,292)</u>	<u>(400)</u>	<u>(545)</u>	<u>61,291</u>	<u>(114,876)</u>	<u>951</u>	<u>(51,963)</u>
Other Financing Sources (Uses):								
Transfers in	-	44,595	-	-	-	109,620	-	154,215
Transfers out	<u>(45,395)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(45,395)</u>
Total other financing sources (uses)	<u>(45,395)</u>	<u>44,595</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>109,620</u>	<u>-</u>	<u>108,820</u>
Changes in Fund Balances	(487)	1,303	(400)	(545)	61,291	(5,256)	951	56,857
Fund Balances - Beginning of Year	<u>128,517</u>	<u>6,453</u>	<u>1,111</u>	<u>6,938</u>	<u>60,487</u>	<u>72,058</u>	<u>53,198</u>	<u>328,762</u>
Fund Balances - End of Year	<u>\$ 128,030</u>	<u>\$ 7,756</u>	<u>\$ 711</u>	<u>\$ 6,393</u>	<u>\$ 121,778</u>	<u>\$ 66,802</u>	<u>\$ 54,149</u>	<u>\$ 385,619</u>

City of Hillsdale, Michigan
 Combining Balance Sheet
 Nonmajor Debt Service Fund
 June 30, 2010

		<u>Bond and Interest</u>
	<u>Assets</u>	
Cash and cash equivalents		\$ <u>5,094</u>
	<u>Fund Balance</u>	
Unreserved; undesignated		\$ <u>5,094</u>
Total fund balance		\$ <u>5,094</u>

City of Hillsdale, Michigan
 Combining Statement of Revenues, Expenditures, and
 Changes in Fund Balances
 Nonmajor Debt Service Fund
 Year Ended June 30, 2010

	Bond and Interest
Revenues:	
Interest income	\$ <u> -</u>
Expenditures:	
Principal retirement	148,000
Interest and fiscal charges	<u> 8,391</u>
Total expenditures	<u> 156,391</u>
Revenues Under Expenditures	(156,391)
Other Financing Sources:	
Transfers in	<u> 155,746</u>
Changes in Fund Balance	(645)
Fund Balance - Beginning of Year	<u> 5,739</u>
Fund Balance - End of Year	<u>\$ 5,094</u>

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2010

	<u>Library</u>	<u>Three</u>	<u>Field of</u>	<u>Stock</u>	<u>Total</u>
	<u>Improvement</u>	<u>Meadows</u>	<u>Dreams</u>	<u>Park</u>	<u>Total</u>
<u>Assets</u>					
Cash and cash equivalents	\$ (4,533)	\$ 423	\$ 748	\$ 3,488	\$ 126
Investments	-	-	1,911	11,154	13,065
Accounts receivable	5,000	-	-	-	5,000
Total assets	<u>\$ 467</u>	<u>\$ 423</u>	<u>\$ 2,659</u>	<u>\$ 14,642</u>	<u>\$ 18,191</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ 670	\$ 2,433	\$ 3,103
Total liabilities	<u>-</u>	<u>-</u>	<u>670</u>	<u>2,433</u>	<u>3,103</u>
Fund Balances:					
Unreserved; undesignated	<u>467</u>	<u>423</u>	<u>1,989</u>	<u>12,209</u>	<u>15,088</u>
Total fund balances	<u>467</u>	<u>423</u>	<u>1,989</u>	<u>12,209</u>	<u>15,088</u>
Total liabilities and fund balances	<u>\$ 467</u>	<u>\$ 423</u>	<u>\$ 2,659</u>	<u>\$ 14,642</u>	<u>\$ 18,191</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Capital Project Funds
Year Ended June 30, 2010

	<u>Library Improvement</u>	<u>Three Meadows</u>	<u>Field of Dreams</u>	<u>Stock Park</u>	<u>Total</u>
Revenues:					
Miscellaneous	\$ 34,648	\$ -	\$ 31,256	\$ 21,393	\$ 87,297
Total revenues	<u>34,648</u>	<u>-</u>	<u>31,256</u>	<u>21,393</u>	<u>87,297</u>
Expenditures:					
Capital outlay	-	-	30,978	19,957	50,935
Total expenditures	<u>-</u>	<u>-</u>	<u>30,978</u>	<u>19,957</u>	<u>50,935</u>
Revenues Over (Under) Expenditures	<u>34,648</u>	<u>-</u>	<u>278</u>	<u>1,436</u>	<u>36,362</u>
Other Financing Sources (Uses):					
Transfers in	43,395	-	-	-	43,395
Transfers out	(77,746)	-	-	-	(77,746)
Total other financing sources (uses)	<u>(34,351)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(34,351)</u>
Changes in Fund Balances	297	-	278	1,436	2,011
Fund Balances - Beginning of Year	<u>170</u>	<u>423</u>	<u>1,711</u>	<u>10,773</u>	<u>13,077</u>
Fund Balances - End of Year	<u>\$ 467</u>	<u>\$ 423</u>	<u>\$ 1,989</u>	<u>\$ 12,209</u>	<u>\$ 15,088</u>

City of Hillsdale, Michigan
 Combining Balance Sheet
 Nonmajor Permanent Funds
 June 30, 2010

	<u>R.L. Owen</u>	<u>Cemetery</u>	<u>Stock</u>	
	<u>Memorial</u>	<u>Perpetual</u>	<u>Park</u>	<u>Total</u>
	<u> </u>	<u>Care</u>	<u>Maintenance</u>	<u> </u>
<u>Assets</u>				
Cash and cash equivalents	\$ 29,495	\$ 195,496	\$ -	\$ 224,991
Investments, at cost	-	400,548	14,511	415,059
Total assets	<u>\$ 29,495</u>	<u>\$ 596,044</u>	<u>\$ 14,511</u>	<u>\$ 640,050</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Due to other agencies	\$ -	\$ -	\$ -	\$ -
Fund Balances:				
Reserved for perpetual care and endowment principal	<u>29,495</u>	<u>596,044</u>	<u>14,511</u>	<u>640,050</u>
Total fund balances	<u>29,495</u>	<u>596,044</u>	<u>14,511</u>	<u>640,050</u>
Total liabilities and fund balances	<u>\$ 29,495</u>	<u>\$ 596,044</u>	<u>\$ 14,511</u>	<u>\$ 640,050</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Permanent Funds
Year Ended June 30, 2010

	R.L. Owen Memorial	Cemetery Perpetual Care	Stock Park Maintenance	Total
Revenues:				
Fees	\$ -	\$ 8,490	\$ -	\$ 8,490
Investment income	3,721	25,167	158	29,046
Other revenue	-	-	1,900	1,900
Total revenues	<u>3,721</u>	<u>33,657</u>	<u>2,058</u>	<u>39,436</u>
Other Financing Sources (Uses):				
Gain (loss) on sale of investment	-	8,240	-	8,240
Operating transfers out	-	(20,000)	-	(20,000)
Total other financing sources (uses)	<u>-</u>	<u>(11,760)</u>	<u>-</u>	<u>(11,760)</u>
Changes in Fund Balances	3,721	21,897	2,058	27,676
Fund Balances - Beginning of Year	<u>25,774</u>	<u>574,147</u>	<u>12,453</u>	<u>612,374</u>
Fund Balances - End of Year	<u>\$ 29,495</u>	<u>\$ 596,044</u>	<u>\$ 14,511</u>	<u>\$ 640,050</u>

City of Hillsdale, Michigan
 Local Revenues
 Dial-A-Ride Enterprise Fund
 Year Ended June 30, 2010

	<u>07/01/2009 - 9/30/2009</u>	<u>10/01/2009 - 6/30/2010</u>	<u>Total</u>
Operating Revenues and Transfers:			
Demand response (farebox) - nonurban	\$ 11,281	\$ 45,365	\$ 56,646
Other	-	-	-
Transfer in from general fund	<u>80</u>	<u>133,253</u>	<u>133,333</u>
 Total local revenues	 <u>\$ 11,361</u>	 <u>\$ 178,618</u>	 <u>\$ 189,979</u>

City of Hillsdale, Michigan
 Local Revenues
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2009 Year End

	10/01/2008 - 6/30/2009	7/1/2009 - 9/30/2009	Total
Operating Revenues and Transfers:			
Demand response (farebox) - nonurban	\$ 53,939	\$ 11,281	\$ 65,220
Other	-	-	-
Transfer in from General Fund	<u>194,483</u>	<u>80</u>	<u>194,563</u>
 Total local revenues	 <u>\$ 248,422</u>	 <u>\$ 11,361</u>	 <u>\$ 259,783</u>

City of Hillsdale, Michigan
 Federal and State Awards
 Dial-A-Ride Enterprise Fund
 Year Ended June 30, 2010

	<u>7/01/2009 -</u> <u>9/30/2009</u>	<u>10/1/2009 -</u> <u>6/30/2010</u>	<u>Total</u>
Michigan Department of Transportation			
Local bus operating	\$ 16,756	\$ 100,667	\$ 117,423
Federal Transit Administration			
Section 5311	17,952	15,944	33,896
Section 5309	-	641,050	641,050
RTAP	<u>599</u>	<u>-</u>	<u>599</u>
Total federal and state awards	<u>\$ 35,307</u>	<u>\$ 757,661</u>	<u>\$ 792,968</u>

City of Hillsdale, Michigan
 Federal and State Awards
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2009 Year End

	<u>10/01/2008 - 6/30/2009</u>	<u>7/1/2009 - 9/30/2009</u>	<u>Total</u>
Michigan Department of Transportation			
Local bus operating	\$ 127,405	\$ 16,756	\$ 144,161
Federal Transit Administration			
Section 5311	46,803	17,952	64,755
Section 5309	-	-	-
RTAP	<u>174</u>	<u>599</u>	<u>773</u>
Total federal and state awards	<u>\$ 174,382</u>	<u>\$ 35,307</u>	<u>\$ 209,689</u>

City of Hillsdale
 Expenditures of Federal and State Awards
 Dial-A-Ride Enterprise Fund
 Year Ended June 30, 2010

Federal and State Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Grant Number Authorization Number	Program Award Amount	Current Year's Expenditures			Prior Year's Expenditures	Award Amount Remaining
				Total	Federal	State		
<u>U.S. Department of Transportation</u>								
Passed through Michigan Department of Transportation								
Federal Transit Capital Grants								
Capital Grant - Section 5309 (80/20)	20.500	2007-0223/Z2	\$ 81,600	\$ 78,345	\$ 62,676	\$ 15,669	\$ -	\$ 3,255
Capital Grant - Section 5309 (80/20)	20.500	2002-0044/Z10	618,750	562,705	450,164	112,541	-	56,045
Operating assistance - Section 5311	20.509	2007-0223/Z4	71,808	33,896	33,896	-	37,912	-
Rural Transit Assistance Program (RTAP)		N/A	599	599	599	-	-	-
<u>Michigan Department of Transportation</u>								
Operating Assistance - Act 51								
Nonurban	N/A	N/A	117,423	117,423	-	117,423	-	-
			<u>\$ 890,180</u>	<u>\$ 792,968</u>	<u>\$ 547,335</u>	<u>\$ 245,633</u>	<u>\$ 37,912</u>	<u>\$ 59,300</u>

City of Hillsdale, Michigan
 Operating and Contract Expenses
 Dial-A-Ride Enterprise Fund
 Year Ended June 30, 2010

	<u>Nonurban</u>	<u>Total</u>
	\$ 175,919	\$ 175,919
Labor	98,898	98,898
Fringe benefits	12,787	12,787
Services	32,100	32,100
Materials and supplies	8,832	8,832
Insurance	11,177	11,177
Utilities	5,048	5,048
Miscellaneous	8,950	8,950
Rentals	14,682	14,682
Depreciation		
	<u>\$ 368,393</u>	<u>\$ 368,393</u>
Total expenses		

City of Hillsdale, Michigan
 Operating and Contract Expenses
 Dial-A-Ride Enterprise Fund
 Year Ended June 30, 2010

	Nonurban		Total
	07/01/2009 - 9/30/2009	10/01/2009 - 6/30/2010	
Labor	\$ 28,835	\$ 147,084	\$ 175,919
Fringe benefits	23,848	75,050	98,898
Services	25	12,762	12,787
Materials and supplies	5,440	26,660	32,100
Insurance	4,291	4,541	8,832
Utilities	13	11,164	11,177
Miscellaneous	149	4,899	5,048
Rentals	2,600	6,350	8,950
Depreciation	-	14,682	14,682
Total expenses	\$ 65,201	\$ 303,192	\$ 368,393

City of Hillsdale, Michigan
 Operating and Contract Expenses
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2009 Year End

	Nonurban		Total
	10/1/2008 - 6/30/2009	7/01/2009 - 9/30/2009	
Labor	\$ 182,290	\$ 28,835	\$ 211,125
Fringe benefits	77,836	23,848	101,684
Services	15,736	25	15,761
Materials and supplies	34,867	5,440	40,307
Insurance	17,316	4,291	21,607
Utilities	147	13	160
Miscellaneous	397	149	546
Rentals	11,700	2,600	14,300
Depreciation	22,853	-	22,853
 Total expenses	 <u>\$ 363,142</u>	 <u>\$ 65,201</u>	 <u>\$ 428,343</u>

City of Hillsdale, Michigan
 Nonurban Regular Service Revenue Report
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2009 Year End

Code	Description	Amount
401	Farebox Revenue	
40100	Passenger fares	\$ 65,220
409	Local Revenue	
40910	Local operating assistance	194,563
411	State Formula and Contracts	
41101	State operating assistance	144,161
413	Federal Contracts	
41301	Federal Section 5311 (operating funds only)	65,528
41398	RTAP	<u>773</u>
	Total revenues	<u>\$ 470,245</u>

City of Hillsdale, Michigan
 Nonurban Regular Service Expense Report
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2009 Year End

Code	Description	Operations	Maintenance	General Administration	Total
501	Labor				
50101	Operators' salaries and wages	\$ 135,839	\$ -	\$ -	\$ 135,839
50102	Other salaries and wages	-	8,427	27,989	36,416
50103	Dispatchers salaries and wages	38,870	-	-	38,870
502	Fringe Benefits				
50200	Other fringe benefits	83,885	3,525	14,274	101,684
503	Services				
50305	Audit costs	-	-	-	-
50399	Other services	11,210	-	4,551	15,761
504	Materials and Supplies				
50401	Fuel and lubricants	22,001	-	-	22,001
50402	Tires and tubes	4,510	-	-	4,510
50499	Other materials and supplies	951	8,619	4,226	13,796
505	Utilities				
50500	Utilities	160	-	-	160
506	Insurance				
50603	Liability insurance	19,523	-	-	19,523
50699	Other insurance	2,084	-	-	2,084
509	Miscellaneous Expenses				
50902	Travel, meetings and training	548	-	-	548
50999	Miscellaneous	-	-	-	-
512	Operating leases and rentals				
51200	Operating leases and rentals	14,300	-	-	14,300
513	Depreciation				
51300	Depreciation	22,853	-	-	22,853
550	Ineligible expenses				
55007	Ineligible depreciation	22,853	-	-	22,853
574	Ineligible expenses				
57402	Ineligible RTAP	<u>773</u>	<u>-</u>	<u>-</u>	<u>773</u>
	Total expenses				<u>\$ 428,345</u>
	Total ineligible expenses				<u>\$ 23,626</u>
	Total eligible expenses				<u>\$ 404,719</u>

City of Hillsdale, Michigan
 Nonurban Regular Service Nonfinancial Report
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2009 Year End

<u>Code</u>	<u>Public Service</u> <u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles	<u>65,252</u>	<u>-</u>	<u>-</u>	<u>65,252</u>

City of Hillsdale, Michigan
 Operating Assistance Calculation
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2009 Year End

	<u>Nonurban</u>
Total expenses	\$ 428,345
Less ineligible expenses	
Depreciation	22,853
RTAP	<u>773</u>
Total State eligible expenses	<u>\$ 404,719</u>
Eligible expenses for State reimbursement	\$ 404,719
Reimbursement percentage	<u>0.369841</u>
State Operating Assistance	<u>\$ 149,682</u>
Total Federal eligible expenses	\$ 404,719
Less additional Federal ineligible expenses per A-87	
Audit costs	<u>-</u>
Eligible expenses for Federal reimbursement	404,719
Reimbursement percentage	<u>0.16</u>
Section 5311 operating assistance	<u>\$ 64,755</u>

City of Hillsdale, Michigan
Combining Statement of Net Assets
Internal Service Funds
June 30, 2010

	Department of				
	Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	Total
Assets:					
Current assets:					
Cash and cash equivalents	\$ 31,678	\$ 56,105	\$ 135,753	\$ -	\$ 223,536
Investments	-	-	-	43,411	43,411
Inventory	-	158,922	-	-	158,922
Prepaid expenses	13,771	-	17,912	-	31,683
Total current assets	<u>45,449</u>	<u>215,027</u>	<u>153,665</u>	<u>43,411</u>	<u>457,552</u>
Capital assets:					
Equipment	-	-	1,810,729	-	1,810,729
Less: accumulated depreciation	-	-	(1,370,567)	-	(1,370,567)
Total capital assets, net	<u>-</u>	<u>-</u>	<u>440,162</u>	<u>-</u>	<u>440,162</u>
Total assets	<u>45,449</u>	<u>215,027</u>	<u>593,827</u>	<u>43,411</u>	<u>897,714</u>
Liabilities:					
Current liabilities:					
Accounts payable	774	8,939	34,807	-	44,520
Accrued payroll and related liabilities	-	-	1,624	-	1,624
Total current liabilities	<u>774</u>	<u>8,939</u>	<u>36,431</u>	<u>-</u>	<u>46,144</u>
Other liabilities:					
Compensated absences	36,779	-	14,429	-	51,208
Total liabilities	<u>37,553</u>	<u>8,939</u>	<u>50,860</u>	<u>-</u>	<u>97,352</u>
Net Assets:					
Invested in capital assets, net of related debt	-	-	440,162	-	440,162
Unrestricted	7,896	206,088	102,805	43,411	360,200
Total net assets	<u>\$ 7,896</u>	<u>\$ 206,088</u>	<u>\$ 542,967</u>	<u>\$ 43,411</u>	<u>\$ 800,362</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenses
and Changes in Net Assets
Internal Service Funds
Year Ended June 30, 2010

	Department of				
	Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	Total
Operating Revenues:					
Charges for services	\$ -	\$ 61,209	\$ 374,821	\$ -	\$ 436,030
Other revenue	144,909	-	14,852	5,000	164,761
Total operating revenues	<u>144,909</u>	<u>61,209</u>	<u>389,673</u>	<u>5,000</u>	<u>600,791</u>
Operating Expenses:					
Salaries	43,544	995	68,699	-	113,238
Fringe benefits	101,455	123	39,448	-	141,026
Supplies	-	61,868	10,130	-	71,998
Contracted services	-	512	36,016	-	36,528
Maintenance	-	-	119,719	-	119,719
Insurance	-	-	28,766	-	28,766
Miscellaneous	-	3,604	9,298	11,941	24,843
Capital outlay	-	-	5,819	-	5,819
Depreciation	-	-	113,383	-	113,383
Total operating expenses	<u>144,999</u>	<u>67,102</u>	<u>431,278</u>	<u>11,941</u>	<u>655,320</u>
Operating Income (Loss)	<u>(90)</u>	<u>(5,893)</u>	<u>(41,605)</u>	<u>(6,941)</u>	<u>(54,529)</u>
Nonoperating Revenues:					
Interest income	-	-	972	104	1,076
Transfers in from other funds	-	-	2,530	-	2,530
	<u>-</u>	<u>-</u>	<u>3,502</u>	<u>104</u>	<u>3,606</u>
Changes in Net Assets	<u>(90)</u>	<u>(5,893)</u>	<u>(38,103)</u>	<u>(6,837)</u>	<u>(50,923)</u>
Net Assets - Beginning of Year	<u>7,986</u>	<u>211,981</u>	<u>581,070</u>	<u>50,248</u>	<u>851,285</u>
Net Assets - End of Year	<u>\$ 7,896</u>	<u>\$ 206,088</u>	<u>\$ 542,967</u>	<u>\$ 43,411</u>	<u>\$ 800,362</u>

City of Hillsdale, Michigan
Combining Statement of Cash Flows
Internal Service Funds
Year Ended June 30, 2010

	Department of Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	Total
Cash Flows From Operating Activities:					
Cash paid to employees and suppliers	\$ (143,803)	\$ (65,634)	\$ (282,477)	\$ (11,941)	\$ (503,855)
Receipts for interfund services provided	144,909	61,209	389,673	5,000	600,791
Net cash provided by (used by) operating activities	<u>1,106</u>	<u>(4,425)</u>	<u>107,196</u>	<u>(6,941)</u>	<u>96,936</u>
Cash Flows From Noncapital Financing Activities:					
Transfers from other funds	-	-	2,530	-	2,530
Cash Flows From Capital and Related Financing Activities:					
Purchase of capital assets	-	-	(81,968)	-	(81,968)
Cash Flows From Investing Activities:					
Purchase of investments	-	-	-	6,837	6,837
Interest income	-	-	972	104	1,076
Net cash provided by (used by) investing activities	<u>-</u>	<u>-</u>	<u>972</u>	<u>6,941</u>	<u>7,913</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,106	(4,425)	28,730	-	25,411
Cash and Cash Equivalents - Beginning of Year	30,572	60,530	107,023	-	198,125
Cash and Cash Equivalents - End of Year	<u>\$ 31,678</u>	<u>\$ 56,105</u>	<u>\$ 135,753</u>	<u>\$ -</u>	<u>\$ 223,536</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating income (loss)	\$ (90)	\$ (5,893)	\$ (41,605)	\$ (6,941)	\$ (54,529)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and loss on asset disposal	-	-	113,383	-	113,383
Changes in:					
Accounts receivable	-	-	-	-	-
Inventory	-	(4,797)	-	-	(4,797)
Prepaid expenses	3,549	-	(329)	-	3,220
Accounts payable	774	6,435	34,808	-	42,017
Accrued expenses	(3,127)	(170)	939	-	(2,358)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 1,106</u>	<u>\$ (4,425)</u>	<u>\$ 107,196</u>	<u>\$ (6,941)</u>	<u>\$ 96,936</u>

November 4, 2010

Members of City Council
City of Hillsdale, 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 Hillsdale, Michigan for the year ended June 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 24, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Hillsdale are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the government-wide and enterprise fund financial statements were:

Management's estimate of the allowance for doubtful accounts recorded in the enterprise funds is based on historical revenues, historical loss levels, and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of accumulated depreciation reported in the government-wide statements and the enterprise funds which is based upon an analysis of the capitalized assets' remaining residual value using historical data and established useful lives and methods. We evaluated the key factors and assumptions used to develop the accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

Noncash recording of purchase of land/easements for airport project totaling \$204,885

Noncash recording of capital improvements related to Bacon Street project totaling \$365,684

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 4, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Please refer to the Single Audit Report for additional information regarding audit findings.

(Other Information in Documents Containing Audited Financial Statements)

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

Very truly yours,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

City of Hillsdale, Michigan

Single Audit Report

Year Ended June 30, 2010

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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 the City Council
City of Hillsdale, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan (the "City") as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 4, 2010. We have 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 Hillsdale, Michigan'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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2010-2 to be a material weakness. We also identified deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as findings 2010-1 and 2010-3, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

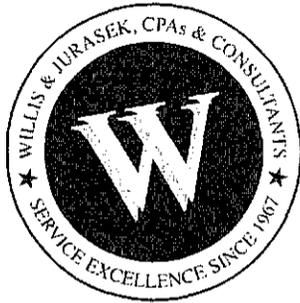
As part of obtaining reasonable assurance about whether the City of Hillsdale, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management and 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.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

November 4, 2010



**Report On Compliance with Requirements
Applicable To Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

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

Compliance

We have audited the compliance of the City of Hillsdale, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The City of Hillsdale, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Hillsdale, Michigan's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Hillsdale, Michigan's compliance with those requirements.

In our opinion, the City of Hillsdale, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

WILLIS & JURASEK, P.C.
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Suite 200
Jackson, MI 49203-3690

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Internal Control Over Compliance

The management of the City of Hillsdale, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Hillsdale, Michigan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan as of and for the year ended June 30, 2010, and have issued our report thereon dated November 4, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such 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.

This report is intended solely for the information and use of the City Council, management and 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.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

November 4, 2010

City of Hillsdale
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Agency/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Transportation:			
Passed through Michigan Department of Transportation:			
Airport Improvement Program	20.106	2007-0637	\$ 98,221
		2008-0164	19,252
		2008-0540	42,154
		2009-0151	202,355
		2009-0711	420,748
		2010-0232	497
			<u>783,227</u>
Federal Transit - Capital Investment Grants	20.500	2007-0223/Z2	62,676
		2002-0044/Z10	450,164
			<u>512,840</u>
Operating Grants for Other than Urbanized Areas	20.509	2007-0223/Z4	<u>17,952</u>
ARRA - Highway Research Planning & Construction	20.205	10-5117	8,814
Highway Research Planning & Construction	20.205	08-5057	292,547
			<u>301,361</u>
Total U.S. Department of Transportation			1,615,380
U.S. Department of Housing and Urban Development:			
Passed through Michigan State Housing Development Authority			
Rental Rehabilitation	14.239	MSC-2008-5994-HO	<u>18,596</u>
Total federal awards			<u>\$ 1,633,976</u>

City of Hillsdale, Michigan
Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Hillsdale, Michigan under programs of the federal government for the year ended June 30, 2010. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-133, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

City of Hillsdale, Michigan
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2010

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no
Significant deficiencies identified that are not considered to be material weaknesses	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no
Noncompliance material to financial statements noted	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

Federal Awards

Internal control over major programs:	
Material weakness identified	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
Significant deficiencies identified that are not considered to be material weaknesses	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

Type of auditor's report issued on compliance for major programs:	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
20.106	Airport Improvement Program
20.500	Federal Transit – Capital Investment Grants
20.205	Regular & ARRA - Highway Research Planning & Construction

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

Section II – Financial Statement Findings

2010-1 – Financial Statement Preparation

Criteria or Specific Requirement: It is management's responsibility to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

Condition: As is the case with many smaller and medium-sized entities, the City has relied on its independent external auditors to assist with the preparation of the financial statements and footnotes.

City of Hillsdale, Michigan
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2010

Section II – Financial Statement Findings (Continued)

2010-1 – Financial Statement Preparation (Continued)

Cause: The City has determined that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary expertise required to perform this task internally.

Effect: The City lacks complete internal control over the preparation of financial statements in accordance with GAAP, and instead has relied on the external auditors for this expertise.

Recommendation: We do not recommend any changes to the situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standards #115.

Views of Responsible Officials and Planned Corrective Action: We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for technical assistance. We would expect this situation to be ongoing in future years.

2010-2 – Material Audit Adjustments

Criteria or Specific Requirement: It is management's responsibility to prepare the financial statements in accordance with generally accepted accounting principles (GAAP) to capture the complete activity of the municipality.

Condition: During the course of our audit, we proposed adjustments that had a material effect on the financial statements.

Cause: Due to another governmental unit handling the activity for capital improvement projects, the activity was not recorded.

Effect: Revenues and capital expenditures were understated that related to capital improvements.

Recommendation: We recommend the City seek technical advice regarding the recording of transactions when needed and review the financial records to ensure all activity has been recorded.

Views of Responsible Officials and Planned Corrective Action: We are aware of this deficiency and will seek technical assistance when needed to ensure all transactions have been properly recorded.

2010-3 – Internal Control/Segregation of Duties

Criteria or Specific Requirement: Management is required to implement and manage a system of internal controls with adequate segregation of duties.

Condition: The City generally maintains good internal control procedures. However, certain areas could be improved upon including separation of any cash handling, recording, and journal entry recording from bank reconciliation preparation or the addition of a review procedure as a key control over the bank reconciliation area.

Recommendation: We recommend the City review various areas of operation and consider the implementation of additional controls.

City of Hillsdale, Michigan
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2010

Section II – Financial Statement Findings (Continued)

2010-3 – Internal Control/Segregation of Duties (Continued)

Views of Responsible Officials and Planned Corrective Action: We are aware of this deficiency and will review areas noted for the consideration of additional controls.

Section III – Federal Award Findings and Questioned Costs

None

City of Hillsdale, Michigan
Comments on Resolution of Findings from June 30, 2009
Single Audit Report

2009-1 – Financial Statement Preparation

Criteria or Specific Requirement: It is management's responsibility to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

Condition: As is the case with many smaller and medium-sized entities, the City has relied on its independent external auditors to assist with the preparation of the financial statements and footnotes.

Cause: The City has determined that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary expertise required to perform this task internally.

Effect: While the City is able to produce internal statements for management use, the City lacks complete internal control over the preparation of financial statements in accordance with GAAP, and instead has relied on the external auditors for this expertise.

Recommendation: We do not recommend any changes to the situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standards #115.

Views of Responsible Officials and Planned Corrective Action: We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for technical assistance. We would expect this situation to be ongoing in future years.

Status: No change – finding is repeated in the current year.