

City of Hillsdale, Michigan

Financial Statements
And Independent Auditors' Report

Year Ended June 30, 2013

Independent Auditors' Report	i - ii
Management's Discussion and Analysis	iii - xiv
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	1
Statement of Activities.....	2 - 3
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	4
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Position of Governmental Activities on the Statement of Net Position.....	5
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	7
Statement of Net Position – Proprietary Funds.....	8
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds.....	9
Statement of Cash Flows – Proprietary Funds.....	10 - 11
Statement of Fiduciary Net Position – Fiduciary Funds.....	12
Statement of Changes in Fiduciary Net Position – Fiduciary Funds.....	13
Notes to Financial Statements.....	14-30
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund.....	31-32
Budgetary Comparison Schedule – Major Street Fund.....	33
Budgetary Comparison Schedule – Local Street Fund.....	34
Municipal Employees Retirement System of Michigan.....	35

Other Supplemental Information:

Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds	36
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	37
Combining Balance Sheet – Nonmajor Special Revenue Funds.....	38
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds	39
Combining Balance Sheet – Nonmajor Debt Service Fund	40
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Debt Service Fund.....	41
Combining Balance Sheet – Nonmajor Capital Project Funds	42
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Project Funds	43
Combining Balance Sheet – Nonmajor Permanent Funds	44
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Permanent Funds.....	45
Dial-A-Ride Enterprise Fund:	
Local Revenues.....	46
Local Revenues – Based on a September 30, 2012 Year End	47
Federal and State Awards.....	48
Federal and State Awards – Based on a September 30, 2012 Year End	49
Expenditures of Federal and State Awards.....	50
Operating and Contract Expenses	51
Operating and Contract Expenses – Based on a June 30, 2012 Year End.....	52
Operating and Contract Expenses – Based on a September 30, 2012 Year End	53
Nonurban Regular Service Revenue Report – Based on a September 30, 2012 Year End	54
Nonurban Regular Service Expense Report – Based on a September 30, 2012 Year End	55
Nonurban Regular Nonfinancial Report – Based on a September 30, 2012 Year End	56
Operating Assistance Calculation – Based on a September 30, 2012 Year End	57
Internal Service and Agency Funds:	
Combining Statement of Net Position – Internal Service Funds	58
Combining Statement of Revenues, Expenses and Changes in Net Position – Internal Service Funds.....	59
Combining Statement of Cash Flows – Internal Service Funds.....	60
 Independent Auditors’ 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.....	
	61-63



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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, 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, 2013, and the respective changes in financial position and,

where applicable, cash flows, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii-xiv, as well as the budgetary comparison information and retirement system information on pages 31-35, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hillsdale's basic financial statements. The combining and individual nonmajor fund financial statements, the Dial-A-Ride Enterprise Fund information, as well as the combining statements for the internal service and agency funds, are presented for purposes of additional analysis and are not a part of the required basic financial statements. This supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information as described above and listed in the table of contents is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2013, on our consideration of the City of Hillsdale, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hillsdale's internal control over financial reporting and compliance.

Sincerely,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

October 18, 2013

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, 2013.

Financial Highlights

- The position of the City exceeded its liabilities at the close of the most recent fiscal year by \$60,188,815 (*net position*). Of this amount, \$14,050,666 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Governmental activities net change in position increased \$121,309, while business-type activities changes in net position decreased \$1,692,081. The combined net change in position decreased two and one-half percent (2.54%) or \$1,570,772.
- Total Government wide liabilities, long and short-term combined, decreased by more than six and one-half percent (6.61%) or \$247,462.
- As of the close of the current fiscal year, the City's Governmental funds reported combined ending fund balances of \$2,828,592. Of that amount, the government has \$951,205 unrestricted (*unassigned*) assets *available for spending* at its discretion.
- Council established the policy of maintaining a minimum General Fund fund balance reserve of fifteen percent (15%) back in 1992. At the end of the current fiscal year, total fund balance for the general fund was \$1,042,140. That represents eighteen percent (18%) of total general fund expenditures for fiscal year 2013-14.
- The City's total bonded debt decreased almost thirty-two percent (31.8%) or \$499,000 during the current fiscal year.

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 position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 and capital improvement funds, each of which are considered to be major funds. Data from the other fourteen 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 combining and individual fund financial statements and schedules, which can be found on pages 31-60 of this report.

Government-wide Financial Analysis

As noted earlier, net position 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 \$60,188,815 at the close of the 2013 fiscal year.

The total governmental and business-type activities *long-term liabilities outstanding* increased \$580,117, or more than forty percent (40.6%) from the prior year. Other Liabilities declined

\$827,579, which was about a thirty-six percent (35.79%) drop. Overall, total liabilities declined more than six and one-half percent (6.61%).

By far the largest portion of the City's assets, more than seventy percent (72.1%), 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 Position	Governmental		Business-type		Total		Total Percent Change
	Activities		Activities				
	2012	2013	2012	2013	2012	2013	
Current and Other Assets	\$4,045,437	\$3,805,830	\$17,050,423	\$15,390,450	\$21,095,860	\$19,196,280	9.04%
Capital Assets	\$22,318,016	\$22,609,466	\$22,088,169	\$21,878,065	\$44,406,185	\$44,487,531	-8.39%
Total Assets	\$26,363,453	\$26,415,296	\$39,138,592	\$37,268,515	\$65,502,045	\$63,683,811	-2.78%
Long-term Liabilities Outstanding	\$187,532	\$322,539	\$1,242,782	\$1,687,892	\$1,430,314	\$2,010,431	40.56%
Other Liabilities	\$423,406	\$218,933	\$1,888,738	\$1,265,632	\$2,312,144	\$1,484,565	-35.79%
Total Liabilities	\$610,938	\$541,472	\$3,131,520	\$2,953,524	\$3,742,458	\$3,494,996	-6.61%
Net Position:							
Invested In Capital Assets Net of Related Debt	\$22,290,016	\$22,609,466	\$20,523,169	\$20,812,065	\$42,813,185	\$43,421,531	1.42%
Restricted	\$1,405,974	\$1,781,846	\$1,046,487	\$934,772	\$2,452,461	\$2,716,618	10.77%
Unrestricted	\$2,056,525	\$1,482,512	\$14,437,416	\$12,568,154	\$16,493,941	\$14,050,666	-14.81%
Net Position	\$25,752,515	\$25,873,824	\$36,007,072	\$34,314,991	\$61,759,587	\$60,188,815	-2.54%

A portion of the City's assets (\$2,716,618) represents resources that are subject to external restrictions on how they may be used. The remaining balance is *unrestricted assets* that may be used to meet the government's ongoing obligations to citizens and creditors. That amount decreased \$2,443,275, or about fifteen percent (14.8%) from the prior year. More than seventy-six percent (76.5%) of that decline was in the business-type activities (Board of Public Utilities). This decrease is due to higher power cost, a reduction in the Investment in MSCPA at year end, and a decrease in restricted funds as the last payment was made on the sewer fund bonds..

City's Changes in Net Position

Revenues:	Governmental		Business-type		Total		Total Percentage Change
	Activities		Activities				
	2012	2013	2012	2013	2012	2013	
Program Revenues:							
Charges for Services	\$228,646	\$249,338	\$14,498,813	\$14,789,798	\$14,727,459	\$15,039,136	2.12%
Operating Grants & Contributions	1,195,082	1,817,655	186,998	293,908	\$1,382,080	\$2,111,563	43.77%

Capital Grants & Contributions	144,844	78,525	-	-	\$144,844	\$78,525	40.23%
Total Revenues	\$1,568,572	\$2,145,518	\$14,685,811	\$15,083,706	\$16,254,383	\$17,229,224	6.00%
Expenses:							
General Government	1,295,076	1,231,547			\$1,295,076	\$1,231,547	-4.91%
Public Safety	1,738,686	1,858,376			\$1,738,686	\$1,858,376	6.88%
Public Services	435,015	373,952			\$435,015	\$373,952	-14.04%
Highways & Streets	1,345,961	1,242,129			\$1,345,961	\$1,242,129	-7.71%
Community & economic development	35,349	69,668			\$35,349	\$69,668	97.09%
Recreation & Culture	449,772	604,738			\$449,772	\$604,738	34.45%
Other	78,579	84,097			\$78,579	\$84,097	7.02%
Unallocated Depreciation	36,368	36,368			\$36,368	\$36,368	0.00%
Electric			12,413,572	14,127,113	\$12,413,572	\$14,127,113	13.80%
Water			935,569	1,086,973	\$935,569	\$1,086,973	16.18%
Sewer			1,145,641	1,347,989	\$1,145,641	\$1,347,989	17.66%
Transportation			343,263	309,717	\$343,263	\$309,717	-9.77%
Total Expenses	\$5,414,806	\$5,500,875	\$14,838,045	\$16,871,792	\$20,252,851	\$22,372,667	10.47%
Increase (Decrease) in							
Net Position Before Transfers	(\$3,846,234)	(\$3,355,357)	(\$152,234)	(\$1,788,086)	(\$3,998,468)	(\$5,143,443)	28.64%
General Revenues:							
Taxes	2,541,243	2,266,635			\$2,541,243	\$2,266,635	-10.81%
Grants & Contributions Not Restricted							
To Specific Programs	778,694	782,235			\$778,694	\$782,235	0.45%
Unrestricted Investment Earnings	38,682	34,091	46,847	14,497	\$85,529	\$48,588	-43.19%
Other Revenues	735,392	424,359	(181,707)	28,239	\$553,685	\$452,598	-18.26%
Transfers - Internal Activity	12,410	-30,654	75,000	53,269	\$87,410	\$22,615	-74.13%
Total General Revenues	4,106,421	3,476,666	(59,860)	96,005	4,046,561	3,572,671	-11.71%
Changes in Net Position	\$260,187	\$121,309	(\$212,094)	(\$1,692,081)	\$48,093	(\$1,570,772)	-3366.11%
Net Position - Beginning of Year	\$25,492,328	\$25,752,515	\$36,219,166	\$36,007,072	\$61,711,494	\$61,759,587	0.08%
Net Position - End of Year	\$25,752,515	\$25,873,824	\$36,007,072	\$34,314,991	\$61,759,587	\$60,188,815	-2.54%

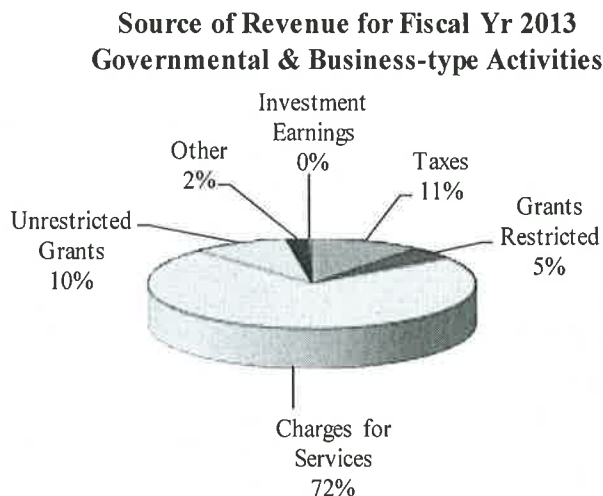
The City's total program revenue for 2013, (including restricted and operating grants and contributions) was \$17,229,224. This represents a six percent (6.0%) increase over the prior year. The largest increase was in operating grants and contributions. These revenues went up almost forty-four percent (43.8%) or \$604,889. Capital grants and contributions also increased over forty percent (40.2%). Both of these categories are volatile, unpredictable, and often project specific, one-time sources of revenue. Charges of services revenues went up slightly, just over two percent (2.1%), in both governmental and business-type activities combined.

More than ninety-eight percent (98.3%) of the total charges for services revenue comes from the business-type activities (electric, water, sewer and transportation funds). Of those activities, the electric fund generated about eighty-three percent (82.9%) of those charges. The chart above shows that the general revenues, for both the governmental and business-type activities, declined by about twelve percent (11.7%). These revenues consist of taxes, unrestricted grants and contributions, investment earnings, internal transfers between funds, and various other miscellaneous revenues. The tax revenue decline of \$274,608 from the prior year, represents about fifty-eight percent (57.9%) of the total amount of the reduction. The remaining forty-two percent (42.1%) consist of changes in grants & contributions not restricted to specific programs, unrestricted investment earnings, other revenues and transfers – internal activity between funds. Each of these declined with the exception of the grants and contributions not restricted to specific programs, which remained relatively unchanged from the prior year.

Total government wide expenses rose by more than ten percent (10.5%). The largest increases in expenditures were realized in the business-type activities. The electric fund increases account for eight-four percent (84.3%) of the business-type activities increase. Costs also increased in the water and sewer funds sixteen and seventeen percent respectively. The transportation fund realized approximately a ten percent (9.77%) decline in expenditures. For the governmental activities, expenditures increased less than two percent (1.6%) overall. Modest increases were realized in public safety (\$119,690), economic development (\$34,319), recreation and culture (\$154,966), and other miscellaneous expenditures (\$5,518). There were also reductions realized in three activities: general government (\$63,529), public services (\$61,063) and highways and streets (\$103,832). Of the over \$2 million increases in the business-type activities expenditures, eighty-eight percent (88%) is due to the \$1.8 million increase in the cost of purchasing power. The balance of the expenditures are the net result of cost fluctuations for production, purification, treatment, transmission and distribution, sewer collection, transportation, and administrative services. The general government activities two percent (2%) increases are linked to staffing shifts/changes, increased employee benefits costs (health insurance), and the completion of the State Street project.

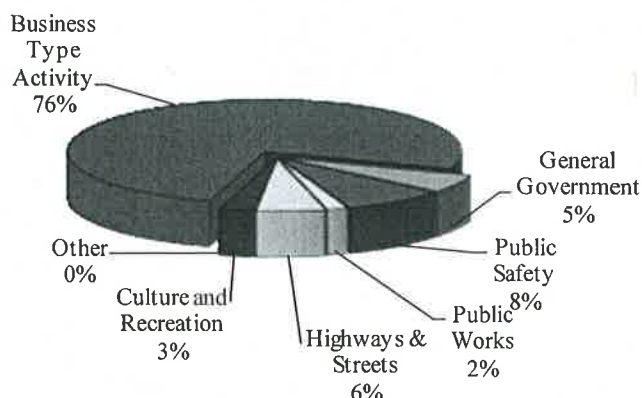
The pie graph below reveals the major sources of revenues collected by the municipality's governmental and business-type activities combined. Charges for services are the largest single

portion of revenues received. Eighty-three percent 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 11% 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 2%.



As the functions graph on the left depicts, business type activities (electric, water, sewer, and transportation operations) make up seventy-six percent (76%) of all the municipality's expenditures. The largest portions of overall expenditures, sixty-three percent (63.14%), are incurred by the electric fund. General governmental activities account for only five percent (5%) of total expenditures; public safety makes up eight percent (8%), highways and streets amount to only six percent (6%), while recreation and culture accounts for three percent (3%) and public works the remaining two percent (2%).

**Functional Expenses for Fiscal Yr 2013
Governmental & Business-type Activities**



Governmental activities. Governmental activities had a net income of \$121,309. Key elements from operations for the year are:

- Operating and capital grants and contributions increased more than thirty percent (30.3%) or \$556,254. This increase can be linked to the receipt of several new grants and onetime contributions: public safety (\$114,750 for firefighting equipment); library (\$10,150 for technology updates); State Street reconstruction (\$377,474 from the Small Urban Program); continued airport expansion (\$10,933); Sandy Beach renovations (Rotary Club contributions of \$96,934); and Stocks Park renovations (\$27,431 public contributions).
- General Revenues for all governmental activities declined more than fifteen percent (15.4%) or \$629,755. Every category but grants & contributions experienced a decline. Tax revenue declined \$274,608, which amounts to more than forty-three percent (43.6%) of the total decline. The other biggest contributing factor is found in other revenues. That is due to the receipt of a one time, unexpected revenue in the prior year.
- General government expenditures are up one and one-half percent (1.6%). This increase is below the Consumer Price Index (CPI), for this fiscal year, of 1.8% before seasonal adjustments.
- The increase in recreation and culture expenditures is attributed to the allocation of depreciation expense.
- The seven percent (7.0%) increase in public safety expenditures is directly linked to the capital purchases for the Fire Department. More than ninety percent of this increase was paid for through a Federal Emergency Management Agency (FEMA) grant.
- The economic development expenditure increase of ninety-seven percent (97.0%) is connected to the switch from a fulltime economic development staff person to a contractual arrangement that started mid-year.
- The governmental activities made the final payment to Michigan Economic Development Corporation for Industrial Park infrastructure improvements.

Business-type activities. Business-type activities experienced a net loss for the year of \$1,692,081. Key elements of the business-type activities decrease are as follows:

- This year the electric fund had a \$1,793,764 decline in net position. This decline can be directly linked to higher power cost and a reduction in the investment in Michigan South Central Power Agency (MSCPA).
- The water fund realized a positive change in net position of \$139,453. This is the result of increase in sales.
- A negative net change in position of \$128,080 was experienced by the sewer fund. The decrease is due primarily to a decrease in restricted funds as the last payment was made on the bonds.
- Purchased power costs increased more than eighteen percent (18.6%) in the electric fund.
- Transportation activity experienced an eleven percent (11.3%) increase on its net position.
- Cost of operation for the transit system decreased \$33,546.

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. As of June 30, 2013 the City's governmental funds reported combined ending fund balances of \$2,828,592. That is a \$199,248 decrease, which is a six and one-half percent (6.6%) decline from the prior year balances.

Governmental fund balance is broken into three categories: nonspendable, restricted, and unassigned. Nonspendable fund balance is that portion of fund balance reflecting assets not in spendable form. Prepaid expenditures are the most common type of these expenditures. These are expenses paid in advance for things like health and liability insurances paid in one fiscal year for coverage that extends into the next. The governmental funds prepaid expenditures totaled \$95,541. The restricted portion of fund balance refers to resources subject to externally imposed and legally enforceable constraints imposed either by external resource providers, e.g. grantors or creditors, or by law through constitutional provisions or enabling legislation. The governmental funds restricted fund balance is \$1,781,846. This constitutes an increase of approximately twenty-seven percent (26.7%) from the prior year. These funds are for the perpetual care of the two municipal cemeteries and future maintenance of Mrs. Stocks Park. It also includes the special revenue fund balances for the Library, Major and Local Street Funds, and the debt service fund. All the capital improvement funds (Airport, Fields of Dreams, Mrs. Stocks Park, and the general Capital Improvement Fund) are also included in the restricted use fund balances.

In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. That portion of the governmental funds fund balance is \$951,205 and available for spending at the government's discretion.

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 \$1,042,140. Of that balance, \$90,935 is classified as nonspendable for prepaid expenditures. The remaining \$951,205 is unassigned and therefore available for spending at the government's discretion. This balance represents a decrease from

the prior fiscal year of \$145,180. The reduction was planned to facilitate capital improvement projects in 2013-14 fiscal year.

Public Act 51 of 1951 channels state restricted transportation revenue into special revenue funds, and directs how those funds are spent. The resources that the City of Hillsdale receives from the State through this act are recorded in the Major and Local Street Funds. The fund balances in these two funds, \$251,881 in Major and \$71,089 in Local, are thus designated to be spent only on the streets. These fund balances are classified as restricted.

The Airport Improvement Fund had a June 30, 2013 fund balance of \$152,825. That constitutes a ninety-eight percent (97.9%) decrease from a year ago. The municipality is still working with the Bureau of Aeronautics on a multi-million dollar airport expansion project. The city has received grant funding from the Federal Aviation Administration and the State of Michigan to facilitate this project. Approximately 95% of this project will be paid for with federal and state grants. The fund balance in this fund is restricted for use only at the airport and will be used to fund the local 5% grant match.

Other nonmajor governmental funds collectively experienced a combined net decrease in fund balances for the year of \$206,731. None of these fund balances are considered unassigned. Of the \$1,310,657 balance, \$4,606 is classified as nonspendable. The remaining nonmajor governmental fund balances are considered restricted for various reasons. There are two permanent endowments (Cemetery Perpetual Care Fund, and Stocks Park Perpetual Maintenance Fund). Combined they have a total restricted fund balance of \$673,639. The restricted special revenue fund balances total \$171,836. These include the fund balances from the Library, Recreation, Drug Forfeitures, Police Public Relations and Fire Equipment Funds. It is also inclusive of \$460,576 from all the nonmajor capital project funds which are: Capital Improvement, Mrs. Stocks Park, Fields of Dreams, Three Meadows, and Library Improvement Funds.

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, undesignated net position of the water, sewer, electric, and transportation funds at the end of the year declined more than ten percent (10.7%). Unrestricted, designated net position for all City proprietary funds decreased \$650,391. Net assets restricted investments and the amount invested in capital assets, net of related debt remained relatively stable from last year, declining about one percent (0.8%).

Half of the proprietary funds realized an increase in net position for the year and half experienced a net loss. The sewer fund ended the year with a decrease in net position of \$128,080 and the water fund's net position increased \$139,453. As previously mentioned, the electric fund had a net decrease in assets of \$1,793,764. The transportation fund experienced an increase of \$90,310 in net position.

General Fund Budgetary Highlights

The general fund revenue budget for fiscal year 2013 was originally \$3,896,670. The budget for federal revenues was amended by \$114,750 to reflect the receipt of the Federal Emergency Management Agency (FEMA) grant for capital purchases for the fire department.

Differences between the original and final amended General Fund expenditure budgets totaled \$272,750. The adjustments made were as follows: Council (101) increased communications \$8,000 for broadcasting of the council meetings on the internet; Fire (336) was increased \$114,750 for the fire equipment capital purchases paid for with the FEMA grant; and the transfer out of General Fund (965) to the Capital Improvement Fund (401) was increased by \$150,000 to fund future infrastructure improvements.

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, 2013, amounted to more than \$2.2 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 combined total capital assets, net of depreciation, increased less than one percent (0.18%) in the current fiscal year.

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

- A variety of infrastructure projects (street resurfacings/reconstructions/storm sewer/sidewalks) were done throughout the year at a combined cost of approximately \$935,425.
- Beautification and improvements to Mrs. Stocks Park, building and site improvements at Sandy Beach, and picnic tables for Owens Park in the amount of \$151,785.
- The utility (electric, water, and sewer funds) did a variety of projects throughout the year totaling \$1,140,749. The electric fund capital projects included: backflow preventer at power plant; replacement poles; overhead and unground construction; line transformers, reclosers and meters; directional boring machine; GPS mapping and tracking; printer; radio system; computer upgrades; recorder; Christmas decorations. For the water and sewer funds: meters; clean well #1, #2, #5, & #8; pump and dehumidifier at water treatment plant; water service truck; replaced water main on State Street; and upgraded computers.
- The Fire Department purchased a thermal imaging camera and SCBA air packs for \$114,750 with the FEMA grant funds they received.
- The library purchased numerous books at a cost of \$20,271.
- There was \$12,613 used to purchase furnishings and to refinish a floor and the front doors at the Mitchell Research Center.
- The transit agency used federal and state grant funding to purchase a new bus for \$122,470.
- The airport spent \$23,179 to complete the stream relocation work and to facilitate property acquisition for the multi-year airport expansion project.
- The Department of Public Services added a remote operated gate at the compost site and put a new roof on the facility for a cost of \$61,725.

City's Capital Assets
(Net of Depreciation)

	Governmental		Business-type		Total		Total Parent Change 2012- 13
	Activities		Activities				
	2012	2013	2012	2013	2012	2013	
Land	\$8,246,290	\$8,269,469	\$197,401	\$197,401	\$8,443,691	\$8,466,870	0.27%
Buildings and System Improvements	3,548,374	3,655,173	21,513,098	21,248,264	\$25,061,472	\$24,903,437	-0.63%
Library Books	215,596	214,163			\$215,596	\$214,163	-0.66%
Machinery and Equipment	470,071	347,191	118,819	201,862	\$588,890	\$549,053	-6.76%
Infrastructure	9,837,685	10,123,470			\$9,837,685	\$10,123,470	2.91%
Construction in Progress	0	0	258,851	230,538	258,851	230,538	10.94%
Total	\$22,318,016	\$22,609,466	\$22,088,169	\$21,878,065	\$44,406,185	\$44,487,531	0.18%

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 \$1,066,000, which consisted of revenue bonds, where the City utility 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			
	2012	2013	2012	2013
Revenue Bonds	\$1,565,000	\$1,066,000	\$1,565,000	\$1,066,000
Total	\$1,565,000	\$1,066,000	\$1,565,000	\$1,066,000

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

The City's bonded debt decreased during the current fiscal year by \$499,000 or thirty-two percent (31.9%). The City paid off two outstanding debts in this fiscal year: 1.) Michigan Economic Development Corporation general obligation debt for industrial park infrastructure improvements; and 2.) revenue bonds for 1992 waste water treatment plant improvements. No new debt was issued during the year.

The City's total outstanding long-term debt obligation, as of June 30, 2013 was \$1,484,565, which includes compensated absence liabilities as well as other outstanding loan obligations and bonds. State statutes limit the amount of general obligation debt a governmental entity may issue to ten percent (10%) of its total State Equalized Value (SEV). The city's state equalized valuation as of December 31, 2012 was \$148,894,700. That translates into a debt limit of \$14,861,476. The City's revenue bond debt is exempt from that limit, so as of June 30, 2013 there is no debt applicable to that limit.

Additional information on the City's long-term debt can be found in note No. 8 on pages 27-28 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 2013-14 fiscal year:

- The unemployment rate for Hillsdale County (which includes the City) in March 2013 was 9.2%. That's down .4% from the 9.6% of one year ago. That rate was .4% higher than the State of Michigan's unemployment rate of 8.8% and 1.6% higher than the national unemployment rate of 7.6% for the same time period.
- The property tax inflationary rate for 2014 tax year of 2.4%.
- State shared revenues were projected at the constitutional level plus the Economic Vitality Incentive Program revenues as projected by the State of Michigan.
- The city projected to spend down \$192,565 of its General Fund fund balance in this budget to reconstruct a local street.
- The projection for gas and weight taxes, used to maintain the road systems throughout the state was projected to increase about 3 percent based on historical trends. 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).
- Health insurance costs projections of 35%.
- An increase of one staff position in the Assessing Office due to workload shifts. No wages increases for any staff except the Fire Department, whose union contract gave them a 2% increase.

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 Position
June 30, 2013

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Tax Increment Finance Authority	Economic Development Corporation
Assets:					
Cash and investments	\$ 3,039,316	\$ 3,699,296	\$ 6,738,612	\$ 508,429	\$ 126,322
Receivables	323,906	1,016,053	1,339,959	-	-
Internal balances	93,862	(89,711)	4,151	-	-
Prepaid items and other assets	137,113	173,960	311,073	-	-
Inventory	211,633	823,963	1,035,596	-	-
Inventory in M.S.C.P.A.	-	9,766,889	9,766,889	-	-
Capital assets, net:					
Assets not being depreciated	8,269,469	427,939	8,697,408	65,000	173,721
Assets being depreciated	14,339,997	21,450,126	35,790,123	-	-
Total assets	<u>26,415,296</u>	<u>37,268,515</u>	<u>63,683,811</u>	<u>573,429</u>	<u>300,043</u>
Liabilities:					
Note payable	-	250,000	250,000	-	-
Accounts payable	238,205	169,666	407,871	7,289	70
Accrued expenses	84,334	1,250,007	1,334,341	-	-
Accrued interest	-	10,236	10,236	-	-
Due to other governments	-	7,983	7,983	-	-
Unearned revenue	-	-	-	-	-
Non-current liabilities:					
Due within one year	28,000	347,000	375,000	-	-
Due in more than one year	190,933	918,632	1,109,565	-	-
Total liabilities	<u>541,472</u>	<u>2,953,524</u>	<u>3,494,996</u>	<u>7,289</u>	<u>70</u>
Net Position:					
Net investment in capital assets	22,609,466	20,812,065	43,421,531	65,000	173,721
Restricted for:					
Special revenues	494,806	-	494,806	-	-
Debt service	-	934,772	934,772	-	-
Capital projects	613,401	-	613,401	-	-
Endowment and trust principal	673,639	-	673,639	-	-
Unrestricted	1,482,512	12,568,154	14,050,666	501,140	126,252
Total net position	<u>\$ 25,873,824</u>	<u>\$ 34,314,991</u>	<u>60,188,815</u>	<u>\$ 566,140</u>	<u>\$ 299,973</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan

Statement of Activities

Year Ended June 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
Primary Government					
Governmental Activities:					
General government	\$ 1,231,547	\$ 117,214	\$ 505,315	\$ 67,592	\$ (541,426)
Public safety	1,858,376	-	121,883	-	(1,736,493)
Public works	373,952	22,006	-	-	(351,946)
Highways and streets	1,242,129	-	632,176	-	(609,953)
Community and economic development	69,668	-	-	-	(69,668)
Culture and recreation	604,738	110,118	54,690	-	(439,930)
Capital outlay	38,241	-	503,591	10,933	476,283
Other	45,856	-	-	-	(45,856)
Unallocated depreciation, excluding direct portion	36,368	-	-	-	(36,368)
Total governmental activities	<u>5,500,875</u>	<u>249,338</u>	<u>1,817,655</u>	<u>78,525</u>	<u>(3,355,357)</u>
Business-type Activities:					
Electric	14,127,113	12,270,800	-	-	(1,856,313)
Sewer	1,347,989	1,210,237	-	-	(137,752)
Water	1,086,973	1,259,068	-	-	172,095
Transportation	309,717	49,693	293,908	-	33,884
Total business-type activities	<u>16,871,792</u>	<u>14,789,798</u>	<u>293,908</u>	<u>-</u>	<u>(1,788,086)</u>
Total primary government	<u>\$ 22,372,667</u>	<u>\$ 15,039,136</u>	<u>\$ 2,111,563</u>	<u>\$ 78,525</u>	<u>\$ (5,143,443)</u>
Component Units					
Tax Increment Finance Authority	\$ 28,470	\$ -	\$ -	\$ -	\$ (28,470)
Economic Development Corporation	706	-	-	-	(706)
Total component units	<u>\$ 29,176</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (29,176)</u>

continued..

City of Hillsdale, Michigan
Statement of Activities (Continued)
Year Ended June 30, 2013

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Tax Increment Finance Authority	Economic Development Corporation
Changes in Net Position					
Net (expense) revenue	\$ (3,355,357)	\$ (1,788,086)	\$ (5,143,443)	\$ (28,470)	(706)
General Revenues:					
Property taxes	2,266,635	-	2,266,635	138,075	-
Unrestricted grants and contributions	782,235	-	782,235	-	-
Interest and investment earnings	34,091	14,497	48,588	544	146
Other revenues (expenses)	424,359	28,239	452,598	-	-
Transfers - internal activities	(30,654)	53,269	22,615	(22,615)	-
Total general revenues, contributions and transfers	3,476,666	96,005	3,572,671	116,004	146
Changes in Net Position	121,309	(1,692,081)	(1,570,772)	87,534	(560)
Net Position - Beginning of Year	25,752,515	36,007,072	61,759,587	478,606	300,533
Net Position - End of Year	\$ 25,873,824	\$ 34,314,991	\$ 60,188,815	\$ 566,140	\$ 299,973

See Notes to Financial Statements.

City of Hillsdale, Michigan

Balance Sheet
Governmental Funds
June 30, 2013

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Airport Improvement</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
Assets						
Cash and investments	\$ 983,115	\$ 196,554	\$ 51,602	\$ 153,531	\$ 1,373,482	\$ 2,758,284
Receivables:						
Accounts receivable	33,813	71,631	24,673	450	55,812	186,379
Special assessments	137,427	-	-	-	-	137,427
Due from other funds	103,337	-	-	-	77,174	180,511
Prepaid expenditures	90,935	-	-	-	4,606	95,541
Total assets	<u>\$ 1,348,627</u>	<u>\$ 268,185</u>	<u>\$ 76,275</u>	<u>\$ 153,981</u>	<u>\$ 1,511,074</u>	<u>\$ 3,358,142</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 94,834	\$ 12,588	\$ 3,453	\$ 1,156	\$ 111,538	\$ 223,569
Due to other funds	8,622	-	-	-	78,027	86,649
Salaries payable	65,604	3,716	1,733	-	10,852	81,905
Unearned revenue	137,427	-	-	-	-	137,427
Total liabilities	<u>306,487</u>	<u>16,304</u>	<u>5,186</u>	<u>1,156</u>	<u>200,417</u>	<u>529,550</u>
Fund Balances:						
Nonspendable:						
Prepaid expenditures	90,935	-	-	-	4,606	95,541
Restricted:						
Special revenue funds	-	251,881	71,089	-	171,836	494,806
Capital project funds	-	-	-	152,825	460,576	613,401
Permanent funds	-	-	-	-	673,639	673,639
Unassigned	951,205	-	-	-	-	951,205
Total fund balances	<u>1,042,140</u>	<u>251,881</u>	<u>71,089</u>	<u>152,825</u>	<u>1,310,657</u>	<u>2,828,592</u>
Total liabilities and fund balances	<u>\$ 1,348,627</u>	<u>\$ 268,185</u>	<u>\$ 76,275</u>	<u>\$ 153,981</u>	<u>\$ 1,511,074</u>	<u>\$ 3,358,142</u>

City of Hillsdale, Michigan

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Position
of Governmental Activities on the Statement of Net Position
June 30, 2013

Total Fund Balances - Governmental Funds		\$ 2,828,592
Amounts reported for governmental activities in the Statement of Net Position 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	\$ 43,054,123	
Accumulated depreciation is	<u>(20,444,657)</u>	22,609,466
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 revenue		137,427
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 Position.		
Net position of governmental activities accounted for in the internal service fund	705,969	
Less portion included in capital assets	<u>(218,730)</u>	487,239
Long-term liabilities not due and payable in the current period and not reported in the funds:		
Compensated absences		<u>(188,900)</u>
Total Net Assets - Governmental Activities		\$ <u>25,873,824</u>

City of Hillsdale, Michigan
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2013

	General	Major Street	Local Street	Airport Improvement	Other Nonmajor Governmental Funds	Total
Revenues:						
Taxes	\$ 2,175,091	\$ -	\$ -	\$ -	\$ 137,842	\$ 2,312,933
Intergovernmental - federal and state	899,974	476,257	155,919	10,933	393,923	1,937,006
Licenses and permits	99,806	-	-	-	-	99,806
Charges for services	22,152	-	-	-	68,558	90,710
Fines and violations	7,137	-	-	-	51,685	58,822
Interest and rentals	90,568	977	-	31,173	51,116	173,834
Miscellaneous	733,253	1,907	5,371	72,691	225,673	1,038,895
Total revenues	<u>4,027,981</u>	<u>479,141</u>	<u>161,290</u>	<u>114,797</u>	<u>928,797</u>	<u>5,712,006</u>
Expenditures:						
General government	1,227,447	-	-	-	500	1,227,947
Public safety	1,852,575	-	-	-	4,680	1,857,255
Public works	322,130	-	-	-	-	322,130
Highways and streets	-	349,720	234,328	-	-	584,048
Community and economic development	69,668	-	-	-	-	69,668
Culture and recreation	146,429	-	-	-	347,560	493,989
Debt service:						
Principal payments	-	-	-	-	28,000	28,000
Capital outlay	-	-	-	89,201	1,195,492	1,284,693
Total expenditures	<u>3,618,249</u>	<u>349,720</u>	<u>234,328</u>	<u>89,201</u>	<u>1,576,232</u>	<u>5,867,730</u>
Revenues Over (Under) Expenditures	<u>409,732</u>	<u>129,421</u>	<u>(73,038)</u>	<u>25,596</u>	<u>(647,435)</u>	<u>(155,724)</u>
Other Financing Sources (Uses):						
Gain (loss) on sale of investment	-	-	-	-	(12,870)	(12,870)
Operating transfers in	139,162	-	115,000	50,000	479,249	783,411
Operating transfers out	(677,959)	(96,232)	(14,199)	-	(25,675)	(814,065)
Total other financing sources (uses)	<u>(538,797)</u>	<u>(96,232)</u>	<u>100,801</u>	<u>50,000</u>	<u>440,704</u>	<u>(43,524)</u>
Net Changes in Fund Balances	<u>(129,065)</u>	<u>33,189</u>	<u>27,763</u>	<u>75,596</u>	<u>(206,731)</u>	<u>(199,248)</u>
Fund Balances - Beginning of Year	<u>1,171,205</u>	<u>218,692</u>	<u>43,326</u>	<u>77,229</u>	<u>1,517,388</u>	<u>3,027,840</u>
Fund Balances - End of Year	<u>\$ 1,042,140</u>	<u>\$ 251,881</u>	<u>\$ 71,089</u>	<u>\$ 152,825</u>	<u>\$ 1,310,657</u>	<u>\$ 2,828,592</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
 Year Ended June 30, 2013

Net Change in Fund Balances - Total Governmental Funds \$ (199,248)

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	\$ (885,162)	
Capital outlay	<u>1,277,473</u>	392,311

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		(46,298)
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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 Position, 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 Position.

Repayments on loan contracts		28,000
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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.

Change in net position from governmental activities in the internal service fund		(45,856)
--	--	----------

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.

Increase in the accrual for compensated absences		<u>(7,600)</u>
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Change in Net Position of Governmental Activities \$ 121,309

City of Hillsdale, Michigan
Statement of Net Position
Proprietary Funds
June 30, 2013

	Business-type Activities - Enterprise Funds					Governmental Activities
	Electric	Water	Sewer	Nonmajor Fund Dial-A-Ride	Total	Internal Service Funds
Assets:						
Current assets:						
Cash and cash equivalents	\$ 304,834	\$ -	\$ -	\$ 106,394	\$ 411,228	\$ 222,556
Investments	-	-	-	-	-	58,476
Receivables:						
Accounts (net of allowance for bad debts of \$180,000)	879,690	59,469	61,873	536	1,001,568	100
Accrued interest	6,890	3,486	4,109	-	14,485	-
Due from other funds	423,994	321,882	400	-	746,276	-
Inventory, at cost	348,218	75,334	6,456	-	430,008	211,633
Prepaid expenses	89,042	31,969	45,385	7,564	173,960	41,572
Total current assets	<u>2,052,668</u>	<u>492,140</u>	<u>118,223</u>	<u>114,494</u>	<u>2,777,525</u>	<u>534,337</u>
Noncurrent assets:						
Restricted investments	-	504,739	430,033	-	934,772	-
Designated investments	1,859,542	226,505	267,249	-	2,353,296	-
Total noncurrent assets	<u>1,859,542</u>	<u>731,244</u>	<u>697,282</u>	<u>-</u>	<u>3,288,068</u>	<u>-</u>
Capital assets:						
Land	17,467	49,613	122,902	7,419	197,401	-
Plant and equipment	32,531,691	10,648,933	14,011,453	1,046,797	58,238,874	1,809,679
Construction in progress	230,538	-	-	-	230,538	-
	<u>32,779,696</u>	<u>10,698,546</u>	<u>14,134,355</u>	<u>1,054,216</u>	<u>58,666,813</u>	<u>1,809,679</u>
Less accumulated depreciation	(21,069,062)	(5,660,600)	(9,858,627)	(200,459)	(36,788,748)	(1,590,949)
Net capital assets	<u>11,710,634</u>	<u>5,037,946</u>	<u>4,275,728</u>	<u>853,757</u>	<u>21,878,065</u>	<u>218,730</u>
Other assets:						
Long-term inventories	393,955	-	-	-	393,955	-
Investment in M.S.C.P.A.	9,766,889	-	-	-	9,766,889	-
Total other assets	<u>10,160,844</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,160,844</u>	<u>-</u>
Total assets	<u>25,783,688</u>	<u>6,261,330</u>	<u>5,091,233</u>	<u>968,251</u>	<u>38,104,502</u>	<u>753,067</u>
Liabilities:						
Current liabilities (payable from current assets):						
Note payable	250,000	-	-	-	250,000	-
Accounts payable	114,948	22,742	29,444	2,532	169,666	14,636
Accrued purchased power	939,183	-	-	-	939,183	-
Accrued expenses	164,389	12,646	14,586	8,829	200,450	2,429
Customer deposits	94,709	9,250	6,415	-	110,374	-
Due to other funds	45,048	3,794	740,414	46,731	835,987	-
Due to other governments	-	-	-	7,983	7,983	-
Total current liabilities (payable from current assets)	<u>1,608,277</u>	<u>48,432</u>	<u>790,859</u>	<u>66,075</u>	<u>2,513,643</u>	<u>17,065</u>
Current liabilities (payable from restricted assets):						
Bonds payable	-	347,000	-	-	347,000	-
Accrued interest	-	10,236	-	-	10,236	-
Total current liabilities (payable from restricted assets)	<u>-</u>	<u>357,236</u>	<u>-</u>	<u>-</u>	<u>357,236</u>	<u>-</u>
Noncurrent liabilities:						
Accrued compensated absences	123,328	30,557	35,398	10,349	199,632	30,033
General obligation and revenue bonds payable	-	719,000	-	-	719,000	-
Total noncurrent liabilities	<u>123,328</u>	<u>749,557</u>	<u>35,398</u>	<u>10,349</u>	<u>918,632</u>	<u>30,033</u>
Total liabilities	<u>1,731,605</u>	<u>1,155,225</u>	<u>826,257</u>	<u>76,424</u>	<u>3,789,511</u>	<u>47,098</u>
Net Position:						
Net investment in capital assets	11,710,634	3,971,946	4,275,728	853,757	20,812,065	218,730
Restricted investments	-	504,739	430,033	-	934,772	-
Unrestricted:						
Designated	1,859,542	226,505	267,249	-	2,353,296	-
Undesignated	10,481,907	402,915	(708,034)	38,070	10,214,858	487,239
Total net position	<u>\$ 24,052,083</u>	<u>\$ 5,106,105</u>	<u>\$ 4,264,976</u>	<u>\$ 891,827</u>	<u>\$ 34,314,991</u>	<u>\$ 705,969</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Revenues, Expenses
and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds					Governmental
	Electric	Water	Sewer	Nonmajor	Total	Internal
				Fund		Service
				Dial-A-Ride		Funds
Operating Revenues:						
Charges for services	\$ 12,270,800	\$ 1,259,068	\$ 1,210,237	\$ 49,693	\$ 14,789,798	\$ 456,593
Miscellaneous	39,895	4,918	9,158	-	53,971	140,822
Total operating revenues	<u>12,310,695</u>	<u>1,263,986</u>	<u>1,219,395</u>	<u>49,693</u>	<u>14,843,769</u>	<u>597,415</u>
Operating Expenses:						
Purchased power	11,407,347	-	-	-	11,407,347	-
Production expense	452,296	91,479	-	-	543,775	-
Purification expense	-	285,006	-	-	285,006	-
Treatment expense	-	-	809,514	-	809,514	-
Transmission and distribution	1,159,015	391,082	-	-	1,550,097	-
Administrative	1,108,455	319,406	324,336	-	1,752,197	649,423
Sewer collection	-	-	214,139	-	214,139	-
Transportation	-	-	-	309,717	309,717	-
Total operating expenses	<u>14,127,113</u>	<u>1,086,973</u>	<u>1,347,989</u>	<u>309,717</u>	<u>16,871,792</u>	<u>649,423</u>
Operating Income (Loss)	<u>(1,816,418)</u>	<u>177,013</u>	<u>(128,594)</u>	<u>(260,024)</u>	<u>(2,028,023)</u>	<u>(52,008)</u>
Nonoperating Revenues (Expenses):						
Interest income	5,464	4,160	4,873	-	14,497	894
Interest expense	(2,483)	(44,823)	(2,475)	-	(49,781)	-
Other income (expense)	19,673	3,103	(1,884)	294,304	315,196	-
Gain(loss) on disposal of assets	-	-	-	2,761	2,761	5,258
Transfers in from other funds	-	-	-	100,000	100,000	-
Transfers out to other funds	-	-	-	(46,731)	(46,731)	-
Total nonoperating revenues (expenses)	<u>22,654</u>	<u>(37,560)</u>	<u>514</u>	<u>350,334</u>	<u>335,942</u>	<u>6,152</u>
Changes in Net Position	<u>(1,793,764)</u>	<u>139,453</u>	<u>(128,080)</u>	<u>90,310</u>	<u>(1,692,081)</u>	<u>(45,856)</u>
Net Position - Beginning of Year	<u>25,845,847</u>	<u>4,966,652</u>	<u>4,393,056</u>	<u>801,517</u>	<u>36,007,072</u>	<u>751,825</u>
Net Position - End of Year	<u>\$ 24,052,083</u>	<u>\$ 5,106,105</u>	<u>\$ 4,264,976</u>	<u>\$ 891,827</u>	<u>\$ 34,314,991</u>	<u>\$ 705,969</u>

City of Hillsdale, Michigan
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds					Governmental
	Electric	Water	Sewer	Nonmajor	Total	Internal
				Fund		Service
			Dial-A-Ride		Funds	
Cash Flows From Operating Activities:						
Cash received from customers, residents and users	\$ 12,139,271	\$ 1,350,574	\$ 1,224,951	\$ 49,671	\$ 14,764,467	\$ -
Other operating receipts	1,108,877	4,918	9,158	-	1,122,953	-
Receipts for interfund services provided	-	-	-	-	-	597,315
Cash paid to suppliers of goods and services	(12,664,658)	(596,576)	(706,748)	(254,710)	(14,222,692)	(444,853)
Cash paid to employees for services	(679,632)	(275,991)	(404,004)	-	(1,359,627)	(115,585)
Net cash provided by (used in) operating activities	(96,142)	482,925	123,357	(205,039)	305,101	36,877
Cash Flows From Noncapital Financing Activities:						
Net borrowings (repayments) on revolving loan	250,000	-	-	-	250,000	-
Interest payments on revolving loan	(2,483)	-	-	-	(2,483)	-
Intergovernmental nonoperating revenues	-	-	-	294,304	294,304	-
Transfers from/(to) other funds	-	-	-	53,269	53,269	-
Net cash provided by noncapital financing activities	247,517	-	-	347,573	595,090	-
Cash Flows From Capital and Related Financing Activities:						
Bond payments on capital debt	-	(334,000)	(165,000)	-	(499,000)	-
Interest on capital debt	-	(46,901)	(3,300)	-	(50,201)	-
Proceeds from the disposal of assets	-	-	-	2,761	2,761	5,259
Purchase of capital assets, net	(483,962)	(216,478)	(97,886)	(122,470)	(920,796)	-
Net cash used by capital and related financing activities	(483,962)	(597,379)	(266,186)	(119,709)	(1,467,236)	5,259
Cash Flows from Investing Activities:						
Purchase of investments	(1,025,858)	(248,715)	(195,778)	-	(1,470,351)	(8,208)
Proceeds from the sale of investments	1,634,450	263,000	335,000	-	2,232,450	-
Other nonoperating income received	19,673	3,103	-	-	22,776	-
Other nonoperating expenses	-	-	(1,884)	-	(1,884)	-
Interest income received	8,256	3,342	5,491	-	17,089	894
Net cash provided by (used in) investing activities	636,521	20,730	142,829	-	800,080	(7,314)
Net Increase (Decrease) in Cash and Cash Equivalents	303,934	(93,724)	-	22,825	233,035	34,822
Cash and Cash Equivalents - Beginning of Year	900	93,724	-	83,569	178,193	187,734
Cash and Cash Equivalents - End of Year	\$ 304,834	\$ -	\$ -	\$ 106,394	\$ 411,228	\$ 222,556

Continued..

City of Hillsdale, Michigan
Statement of Cash Flows (Continued)
Proprietary Funds
Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds					Governmental
	Electric	Water	Sewer	Nonmajor	Total	Internal
				Fund		Service
			Dial-A-Ride			Funds
Balance Sheet Classification of Cash						
Current assets - cash and cash equivalents	\$ 304,834	\$ -	\$ -	\$ 106,394	\$ 411,228	\$ 222,556
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Operating income (loss)	\$ (1,816,418)	\$ 177,013	\$ (128,594)	\$ (260,024)	\$ (2,028,023)	\$ (52,008)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	654,450	237,074	186,244	53,139	1,130,907	100,861
Changes in:						
Receivables	(15,782)	18,995	13,187	(22)	16,378	(100)
Due from other funds	(126,874)	70,889	(400)	-	(56,385)	-
Inventories	36,485	(483)	596	-	36,598	(4,322)
Prepaid expenses	(3,678)	(1,691)	(2,103)	(1,735)	(9,207)	(9,831)
Investments in M.S.C.P.A.	1,068,982	-	-	-	1,068,982	-
Accounts payable	68,909	(18,587)	5,691	(893)	55,120	(460)
Accrued expenses	13,547	(2,701)	(8,350)	1,615	4,111	2,737
Due to other funds	13,110	794	55,159	2,881	71,944	-
Customer deposits	11,127	1,622	1,927	-	14,676	-
Net Cash Provided by (Used in) Operating Activities	\$ (96,142)	\$ 482,925	\$ 123,357	\$ (205,039)	\$ 305,101	\$ 36,877

City of Hillsdale, Michigan
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

	Hospital Private Purpose Trust Fund	Agency Funds
Assets:		
Cash and investments	\$ 15,025	\$ 15,615
Liabilities:		
Due to other funds	-	4,151
Due to other agencies	-	11,464
Total liabilities	-	\$ 15,615
Net Position:		
Unrestricted	15,025	
Total net position	\$ 15,025	

City of Hillsdale, Michigan
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2013

	<u>Hospital Private Purpose Trust Fund</u>
Additions:	
Investment income	<u>\$ 287</u>
Deductions:	
Other	<u>548</u>
Changes in Net Position	(261)
Net Position - Beginning of Year	<u>15,286</u>
Net Position - End of Year	<u><u>\$ 15,025</u></u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

The financial statements of the City of Hillsdale, Michigan 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, Michigan (the "City") 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 8,305 residents (2010 census): public safety (police and fire), highways and streets, sanitation, health, housing, recreation, public improvements, planning and zoning, and general administrative services.

The accompanying financial statements of the City have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. The criteria established by the GASB for determining which of the governmental organizations are a part of the City's reporting entity includes oversight responsibility, fiscal dependency, scope of public service, and whether the financial statements would be misleading if data were not included. 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 Position 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 is 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.

Major Street Fund – This fund is a special revenue fund. It accounts for revenues received primarily from the State of Michigan Department of Transportation and accounts for street activity relating to the major street functions of the City.

Local Street Fund – This fund is a special revenue fund. It accounts for revenues received primarily from the State of Michigan Department of Transportation and accounts for street activity relating to the local street functions of the City.

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 and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

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)**

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. This fund was closed out as of fiscal year end.

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 - 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.

Reclassifications of prior year's data, if any, have been made in the accompanying financial statements where appropriate to conform to the current presentation. These reclassifications, if any, have no effect on overall changes in fund balance/net position.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Deposits and Investments – The City'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.

The City reports its investments (when applicable) in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the City to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The City is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

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) is 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.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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 Position) 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 are reported as a deferred inflow or outflow or resources, separate from assets or liabilities, over the life of the bonds using the effective interest method. Bond issuance costs are expensed as incurred.

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.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity – The City has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this guidance, fund balances of governmental funds are categorized according to five defined categories of fund balance. These categories consist of nonspendable amounts which are legally or contractually required to be maintained intact, restricted amounts that are constrained for specific purposes set by external parties or law, committed amounts that are constraints set by the highest decision making authority (City Council) and may only be removed by those individuals, assigned amounts that have an intended but no formal specific purpose, and unassigned amounts which are the residual of the other categories and have no specific purpose.

It is the City's policy to generally use fund balance in order according to the hierarchy of fund balance categories, from restricted down to unassigned.

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 2012 had a taxable value of approximately \$143,000,000 (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 2012-13 was 14.9205 mills, with an additional .9947 mills levied for operations of the Mitchell Public Library.

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.

Adoption of New Accounting Standards – The Governmental Accounting Standards Board issued Statements 63 and 65, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and *Items Previously Reported as Assets and Liabilities*, which the City complied with effective July 1, 2012. The new standards provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.

Subsequent Events – Management has evaluated subsequent events through September 19, 2013, the date the financial statements were available to be issued.

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.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 2 - Stewardship, Compliance and Accountability (Continued)

Budgetary Information (Continued) – 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, 2013, expenditures that exceeded appropriations in the General Fund or major special revenue funds, if any, are disclosed in the Required Supplemental Information on pages 31-34.

Note 3 – Cash and Investments

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

	<u>Primary Government</u>	<u>Component Units</u>
Statement of Net Position:		
Cash and investments	\$6,738,612	\$ 634,751
Statement of Fiduciary Net Position:		
Hospital Private Purpose Trust Fund:		
Cash and investments	15,025	-
Agency Funds:		
Cash and investments	<u>15,615</u>	<u>-</u>
	<u>\$6,769,252</u>	<u>\$ 634,751</u>
	<u>Primary Government</u>	<u>Component Units</u>
Bank deposits (checking accounts, savings accounts and short-term CDs)	\$ 1,790,072	\$ (7,777)
Investments in securities, mutual funds and similar vehicles	4,977,430	642,528
Cash on hand	<u>1,750</u>	<u>-</u>
	<u>\$6,769,252</u>	<u>\$ 634,751</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.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 3 – Cash and Investments (Continued)

Rating S&P	Investment Type	Remaining Maturity		
		12 Months or Less	1 to 5 Years	Greater Than 5 Years
N/A	Certificates of Deposit	\$ 327,028	\$ 400,000	\$ -
AAAm	Michigan CLASS Investments Pool	1,421,092	-	-
AAA	U.S. Government Agency Bonds	156,228	2,911,370	-
N/A	Fidelity Government Money Market	403,087	-	-
N/A	Fidelity Investment Cash	1,153	-	-

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 \$1,421,092 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, \$1,743,996 of the City's bank balance of \$2,412,999 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 \$3,067,598.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 4 – Receivables

Receivables of the governmental activities of the primary government at June 30, 2013, consist of the following:

Other governmental units (primarily the State of Michigan)	\$104,468
Accounts receivable	82,011
Special assessments - short-term	53,000
Special assessments – long-term	<u>84,427</u>
	<u>\$323,906</u>

Note 5 - Capital Assets

Capital assets activity for the year ended June 30, 2013 was as follows:

Primary Government	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 8,246,290	\$ 23,179	\$ -	\$ 8,269,469
Capital assets being depreciated:				
Land improvements	470,348	151,785	-	622,133
Buildings and improvements	4,875,895	74,338	-	4,950,233
Books	294,504	20,271	34,670	280,105
Equipment and vehicles	2,853,154	10,750	46,446	2,817,458
Infrastructure	<u>25,117,575</u>	<u>997,150</u>	-	<u>26,114,725</u>
Total capital assets being depreciated	<u>33,611,476</u>	<u>1,254,294</u>	<u>81,116</u>	<u>34,784,654</u>
Accumulated depreciation:				
Land improvements	203,079	24,312	-	227,391
Buildings and improvements	1,594,790	95,012	-	1,689,802
Books	78,908	21,704	34,670	65,942
Equipment and vehicles	2,383,083	133,630	46,446	2,470,267
Infrastructure	<u>15,279,890</u>	<u>711,365</u>	-	<u>15,991,255</u>
Total accumulated depreciation	<u>19,539,750</u>	<u>986,023</u>	<u>81,116</u>	<u>20,444,657</u>
Total capital assets being depreciated - net	<u>14,071,726</u>	<u>268,271</u>	-	<u>14,339,997</u>
Governmental activities capital assets - net	<u>\$22,318,016</u>	<u>\$ 291,450</u>	\$ -	<u>\$22,609,466</u>
Business-Type Activities	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
Capital assets not being depreciated:				
Land	\$ 197,401	\$ -	\$ -	\$ 197,401
Construction in progress	<u>258,851</u>	-	<u>(28,313)</u>	<u>230,538</u>
Total capital assets not being depreciated	<u>456,252</u>	-	<u>(28,313)</u>	<u>427,939</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 5 - Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
Capital assets being depreciated:				
Equipment	401,654	122,470	(162,940)	361,184
Plant and systems	<u>57,051,044</u>	<u>826,646</u>	-	<u>57,877,690</u>
Total capital assets being depreciated	<u>57,452,698</u>	<u>949,116</u>	<u>(162,940)</u>	<u>58,238,874</u>
Accumulated depreciation:				
Equipment	282,834	39,428	(162,940)	159,322
Plant and systems	<u>35,537,946</u>	<u>1,091,480</u>	-	<u>36,629,426</u>
Total accumulated depreciation	<u>35,820,780</u>	<u>1,130,908</u>	<u>(162,940)</u>	<u>36,788,748</u>
Total capital assets being depreciated - net	<u>21,631,918</u>	<u>(181,792)</u>	-	<u>21,450,126</u>
Business-type activities capital assets - net	<u>\$22,088,170</u>	<u>\$ (181,792)</u>	<u>\$(28,313)</u>	<u>\$21,878,065</u>

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

Governmental Activities:	
Public safety	\$ 13,971
Highways and streets	658,081
Culture and recreation	129,020
Public works	47,722
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>100,861</u>
Total depreciation expense – governmental activities	<u>\$ 986,023</u>
Business-Type Activities:	
Electric	\$ 654,451
Water	237,074
Sewer	186,244
Transportation	<u>53,139</u>
Total depreciation expense – business-type activities	<u>\$ 1,130,908</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 position/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.

City of Hillsdale, Michigan
Notes to Financial Statements

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

	<u>Receivable</u>	<u>Payable</u>
Due from/to other funds:		
General Fund	\$ 103,337	\$ 8,622
Nonmajor Governmental Funds	77,174	78,027
Water Fund	321,882	3,794
Sewer Fund	400	740,414
Electric Fund	423,994	45,048
Agency Funds	-	4,151
Nonmajor Enterprise Fund	-	46,731
	<u>\$ 926,787</u>	<u>\$ 926,787</u>
	<u>Transfers In</u>	<u>Transfers Out</u>
Transfers:		
General Fund	\$ 139,162	\$ 677,959
Major Street Fund	-	96,232
Local Street	115,000	14,199
Nonmajor Governmental Funds	529,249	25,675
Component Units	-	22,615
Nonmajor Enterprise Fund	100,000	46,731
	<u>\$ 883,411</u>	<u>\$ 883,411</u>

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:

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

City of Hillsdale, Michigan
Notes to Financial Statements

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

The City of Hillsdale Board of Public Utilities (HBPU) 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, 2013, audited by other auditors whose report dated August 19, 2013, expressed an unmodified opinion for those statements.

The HBPU has entered into a Power Sales Contract with M.S.C.P.A. which requires the HBPU 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 HBPU 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 HBPU to sell to the agency power generated by its facilities.

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, 2013, is as follows:

	<u>Total M.S.C.P.A.</u>	<u>Hillsdale Board of Public Utilities Portion 25.5%</u>
Total assets	\$53,766,826	\$13,710,541
Total liabilities	<u>15,465,301</u>	<u>3,943,652</u>
Net Position	<u>\$38,301,525</u>	<u>\$ 9,766,889</u>
Operating revenues	\$54,805,738	\$13,975,463
Operating expenses	<u>53,896,853</u>	<u>13,743,698</u>
Operating Income	908,885	231,765
Other income and expenses	<u>(5,100,969)</u>	<u>(1,300,747)</u>
Changes in Net Position	(4,192,084)	(1,068,982)
Net Position, Beginning of Year	<u>42,493,609</u>	<u>10,835,871</u>
Net Position, End of Year	<u>\$38,301,525</u>	<u>\$ 9,766,889</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 8 – Debt

The City of Hillsdale's Board of Public Utilities maintains a \$250,000 line of credit with County National Bank bearing a 4% interest rate and which expires November 30, 2014. The balance on the line of credit as of the end of the fiscal year was \$250,000.

Long-term liability activity for the year ended June 30, 2013, 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	\$ 28,000	\$ -	\$ 28,000	\$ -	\$ -
Compensated absences	<u>208,532</u>	<u>10,401</u>	<u>-</u>	<u>218,933</u>	<u>28,000</u>
	<u>\$ 236,532</u>	<u>\$ 10,401</u>	<u>\$ 28,000</u>	<u>\$ 218,933</u>	<u>\$ 28,000</u>
Business-type activities:					
Revenue bonds	\$1,565,000	\$ -	\$ 499,000	\$1,066,000	\$ 347,000
Compensated absences	<u>176,782</u>	<u>22,850</u>	<u>-</u>	<u>199,632</u>	<u>-</u>
	<u>\$1,741,782</u>	<u>\$ 22,850</u>	<u>\$ 499,000</u>	<u>\$1,265,632</u>	<u>\$ 347,000</u>

For the governmental activities, compensated absences are primarily paid out of the General Fund.

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.

Revenue Bonds - The government also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. 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	3.50% - 3.90%	\$ 691,000
2002 Water Refunding	2015	3.625% - 4.00%	<u>375,000</u>
			<u>\$1,066,000</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 8 – Debt (Continued)

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 347,000	\$ 34,330
2015	361,000	20,750
2016	175,000	10,461
2017	<u>183,000</u>	<u>3,568</u>
Total	<u>\$1,066,000</u>	<u>\$ 69,109</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, 2013, 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 participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer public employee pension plan administered by the Retirement Board of MERS in accordance with the ME'R Act of 1984, as amended by 1996 Public Act 220 (as amended), as embodied in the MERS Plan Document (as revised). Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. 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 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) 767-2308.

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 – Using MERS information based upon a calendar 2012 year, the City contributed \$207,834 for pension costs, which is equal to 66% of the annual required contribution of \$316,680. The required contribution was determined as part of the December 31, 2012 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 8.0%, and (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation. 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, 2012, the date of the latest actuarial valuation, is being amortized as a level percentage of projected payroll on an open basis over 30 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>
6/30/10	\$229,262	100%	\$ -
6/30/11	205,119	100%	-
6/30/12	316,680	66%	108,846

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>
12/31/10	\$18,431,442	\$17,892,124	\$539,318	103%	\$3,632,843	0%
12/31/11	18,731,506	19,105,980	(374,474)	98%	3,508,427	11%
12/31/12	18,948,680	19,791,786	(843,106)	96%	3,238,980	26%

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.

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.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 13 – Dial-A-Ride Enterprise Fund (Continued)

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

Other Revenue – Other revenue, totaling \$396, consists of training cost reimbursements.

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.

Pension Plan - During the fiscal year July 1, 2012 through June 30, 2013, Dial-A-Ride paid \$1,749 in 50201 Pension. Of this amount, \$1,749 paid the actuarial required minimum contribution and \$0 was paid in excess of the actuarial required minimum contribution. The entire amount of \$1,749 was expensed on the books and is included in Dial-A-Ride's total eligible expenses for the fiscal year ending September 30, 2013.

Other Post-Employment Benefits - The transit agency did not incur, nor pay, any 50202 Other Post-Employment Benefits (OPEB).

Note 14 – Upcoming Accounting and Reporting Changes

The Government Accounting Standards Board has issued Statement 67, *Financial Reporting for Pension Plans*, and Statement 68, *Accounting and Financial Reporting for Pensions*. Statement 67 changes how public employee pension plans calculate and report their total pension liability. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. The effect of these changes has not been determined. Statement 67 is effective for the year ending June 30, 2015 and Statement 68 is effective for the year ending June 30, 2016.

Required Supplemental Information

City of Hillsdale, Michigan
 Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2013

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
City Taxes:			
Property	\$ 2,109,000	\$ 2,109,000	\$ 2,041,444
Administrative fees	71,000	71,000	71,358
Interest and penalties	35,000	35,000	34,549
Industrial facilities tax	25,000	25,000	27,740
Total city taxes	<u>2,240,000</u>	<u>2,240,000</u>	<u>2,175,091</u>
State revenue	753,000	753,000	784,688
Federal revenue	-	114,750	115,286
Licenses and permits	90,400	90,400	99,806
Charges for services	18,450	18,450	22,152
Fines and violations	5,600	5,600	7,137
Interest and rentals	78,200	78,200	90,568
Miscellaneous	711,020	711,020	733,253
Total revenues	<u>3,896,670</u>	<u>4,011,420</u>	<u>4,027,981</u>
Expenditures:			
General government:			
Council	29,945	37,945	33,651
City manager	202,835	202,835	200,478
Administrative	228,500	228,500	161,306
Elections	16,765	16,765	9,627
Assessor	145,920	145,920	136,880
Clerk	76,765	76,765	78,632
Finance department	100,605	100,605	95,205
Treasurer	120,965	120,965	124,682
Building and grounds	111,305	111,305	142,063
Parking lots	30,505	30,505	17,381
Cemetery	108,535	108,535	131,927
Airport	91,010	91,010	95,615
Total general government	<u>1,263,655</u>	<u>1,271,655</u>	<u>1,227,447</u>
Public safety:			
Police	1,307,930	1,307,930	1,295,343
Fire	471,210	585,960	555,516
Building inspector	8,465	8,465	1,716
Total public safety	<u>1,787,605</u>	<u>1,902,355</u>	<u>1,852,575</u>
Public works:			
Public services	290,395	290,395	259,254
Street lights	65,500	65,500	62,876
Total public works	<u>355,895</u>	<u>355,895</u>	<u>322,130</u>

Continued...

City of Hillsdale, Michigan
 Budgetary Comparison Schedule (Continued)
 General Fund
 Year Ended June 30, 2013

	Budgeted Amounts		Actual
	Original	Final	
Expenditures (Continued):			
Community and economic development:			
Planning	\$ 8,150	\$ 8,150	\$ 3,922
Economic development	60,520	60,520	65,746
Total community and economic development	<u>68,670</u>	<u>68,670</u>	<u>69,668</u>
Culture and recreation	<u>149,155</u>	<u>149,155</u>	<u>146,429</u>
Total expenditures	<u>3,624,980</u>	<u>3,747,730</u>	<u>3,618,249</u>
Revenues Over (Under) Expenditures	<u>271,690</u>	<u>263,690</u>	<u>409,732</u>
Other Financing Sources (Uses):			
Transfers in	140,000	140,000	139,162
Transfers out	(575,355)	(725,355)	(677,959)
Total other financing sources (uses)	<u>(435,355)</u>	<u>(585,355)</u>	<u>(538,797)</u>
Net Changes in Fund Balances	(163,665)	(321,665)	(129,065)
Fund Balances - Beginning of Year	<u>1,171,205</u>	<u>1,171,205</u>	<u>1,171,205</u>
Fund Balances - End of Year	<u>\$ 1,007,540</u>	<u>\$ 849,540</u>	<u>\$ 1,042,140</u>

City of Hillsdale, Michigan
 Budgetary Comparison Schedule
 Major Street Fund
 Year Ended June 30, 2013

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
State revenue	\$ 457,500	\$ 457,500	\$ 476,257
Interest and rentals	300	300	977
Miscellaneous	2,500	2,500	1,907
Total revenues	460,300	460,300	479,141
Expenditures:			
Highways and streets:			
Street surface	77,170	77,170	39,438
Trunkline street surface	11,775	11,775	3,281
R.O.W maintenance	69,655	69,655	106,830
Trunkline R.O.W. maintenance	9,130	9,130	5,815
Trees	45,080	45,080	44,485
Trunkline trees	745	745	593
Drainage	35,830	35,830	24,180
Trunkline R.O.W. drainage	5,100	5,100	126
Traffic	49,655	49,655	35,711
Trunkline traffic	6,550	6,550	4,766
Winter maintenance	83,000	83,000	64,820
Trunkline winter maintenance	22,625	22,625	19,675
Total highways and streets	416,315	416,315	349,720
Total expenditures	416,315	416,315	349,720
Revenues Over (Under) Expenditures	43,985	43,985	129,421
Other Financing Sources (Uses):			
Transfers out	(94,500)	(94,500)	(96,232)
Total other financing sources (uses)	(94,500)	(94,500)	(96,232)
Net Changes in Fund Balances	(50,515)	(50,515)	33,189
Fund Balances - Beginning of Year	218,692	218,692	218,692
Fund Balances - End of Year	\$ 168,177	\$ 168,177	\$ 251,881

City of Hillsdale, Michigan
 Budgetary Comparison Schedule
 Local Street Fund
 Year Ended June 30, 2013

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
State revenue	\$ 147,500	\$ 147,500	\$ 155,919
Miscellaneous	-	-	5,371
Total revenues	147,500	147,500	161,290
Expenditures:			
Highways and streets:			
Street surface	70,340	70,340	64,557
R.O.W maintenance	69,635	69,635	54,163
Trees	57,320	57,320	46,878
Drainage	22,385	22,385	16,650
Traffic	18,105	18,105	10,453
Winter maintenance	47,445	47,445	41,627
Total highways and streets	285,230	285,230	234,328
Total expenditures	285,230	285,230	234,328
Revenues Over (Under) Expenditures	(137,730)	(137,730)	(73,038)
Other Financing Sources (Uses):			
Transfers in	151,230	151,230	115,000
Transfers out	(13,500)	(13,500)	(14,199)
Total other financing sources (uses)	137,730	137,730	100,801
Net Changes in Fund Balances	-	-	27,763
Fund Balances - Beginning of Year	43,326	43,326	43,326
Fund Balances - End of Year	\$ 43,326	\$ 43,326	\$ 71,089

City of Hillsdale, Michigan
Municipal Employees Retirement System of Michigan
Year Ended June 30, 2013

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)
2008	17,395,167	16,606,847	(788,320)	104.7%	3,893,506	0.0%
2009	17,887,885	17,082,988	(804,897)	104.7%	3,769,712	0.0%
2010	18,431,442	17,892,124	(539,318)	103.0%	3,632,843	0.0%
2011	18,731,506	19,105,980	374,474	98.0%	3,508,427	10.7%
2012	18,948,680	19,791,786	843,106	95.7%	3,238,980	26.0%

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Annual Actual Contribution	Percentage Contributed
2008	231,791	231,791	100%
2009	240,089	240,089	100%
2010	229,262	229,262	100%
2011	283,176	205,119	72%
2012	316,680	207,834	66%

Other Supplemental Information

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2013

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Permanent Funds</u>	<u>Total</u>
<u>Assets</u>					
Cash and investments	\$ 215,758	\$ -	\$ 561,147	\$ 596,577	\$ 1,373,482
Accounts receivable	55,812	-	-	-	55,812
Due from other funds	112	-	-	77,062	77,174
Prepaid expenditures	4,606	-	-	-	4,606
Total assets	<u>\$ 276,288</u>	<u>\$ -</u>	<u>\$ 561,147</u>	<u>\$ 673,639</u>	<u>\$ 1,511,074</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 11,507	\$ -	\$ 100,031	\$ -	\$ 111,538
Accrued payroll and related liabilities	10,312	-	540	-	10,852
Due to other funds	78,027	-	-	-	78,027
Total liabilities	<u>99,846</u>	<u>-</u>	<u>100,571</u>	<u>-</u>	<u>200,417</u>
Fund Balances:					
Nonspendable:					
Prepaid expenditures	4,606	-	-	-	4,606
Restricted	171,836	-	460,576	673,639	1,306,051
Total fund balances	<u>176,442</u>	<u>-</u>	<u>460,576</u>	<u>673,639</u>	<u>1,310,657</u>
Total liabilities and fund balances	<u>\$ 276,288</u>	<u>\$ -</u>	<u>\$ 561,147</u>	<u>\$ 673,639</u>	<u>\$ 1,511,074</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2013

	Special Revenue	Debt Service	Capital Project	Permanent Funds	Total
Revenues:					
Taxes	\$ 137,842	\$ -	\$ -	\$ -	\$ 137,842
Intergovernmental - federal and state	16,449	-	377,474	-	393,923
Charges for services	58,433	-	-	10,125	68,558
Fines and violations	51,685	-	-	-	51,685
Interest and rentals	27,214	-	95	23,807	51,116
Miscellaneous	54,680	-	170,668	325	225,673
Total revenues	<u>346,303</u>	<u>-</u>	<u>548,237</u>	<u>34,257</u>	<u>928,797</u>
Expenditures:					
General government	-	-	-	500	500
Public safety	4,680	-	-	-	4,680
Culture and recreation	347,560	-	-	-	347,560
Debt service:					
Principal payments	-	28,000	-	-	28,000
Capital outlay	-	-	1,195,492	-	1,195,492
Total expenditures	<u>352,240</u>	<u>28,000</u>	<u>1,195,492</u>	<u>500</u>	<u>1,576,232</u>
Revenues Over (Under) Expenditures	<u>(5,937)</u>	<u>(28,000)</u>	<u>(647,255)</u>	<u>33,757</u>	<u>(647,435)</u>
Other Financing Sources (Uses):					
Gain (loss) on sale of investment	-	-	-	(12,870)	(12,870)
Transfers in	72,965	24,995	381,289	-	479,249
Transfers out	(2,000)	-	-	(23,675)	(25,675)
Total other financing sources (uses)	<u>70,965</u>	<u>24,995</u>	<u>381,289</u>	<u>(36,545)</u>	<u>440,704</u>
Changes in Fund Balances	65,028	(3,005)	(265,966)	(2,788)	(206,731)
Fund Balances - Beginning of Year	<u>111,414</u>	<u>3,005</u>	<u>726,542</u>	<u>676,427</u>	<u>1,517,388</u>
Fund Balances - End of Year	<u>\$ 176,442</u>	<u>\$ -</u>	<u>\$ 460,576</u>	<u>\$ 673,639</u>	<u>\$ 1,310,657</u>

City of Hillsdale, Michigan
 Combining Balance Sheet
 Nonmajor Special Revenue Funds
 June 30, 2013

	Library	Recreation Commission	Drug Forfeitures	Police Public Relations	Fire Equipment	Total
Assets						
Cash and cash equivalents	\$ 741	\$ 13,492	\$ 711	\$ 1,098	\$ -	\$ 16,042
Investments	134,311	-	-	-	65,405	199,716
Accounts receivable	55,329	483	-	-	-	55,812
Due from other funds	112	-	-	-	-	112
Prepaid expenditures	1,254	3,352	-	-	-	4,606
Total assets	\$ 191,747	\$ 17,327	\$ 711	\$ 1,098	\$ 65,405	\$ 276,288

Liabilities and Fund Balances

Liabilities:						
Accounts payable	\$ 3,413	\$ 7,807	\$ -	\$ 287	\$ -	\$ 11,507
Accrued payroll and related liabilities	4,596	5,716	-	-	-	10,312
Due to other funds	77,801	226	-	-	-	78,027
Total liabilities	\$ 85,810	\$ 13,749	\$ -	\$ 287	\$ -	\$ 99,846
Fund Balances:						
Nonspendable:						
Prepaid expenditures	1,254	3,352	-	-	-	4,606
Restricted	104,683	226	711	811	65,405	171,836
Total fund balances	\$ 105,937	\$ 3,578	\$ 711	\$ 811	\$ 65,405	\$ 176,442
Total liabilities and fund balances	\$ 191,747	\$ 17,327	\$ 711	\$ 1,098	\$ 65,405	\$ 276,288

City of Hillsdale, Michigan
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Special Revenue Funds
 Year Ended June 30, 2013

	Library	Recreation Commission	Drug Forfeitures	Police Public Relations	Fire Equipment	Total
Revenues:						
Taxes	\$ 137,842	\$ -	\$ -	\$ -	\$ -	\$ 137,842
Intergovernmental - federal and state	16,449	-	-	-	-	16,449
Charges for services	20,702	37,731	-	-	-	58,433
Fines and violations	51,685	-	-	-	-	51,685
Interest and rentals	7,041	20,120	-	-	53	27,214
Miscellaneous	45,663	4,232	-	4,144	641	54,680
Total revenues	<u>279,382</u>	<u>62,083</u>	<u>-</u>	<u>4,144</u>	<u>694</u>	<u>346,303</u>
Expenditures:						
Public safety	-	-	-	4,680	-	4,680
Culture and recreation	231,228	116,332	-	-	-	347,560
Total expenditures	<u>231,228</u>	<u>116,332</u>	<u>-</u>	<u>4,680</u>	<u>-</u>	<u>352,240</u>
Revenues Over (Under) Expenditures	<u>48,154</u>	<u>(54,249)</u>	<u>-</u>	<u>(536)</u>	<u>694</u>	<u>(5,937)</u>
Other Financing Sources (Uses):						
Transfers in	-	47,965	-	-	25,000	72,965
Transfers out	(2,000)	-	-	-	-	(2,000)
Total other financing sources (uses)	<u>(2,000)</u>	<u>47,965</u>	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>70,965</u>
Changes in Fund Balances	46,154	(6,284)	-	(536)	25,694	65,028
Fund Balances - Beginning of Year	59,783	9,862	711	1,347	39,711	111,414
Fund Balances - End of Year	<u>\$ 105,937</u>	<u>\$ 3,578</u>	<u>\$ 711</u>	<u>\$ 811</u>	<u>\$ 65,405</u>	<u>\$ 176,442</u>

City of Hillsdale, Michigan
 Combining Balance Sheet
 Nonmajor Debt Service Fund
 June 30, 2013

		<u>Bond and Interest</u>
	<u>Assets</u>	
Cash and cash equivalents		\$ -
		<hr/> <hr/>
	<u>Fund Balance</u>	
Restricted		-
Total fund balance		\$ -
		<hr/> <hr/>

City of Hillsdale, Michigan
 Combining Statement of Revenues, Expenditures and
 Changes in Fund Balances
 Nonmajor Debt Service Fund
 Year Ended June 30, 2013

	Bond and Interest
Revenue:	
Interest income	\$ -
Expenditures:	
Principal retirement	28,000
Interest and fiscal charges	-
Total expenditures	28,000
Revenues Under Expenditures	(28,000)
Other Financing Sources:	
Transfers in	24,995
Changes in Fund Balance	(3,005)
Fund Balance - Beginning of Year	3,005
Fund Balance - End of Year	\$ -

City of Hillsdale, Michigan
 Combining Balance Sheet
 Nonmajor Capital Project Funds
 June 30, 2013

	Library Improvement	Three Meadows	Field of Dreams	Stock Park	Capital Improvement	Total
Assets						
Cash and cash equivalents	\$ 13,144	\$ -	\$ 1,670	\$ (125)	\$ 502,758	\$ 517,447
Investments	-	-	10,455	33,245	-	43,700
Total assets	\$ 13,144	\$ -	\$ 12,125	\$ 33,120	\$ 502,758	\$ 561,147
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ 72	\$ 99,959	\$ 100,031
Accrued payroll and related liabilities	-	-	-	-	540	540
Total liabilities	-	-	-	72	100,499	100,571
Fund Balances:						
Restricted	13,144	-	12,125	33,048	402,259	460,576
Total fund balances	13,144	-	12,125	33,048	402,259	460,576
Total liabilities and fund balances	\$ 13,144	\$ -	\$ 12,125	\$ 33,120	\$ 502,758	\$ 561,147

City of Hillsdale, Michigan
 Combining Statement of Revenues, Expenditures and
 Changes in Fund Balances
 Nonmajor Capital Project Funds
 Year Ended June 30, 2013

	Library Improvement	Three Meadows	Field of Dreams	Stock Park	Capital Improvement	Total
Revenues:						
Intergovernmental - federal and state	\$ -	\$ -	\$ -	\$ -	\$ 377,474	\$ 377,474
Interest and rentals	-	-	11	84	-	95
Miscellaneous	1,352	-	3,198	27,431	138,687	170,668
Total revenues	1,352	-	3,209	27,515	516,161	548,237
Expenditures:						
Capital outlay	2,549	423	609	13,313	1,178,598	1,195,492
Total expenditures	2,549	423	609	13,313	1,178,598	1,195,492
Revenues Over (Under) Expenditures	(1,197)	(423)	2,600	14,202	(662,437)	(647,255)
Other Financing Sources (Uses):						
Transfers in	-	-	-	-	381,289	381,289
Total other financing sources (uses)	-	-	-	-	381,289	381,289
Changes in Fund Balances	(1,197)	(423)	2,600	14,202	(281,148)	(265,966)
Fund Balances - Beginning of Year	14,341	423	9,525	18,846	683,407	726,542
Fund Balances - End of Year	\$ 13,144	\$ -	\$ 12,125	\$ 33,048	\$ 402,259	\$ 460,576

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Permanent Funds
June 30, 2013

	<u>R.L. Owen Memorial</u>	<u>Cemetery Perpetual Care</u>	<u>Stock Park Maintenance</u>	<u>Total</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 31,428	\$ 362,451	\$ 300	\$ 394,179
Investments, at cost	-	183,766	18,632	202,398
Accounts receivable	-	-	-	-
Due from other funds	-	77,062	-	77,062
Total assets	<u>\$ 31,428</u>	<u>\$ 623,279</u>	<u>\$ 18,932</u>	<u>\$ 673,639</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Due to other agencies	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balances:				
Restricted	<u>31,428</u>	<u>623,279</u>	<u>18,932</u>	<u>673,639</u>
Total fund balances	<u>31,428</u>	<u>623,279</u>	<u>18,932</u>	<u>673,639</u>
Total liabilities and fund balances	<u>\$ 31,428</u>	<u>\$ 623,279</u>	<u>\$ 18,932</u>	<u>\$ 673,639</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Permanent Funds
Year Ended June 30, 2013

	R.L. Owen Memorial	Cemetery Perpetual Care	Stock Park Maintenance	Total
Revenues:				
Charges for services	\$ -	\$ 10,125	\$ -	\$ 10,125
Interest and rentals	5,870	17,820	117	23,807
Miscellaneous	-	-	325	325
Total revenues	5,870	27,945	442	34,257
Expenditures:				
General government	-	500	-	500
Total expenditures	-	500	-	500
Revenues Over (Under) Expenditures	5,870	27,445	442	33,757
Other Financing Sources (Uses):				
Gain (loss) on sale of investment	-	(12,870)	-	(12,870)
Transfers out	(3,675)	(20,000)	-	(23,675)
Total other financing sources (uses)	(3,675)	(32,870)	-	(36,545)
Changes in Fund Balances	2,195	(5,425)	442	(2,788)
Fund Balances - Beginning of Year	29,233	628,704	18,490	676,427
Fund Balances - End of Year	\$ 31,428	\$ 623,279	\$ 18,932	\$ 673,639

City of Hillsdale, Michigan

Local Revenues

Dial-A-Ride Enterprise Fund

Year End June 30, 2013

	<u>7/1/2012 - 9/30/2012</u>	<u>10/1/2012 - 6/30/2013</u>	<u>7/1/2012 - 6/30/13</u>
Operating Revenues and Transfers:			
Demand response (farebox) - nonurban	\$ 9,850	\$ 39,843	\$ 49,693
Other	-	-	-
Transfer in from general fund	-	100,000	100,000
Total local revenues	<u>\$ 9,850</u>	<u>\$ 139,843</u>	<u>\$ 149,693</u>

City of Hillsdale, Michigan
 Local Revenues
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2012 Year End

	<u>10/1/2011 - 6/30/2012</u>	<u>7/1/2012 - 9/30/2012</u>	<u>10/1/2011 - 9/30/2012</u>
Operating Revenues and Transfers:			
Demand response (farebox) - nonurban	\$ 41,096	\$ 9,850	\$ 50,946
Other - sale of bus	-	1,160	1,160
Transfer in from general fund	<u>75,000</u>	<u>-</u>	<u>75,000</u>
 Total local revenues	 <u>\$ 116,096</u>	 <u>\$ 11,010</u>	 <u>\$ 127,106</u>

City of Hillsdale, Michigan
 Federal and State Awards
 Dial-A-Ride Enterprise Fund
 Year End June 30, 2013

	<u>7/1/2012 - 9/30/2012</u>	<u>10/1/2012 - 6/30/2013</u>	<u>7/1/2012 - 6/30/2013</u>
Michigan Department of Transportation			
Local bus operating	\$ 27,282	\$ 90,855	\$ 118,137
Federal Transit Administration			
Section 5311	15,517	35,660	51,177
Capital grant	-	124,594	124,594
RTAP	-	396	396
Total federal and state awards	<u>\$ 42,799</u>	<u>\$ 251,505</u>	<u>\$ 294,304</u>

City of Hillsdale, Michigan
 Federal and State Awards
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2012 Year End

	<u>10/1/2011 - 6/30/2012</u>	<u>7/1/2012 - 9/30/2012</u>	<u>Total</u>
Michigan Department of Transportation			
Local bus operating	\$ 104,084	\$ 27,282	\$ 131,366
Federal Transit Administration			
Section 5311	54,777	15,517	70,294
Capital grant	19,761	-	19,761
RTAP	514	-	514
Total federal and state awards	<u>\$ 179,136</u>	<u>\$ 42,799</u>	<u>\$ 221,935</u>

City of Hillsdale, Michigan

Expenditures of Federal and State Awards

Dial-A-Ride Enterprise Fund

Year Ended June 30, 2013

	Federal CFDA Number	Grant Number Authorization Number	Program Award Amount	Current Year's Expenditures		Prior Years' Expenditures	Award Amount Remaining
				Total	State		
				Federal			
Federal and State Grantor/Pass Through Grantor/Program Title							
US Department of Transportation							
Passed through Michigan Department of Transportation							
Federal Transit Capital Grants							
Capital Grant	20.500	2007-0223/Z7	\$ 30,000	\$ 2,175	\$ -	\$ 27,825	\$ -
Capital Grant Section 5309	20.500	2012-0097/P1	122,419	97,935	24,484	-	-
Operating assistance - Section 5311 2012		2012-0097/P2	51,144	29,499	-	24,937	(3,292)
Operating assistance - Section 5311 2013		2012-0097/P3	52,080	21,678	-	-	30,402
Michigan Department of Transportation							
Operating Assistance - Act 51							
Nonurban - 2013	N/A	N/A	125,281	93,960	93,960	-	-
Nonurban - 2012	N/A	N/A	-	30,390	30,390	-	-
Nonurban - 2011	N/A	N/A	116,719	(6,213)	(6,213)	-	-
			\$ 497,643	\$ 293,908	\$ 151,287	\$ 52,762	\$ 27,110

City of Hillsdale, Michigan
 Operating and Contract Expenses
 Dial-A-Ride Enterprise Fund
 Year Ending June 30, 2013

	Nonurban	Total
Labor	\$ 167,913	\$ 167,913
Fringe benefits	68,432	68,432
Services	8,464	8,464
Materials & supplies	31,364	31,364
Insurance	11,656	11,656
Utilities	11,043	11,043
Miscellaneous	2,929	2,929
Depreciation	53,139	53,139
Capital	1,505	1,505
 Total expenses	 \$ 356,446	 \$ 356,446

City of Hillsdale, Michigan
 Operating and Contract Expenses
 Dial-A-Ride Enterprise Fund
 Year Ending June 30, 2013

	Nonurban		Total
	07/01/2012 - 09/30/2012	10/1/2012 - 6/30/2013	
Labor	\$ 30,049	\$ 137,865	\$ 167,913
Fringe benefits	18,686	49,747	68,432
Materials & supplies	4,361	27,383	31,744
Services	735	9,434	10,169
Insurance	-	11,656	11,656
Utilities	1,566	9,478	11,043
Miscellaneous	95	749	844
Depreciation	-	53,139	53,139
Capital	1,505	-	1,505
Total expenses	\$ 56,996	\$ 299,451	\$ 356,446

City of Hillsdale, Michigan
 Operating and Contract Expenses
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2012 Year End

	Nonurban		Total
	10/1/2011 - 6/30/2012	7/1/2012 - 9/30/2012	
Labor	\$ 132,727	\$ 30,049	\$ 162,776
Fringe benefits	51,972	18,686	70,658
Services	8,302	4,361	12,663
Materials & supplies	24,611	735	25,346
Insurance	12,187	-	12,187
Utilities	8,390	1,566	9,956
Miscellaneous	1,083	95	1,178
Depreciation	35,643	-	35,643
Capital	8,745	1,505	10,250
Total expenses	\$ 283,660	\$ 56,996	\$ 340,656

City of Hillsdale, Michigan
 Nonurban Regular Service Revenue Report
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2012 Year End

<u>Code</u>	<u>Description</u>	<u>Amount</u>
401	Farebox Revenue	
40100	Passenger Fares	\$ 50,946
407	NonTrans Revenues	
40760	Gains from the sale of capital assets	1,160
409	Local Revenues	
40910	Local operating assistance	75,000
411	State Formula and Contracts	
41101	State operating assistance	131,366
413	Federal Contracts	
41301	Federal Section 5311 (operating funds only)	70,294
41314	Capital contract reimbursement	21,936
41398	RTAP	514
	Total revenues	<u>\$ 351,216</u>

City of Hillsdale, Michigan
 Nonurban Regular Service Expense Report
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2012 Year End

<u>Code</u>	<u>Description</u>	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total</u>
501	Labor				
50101	Operators' salaries and wages	\$ 100,830	\$ -	\$ -	\$ 100,830
50102	Other salaries and wages		5,072	22,248	27,320
50103	Dispatchers salaries and wages	34,625	-	-	34,625
502	Fringe Benefits				
50200	Other fringe benefits	59,792	2,172	8,695	70,659
503	Services				
50305	Audit costs	-	-	-	-
50399	Other	4,182	-	5,407	9,589
504	Materials and Supplies				
50401	Fuel and lubricants	24,024	-	-	24,024
50402	Tires and tubes	483	-	-	483
50499	Other materials and supplies	1,331	3,154	-	4,485
505	Utilities				
50500	Utilities	6,388	-	-	6,388
506	Insurance				
50603	Liability insurance	8,565	-	-	8,565
50699	Other insurance	-	-	3,622	3,622
509	Miscellaneous Expenses				
50902	Travel, meetings and training	-	-	-	-
50999	Miscellaneous	-	-	4,173	4,173
512	Operating Leases and Rentals				
51200	Operating leases and rentals	-	-	-	-
513	Depreciation				
51300	Depreciation	35,643	-	-	35,643
550	Ineligible Expenses				
55007	Ineligible depreciation	35,643	-	-	35,643
574	Ineligible Expenses				
57402	Ineligible RTAP	514	-	-	514
	Total expenses				<u>\$ 330,406</u>
	Total ineligible expenses				<u>\$ 36,157</u>
	Total eligible expenses				<u>\$ 294,249</u>

City of Hillsdale, Michigan
 Nonurban Regular Service Non-Financial Information
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2012 Year End

	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
Non-Financial Information				
Annual Reconciliation				
10/1/2011-9/30/2012				
Vehicle Hours	5,224	-	-	5,224
Vehicle Miles	<u>51,722</u>	<u>-</u>	<u>-</u>	<u>51,722</u>
Passengers Reg.	15,606	-	-	15,606
Passengers - Sr	2,402	-	-	2,402
Passengers - Per. Disb.	7,052	-	-	7,052
Passengers - Sr. Disb.	<u>3,902</u>	<u>-</u>	<u>-</u>	<u>3,902</u>
Total Demand - Response	<u><u>28,962</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>28,962</u></u>
Days Operated	<u><u>250</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>250</u></u>
	<u>Quantity</u>			
Total Demand - Response Vehicles	4			
Demand-Response Vehicles w/Lifts	4			
Diesel/Gasoline Gallons Consumed	7,415			
Total Transit (full-time equivalent) Employees	5			
Total Revenue Vehicles (full-time equivalent) Operators	4			

City of Hillsdale, Michigan
 Operating Assistance Calculation
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2012 Year End

	Nonurban
Total expenses	\$ 330,406
Less ineligible expenses:	
Depreciation	35,643
RTAP	514
Capital expenditures	-
Total State eligible expenses	\$ 294,249
Eligible expenses for State reimbursement	\$ 294,249
Reimbursement percentage	0.3624
State operating assistance	\$ 106,636
Toal federal eligible expenses	294,249
Less additional federal ineligible expenses per A-87:	
Audit costs	1,698
Eligible expenses for federal reimbursement	292,551
Reimbursement percentage	0.1850
Section 5311 operating assistance	\$ 54,122

City of Hillsdale, Michigan
Combining Statement of Net Position
Internal Service Funds
June 30, 2013

	<u>Department of Public Service Leave & Benefits</u>	<u>Public Service Inventory</u>	<u>Revolving Mobile Equipment</u>	<u>Unemployment Insurance</u>	<u>Total</u>
Assets:					
Current assets:					
Cash and cash equivalents	\$ 15,849	\$ 34,266	\$ 172,441	\$ -	\$ 222,556
Investments	-	-	-	58,476	58,476
Accounts receivable	-	100	-	-	100
Inventory	-	211,633	-	-	211,633
Prepaid expenses	19,647	-	21,925	-	41,572
Total current assets	<u>35,496</u>	<u>245,999</u>	<u>194,366</u>	<u>58,476</u>	<u>534,337</u>
Capital assets:					
Equipment	-	-	1,809,679	-	1,809,679
Less: accumulated depreciation	-	-	(1,590,949)	-	(1,590,949)
Total capital assets, net	<u>-</u>	<u>-</u>	<u>218,730</u>	<u>-</u>	<u>218,730</u>
Total assets	<u>35,496</u>	<u>245,999</u>	<u>413,096</u>	<u>58,476</u>	<u>753,067</u>
Liabilities:					
Current liabilities:					
Accounts payable	317	960	13,359	-	14,636
Accrued payroll and related liabilities	-	-	2,429	-	2,429
Total current liabilities	<u>317</u>	<u>960</u>	<u>15,788</u>	<u>-</u>	<u>17,065</u>
Other liabilities:					
Compensated absences	27,284	-	2,749	-	30,033
Total liabilities	<u>27,601</u>	<u>960</u>	<u>18,537</u>	<u>-</u>	<u>47,098</u>
Net Position:					
Net investment in capital assets	-	-	218,730	-	218,730
Unrestricted	7,895	245,039	175,829	58,476	487,239
Total net position	<u>\$ 7,895</u>	<u>\$ 245,039</u>	<u>\$ 394,559</u>	<u>\$ 58,476</u>	<u>\$ 705,969</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenses
and Changes in Net Position
Internal Service Funds
Year Ended June 30, 2013

	Department of Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	Total
Operating Revenues:					
Charges for services	\$ -	\$ 110,209	\$ 346,384	\$ -	\$ 456,593
Miscellaneous	125,322	-	6,300	9,200	140,822
Total operating revenues	125,322	110,209	352,684	9,200	597,415
Operating Expenses:					
Salaries	44,563	3,942	69,817	-	118,322
Fringe benefits	80,759	415	34,567	-	115,741
Supplies	-	87,578	6,437	-	94,015
Contracted services	-	246	27,282	-	27,528
Maintenance	-	-	138,191	-	138,191
Insurance	-	-	32,801	-	32,801
Miscellaneous	-	7,613	9,553	1,053	18,219
Capital outlay	-	-	3,745	-	3,745
Depreciation	-	-	100,861	-	100,861
Total operating expenses	125,322	99,794	423,254	1,053	649,423
Operating Income (Loss)	-	10,415	(70,570)	8,147	(52,008)
Nonoperating Revenues:					
Gain (loss) on disposal of assets	-	-	5,258	-	5,258
Interest income	-	-	833	61	894
	-	-	6,091	61	6,152
Changes in Net Position	-	10,415	(64,479)	8,208	(45,856)
Net Position - Beginning of Year	7,895	234,624	459,038	50,268	751,825
Net Position - End of Year	\$ 7,895	\$ 245,039	\$ 394,559	\$ 58,476	\$ 705,969

City of Hillsdale, Michigan
Combining Statement of Cash Flows
Internal Service Funds
Year Ended June 30, 2013

	Department of Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	Total
Cash Flows From Operating Activities:					
Cash paid to suppliers	\$ (86,264)	\$ (99,292)	\$ (258,244)	\$ (1,053)	\$ (444,853)
Cash paid to employees	(41,233)	(4,587)	(69,765)	-	(115,585)
Receipts for interfund services provided	125,322	110,109	352,684	9,200	597,315
Net cash provided by (used in) operating activities	<u>(2,175)</u>	<u>6,230</u>	<u>24,675</u>	<u>8,147</u>	<u>36,877</u>
Cash Flows From Capital and Related Financing Activities:					
Proceeds from the disposal of capital assets	-	-	5,259	-	5,259
Net cash provided by (used in) capital and related financing activities	<u>-</u>	<u>-</u>	<u>5,259</u>	<u>-</u>	<u>5,259</u>
Cash Flows From Investing Activities:					
Purchase of investments	-	-	-	(8,208)	(8,208)
Interest income	-	-	833	61	894
Net cash provided by (used in) investing activities	<u>-</u>	<u>-</u>	<u>833</u>	<u>(8,147)</u>	<u>(7,314)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,175)	6,230	30,767	-	34,822
Cash and Cash Equivalents - Beginning of Year	18,024	28,036	141,674	-	187,734
Cash and Cash Equivalents - End of Year	<u>\$ 15,849</u>	<u>\$ 34,266</u>	<u>\$ 172,441</u>	<u>\$ -</u>	<u>\$ 222,556</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating income (loss)	\$ -	\$ 10,415	\$ (70,570)	\$ 8,147	\$ (52,008)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	-	-	100,861	-	100,861
Changes in:					
Accounts receivable	-	(100)	-	-	(100)
Inventory	-	(4,322)	-	-	(4,322)
Prepaid expenses	(5,822)	-	(4,009)	-	(9,831)
Accounts payable	317	882	(1,659)	-	(460)
Accrued expenses	3,330	(645)	52	-	2,737
Net Cash Provided by (Used in) Operating Activities	<u>\$ (2,175)</u>	<u>\$ 6,230</u>	<u>\$ 24,675</u>	<u>\$ 8,147</u>	<u>\$ 36,877</u>



**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Hillsdale, Michigan's basic financial statements and have issued our report thereon dated October 18, 2013.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as 2013-2 to be a material weakness.

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. We consider the deficiency described in the accompany schedule of findings and responses as 2013-1 to be a significant deficiency.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hillsdale, Michigan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Hillsdale, Michigan's Response to Findings

City of Hillsdale, Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Hillsdale, Michigan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

Jackson, Michigan
October 18, 2013

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

Schedule of Findings and Responses

2013-1 – 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: 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 the expertise to prepare the financial statements. We will continue to use our external auditors for technical assistance. We would expect this situation to be ongoing in future years.

2013-2 – 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: Various accounts were not reconciled and adjusted prior to audit fieldwork.

Effect: Certain funds, public service inventory fund, hospital trust fund and electric fund, were materially inaccurate.

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.