

CITY OF HILLSDALE, MICHIGAN

YEAR ENDED JUNE 30, 2018

CITY OF HILLSDALE, MICHIGAN
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
(with required supplementary information)
YEAR ENDED JUNE 30, 2018

CITY OF HILLSDALE, MICHIGAN

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Hillsdale, Michigan
Hillsdale, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan, as of and for the year ended June 30, 2018, 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.

Auditor's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 – xiii, as well as the budgetary comparison information and retirement system information on pages 35 - 40, 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 supplementary 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 November 20, 2018 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.

CHBW & Co., P.C.

Certified Public Accountants

Hillsdale, Michigan
November 20, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2018.

Financial Highlights

- The amount that the City assets and deferred outflows of resources exceeded its liabilities at the close of the most recent fiscal year was \$59,728,085 (*net position*). Of this amount, \$10,068,909 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Governmental activities change in net position increased \$435,361. Business-type activities change in net position increased \$2,164,303. The combined net change in net position increased 1,853% or \$2,599,664.
- The Government Accounting Standards Board (GASB) Statement No. 68 requires that the Net Pension Liability be calculated and reported on the Government Wide Statements. The net pension liability is determined by an annual actuarial valuation as of December 31, 2017 combined with the City's pension contributions for January – June 2018. The City's net pension liability for both governmental and business type activities for the fiscal year ending June 30, 2018 was \$4,010,123. This is about a 16% decrease from fiscal year 2017.
- As of the close of the current fiscal year, the City's Governmental funds reported combined ending fund balances of \$4,094,983. That is up \$215,676 or five and one-half percent (5.56%) from the prior year.
- Investment in Michigan South Central Power Agency increased \$701,902.
- Council established the policy of maintaining a minimum General Fund balance reserve of fifteen percent (15%) in 1992. At the end of the current fiscal year, total fund balance for the general fund was \$918,442. That represents nineteen percent (19.20%) of total budgeted general fund expenditures for fiscal year 2018-19.
- The first principal payments on the 2015 and 2016 twenty year revenue bonds for the Wastewater Treatment Plant renovations were made in April 2018.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of 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, and 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* are 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 major and local street funds, each of which are considered to be major funds. Data from the other fifteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

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

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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-34 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 41-48 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 and deferred outflows exceeded liabilities and deferred inflows by \$59,728,085 at the close of the 2018 fiscal year.

The total governmental and business-type activities *total liabilities* increased \$2,869,653, or almost twenty-six percent (25.70%) from the prior year. This increase is directly related to the wastewater treatment plant renovations financed with the 2015 and 2016 revenue bonds.

By far the largest portion of the City's assets, more than seventy-seven percent (77.87%), are invested 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		Total		
	2017	2018	2017	2018	2017	2018	
Current and Other Assets	\$4,490,516	\$5,015,807	\$12,942,780	\$14,465,975	\$17,433,296	\$19,481,782	11.75%
Capital Assets	\$22,530,440	\$22,895,178	\$27,057,540	\$31,295,865	\$49,587,980	\$54,191,043	9.28%
Total Assets	\$27,020,956	\$27,910,985	\$40,000,320	\$45,761,840	\$67,021,276	\$73,672,825	9.92%
Deferred Outflows	764,367	692,430	686,062	598,139	1,450,429	1,290,569	-11.02%
Long-term Liabilities Outstanding	\$288,560	\$219,295	\$3,707,631	\$7,816,336	\$3,996,191	\$1,999,204	-49.97%
Net Pension Liability	\$2,506,673	\$2,170,797	\$2,249,841	\$1,839,326	\$4,756,514	\$4,010,123	-15.69%
Other Liabilities	\$158,183	\$481,393	\$2,253,618	\$1,507,012	\$2,411,801	\$8,024,832	232.73%
Total Liabilities	\$2,953,416	\$2,871,485	\$8,211,090	\$11,162,674	\$11,164,506	\$14,034,159	25.70%
Deferred Inflows	\$98,617	\$554,925	\$88,515	\$646,225	\$187,132	\$1,201,150	541.87%
Net Position:							
Invested In Capital Assets Net of Related Debt	\$22,530,440	\$22,895,178	\$22,916,878	\$23,614,797	\$45,447,318	\$46,509,975	2.34%
Restricted	\$2,774,248	\$2,798,156	\$0	\$351,045	\$2,774,248	\$3,149,201	13.52%
Unrestricted	(\$563,044)	(\$516,329)	\$9,469,899	\$10,585,238	\$8,906,855	\$10,068,909	13.05%
Net Position	\$24,741,644	\$25,177,005	\$32,386,777	\$34,551,080	\$57,128,421	\$59,728,085	4.55%

A portion of the City's assets (\$3,149,201) represents resources that are subject to internal and external restrictions on how they may be used. The remaining balance of \$10,068,909 are *unrestricted assets* that may be used to meet the government's ongoing obligations to citizens and creditors. That amount increased \$1,162,054, or about thirteen percent (13.05%) from the prior year. The net gain is related to the increase in current and other assets along with the continued increase in capital investments related to the Wastewater Treatment Plant renovations.

City's Changes in Net Position

	Governmental		Business-type		Total		Percentage Change
	Activities 2017	2018	Activities 2017	2018	2017	2018	
Revenues:							
Program Revenues:							
Charges for Services	\$346,692	\$427,490	\$16,826,568	\$16,584,845	\$17,173,260	\$17,012,335	-0.94%
Operating Grants & Contributions	\$1,270,527	\$1,225,955	\$211,500	\$253,422	\$1,482,027	\$1,479,377	-0.18%
Capital Grants & Contributions	\$218,437	\$370,528	\$676,154	\$77,643	\$894,591	\$448,171	-49.90%
Total Revenues	\$1,835,656	\$2,023,973	\$17,714,222	\$16,915,910	\$19,549,878	\$18,939,883	-3.12%
Expenses:							
General Government	\$1,432,624	\$1,903,729			\$1,432,624	\$1,903,729	32.88%
Public Safety	\$2,322,162	\$2,055,304			\$2,322,162	\$2,055,304	-11.49%
Public Services	\$415,786	\$284,101			\$415,786	\$284,101	-31.67%
Highways & Streets	\$1,740,713	\$1,608,675			\$1,740,713	\$1,608,675	-7.59%
Community & economic development	\$327,956	\$188,345			\$327,956	\$188,345	-42.57%
Recreation & Culture	\$659,332	\$710,193			\$659,332	\$710,193	7.71%
Capital Outlay & Other	\$36,717	\$116,281			\$36,717	\$116,281	216.70%
Unallocated Depreciation	\$35,500	\$36,282			\$35,500	\$36,282	2.20%
Electric			\$12,963,810	\$11,461,468	\$12,963,810	\$11,461,468	-11.59%
Water			\$1,257,425	\$1,204,905	\$1,257,425	\$1,204,905	-4.18%
Sewer			\$1,395,034	\$1,444,234	\$1,395,034	\$1,444,234	3.53%
Transportation			\$347,446	\$345,868	\$347,446	\$345,868	-0.45%
Total Expenses	\$6,970,790	\$6,902,910	\$15,963,715	\$14,456,475	\$22,934,505	\$21,359,385	-6.87%
Increase (Decrease) in Net Position Before Transfers	(\$5,135,134)	(\$4,878,937)	\$1,750,507	\$2,459,435	(\$3,384,627)	(\$2,419,502)	-28.51%
General Revenues:							
Taxes	\$3,104,954	\$2,507,444			\$3,104,954	\$2,507,444	-19.24%
To Specific Programs	\$1,061,458	\$1,054,030			\$1,061,458	\$1,054,030	-0.70%
Unrestricted Investment Earnings	\$23,432	\$46,616	\$14,923	\$601,068	\$38,355	\$647,684	1588.66%
Other Revenues	\$658,309	\$739,337	\$93,696	\$70,671	\$752,005	\$810,008	7.71%
Transfers - Internal Activity	(\$51,929)	\$966,871	\$51,929	(\$966,871)	\$0	\$0	0.00%
Total General Revenues	\$4,796,224	\$5,314,298	\$160,548	(\$295,132)	4,956,772	5,019,166	1.26%
Extroinary item - loss on investment			(\$1,439,037)		(1,439,037)	\$0	-100.00%
Changes in Net Position	(\$338,910)	\$435,361	\$472,018	\$2,164,303	\$133,108	\$2,599,664	1853.05%
Net Position - Beginning of Year	\$25,080,554	\$24,741,644	\$31,914,759	\$32,386,777	\$56,995,313	\$57,128,421	0.23%
Net Position - End of Year	\$24,741,644	\$25,177,005	\$32,386,777	\$34,551,080	\$57,128,421	\$59,728,085	4.55%

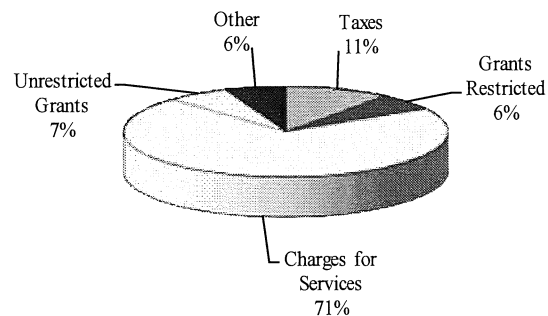
The City's total program revenue for 2018, (including restricted and operating grants and contributions) was \$18,939,883. This represents a three percent (3.12%) decrease from the prior year. The largest decrease was in capital grants and contributions and operating grants and contributions which are one-time, project specific sources of revenue.

Total government wide, charges for services revenue remained relatively stable, dropping less than one percent (0.94%). Governmental activities charges for services increased more than twenty-three percent (23.30%). Business-type charges for services revenue decreased \$241,723 or more than one percent (1.44%). More than eighty-nine percent (89.31%) 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 generates about seventy-eight percent (77.98%) of those charges.

The chart above shows that the general revenues, for both the governmental and business-type activities, increased around more than one percent (1.26%). These revenues consist of taxes, investment earnings, internal transfers between funds, and various other miscellaneous revenues. The tax revenue decreased more than nineteen percent (19.24%) from the prior year. Governmental and business-type activities specific program revenues decreased less than one percent (0.70%). Unrestricted investment earnings increased 1,588.66% largely due to the MSCPA \$700,000 gain. Other revenues that come from various sources, some of which are from one-time sources increased around eight percent (7.71%).

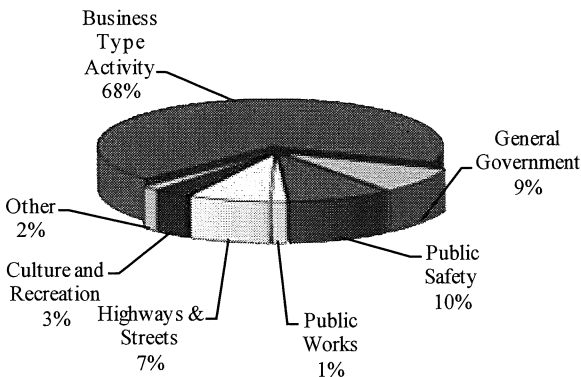
The pie graph to the right reveals the major sources of revenues collected by the municipality's governmental and business-type activities combined. Charges for services make up seventy-one (71%) of revenues. Seventy-seven percent (77%) of those monies come from the electric utility and are not used for general governmental operations. Taxes used primarily to fund general governmental activities, make up eleven percent (11%) of general revenues. Grants, restricted and unrestricted combined, account for thirteen percent (13%). Investment earnings and other miscellaneous revenue sources make up the remaining six percent (6%).

**Source of Revenue for Fiscal Yr 2018
Governmental & Business-type Activities**



Total expenditures decreased overall by about seven percent (6.87%) from fiscal year 2016-17. Five (5) of the governmental functions and/or programs experienced increases, while seven (7) functions and/or programs decreased. The two functions with the greatest variances were community and economic development and capital outlay and other. Economic development expenditures decreased by 42.5% as the City made changes in staffing assignments and finalized the Community Development Block Grant for the blighted property at 42 Union Street. In the spring of 2018 the City began a \$2.7 Million local street reconstruction project which was the major contributor to the 217% increase in capital outlay and other expenditures.

**Functional Expenses for Fiscal Yr 2018
Governmental & Business-type Activities**



As the functions graph on the left depicts, business type activities (electric, water, sewer, and transportation operations) make up sixty-eight percent (68%) of all the municipality's expenditures. The largest portions of overall expenditures, fifty-four percent (54%), are incurred by the electric fund. General governmental activities account for only nine percent (9%) of total expenditures; public safety makes up ten percent (10%), highways and streets account for seven percent (7%), recreation and culture account for three percent (3%), and public works and other miscellaneous activities each make up the remaining three percent (3%).

Governmental activities. Governmental activities had a positive change in net position of \$435,361. Key elements from operations for the year are:

- The City received a \$2 Million Infrastructure Capacity Enhancement (ICE) Grant through the Michigan Economic Development Corporation (MEDC) for sanitary sewer, storm sewer and water main replacements and street improvements. Work began on this project in April, with an expected completion date in October.
- A Community Development Block Grant was carried over from the prior year, in the amount of \$37,394, was used to assist property owner in renovation of the blighted building located at 42 Union Street. CDBG grants are a pass through for the City but represent a substantial investment in the community that will expand the future tax base.
- Overall governmental activities expenditures decreased by approximately one percent (0.97%).
- Net pension liability for the government-activities decreased by thirteen percent (13.40%). The Government Accounting Standards Board (GASB) Statement No. 68 requires each municipality to calculate a net pension liability. This is done through a series of complex calculations. It appears on the government wide statements only. Changes to the City's fringe benefit structure have been made that will help limit the city's pension liability exposure into the future.
- The city purchased a 2017 Ropsemnbauer Pumper and a used 2003 Emergencyone ladder truck for the Fire Department.

Business-type activities. Business-type activities experienced a net gain for the year of \$2,164,303. Key elements of the business-type activities increase are as follows:

- This year the electric fund experienced a \$1,714,250 increase in net position. The MSCPA investment gain of \$701,902 and reduced purchase power costs contributed to the increase.
- The water fund had a net increase of \$101,277 as the result of rate adjustments put into place at the beginning of the fiscal year and lower operating costs.
- The sewer fund realized a net position increase of \$320,079 resulting from rate increases that were implemented in July of 2017.
- Dial-A-Ride experienced a net increase of \$28,697 as operating revenues exceeded expenditures.

- Net pension liability for the business-type activities decreased by eighteen percent (18.25%). Changes to the City's fringe benefit structure have been made that will help limit the city's pension liability exposure into the future.

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, 2018 the City's governmental funds reported combined ending fund balances of \$4,094,983. That is a \$215,676 increase from the prior year.

Governmental fund balance is broken into three categories: non-spendable, restricted, and unassigned. Non-spendable 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 \$100,655. The restricted portion of fund balance refers to resources subject to externally imposed and legally enforceable constraints put in place by the resource providers, e.g. grantors or creditors, or by law through constitutional provisions or enabling legislation. The governmental funds restricted fund balance is \$3,171,328. This constitutes an increase of fourteen percent (14.31%) from the prior year.

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 \$823,000 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 \$918,442. Of that balance, \$95,442 is classified as non-spendable for prepaid expenditures. The remaining \$823,000 is unassigned and therefore available for spending at the government's discretion.

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, \$454,444 in Major and \$172,069 in Local, are thus designated to be spent only on the streets. These fund balances are classified as restricted, special revenue funds.

Other non-major governmental funds collectively experienced a combined net increase in fund balances for the year of \$405,953. None of these fund balances are considered unassigned. Of the \$2,540,028 balance, \$5,213 is classified as non-spendable, prepaid expenditures. The remaining non-major governmental fund balances totaling 2,544,815 are considered restricted for various reasons. There are three permanent endowments (Cemetery Perpetual Care Fund, Stocks Park Perpetual Maintenance Fund, and the R.L. Owen Memorial Trust Fund). Combined they have a total restricted fund balance of \$788,398. The restricted non-major special revenue fund balances of \$241,431 are for the Library, Recreation, Police OWUI and Drug Forfeitures Funds. The combined restricted fund balances of the Capital Improvement, Library Improvement,

Airport Improvement, Mrs. Stocks Park, Fire Equipment, and Fields of Dreams Funds is \$1,147,027. The balance in the Debt Service Fund of \$373,172 is classified as restricted for the debt payments.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail. Investment in capital assets net of related debt for all proprietary funds increased over three percent (3.04%). This represents the amount of net position that is invested in capital and therefore not available for future spending. Restricted funds of \$351,045 for bond reserves and debt service are for the Sewer Fund revenue bond covenants. Unrestricted net position of the water, sewer, electric, and transportation funds at the end of the year increased \$1,115,339 or almost twelve percent (11.78%). The proprietary funds had a total net position at fiscal year-end of \$34,551,080. That is a total overall increase of more than six percent (6.68%).

All of the proprietary funds realized a net increase in net position for the year. The sewer fund ended the year with an increase in net position of \$320,079, as the wastewater treatment plant improvement project nears completion. The electric fund's increase in net position of \$1,714,250 is the result of the MSCPA investment gain of \$701,902. The water fund increased its net position by \$101,277. Finally, the Dial-A-Ride operations resulted in a net increase in position of \$28,697.

General Fund Budgetary Highlights

The general fund revenue budget for fiscal year 2018 was originally \$4,262,550. It was amended up to \$4,481,550. These amendments were made because of federal and state awards not anticipated when this budget was prepared.

Differences between the original and final amended General Fund expenditure budgets totaled \$409,050. Various adjustments, both positive and negative, in the General Government activities, plus an increase in the transfer to the Capital Improvement Fund, added to prepare for future capital projects, netted an increase of \$122,000 in General Fund expenditures. These adjustments were due to a variety of issues, mostly because of several shifts in personnel between departments.

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, 2018, amounted to more than \$5.8M. This investment in capital assets includes land, buildings and system improvements, machinery and equipment, library books, recreational land improvements, roads, and water mains. The combined total capital assets, net of depreciation, increased almost twelve percent (11.76%).

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

- The governmental activities invested \$1,592,009 in various capital assets including: books, building and grounds improvements, server upgrade/replacement; website redesign; a ladder and pumper fire trucks; streets and infrastructure investments and critical mission response gear for the Police.

- The business-type activities invested almost \$18.3M in various capital assets such as: overhead and underground electric line construction; replacement of meters; repairs to engines 5 & 6 at the power plant; electric line extensions, electric distribution automation; computer upgrades; transformers new and refurbished; pickup truck; compressor room roof; 277 Upgrade Phase 1; high rise alley project; server upgrade/replacement; water tower painting; repair water mains; AMI water meter project; well maintenance; hydrant replacement; and wastewater treatment plant improvements.

City's Capital Assets							
(Net of Depreciation)							
	Governmental		Business-type		Total		Total
	Activities		Activities				Percent
	2017	2018	2017	2018	2017	2018	2017-18
Land	\$8,613,943	\$8,613,943	\$361,042	\$361,042	\$8,974,985	\$8,974,985	0%
Buildings and System Improvements	3,349,385	3,429,173	22,616,868	22,353,320	\$25,966,253	\$25,782,493	-0.71%
Library Books	220,735	216,476			\$220,735	\$216,476	-1.93%
Machinery and Equipment	482,454	1,157,665	0	0	\$482,454	\$1,157,665	139.95%
Infrastructure	9,863,923	9,477,921			\$9,863,923	\$9,477,921	-3.91%
Construction in Progress	0	0	4,079,629	8,581,503	4,079,629	8,581,503	110.35%
Total	\$22,530,440	\$22,895,178	\$27,057,539	\$31,295,865	\$49,587,979	\$54,191,043	9.28%

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

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$6,817,693 which consisted of sewer revenue bonds. These bonds pledged the City utility's income to be received from the constructed assets to pay the debt service of the bond issue. The City has no general obligation bonds outstanding. The City of Hillsdale, for bonding purposes, has a credit assessment with Standard & Poor's of "Low Investment Grade" and is currently "non-rated" with Moody's and Fitch.

City's Outstanding Debt				
Revenue Bonds				
	Business-type		Total	
	Activities			
	2017	2018	2017	2018
Revenue Bonds	\$3,008,210	\$6,817,693	\$3,008,210	\$6,817,693
Total	\$3,008,210	\$6,817,693	\$3,008,210	\$6,817,693

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, 2017 was \$151,293,800. That translates into a debt limit of \$15,129,380. The City's revenue bond debt is exempt from that limit, so as of June 30, 2018 there is no debt applicable to the limit.

The City's bonded debt increased during the current fiscal year more than 1,266 percent (1,266.36%) or \$3,809,483. The City's total outstanding long-term debt obligation, including the bond debt, as of June 30, 2018 was \$7,816,336, which includes compensated absence liabilities as well as all other outstanding loan obligations, including the revenue bonds. The City's other debt obligations consist of \$354,563 in compensated absences for the governmental and business-type activities combined and the Board of Public Utilities capital lease debt obligation of \$863,375.

Additional information on the City's long-term debt can be found in note No. 8 on pages 26-27 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 2018-19 fiscal year:

- State shared revenues were projected at the constitutional level plus the City Village, and Township Revenue Sharing and County Incentive Program revenues as projected by the State of Michigan.
- The 2018-19 budget for the General Fund a balanced.
- The projection for gas and weight taxes, used to maintain the road systems throughout the state were based on the State's projections for 2019. 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 increases were projected at fifteen percent (15%).
- A 2% wage increase were projected across the board for all employees.
- Utility rates were budgeted as follows: sewer increasing 3.88%; water going up 9.03%; and no increases in electric rates.
- An increase in staffing levels of one full-time employee at the BPU.

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.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF NET POSITION
JUNE 30, 2018

	PRIMARY GOVERNMENT			COMPONENT UNITS	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	TAX INCREMENT FINANCE AUTHORITY	ECONOMIC DEVELOPMENT CORPORATION
ASSETS					
Cash and investments	\$ 3,908,139	\$ 6,185,702	\$ 10,093,841	\$ 186,169	\$ 127,578
Restricted cash	-	351,045	351,045	-	-
Receivables	412,452	1,304,474	1,716,926	-	-
Due from other governments	29,768	487,753	517,521	-	-
Internal balances	332,190	(332,190)	-	-	-
Prepaid items and other assets	181,334	439,605	620,939	-	-
Inventory	151,924	409,259	561,183	-	-
Investment in M.S.C.P.A.	-	5,620,327	5,620,327	-	-
Capital assets, net:					
Assets not being depreciated	8,613,943	8,942,545	17,556,488	65,000	172,721
Assets being depreciated	14,281,235	22,353,320	36,634,555	394,491	-
TOTAL ASSETS	27,910,985	45,761,840	73,672,825	645,660	300,299
DEFERRED OUTFLOWS OF RESOURCES					
Pension related	692,430	598,139	1,290,569	-	-
LIABILITIES					
Accounts payable	430,428	627,359	1,057,787	4,074	37
Accrued expenses	50,965	871,670	922,635	-	-
Due to other governments	-	7,983	7,983	20,000	-
Net pension liability	2,170,797	1,839,326	4,010,123	-	-
Non-current liabilities:					
Due within one year	-	613,223	613,223	-	-
Due in more than one year	219,295	7,203,113	7,422,408	-	-
TOTAL LIABILITIES	2,871,485	11,162,674	14,034,159	24,074	37
DEFERRED INFLOWS OF RESOURCES					
Pension related	554,925	646,225	1,201,150	-	-
NET POSITION					
Net investment in capital assets	22,895,178	23,614,797	46,509,975	459,491	172,721
Restricted for:					
Debt service	-	351,045	351,045	-	-
Special revenues	862,731	-	862,731	-	-
Capital projects	1,147,027	-	1,147,027	-	-
Endowment and trust principal	788,398	-	788,398	-	-
Unrestricted	(516,329)	10,585,238	10,068,909	162,095	127,541
TOTAL NET POSITION	\$ 25,177,005	\$ 34,551,080	\$ 59,728,085	\$ 621,586	\$ 300,262

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

FUNCTIONS / PROGRAMS	PROGRAM REVENUES				
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE
PRIMARY GOVERNMENT					
Governmental Activities:					
General government	\$ 1,903,729	\$ 217,859	\$ 25,067	\$ -	\$ (1,660,803)
Public safety	2,055,304	-	11,160	-	(2,044,144)
Public works	284,101	-	-	-	(284,101)
Highways and streets	1,608,675	-	1,028,058	-	(580,617)
Community and economic development	188,345	-	37,394	-	(150,951)
Culture and recreation	710,193	78,136	83,320	-	(548,737)
Capital outlay and other	116,281	131,495	40,956	370,528	426,698
Interest and other					-
Unallocated depreciation, excluding direct portion	36,282	-	-	-	(36,282)
Total Governmental Activities	<u>6,902,910</u>	<u>427,490</u>	<u>1,225,955</u>	<u>370,528</u>	<u>(4,878,937)</u>
Business-type Activities:					
Electric	11,461,468	13,192,209	-	-	1,730,741
Water	1,204,905	1,365,973	-	-	161,068
Sewer	1,444,234	1,979,127	-	-	534,893
Transportation	345,868	47,536	253,422	77,643	32,733
Total Business-type Activities	<u>14,456,475</u>	<u>16,584,845</u>	<u>253,422</u>	<u>77,643</u>	<u>2,459,435</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 21,359,385</u>	<u>\$ 17,012,335</u>	<u>\$ 1,479,377</u>	<u>\$ 448,171</u>	<u>\$ (2,419,502)</u>
COMPONENT UNITS					
Tax Increment Finance Authority	\$ 114,009	\$ -	\$ -	\$ -	\$ (114,009)
Economic Development Corporation	13,761	-	-	-	(13,761)
TOTAL COMPONENT UNITS	<u>\$ 127,770</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (127,770)</u>

continued...

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF ACTIVITIES (CONCLUDED)
YEAR ENDED JUNE 30, 2018

	<u>PRIMARY GOVERNMENT</u>			<u>COMPONENT UNITS</u>	
	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS - TYPE ACTIVITIES</u>	<u>TOTAL</u>	<u>TAX INCREMENT FINANCE AUTHORITY</u>	<u>ECONOMIC DEVELOPMENT CORPORATION</u>
CHANGES IN NET POSITION					
Net (expense) revenue	\$ (4,878,937)	\$ 2,459,435	\$ (2,419,502)	\$ (114,009)	\$ (13,761)
General Revenues:					
Property taxes - levied for general operations	1,697,615	-	1,697,615	97,878	-
Property taxes - levied for street maintenance	310,755	-	310,755	-	-
Property taxes - levied for sinking fund	373,172	-	373,172	-	-
Property taxes - levied for library operations	125,902	-	125,902	-	-
Unrestricted grants and contributions	1,054,030	-	1,054,030	-	-
Interest and investment gains, net	46,616	601,068	647,684	2,789	2,143
Other revenues (expenses)	739,337	70,671	810,008	705	-
Transfers - internal activities	966,871	(966,871)	-	-	-
Total general revenues, contributions and transfers	5,314,298	(295,132)	5,019,166	101,372	2,143
CHANGES IN NET POSITION	435,361	2,164,303	2,599,664	(12,637)	(11,618)
NET POSITION - BEGINNING OF YEAR	24,741,644	32,386,777	57,128,421	634,223	311,880
NET POSITION - END OF YEAR	<u>\$ 25,177,005</u>	<u>\$ 34,551,080</u>	<u>\$ 59,728,085</u>	<u>\$ 621,586</u>	<u>\$ 300,262</u>

See accompanying notes to the basic financial statements.

FUND FINANCIAL STATEMENTS

CITY OF HILLSDALE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Other Nonmajor Governmental Funds</u>	<u>TOTAL</u>
ASSETS					
Cash and investments	\$ 1,544,930	\$ 364,441	\$ 151,407	\$ 1,620,626	\$ 3,681,404
Receivables:					
Accounts receivable	36,725	112,696	37,156	225,944	412,521
Special assessments	30,446	-	-	-	30,446
Due from other funds	133,320	-	-	979,827	1,113,147
Other	29,768	-	-	-	29,768
Prepaid expenditures	95,442	-	-	5,213	100,655
TOTAL ASSETS	<u>1,870,631</u>	<u>477,137</u>	<u>188,563</u>	<u>2,831,610</u>	<u>5,367,941</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	99,552	20,553	15,013	276,291	411,409
Due to other funds	780,957	-	-	-	780,957
Salaries payable	41,234	2,140	1,481	5,291	50,146
Unearned revenue	30,446	-	-	-	30,446
TOTAL LIABILITIES	<u>952,189</u>	<u>22,693</u>	<u>16,494</u>	<u>281,582</u>	<u>1,272,958</u>
Fund Balances:					
Non-spendable:					
Prepaid expenditures	95,442	-	-	5,213	100,655
Restricted:					
Special revenue funds	-	454,444	172,069	236,218	862,731
Capital project funds	-	-	-	1,147,027	1,147,027
Permanent funds	-	-	-	788,398	788,398
Debt service	-	-	-	373,172	373,172
Unassigned	823,000	-	-	-	823,000
TOTAL FUND BALANCES	<u>918,442</u>	<u>454,444</u>	<u>172,069</u>	<u>2,550,028</u>	<u>4,094,983</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,870,631</u>	<u>\$ 477,137</u>	<u>\$ 188,563</u>	<u>\$ 2,831,610</u>	<u>\$ 5,367,941</u>

See accompanying notes to the basic financial statements.

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, 2018

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 4,094,983**

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 capital assets is	45,291,548	
Accumulated depreciation is	<u>(22,396,370)</u>	22,895,178

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	35,328
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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	603,707	
Add portion included in long-term debt	25,734	
Less portion included in capital assets	<u>(225,338)</u>	404,103

Long-term liabilities not due and payable in the current period and not reported in the funds:

Notes payable		
Compensated absences	219,295	
Net pension liability	<u>2,170,797</u>	(2,390,092)

Governmental funds report actual pension expenditures for the fiscal year, whereas the governmental activities will recognize the net pension liability as of the measurement date. Pension contributions subsequent to the measurement date along with differences between projected and actual pension plan investment earnings are deferred over time in the government-wide financial statements. These amounts consist of:

Deferred inflows of resources related to pension	(554,925)
Deferred outflows of resources related to pensions	<u>692,430</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ 25,177,005**

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Other Nonmajor Governmental Funds</u>	<u>TOTAL</u>
REVENUES					
Taxes - general operating	\$ 1,591,370	\$ -	\$ -	\$ 497,631	\$ 2,089,001
Taxes - street maintenance	310,755			-	310,755
Federal revenues	38,115	-	-	340,558	378,673
State revenues	1,056,275	763,207	264,851	16,334	2,100,667
Licenses and permits	105,781	-	-	-	105,781
Contributions from local units	-	-	-	54,493	54,493
Charges for services	21,469	-	-	94,108	115,577
Fines and violations	4,524	-	-	48,134	52,658
Interest and rentals	92,539	4,155	-	27,870	124,564
Payments in lieu of taxes	106,246	-	-	-	106,246
Miscellaneous	192,406	20,749	11,576	193,449	418,180
TOTAL REVENUES	<u>3,519,480</u>	<u>788,111</u>	<u>276,427</u>	<u>1,272,577</u>	<u>5,856,595</u>
EXPENDITURES					
General government	1,243,431	-	-	15,323	1,258,754
Public safety	2,224,121	-	-	1,224	2,225,345
Public works	299,199	-	-	-	299,199
Highways and streets	-	529,224	446,957	-	976,181
Community and economic development	188,345	-	-	-	188,345
Culture and recreation	195,989	-	-	428,714	624,703
Capital outlay	-	-	-	1,055,264	1,055,264
TOTAL EXPENDITURES	<u>4,151,085</u>	<u>529,224</u>	<u>446,957</u>	<u>1,500,525</u>	<u>6,627,791</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(631,605)</u>	<u>258,887</u>	<u>(170,530)</u>	<u>(227,948)</u>	<u>(771,196)</u>
OTHER FINANCING SOURCES (USES)					
Contribution from TIFA	20,000	-	-	-	20,000
Operating transfers in	1,132,159	-	225,000	658,027	2,015,186
Operating transfers out	(699,500)	(299,762)	(24,926)	(24,127)	(1,048,315)
TOTAL OTHER FINANCING SOURCES (USES):	<u>452,659</u>	<u>(299,762)</u>	<u>200,074</u>	<u>633,900</u>	<u>986,871</u>
NET CHANGES IN FUND BALANCES	<u>(178,946)</u>	<u>(40,875)</u>	<u>29,544</u>	<u>405,952</u>	<u>215,675</u>
FUND BALANCES - BEGINNING OF YEAR	<u>1,097,388</u>	<u>495,319</u>	<u>142,525</u>	<u>2,144,076</u>	<u>3,879,308</u>
FUND BALANCES - END OF YEAR	<u>\$ 918,442</u>	<u>\$ 454,444</u>	<u>\$ 172,069</u>	<u>\$ 2,550,028</u>	<u>\$ 4,094,983</u>

See accompanying notes to the basic 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, 2018

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 215,675
 Amounts reported for governmental activities in the statement of activities are different because:	
 Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Purchase of capital assets	1,366,885
Depreciation expense	(933,042)
 Revenues for special assessments are reported in the governmental funds as they are paid off, and the balance is reported as a deferred revenue. The net effect of the current year payments is to decrease net position in the entity-wide statements.	
	(16,434)
 Repayment of long-term debt is reported as an expenditure in governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	
	91,965
 Changes in net position of internal service funds that are treated as enterprise fund changes in net position in the fund level statements are treated as governmental fund changes in net position in the entity-wide statements.	
	(80,708)
 Some items reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported in the Governmental Funds. These activities consist of:	
(Increase) Decrease in accrued compensated absences	(16,609)
Changes in net pension liability/expense	<u>(192,371)</u>
 CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	 <u>\$ 435,361</u>

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL
	Electric	Water	Sewer	Nonmajor Fund Dial-A-Ride	TOTAL	Internal Service Funds
ASSETS						
Current assets:						
Cash and investments	\$ 4,441,135	\$ 901,020	\$ 710,508	\$ 133,039	\$ 6,185,702	\$ 226,665
Restricted cash	-	-	351,045	-	351,045	-
Receivables:						
Accounts (net of allowance for bad debts of \$13,518)	1,105,797	66,182	97,930	-	1,269,909	-
Due from State	-	-	364,449	123,304	487,753	-
Other receivables	39,262	4,769	9,735	-	53,766	-
Due from other funds	195,783	-	-	-	195,783	-
Inventory, at cost	323,573	82,297	3,389	-	409,259	151,924
Prepaid expenses	109,326	33,406	34,602	5,735	183,069	45,350
TOTAL CURRENT ASSETS	6,214,876	1,087,674	1,571,658	262,078	9,136,286	423,939
Capital assets:						
Land	181,108	49,613	122,902	7,419	361,042	-
Plant, systems, and equipment	37,598,501	11,636,077	14,010,902	1,157,645	64,403,125	2,184,012
Construction in progress	16,121	187,076	8,378,306	-	8,581,503	-
	37,795,730	11,872,766	22,512,110	1,165,064	73,345,670	2,184,012
Less: accumulated depreciation	(24,276,522)	(6,840,958)	(10,514,975)	(417,350)	(42,049,805)	(1,958,674)
NET CAPITAL ASSETS	13,519,208	5,031,808	11,997,135	747,714	31,295,865	225,338
Other assets:						
Prepaid operating lease (net of \$35,110 amortization)	205,193	-	-	-	205,193	-
Other investment	32,141	-	-	-	32,141	-
Investment in M.S.C.P.A.	5,620,327	-	-	-	5,620,327	-
TOTAL OTHER ASSETS	5,857,661	-	-	-	5,857,661	-
TOTAL ASSETS	25,591,745	6,119,482	13,568,793	1,009,792	46,289,812	649,277
DEFERRED OUTFLOWS OF RESOURCES - Pension	299,069	149,535	149,535	-	598,139	-
LIABILITIES						
Current liabilities:						
Accounts payable	133,716	11,918	373,857	107,868	627,359	19,016
Accrued purchased power	723,582	-	-	-	723,582	-
Accrued expenses	36,331	6,794	46,368	10,341	99,834	818
Customer deposits	107,197	8,182	7,715	-	123,094	-
Due to other funds	-	388,389	18,690	54,036	461,115	-
Current portion of long-term debt	203,665	37,279	372,279	-	613,223	-
TOTAL CURRENT LIABILITIES	1,204,491	452,562	818,909	172,245	2,648,207	19,834
Noncurrent liabilities:						
Accrued compensated absences	93,910	10,799	21,220	9,339	135,268	25,736
Bonds and capital lease payable	429,852	77,650	6,560,343	-	7,067,845	-
Net pension liability	919,674	459,826	459,826	-	1,839,326	-
TOTAL NONCURRENT LIABILITIES	1,443,436	548,275	7,041,389	9,339	9,042,439	25,736
TOTAL LIABILITIES	2,647,927	1,000,837	7,860,298	181,584	11,690,646	45,570
DEFERRED INFLOWS OF RESOURCES - Pension	323,112	161,556	161,557	-	646,225	-
NET POSITION						
Net investment in capital assets	12,885,691	4,916,879	5,064,513	747,714	23,614,797	225,338
Restricted - bond reserves and debt service	-	-	351,045	-	351,045	-
Unrestricted	10,034,084	189,745	280,915	80,494	10,585,238	378,369
TOTAL NET POSITION	\$ 22,919,775	\$ 5,106,624	\$ 5,696,473	\$ 828,208	\$ 34,551,080	\$ 603,707

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL
	Electric	Water	Sewer	Nonmajor	TOTAL	Internal
				Fund		Service
			Dial-A-Ride		Funds	
OPERATING REVENUES						
Charges for services	\$ 13,071,482	\$ 1,343,806	\$ 1,884,043	\$ 47,536	\$ 16,346,867	\$ 494,421
Federal grants	-	-	-	177,306	177,306	-
State grants	-	-	-	153,759	153,759	-
Miscellaneous	120,727	22,167	95,084	-	237,978	12,592
TOTAL OPERATING REVENUES	13,192,209	1,365,973	1,979,127	378,601	16,915,910	507,013
OPERATING EXPENSES						
Production expense	8,973,721	108,172	-	-	9,081,893	-
Distribution	1,503,411	449,542	-	-	1,952,953	-
Collection system	-	-	318,158	-	318,158	-
Treatment	-	-	576,954	-	576,954	-
Purification	-	219,262	-	-	219,262	-
Administrative and general	984,336	427,929	549,122	-	1,961,387	-
Highways and streets	-	-	-	-	-	591,947
Transportation	-	-	-	345,868	345,868	-
TOTAL OPERATING EXPENSES	11,461,468	1,204,905	1,444,234	345,868	14,456,475	591,947
OPERATING INCOME (LOSS)	1,730,741	161,068	534,893	32,733	2,459,435	(84,934)
NONOPERATING REVENUES (EXPENSES)						
Investment income	8,045	1,872	-	-	9,917	2,226
Interest and other	8,626	3,785	468	-	12,879	-
Other income (expense)	40,568	15,579	14,524	-	70,671	-
Payments in lieu of taxes	(775,632)	(77,590)	(109,613)	-	(962,835)	-
Gain (loss) on disposal of property	-	(3,437)	(120,193)	-	(123,630)	-
Gain (loss) on investment	701,902	-	-	-	701,902	2,000
Transfers in from other funds	-	-	-	50,000	50,000	-
Transfers out to other funds	-	-	-	(54,036)	(54,036)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(16,491)	(59,791)	(214,814)	(4,036)	(295,132)	4,226
CHANGES IN NET POSITION	1,714,250	101,277	320,079	28,697	2,164,303	(80,708)
NET POSITION - BEGINNING OF YEAR	21,205,525	5,005,347	5,376,394	799,511	32,386,777	684,415
NET POSITION - END OF YEAR	\$ 22,919,775	\$ 5,106,624	\$ 5,696,473	\$ 828,208	\$ 34,551,080	\$ 603,707

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

	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	\$ 12,988,919	\$ 1,315,697	\$ 1,894,918	\$ 47,536	\$ 16,247,070	\$
Other operating receipts	167,148	22,167	95,083	312,516	596,914	
Cash paid to suppliers of goods and services	(10,301,244)	(731,665)	(730,276)	(84,771)	(11,847,956)	(223,460)
Cash paid to employees for services	(564,839)	(202,425)	(293,160)	(211,566)	(1,271,990)	(283,106)
Receipts for interfund services provided	-	-	-	-	-	507,013
Net Cash Provided By (Used In)						
Operating Activities	2,289,984	403,774	966,565	63,715	3,724,038	447
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Other nonoperating income	40,568	15,579	14,524	-	70,671	-
Payments in lieu of taxes	(775,632)	(77,590)	(109,613)	-	(962,835)	-
Net Cash Provided By (Used In)						
Noncapital Financing Activities	(735,064)	(62,011)	(95,089)	-	(892,164)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Payments on capital debt	(196,508)	(36,284)	(361,284)	-	(594,076)	-
Interest on capital debt	(30,229)	(4,309)	(101,062)	-	(135,600)	-
Interdepartment loan receipt (payment), net	33,095	(33,095)	-	-	-	-
Proceeds from the disposal of assets	-	-	50,000	-	50,000	2,000
Purchase of capital assets, net	(480,868)	(320,215)	(109,846)	-	(910,929)	-
Net Cash Provided By (Used In)						
Capital and Related Financing Activities	(674,510)	(393,903)	(522,192)	-	(1,590,605)	2,000
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from the sale of investments	-	265,240	-	-	265,240	-
Interest income received	9,000	2,138	468	-	11,606	2,226
Net Cash Provided By (Used In)						
Investing Activities	9,000	267,378	468	-	276,846	2,226
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	889,410	215,238	349,752	63,715	1,518,115	4,673
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,682,049	(1,969)	711,801	69,324	2,461,205	221,992
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,571,459	\$ 213,269	\$ 1,061,553	\$ 133,039	\$ 3,979,320	\$ 226,665

continued...

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF CASH FLOWS (CONCLUDED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL
	Electric	Water	Sewer	Nonmajor	TOTAL	Internal
				Fund		Service
				Dial-A-Ride		Funds
BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS						
Cash and investments	\$ 4,441,135	\$ 901,020	\$ 1,061,553	\$ 133,039	\$ 6,536,747	\$ 226,665
Less amounts classified as investments	(1,869,676)	(687,751)	-	-	(2,557,427)	-
Total cash and cash equivalents	<u>\$ 2,571,459</u>	<u>\$ 213,269</u>	<u>\$ 1,061,553</u>	<u>\$ 133,039</u>	<u>\$ 3,979,320</u>	<u>\$ 226,665</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES						
Operating income (loss)	\$ 1,730,741	\$ 161,068	\$ 534,893	\$ 32,733	\$ 2,459,435	\$ (84,934)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization	755,650	243,348	189,733	54,697	1,243,428	69,107
Interdepartmental	(144,273)	(35,233)	(31,198)	-	(210,704)	
(Increase)/decrease in:						
Receivables	61,711	7,125	235,777	(119,357)	185,256	-
Due from other funds	46,421	-	-	104,755	151,176	-
Inventory	19,769	(8,019)	434	-	12,184	791
Prepaid expenses	(3,451)	11,601	1,859	1,068	11,077	(1,672)
Deferred outflows	43,962	21,981	21,980	-	87,923	-
Increase/(decrease) in:						
Accounts payable	(55,412)	(18,337)	(530)	587	(73,692)	11,474
Accrued expenses	(169,112)	(6,313)	(8,176)	(11,978)	(195,579)	5,681
Due to other funds	(69,620)	(10,245)	(15,006)	1,210	(93,661)	-
Deferred inflows	278,855	139,427	139,428	-	557,710	-
Net pension liability	(205,257)	(102,629)	(102,629)	-	(410,515)	-
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 2,289,984</u>	<u>\$ 403,774</u>	<u>\$ 966,565</u>	<u>\$ 63,715</u>	<u>\$ 3,724,038</u>	<u>\$ 447</u>

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

	<u>HOSPITAL PRIVATE PURPOSE TRUST FUND</u>	<u>AGENCY FUNDS</u>
ASSETS		
Cash and investments	\$ 15,000	\$ 2,971
LIABILITIES		
Due to other agencies	-	\$ 2,971
NET POSITION		
Unrestricted	15,000	
TOTAL NET POSITION	<u>\$ 15,000</u>	

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2018

	<u>HOSPITAL PRIVATE PURPOSE TRUST FUND</u>
ADDITIONS:	
Investment income	\$ _____
DEDUCTIONS:	
Other	_____ 42
CHANGES IN NET POSITION	
NET POSITION - BEGINNING OF YEAR	_____ 15,042
NET POSITION - END OF YEAR	\$ _____ 15,000

See accompanying notes to the basic financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 (TIFA) - 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 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 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

JUNE 30, 2018

Basis of Presentation

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.

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, expenditures related to compensated absences, claims, and judgments, are recorded only when payment is due.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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.

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 systems.

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.

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.

Debt Service Fund – This fund is used to account for property taxes levied and other revenue used to service long-term debt.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 revenue 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.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

Cash, Cash Equivalents and Investments – 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. Investments are stated at fair value.

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.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 noncurrent 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.

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 one year. 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

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Deferred Outflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The City reports deferred outflows of resources for change in expected and actual investment returns, assumptions, and benefits provided in its pension plans.

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 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 of 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.

Deferred Inflows of Resources – In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds also report unavailable revenues, which arise only under a modified accrual basis of accounting that are reported as deferred inflows of resources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City reports deferred inflows of resources for change in expected and actual investment returns in its pension plan.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Equity – 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.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 2017 had a taxable value of approximately \$123,105,538 (not including properties subject to Industrial Facilities Tax exemption), representing 50% of estimated current market value.

The following millages were levied:

General operating	12.4337
Streets maintenance	2.4868
Sinking fund	2.9810
Library	.9947

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

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. The Council holds public hearings and a final budget must be prepared and adopted prior to July 1.

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

Excess of Expenditures over Appropriations – For the year ended June 30, 2018, expenditures that exceeded appropriations in the General Fund or major special revenue funds, if any, are disclosed in the Required Supplementary Information on pages 35 – 38.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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:

	Primary	Component	Totals
Statement of Net Position:			
Cash and investments	\$ 10,093,841	\$ 313,747	\$ 10,407,588
Restricted cash	351,045	-	351,045
Statement of Fiduciary Net Position:			
Cash and investments	17,971	-	17,971
Total	\$ 10,462,857	\$ 313,747	\$ 10,776,604

Deposits and Investments

Bank deposits (checking, savings, certificates of deposit and money market)	\$ 8,888,210
Investments	1,886,094
Cash on hand	2,300
Total	\$ 10,776,604

The City's investments are summarized as follows:

Investment	Maturity	Fair Value	Rating	FV Level
MBIA Investment Fund	N/A	\$ 958,287	S&P – AAAM	Level 2
U.S. Governmental Agency Bonds	1 – 2 yrs.	149,798	N/A	Level 1
Municipal Bonds	1 – 3 yrs.	778,009	S&P – A+ – AA-	Level 2
		\$ 1,886,094		

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.

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 MBIA investment pool is a Michigan CLASS public sector investment program invested under an interlocal trust agreement according to provisions of the Urban Cooperation Act of 1967. This investment pool 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.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, \$5,366,277 of the City's bank balance of \$9,098,106 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. There is no custodial risk to the City as all investments are held in the City's name.

Fair Value Measurement

The City is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the City's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Note 4: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018 was as follows:

Primary Government	Beginning Balance	Additions and Transfers	Disposals and Adjustments	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 8,613,943	\$ -	\$ -	\$ 8,613,943
Capital assets being depreciated:				
Land improvements	751,725	21,906	-	773,631
Buildings and improvements	5,008,378	179,825	(32,424)	5,155,779
Books	332,098	18,172	(44,653)	305,617
Equipment and vehicles	3,276,252	798,853	(337,994)	3,737,111
Infrastructure	26,357,339	348,128	-	26,705,467
Total capital assets being depreciated	<u>35,725,792</u>	<u>1,366,884</u>	<u>(415,071)</u>	<u>36,677,605</u>
Accumulated depreciation:				
Land improvements	332,447	27,396	-	359,843
Buildings and improvements	2,078,271	94,547	(32,424)	2,140,394
Books	111,363	22,431	(44,653)	89,141
Equipment and vehicles	2,793,798	123,642	(337,994)	2,579,446
Infrastructure	16,493,416	734,130	-	17,227,546
Total accumulated depreciation	<u>21,809,295</u>	<u>1,002,146</u>	<u>(415,071)</u>	<u>22,396,370</u>
Total capital assets being depreciated - net	<u>13,916,497</u>	<u>364,738</u>	<u>-</u>	<u>14,281,235</u>
Governmental activities capital assets - net	<u>\$ 22,530,440</u>	<u>\$ 364,738</u>	<u>\$ -</u>	<u>\$ 22,895,178</u>
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 361,042	\$ -	\$ -	\$ 361,042
Construction in progress	4,079,629	5,313,326	(811,452)	8,581,503
Total capital assets not being depreciated	<u>4,440,671</u>	<u>5,313,326</u>	<u>(811,452)</u>	<u>8,942,545</u>
Capital assets being depreciated:				
Plant, systems and equipment	63,508,914	1,129,294	(235,083)	64,403,125
Accumulated depreciation:				
Plant, systems and equipment	40,892,045	1,223,050	(65,290)	42,049,805
Total capital assets being depreciated - net	<u>22,616,869</u>	<u>(93,756)</u>	<u>(169,793)</u>	<u>22,353,320</u>
Business-type activities capital assets - net	<u>\$ 27,057,540</u>	<u>\$ 5,219,570</u>	<u>\$ (981,245)</u>	<u>\$ 31,295,865</u>

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Governmental Activities:	
Public safety	\$ 41,423
Highways and streets	632,491
Culture and recreation	132,511
Public works	90,333
Unallocated	36,282
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	<u>69,107</u>
Total depreciation expense – governmental activities	<u>\$ 1,002,147</u>
Business-Type Activities:	
Electric	\$ 727,861
Water	243,348
Sewer	189,734
Transportation	<u>54,697</u>
Total depreciation expense – business-type activities	<u>\$ 1,215,640</u>

Note 5: 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.

	Receivable	Payable
Due from/to other funds:		
General Fund	\$ 133,320	\$ 780,957
Nonmajor Governmental Funds	979,826	-
Water Fund	-	388,389
Sewer Fund	-	18,690
Electric Fund	195,783	66,857
Nonmajor Enterprise Fund	-	54,036
	<u>\$ 1,308,929</u>	<u>\$ 1,308,929</u>

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Transfer In	Transfer Out	Amount
General Fund	Electric Fund	\$ 775,632
General Fund	Water Fund	77,590
General Fund	Sewer Fund	109,613
General Fund	Major Street Fund	74,762
General Fund	Local Street Fund	24,926
General Fund	Dial-A-Ride Fund	54,036
General Fund	Cemetery Care	15,600
Dial-A-Ride Fund	General Fund	50,000
Local Street Fund	Major Street Fund	225,000
Recreation Fund	General Fund	49,500
Capital Improvement Fund	General Fund	170,000
Capital Improvement Fund	Library Improvement Fund	8,527
Airport Improvement Fund	General Fund	160,000
Fire Vehicle & Equipment Fund	General Fund	270,000

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; and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 6: PREPAID OPERATING LEASE

The City entered into a 20-year operating lease with KEPS Technologies, Inc. d/b/a ACD.net, for 48 strands of dark fiber to support its business operations. The agreement was for total upfront costs of \$240,304, and is amortized over the 20-year life of the lease.

Note 7: INVESTMENT IN JOINT VENTURE

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

	Percent of Ownership
City of Coldwater	46.48%
City of Hillsdale	22.74
City of Marshall	21.41
Village of Clinton	5.80
Village of Union City	3.57
	100.00%

The City is accounting for its investment in MSCPA as a joint venture in accordance with GASB Statement No. 14. Information presented below is taken from financial statements of the MSCPA for the year ended June 30, 2018, audited by other auditors whose report dated August 24, 2018 expressed an unmodified opinion for those statements.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The City has entered into a Power Sales Contract with MSCPA which requires the City to purchase all of its bulk power supply from MSCPA 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 MSCPA 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 City's investment in the MSCPA as of and for the year ended June 30, 2018, is as follows:

	Total MSCPA	Hillsdale Board of Public Utilities' Portion
Total assets and deferred outflows of resources	\$ 54,034,645	\$ 9,823,134
Total liabilities and deferred inflows of resources	(29,324,373)	(4,202,807)
Net Position	\$ 24,710,272	\$ 5,620,327

Note 8: LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2018 was as follows:

Primary Government	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Loan payable	\$ 91,965	\$ -	\$ 91,965	\$ -	\$ -
Compensated absences	196,595	22,700	-	219,295	-
	\$ 288,560	\$ 22,700	\$ 91,965	\$ 219,295	\$ -
Business-type activities:					
Revenue bonds	\$ 3,008,210	\$ 4,143,483	\$ 325,000	\$ 6,817,693	\$ 335,000
Capital leases	1,132,451	-	269,076	863,375	278,223
Compensated absences	161,453	-	26,185	135,268	-
	\$ 4,302,114	\$ 4,143,483	\$ 620,261	\$ 7,816,336	\$ 613,223

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Business-Type Activities

2015 Sewage Disposal System Revenue Bonds – interest rate of 2.50%, annual principal payments ranging from \$250,000 to \$405,000 through 2037.	\$	5,383,810
2016 Sewage Disposal System Revenue Bonds – maturing \$75,000 to \$120,000 annually plus interest at 2.50% through 2040.		1,433,883
Capital Lease – Government Capital Corporation annual lease payments of \$226,737 including interest at 3.60% through September 16, 2020.		633,516
Capital Lease Agreement – Key Government Finance, Inc., annual lease payments of \$80,855 including interest at 2.74% through September 30, 2020.		229,859
Total	\$	7,681,068

Annual debt service requirements to maturity are as follows:

	Principal	Interest	Total
2019	\$ 613,223	\$ 195,308	\$ 808,531
2020	632,682	181,977	814,659
2021	647,469	163,566	811,035
2022	360,000	144,692	504,692
2023	370,000	135,692	505,692
2024 - 2028	1,985,000	434,866	2,419,866
2029 - 2028	2,245,000	274,836	2,519,836
2024 - 2028	827,694	20,287	857,981
Total	\$ 7,681,068	\$ 1,561,224	\$ 9,242,292

Note 9: 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, 2018, 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 10: DEFINED BENEFIT PENSION PLAN

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by Michigan's Legislature under Public Act 135 of 1945 and administered by a nine (9) member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing MERS' website at www.mersofmich.com.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Summary of Significant Accounting Policies

For purposes of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Benefits Provided

Benefits provided include plans with multipliers ranging from 2.00% to 2.50%.

Vesting period of 10 years.

Normal retirement age is 60 with early retirement at 50/55 with 25/15 years of service.

Final average compensation is calculated based on 3 years. Member contributions range from 3.00% to 9.16%.

At the December 31, 2017 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefits	72
Inactive employees entitled to but not yet receiving benefits	14
Active employees	63
	<u>149</u>

Contributions

The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees. Employer contributions range from 0.00% to 32.15% based on annual payroll for open divisions.

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2017, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial assumptions – The total pension liability in the December 31, 2017 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary Increases: 3.75% in the long-term

Investment rate of return: 7.75%, net of investment expense including inflation

Although no specific price inflation assumptions are needed for the valuation, the 3.75% long-term wage inflation assumption would be consistent with a price inflation of 2.5%.

Mortality rates used were based on the RP-2014 Group Mortality Table of a 50% Male and 50% Female blend.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study completed in 2015.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	55.50%	8.65%
Global Fixed Income	18.50%	3.76%
Real Assets	13.50%	9.72%
Diversifying Strategies	12.50%	7.50%

Discount Rate – The discount rate used to measure the total pension liability is 8.0% for 2017. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability - The following table provides the calculation of the change in net pension liability:

	Changes in Net Pension Liability		
	Increase (Decrease)		
	Liability	Fiduciary Net Position	Liability
	(a)	(b)	(a) - (b)
Balances as of 12/31/16	\$ 23,029,773	\$ 18,273,259	\$ 4,756,514
Changes for the Year			
Service cost	368,215	-	368,215
Interest on Total Pension Liability	1,796,684	-	1,796,684
Difference in experience	42,169	-	42,169
Changes in assumptions	-	-	-
Benefit changes	(7,990)	-	(7,990)
Employer contribution	-	421,866	(421,866)
Employee contributions	-	190,637	(190,637)
Net investment income	-	2,370,564	(2,370,564)
Benefit payments	(1,510,668)	(1,510,668)	-
Administrative	-	(37,600)	37,600
Other	(2)	-	(2)
Net changes	688,408	1,434,799	(746,391)
Balances as of 12/31/17	<u>\$ 23,718,181</u>	<u>\$ 19,708,058</u>	<u>\$ 4,010,123</u>

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.00%, as well as what the employer’s Net Pension Liability would be using a discount rate that is 1-percentage point lower (7.00%) or 1% higher (9.00%) than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net Pension Liability	<u>\$ 6,499,789</u>	<u>\$ 4,010,123</u>	<u>\$ 1,889,023</u>

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions – For the year ended June 30, 2018 the City recognized pension expense of \$917,508. The City reported deferred outflows and inflows of resources related to the pension at June 30, 2018 from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Differences in experience	\$ 27,690	\$ (93,127)
Differences in assumptions	253,269	-
Difference between projected and actual investment returns	<u>764,600</u>	<u>(1,108,023)</u>
Pension contributions subsequent to measurement date	<u>245,010</u>	<u>-</u>
Total	<u>\$ 1,290,570</u>	<u>\$ 1,201,150</u>

The amount reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	
2019	\$ 338,064
2020	(8,705)
2021	(295,723)
2022	<u>(189,227)</u>
	<u>\$ (155,591)</u>

Note 11: STREET MAINTENANCE

During the year, the general fund collected \$310,755 from the special street maintenance property tax levy. It was used to defray the expenditures related to working on, improving, repairing and cleaning the streets as follows:

Major street work	\$ 31,037
Street preservation	7,008
Ice Grant Project	25,518
Public Services Department - Administration	<u>247,192</u>
	<u>\$ 310,755</u>

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

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

The following disclosures are required by the Michigan Department of Transportation (MDOT) relative to the City's Dial-A-Ride program which is funded by and through MDOT:

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

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

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

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

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

Pension Plan – During the fiscal year July 1, 2017 through June 30, 2018, Dial-A-Ride paid \$3,391 in 50201 Pension. Of this amount, \$3,391 paid the actuarial required minimum contribution and \$-0- was paid in excess of the actuarial required minimum contribution. The entire amount of \$3,391 was expensed on the books and is included in Dial-A-Ride's total eligible expenses for the fiscal year ending September 30, 2018.

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

Note 14: TAX ABATEMENTS

The City entered into property tax abatement agreements with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended. The IFT on a new plant and non-industrial property, such as some high-tech personal property, is computed at 50% of the property tax bill for new property. For rehabilitation purposes, the taxable values can be frozen.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

For the year ended June 30, 2018, the City's property taxes were reduced in the following areas under this program:

General operations	\$	23,249
Street maintenance		4,650
Sinking Fund		5,501
Library		1,860

There have been no significant abatements made by other governmental units that reduce the City's tax revenues.

Note 15: PURCHASED POWER CONTRACTS

AFEC

On July 28, 2011, AMP acquired from FirstEnergy Generation Corporation ("FirstEnergy") the Fremont Energy Center ("AFEC"), then nearing completion of construction and located in Fremont, Sandusky County, Ohio. Following completion of the commissioning and testing, AMP declared AFEC to be in commercial operation as of January 20, 2012. The AMP Fremont Energy Center is a natural gas fired, combined cycle, electric power generation plant with a capacity of 512 MW (unfired)/675 MW (fired), consisting of two combustion turbines, two heat recovery steam generators and one steam turbine and condenser.

AMP subsequently sold a 5.16% undivided ownership interest in AFEC to Michigan Public Power Agency and entered into a power sales contract with the Central Virginia Electric Cooperative for the output associated with a 4.15% undivided ownership interest in AFEC. The output of AFEC associated with the remaining 90.69% undivided ownership interest (the "90.69% Interest") is sold to AMP Members pursuant to a take-or-pay power sales contract with 87 of its members (the "AFEC Power Sales Contract").

To provide permanent financing for the 90.69% Interest, in 2012, AMP issued, in two series \$546,085,000 of its AMP Fremont Energy Center Project Revenue Bonds (the "AFEC Bonds"), consisting of taxable and tax-exempt obligations. The AFEC Bonds are net revenue obligations of AMP, secured by a master trust indenture and payable from amounts received by AMP under the AFEC Power Sales Contract. On December 20, 2017, AMP issued bonds to refund all of the callable tax-exempt AFEC Bonds issued in 2012. As of December 31, 2017, \$508,465,000 aggregate principal amount of AFEC Bonds was outstanding.

The *Hillsdale Board of Public Utilities* has executed a take-or-pay power sales contract with AMP as a participant of the AFEC of 7,220 kW or 1.55% of capacity and associated energy from the AFEC.

Combined Hydroelectric Projects

AMP owns and operates three hydroelectric projects, the Cannelton, the Smithland and the Willow Island hydroelectric generating facilities (the "Combined Hydroelectric Projects"), all on the Ohio River, with an aggregate generating capacity of approximately 208 MW. Each of the Combined Hydroelectric Projects is in commercial operation and consists of run-of-the-river hydroelectric generating facilities on existing Army Corps dams and includes associated transmission facilities. AMP holds the licenses from FERC for the Combined Hydroelectric Projects.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

To provide financing for the Combined Hydroelectric Projects, AMP has issued eight series of its Combined Hydroelectric Projects Revenue Bonds (the “Combined Hydroelectric Bonds”), in an original aggregate principal amount of \$2,254,955,000 and consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds). The Combined Hydroelectric Bonds are secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 79 of its Members. As of December 31, 2017, \$2,150,625,294 aggregate principal amount of the Combined Hydroelectric Bonds and approximately \$126.9 million aggregate principal amount of subordinate obligations, consisting of notes evidencing draws on the Line of Credit, were outstanding under the indenture securing the Combined Hydroelectric Bonds.

The *Hillsdale Board of Public Utilities* has executed a take-or-pay power sales contract with AMP as a participant of the Combined Hydroelectric Projects of 3,398 kW or 1.63% of capacity and associated energy from the Combined Hydroelectric Projects.

Meldahl Hydroelectric Project

AMP owns and, together with the City of Hamilton, Ohio, an AMP Member, developed and constructed a 108.8 MW, three-unit hydroelectric generation facility on the Captain Anthony Meldahl Locks and Dam, an existing Army Corps dam on the Ohio River, and related equipment and associated transmission facilities (the “Meldahl Project”). The Meldahl Project is operated by the City of Hamilton.

In order to finance the construction of the Meldahl Project and related costs, AMP issued seven series of its Meldahl Hydroelectric Project Revenue Bonds (“Meldahl Bonds”) in an original aggregate principal amount of \$820,185,000 consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds). The Meldahl Bonds are secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 48 of its Members. As of December 31, 2017, \$694,280,000 aggregate principal amount of the Meldahl Bonds and approximately \$15 million aggregate principal amount of subordinate obligations, consisting of notes evidencing draws on the Line of Credit, were outstanding under the indenture securing the Meldahl Bonds.

The *Hillsdale Board of Public Utilities* has executed a take-or-pay power sales contract with AMP as a participant of the Meldahl Project of 731 kW or 0.70% of capacity and associated energy from the Meldahl Project.

Greenup Hydroelectric Project

In connection with the development of the Meldahl Project, Hamilton agreed to sell and AMP agreed to purchase a 48.6% undivided ownership interest (the “AMP Interest”) in the Greenup Hydroelectric Facility. On May 11, 2016, AMP issued \$125,630,000 aggregate principal amount of its Greenup Hydroelectric Project Revenue Bonds, Series 2016A (the “2016 Greenup Bonds”) and, with a portion of the proceeds thereof, acquired the AMP Interest. The 2016 Greenup Bonds are secured by a separate power sales contract that has been executed by the same Members (with the exception of Hamilton, which retained title to a 51.4% ownership interest in the Greenup Hydroelectric Facility) that executed the Meldahl Power Sales Contract. As of December 31, 2017, \$125,630,000 aggregate principal amount of the 2016 Greenup Bonds and approximately \$2.6 million aggregate principal amount of subordinate obligations, consisting of notes evidencing draws on the Line of Credit, were outstanding under the indenture securing the 2016 Greenup Bonds.

The *Hillsdale Board of Public Utilities* has executed a take-or-pay power sales contract with AMP as a participant of the Greenup Hydroelectric Facility of 479 kW or 1.40% of capacity and associated energy from the Greenup Hydroelectric Facility.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Note 15: SUBSEQUENT EVENTS

Management has evaluated subsequent events through the auditor's report date, the date the financial statements were available to be issued. No such significant events or transactions were identified.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HILLSDALE, MICHIGAN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2018

	BUDGETED AMOUNTS		ACTUAL
	ORIGINAL	FINAL	
REVENUES			
City Taxes:			
Property taxes	\$ 1,826,500	\$ 1,826,500	\$ 1,797,484
Administrative fees	56,000	56,000	59,722
Interest and penalties			
Industrial facilities tax	39,000	39,000	44,919
Total City taxes	<u>1,921,500</u>	<u>1,921,500</u>	<u>1,902,125</u>
State revenue	930,700	1,060,700	1,056,275
Federal revenue	-	40,000	38,115
Licenses and permits	122,350	122,350	105,781
Charges for services	20,300	20,300	21,469
Fines and violations	7,000	7,000	4,524
Interest and rentals	83,200	83,200	92,539
Payments in lieu of tax	1,050,000	1,050,000	1,069,081
Miscellaneous	<u>127,500</u>	<u>176,500</u>	<u>192,406</u>
TOTAL REVENUES	<u>4,262,550</u>	<u>4,481,550</u>	<u>4,482,315</u>
EXPENDITURES			
General government:			
Council	27,455	30,000	28,330
City manager	242,910	255,460	245,480
Administrative	176,400	154,400	155,982
Elections	10,595	8,595	6,820
Assessor	104,430	133,430	125,106
Clerk	160,165	131,165	117,706
Finance department	64,460	80,960	81,101
Treasurer	140,570	147,570	121,476
Building and grounds	129,010	117,010	106,853
Parking lots	30,235	30,235	24,993
Cemetery	111,775	100,775	79,181
Airport	<u>130,320</u>	<u>155,725</u>	<u>150,403</u>
Total general government	<u>1,328,325</u>	<u>1,345,325</u>	<u>1,243,431</u>
Public safety:			
Police	1,426,765	1,426,765	1,394,241
Fire	462,190	864,240	827,738
Code enforcement	2,500	2,500	2,142
Total public safety	<u>1,891,455</u>	<u>2,293,505</u>	<u>2,224,121</u>
Public works:			
Public services	260,230	252,730	247,503
Street lights	69,600	62,100	51,696
Total public works	<u>329,830</u>	<u>314,830</u>	<u>299,199</u>

continued...

CITY OF HILLSDALE, MICHIGAN
BUDGETARY COMPARISON SCHEDULE (CONCLUDED)
GENERAL FUND
YEAR ENDED JUNE 30, 2018

	BUDGETED AMOUNTS		ACTUAL
	ORIGINAL	FINAL	
EXPENDITURES (CONTINUED)			
Community and economic development:			
Planning	\$ 132,085	\$ 110,085	\$ 102,376
Economic development	60,000	87,000	85,969
Total community and economic development	<u>192,085</u>	<u>197,085</u>	<u>188,345</u>
Culture and recreation	<u>190,150</u>	<u>190,150</u>	<u>195,989</u>
TOTAL EXPENDITURES	<u>3,931,845</u>	<u>4,340,895</u>	<u>4,151,085</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>330,705</u>	<u>140,655</u>	<u>331,230</u>
OTHER FINANCING SOURCES (USES)			
Contribution from TIFA	10,000	10,000	20,000
Operating transfers in	164,000	611,050	169,324
Operating transfers (out)	<u>(504,705)</u>	<u>(774,705)</u>	<u>(699,500)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(330,705)</u>	<u>(153,655)</u>	<u>(510,176)</u>
NET CHANGE IN FUND BALANCE	-	(13,000)	(178,946)
FUND BALANCE - BEGINNING OF YEAR	<u>1,097,388</u>	<u>1,097,388</u>	<u>1,097,388</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,097,388</u>	<u>\$ 1,084,388</u>	<u>\$ 918,442</u>

CITY OF HILLSDALE, MICHIGAN
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND
YEAR ENDED JUNE 30, 2018

	BUDGETED AMOUNTS		ACTUAL
	ORIGINAL	FINAL	
REVENUES			
State revenue	\$ 675,000	\$ 770,000	\$ 763,207
Interest and rentals	1,250	1,250	4,155
Miscellaneous	7,000	14,500	20,749
TOTAL REVENUES	683,250	785,750	788,111
EXPENDITURES			
Highways and streets:			
Street surface	122,675	167,675	158,580
Trunkline street surface	15,070	35,070	29,029
R.O.W. maintenance	88,330	88,330	85,466
Trunkline R.O.W. maintenance	7,620	7,620	6,970
Trees	37,420	37,420	38,029
Trunkline trees	1,230	1,230	1,496
Drainage	40,295	50,295	45,411
Trunkline R.O.W. drainage	2,350	2,350	2,002
Traffic	49,675	49,675	48,654
Trunkline traffic	6,410	6,410	11,936
Winter maintenance	78,415	78,415	82,351
Trunkline winter maintenance	17,760	17,760	19,300
TOTAL EXPENDITURES	467,250	542,250	529,224
REVENUES OVER (UNDER) EXPENDITURES	216,000	243,500	258,887
OTHER FINANCING SOURCES (USES)			
Transfers out	(216,000)	(300,500)	(299,762)
TOTAL OTHER FINANCING SOURCES (USES)	(216,000)	(300,500)	(299,762)
NET CHANGES IN FUND BALANCES		(57,000)	(40,875)
FUND BALANCES - BEGINNING OF YEAR	495,319	495,319	495,319
FUND BALANCES - END OF YEAR	\$ 495,319	\$ 438,319	\$ 454,444

CITY OF HILLSDALE, MICHIGAN
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET FUND
YEAR ENDED JUNE 30, 2018

	BUDGETED AMOUNTS		ACTUAL
	ORIGINAL	FINAL	
REVENUES			
State revenue	\$ 225,000	\$ 275,000	\$ 264,851
Miscellaneous	1,000	1,000	11,576
TOTAL REVENUES	226,000	276,000	276,427
EXPENDITURES			
Highways and streets:			
Street surface	118,940	227,940	220,018
R.O.W. maintenance	75,940	75,940	71,717
Trees	57,570	57,570	53,104
Drainage	41,390	41,390	39,229
Traffic	12,935	23,935	19,485
Winter maintenance	48,225	48,225	43,404
TOTAL EXPENDITURES	355,000	475,000	446,957
REVENUES OVER (UNDER) EXPENDITURES	(129,000)	(199,000)	(170,530)
OTHER FINANCING SOURCES (USES)			
Transfers in	150,000	225,000	225,000
Transfers out	(21,000)	(26,000)	(24,926)
TOTAL OTHER FINANCING SOURCES (USES)	129,000	199,000	200,074
NET CHANGES IN FUND BALANCES	-	-	29,544
FUND BALANCES - BEGINNING OF YEAR	142,525	142,525	142,525
FUND BALANCES - END OF YEAR	\$ 142,525	\$ 142,525	\$ 172,069

CITY OF HILLSDALE, MICHIGAN
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
DEFINED BENEFIT PENSION PLAN
CALENDAR YEAR DECEMBER 31
Last 10 Years*

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability				
Service cost	\$ 364,196	\$ 355,050	\$ 363,158	\$ 368,215
Interest	1,621,607	1,677,361	1,765,765	1,796,684
Changes of benefit terms	-	-	(9,325)	(7,990)
Difference between expected and actual experience	-	110,760	(249,508)	42,169
Changes of assumptions	-	1,013,079	-	-
Benefit payments including employee refunds	(1,232,671)	(1,378,158)	(1,461,617)	(1,510,668)
Other	(1)	1	-	(2)
Net Change in Total Pension Liability	<u>753,131</u>	<u>1,778,093</u>	<u>408,473</u>	<u>688,408</u>
Total Pension Liability - beginning	<u>20,090,076</u>	<u>20,843,207</u>	<u>22,621,300</u>	<u>23,029,773</u>
Total Pension Liability - ending	<u>\$ 20,843,207</u>	<u>\$ 22,621,300</u>	<u>\$ 23,029,773</u>	<u>\$ 23,718,181</u>
Plan Fiduciary Net Position				
Contributions-employer	\$ 332,464	\$ 346,141	\$ 336,160	\$ 421,866
Contributions-employee	137,790	156,571	164,437	190,637
Net investment income	1,138,603	(270,721)	1,932,425	2,370,564
Benefit payments including employee refunds	(1,232,671)	(1,378,158)	(1,461,617)	(1,510,668)
Administrative expense	(41,685)	(39,960)	(38,182)	(37,600)
Other	2	-	-	-
Net Change in Plan Fiduciary Net Position	<u>334,503</u>	<u>(1,186,127)</u>	<u>933,223</u>	<u>1,434,799</u>
Plan Fiduciary Net Position - beginning	<u>18,191,663</u>	<u>18,526,166</u>	<u>17,340,036</u>	<u>18,273,259</u>
Plan Fiduciary Net Position - ending	<u>\$ 18,526,166</u>	<u>\$ 17,340,039</u>	<u>\$ 18,273,259</u>	<u>\$ 19,708,058</u>
Employer Net Pension Liability - ending	<u>\$ 2,317,041</u>	<u>\$ 5,281,261</u>	<u>\$ 4,756,514</u>	<u>\$ 4,010,123</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	88.88%	76.65%	79.35%	83.09%
Covered Employee Payroll	\$ 3,531,325	\$ 3,426,822	\$ 3,440,133	\$ 3,436,078
Employer's Net Pension Liability as a percentage of covered employee payroll	65.61%	154.12%	138.27%	116.71%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF HILLSDALE, MICHIGAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
YEAR ENDED JUNE 30, 2018
 Last 10 Years*

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarial Determined Contributions	\$ 330,003	\$ 348,500	\$ 353,776	\$ 490,020
Contributions in relation to the actuarially determined contribution	<u>330,003</u>	<u>348,500</u>	<u>353,776</u>	<u>490,020</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered Employee Payroll	3,531,325	3,955,056	3,714,246	3,899,437
Contributions as a percentage of covered employee payroll	9.35%	8.81%	9.52%	12.57%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HILLSDALE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>Special Revenue</u>	<u>Capital Project</u>	<u>Debt Service Fund</u>	<u>Permanent Funds</u>	<u>TOTAL</u>
ASSETS					
Cash and investments	\$ 210,676	\$ 1,029,367	\$ -	\$ 380,583	\$ 1,620,626
Accounts receivable	39,764	186,092	-	88	225,944
Due from other funds	3	198,925	373,172	407,727	979,827
Prepaid expenditures	5,213	-	-	-	5,213
	<u>255,656</u>	<u>1,414,384</u>	<u>373,172</u>	<u>788,398</u>	<u>2,831,610</u>
TOTAL ASSETS					
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	8,934	267,357	-	-	276,291
Accrued payroll and related liabilities	5,291	-	-	-	5,291
	<u>14,225</u>	<u>267,357</u>	<u>-</u>	<u>-</u>	<u>281,582</u>
TOTAL LIABILITIES					
Fund Balances:					
Non-spendable					
Prepaid expenditures	5,213	-	-	-	5,213
Restricted	236,218	1,147,027	373,172	788,398	2,544,815
	<u>241,431</u>	<u>1,147,027</u>	<u>373,172</u>	<u>788,398</u>	<u>2,550,028</u>
TOTAL FUND BALANCES					
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 255,656</u>	<u>\$ 1,414,384</u>	<u>\$ 373,172</u>	<u>\$ 788,398</u>	<u>\$ 2,831,610</u>

CITY OF HILLSDALE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	Special Revenue	Capital Project	Debt Service Fund	Permanent Funds	TOTAL
REVENUES					
Taxes	\$ 124,459	\$ -	\$ 373,172	\$ -	\$ 497,631
State revenues	16,334	-	-	-	16,334
Federal revenue	-	340,558	-	-	340,558
Contributions	24,525	29,968	-	-	54,493
Charges for services	79,968	-	-	14,140	94,108
Fines and violations	48,134	-	-	-	48,134
Interest and rentals	5,007	1,229	-	21,634	27,870
Miscellaneous	34,098	154,284	-	5,067	193,449
TOTAL REVENUES	332,525	526,039	373,172	40,841	1,272,577
EXPENDITURES					
General government	-	-	-	15,323	15,323
Public safety	1,224	-	-	-	1,224
Culture and recreation	428,714	-	-	-	428,714
Capital outlay	-	1,055,264	-	-	1,055,264
TOTAL EXPENDITURES	429,938	1,055,264	-	15,323	1,500,525
REVENUES OVER (UNDER) EXPENDITURES	(97,413)	(529,225)	373,172	25,518	(227,948)
OTHER FINANCING SOURCES (USES)					
Transfers in	49,500	608,527	-	-	658,027
Transfers out	-	(8,527)	-	(15,600)	(24,127)
TOTAL OTHER FINANCING SOURCES (USES)	49,500	600,000	-	(15,600)	633,900
CHANGES IN FUND BALANCES	(47,913)	70,775	373,172	9,918	405,952
FUND BALANCES - BEGINNING OF YEAR	289,344	1,076,252	-	778,480	2,144,076
FUND BALANCES - END OF YEAR	\$ 241,431	\$ 1,147,027	\$ 373,172	\$ 788,398	\$ 2,550,028

CITY OF HILLSDALE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2018

	<u>Library</u>	<u>Recreation Commission</u>	<u>Drug Forfeitures</u>	<u>Police</u>	<u>Municipal Street</u>	<u>TOTAL</u>
ASSETS						
Cash and investments	\$ 188,397	\$ 4,669	\$ 5,820	\$ 11,790	\$ -	\$ 210,676
Accounts receivable	39,344	350	-	70	-	39,764
Due from other funds	3	-	-	-	-	3
Prepaid expenditures	2,062	3,151	-	-	-	5,213
TOTAL ASSETS	<u>229,806</u>	<u>8,170</u>	<u>5,820</u>	<u>11,860</u>	<u>-</u>	<u>255,656</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	7,914	950	70	-	-	8,934
Accrued payroll and related liabilities	2,430	2,861	-	-	-	5,291
TOTAL LIABILITIES	<u>10,344</u>	<u>3,811</u>	<u>70</u>	<u>-</u>	<u>-</u>	<u>14,225</u>
Fund Balances:						
Non-spendable						
Prepaid expenditures	2,062	3,151	-	-	-	5,213
Restricted	217,400	1,208	5,750	11,860	-	236,218
TOTAL FUND BALANCES	<u>219,462</u>	<u>4,359</u>	<u>5,750</u>	<u>11,860</u>	<u>-</u>	<u>241,431</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 229,806</u>	<u>\$ 8,170</u>	<u>\$ 5,820</u>	<u>\$ 11,860</u>	<u>\$ -</u>	<u>\$ 255,656</u>

CITY OF HILLSDALE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2018

	<u>Library</u>	<u>Recreation Commission</u>	<u>Drug Forfeitures</u>	<u>Police</u>	<u>Municipal Street</u>	<u>TOTAL</u>
REVENUES						
Taxes	\$ 124,459	\$ -	\$ -	\$ -	\$ -	\$ 124,459
State revenue	16,334	-	-	-	-	16,334
Contributions	24,525	-	-	-	-	24,525
Charges for services	7,534	72,434	-	-	-	79,968
Fines and violations	45,056	-	3,078	-	-	48,134
Interest and rentals	5,007	-	-	-	-	5,007
Miscellaneous	32,482	-	-	1,616	-	34,098
TOTAL REVENUES	<u>255,397</u>	<u>72,434</u>	<u>3,078</u>	<u>1,616</u>	<u>-</u>	<u>332,525</u>
EXPENDITURES						
Public safety	-	-	1,224	-	-	1,224
Culture and recreation	298,147	130,567	-	-	-	428,714
Capital outlay	-	-	-	-	-	-
TOTAL EXPENDITURES	<u>298,147</u>	<u>130,567</u>	<u>1,224</u>	<u>-</u>	<u>-</u>	<u>429,938</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(42,750)</u>	<u>(58,133)</u>	<u>1,854</u>	<u>1,616</u>	<u>-</u>	<u>(97,413)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	49,500	-	-	-	49,500
Transfers out	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>49,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,500</u>
CHANGES IN FUND BALANCES	<u>(42,750)</u>	<u>(8,633)</u>	<u>1,854</u>	<u>1,616</u>	<u>-</u>	<u>(47,913)</u>
FUND BALANCES - BEGINNING OF YEAR	<u>262,212</u>	<u>12,992</u>	<u>3,896</u>	<u>10,244</u>	<u>-</u>	<u>289,344</u>
FUND BALANCES - END OF YEAR	<u>\$ 219,462</u>	<u>\$ 4,359</u>	<u>\$ 5,750</u>	<u>\$ 11,860</u>	<u>\$ -</u>	<u>\$ 241,431</u>

CITY OF HILLSDALE, MICHIGAN
 COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECT FUNDS
 JUNE 30, 2018

	Library Improvement	Fields of Dreams	Stock Park	Cold Springs Park	Capital Improvement	Airport Improvement	Three Meadows Development	Fire Equipment	TOTAL
ASSETS									
Cash and investments	\$ -	\$ 24,633	\$ 43,555	\$ 2,000	\$ 857,237	\$ 94,963	\$ 3,832	\$ 3,147	\$ 1,029,367
Accounts receivable	-	-	-	-	177,488	8,604	-	-	186,092
Due from other funds	-	-	-	-	198,925	-	-	-	198,925
TOTAL ASSETS	-	24,633	43,555	2,000	1,233,650	103,567	3,832	3,147	1,414,384
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable	-	4,454	-	-	261,693	1,210	-	-	267,357
TOTAL LIABILITIES	-	4,454	-	-	261,693	1,210	-	-	267,357
Fund Balances:									
Restricted	-	20,179	43,555	2,000	971,957	102,357	3,832	3,147	1,147,027
TOTAL FUND BALANCES	-	20,179	43,555	2,000	971,957	102,357	3,832	3,147	1,147,027
TOTAL LIABILITIES AND FUND BALANCES	\$ -	\$ 24,633	\$ 43,555	\$ 2,000	\$ 1,233,650	\$ 103,567	\$ 3,832	\$ 3,147	\$ 1,414,384

CITY OF HILLSDALE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECT FUNDS
YEAR ENDED JUNE 30, 2018

	Library Improvement	Field of Dreams	Stock Park	Cold Springs Park	Capital Improvement	Airport Improvement	Three Development	Fire Equipment	TOTAL
REVENUES									
Federal revenue	\$ -	\$ -	\$ -	\$ -	\$ 340,558	\$ -	\$ -	\$ -	\$ 340,558
Interest and rentals	-	154	511	-	-	-	-	564	1,229
Contributions	-	14,134	13,834	2,000	-	-	-	-	29,968
Miscellaneous	-	4,401	-	-	15,236	129,396	2,099	3,152	154,284
TOTAL REVENUES	-	18,689	14,345	2,000	355,794	129,396	2,099	3,716	526,039
EXPENDITURES									
Capital outlay	-	8,100	5,903	-	370,679	361,836	-	308,746	1,055,264
TOTAL EXPENDITURES	-	8,100	5,903	-	370,679	361,836	-	308,746	1,055,264
REVENUES OVER (UNDER) EXPENDITURES	-	10,589	8,442	2,000	(14,885)	(232,440)	2,099	(305,030)	(529,225)
OTHER FINANCING SOURCES (USES)									
Transfers in (out)	(8,527)	-	-	-	178,527	160,000	-	270,000	600,000
CHANGES IN FUND BALANCES	(8,527)	10,589	8,442	2,000	163,642	(72,440)	2,099	(35,030)	70,775
FUND BALANCES - BEGINNING OF YEAR	8,527	9,590	35,113	-	808,315	174,797	1,733	38,177	1,076,252
FUND BALANCES - END OF YEAR	\$ -	\$ 20,179	\$ 43,555	\$ 2,000	\$ 971,957	\$ 102,357	\$ 3,832	\$ 3,147	\$ 1,147,027

CITY OF HILLSDALE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS
JUNE 30, 2018

	<u>R.L. Owen Memorial</u>	<u>Cemetery Perpetual Care</u>	<u>Stock Park Maintenance</u>	<u>TOTAL</u>
ASSETS				
Cash and investments	\$ 42,069	\$ 280,844	\$ 57,670	\$ 380,583
Due from other funds	-	407,727	-	407,727
Accounts receivable	-	-	88	88
	<u>42,069</u>	<u>688,571</u>	<u>57,758</u>	<u>788,398</u>
TOTAL ASSETS				
	<u>42,069</u>	<u>688,571</u>	<u>57,758</u>	<u>788,398</u>
LIABILITIES AND FUND BALANCES				
Fund Balances:				
Restricted	<u>42,069</u>	<u>688,571</u>	<u>57,758</u>	<u>788,398</u>
TOTAL FUND BALANCES	<u>42,069</u>	<u>688,571</u>	<u>57,758</u>	<u>788,398</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 42,069</u>	<u>\$ 688,571</u>	<u>\$ 57,758</u>	<u>\$ 788,398</u>

CITY OF HILLSDALE, MICHIGAN
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR PERMANENT FUNDS
 YEAR ENDED JUNE 30, 2018

	R.L. Owen Memorial	Cemetery Perpetual Care	Stock Park Maintenance	TOTAL
REVENUES				
Charges for services	\$ -	\$ 14,140	\$ -	\$ 14,140
Interest and rentals	5,300	15,600	734	21,634
Miscellaneous	-	-	5,067	5,067
TOTAL REVENUES	<u>5,300</u>	<u>29,740</u>	<u>5,801</u>	<u>40,841</u>
EXPENDITURES				
General government	15,323	-	-	15,323
TOTAL EXPENDITURES	<u>15,323</u>	<u>-</u>	<u>-</u>	<u>15,323</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(10,023)</u>	<u>29,740</u>	<u>5,801</u>	<u>25,518</u>
OTHER FINANCING SOURCES (USES)				
Loss on sale of investments	-	-	-	-
Transfers in (out)	-	(15,600)	-	(15,600)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(15,600)</u>	<u>-</u>	<u>(15,600)</u>
CHANGES IN FUND BALANCES	(10,023)	14,140	5,801	9,918
FUND BALANCES - BEGINNING OF YEAR	<u>52,092</u>	<u>674,431</u>	<u>51,957</u>	<u>778,480</u>
FUND BALANCES - END OF YEAR	<u>\$ 42,069</u>	<u>\$ 688,571</u>	<u>\$ 57,758</u>	<u>\$ 788,398</u>

CITY OF HILLSDALE, MICHIGAN
LOCAL REVENUES
DIAL-A-RIDE ENTERPRISE FUND
YEAR ENDED JUNE 30, 2018

	<u>7/1/2017 - 9/30/2017</u>	<u>10/1/2017 - 6/30/2018</u>	<u>7/1/2017 - 6/30/2018</u>
OPERATING REVENUES AND TRANSFERS			
Demand response (farebox) - nonurban	\$ 9,887	\$ 37,649	\$ 47,536
Transfer in from general fund	-	50,000	50,000
TOTAL LOCAL REVENUES	<u>\$ 9,887</u>	<u>\$ 87,649</u>	<u>\$ 97,536</u>

CITY OF HILLSDALE, MICHIGAN
LOCAL REVENUES
DIAL-A-RIDE ENTERPRISE FUND
BASED ON A SEPTEMBER 30, 2017 YEAR END

	<u>10/1/2016 - 6/30/2017</u>	<u>7/1/2017 - 9/30/2017</u>	<u>10/1/2016 - 9/30/2017</u>
OPERATING REVENUES AND TRANSFERS			
Demand response (farebox) - nonurban	\$ 38,479	\$ 9,887	\$ 48,366
Transfer in from general fund	<u>104,755</u>	<u>-</u>	<u>104,755</u>
 TOTAL LOCAL REVENUES	 <u>\$ 143,234</u>	 <u>\$ 9,887</u>	 <u>\$ 153,121</u>

CITY OF HILLSDALE, MICHIGAN
FEDERAL AND STATE AWARDS
DIAL-A-RIDE ENTERPRISE FUND
YEAR END JUNE 30, 2018

	<u>7/1/2017 - 9/30/2017</u>	<u>10/1/2017 - 6/30/2018</u>	<u>7/1/2017 - 6/30/2018</u>
Michigan Department of Transportation			
Local bus operating	\$ 35,535	\$ 95,776	\$ 131,311
Preliminary reconciliation fiscal year 2016	(3,574)	(5,361)	(8,935)
Federal Transit Administration			
Section 5311	29,127	26,786	55,913
Section 5310	-	97,054	97,054
Mobility management	17,500	26,250	43,750
 TOTAL FEDERAL AND STATE AWARDS	 <u>\$ 78,588</u>	 <u>\$ 240,505</u>	 <u>\$ 319,093</u>

CITY OF HILLSDALE, MICHIGAN
FEDERAL AND STATE AWARDS
DIAL-A-RIDE ENTERPRISE FUND
BASED ON A SEPTEMBER 30, 2017 YEAR END

	<u>10/1/2016 - 6/30/2017</u>	<u>7/1/2017 - 9/30/2017</u>	<u>TOTAL</u>
Michigan Department of Transportation			
Local bus operating	\$ 107,604	\$ 35,535	\$ 143,139
Preliminary reconciliation fiscal year 2016	-	(3,574)	(3,574)
Federal Transit Administration			
Section 5311	31,552	29,127	60,679
Mobility management	17,500	17,500	35,000
	<u>156,656</u>	<u>78,588</u>	<u>235,244</u>
TOTAL FEDERAL AND STATE AWARDS	<u>\$ 156,656</u>	<u>\$ 78,588</u>	<u>\$ 235,244</u>

CITY OF HILLSDALE, MICHIGAN
EXPENDITURES OF FEDERAL AND STATE AWARDS
DIAL-A-RIDE ENTERPRISE FUND
YEAR ENDED JUNE 30, 2018

FEDERAL CFDA NUMBER	GRANT NUMBER AUTHORIZATION NUMBER	PROGRAM AWARD AMOUNT	CURRENT YEAR'S EXPENDITURES		PRIOR YEARS' EXPENDITURES	AWARD AMOUNT REMAINING
			TOTAL	FEDERAL		
			41,335	41,335	\$	
20.509	2017-0063/P1/R2	\$ 67,433	\$	\$	13,108	\$ 12,990
20.509	2017-0063/P2	35,000	17,500	-	17,500	-
20.509	2017-0063/P4	35,000	26,250	-	-	8,750
20.509	2017-0063/P5	97,328	-	14,578	-	97,328
20.509	2017-0063/P3	97,328	97,054	19,411	-	274
			\$ 444,244	\$ 177,306	\$ 265,153	\$ 146,504
			\$ 736,897	\$ 444,244	\$ 265,153	\$ 146,504
N/A	N/A	143,664	107,748	107,748	-	35,916
N/A	N/A	142,140	35,353	35,353	106,605	182
N/A	N/A	119,004	119,004	(8,936)	127,940	(8,936)
			\$ 444,244	\$ 177,306	\$ 265,153	\$ 146,504

**FEDERAL AND STATE GRANTOR / PASS THROUGH
GRANTOR / PROGRAM TITLE
U.S. DEPARTMENT OF TRANSPORTATION**

Passed through Michigan Department of Transportation
Operating assistance - Section 5311
Mobility management - Section 5311
Mobility management - Section 5311
Operating assistance - Section 5311
Bus capital - Section 5310

MICHIGAN DEPARTMENT OF TRANSPORTATION

Operating Assistance - Act 51
Nonurban 2018 budget
Nonurban 2017 reconciled
Nonurban 2016 audited

CITY OF HILLSDALE, MICHIGAN
OPERATING AND CONTRACT EXPENSES
DIAL-A-RIDE ENTERPRISE FUND
YEAR ENDING JUNE 30, 2018

	<u>NONURBAN</u>	<u>TOTAL</u>
Labor	\$ 177,250	\$ 177,250
Fringe benefits	70,835	70,835
Services	51,654	51,654
Materials & supplies	25,594	25,594
Insurance	12,496	12,496
Utilities	7,378	7,378
Depreciation	<u>54,697</u>	<u>54,697</u>
 TOTAL EXPENSES	 <u>\$ 399,904</u>	 <u>\$ 399,904</u>

CITY OF HILLSDALE, MICHIGAN
OPERATING AND CONTRACT EXPENSES
DIAL-A-RIDE ENTERPRISE FUND
YEAR ENDING JUNE 30, 2018

	NONURBAN		TOTAL
	07/01/2017 - 9/30/2017	10/01/2017 - 6/30/2018	
Labor	\$ 30,500	\$ 146,750	\$ 177,250
Fringe benefits	20,447	50,388	70,835
Services	3,037	48,617	51,654
Materials & supplies	1,492	24,102	25,594
Insurance	-	12,496	12,496
Utilities	1,439	5,939	7,378
Depreciation	-	54,697	54,697
TOTAL EXPENSES	\$ 56,915	\$ 342,989	\$ 399,904

CITY OF HILLSDALE, MICHIGAN
OPERATING AND CONTRACT EXPENSES
DIAL-A-RIDE ENTERPRISE FUND
BASED ON A SEPTEMBER 30, 2017 YEAR END

	NONURBAN		TOTAL
	10/1/2016 - 6/30/2017	7/1/2017 - 9/30/2017	
Labor	\$ 144,307	\$ 30,500	\$ 174,807
Fringe benefits	53,656	20,448	74,104
Services	13,759	3,037	16,796
Materials & supplies	44,751	1,492	46,243
Insurance	6,074	-	6,074
Utilities	9,826	1,439	11,265
Miscellaneous	-	-	0
Depreciation	63,731	-	63,731
TOTAL EXPENSES	\$ 336,104	\$ 56,916	\$ 393,020

CITY OF HILLSDALE, MICHIGAN
NONURBAN REGULAR SERVICE REVENUE REPORT
DIAL-A-RIDE ENTERPRISE FUND
BASED ON A SEPTEMBER 30, 2017 YEAR END

<u>CODE</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
401	Farebox Revenue	
40100	Passenger Fares	\$ 48,366
409	Local Revenues	
40910	Local operating assistance	104,755
411	State Formula and Contracts	
41101	State operating assistance	114,759
413	Federal Contracts	
41301	Federal Section 5311 (operating funds only)	<u>54,163</u>
	TOTAL REVENUES	<u><u>\$ 322,043</u></u>

CITY OF HILLSDALE, MICHIGAN
NONURBAN REGULAR SERVICE EXPENSE REPORT
DIAL-A-RIDE ENTERPRISE FUND
BASED ON A SEPTEMBER 30, 2017 YEAR END

CODE	DESCRIPTION	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL
501	Labor				
50101	Operators' salaries and wages	\$ 107,266	\$ -	\$ -	\$ 107,266
50102	Other salaries and wages	-	3,425	25,441	28,866
50103	Dispatchers' salaries and wages	38,674	-	-	38,674
502	Fringe Benefits				
50200	Other fringe benefits	58,963	2,068	13,072	74,103
503	Services				
50305	Audit costs	-	-	1,516	1,516
50399	Other	37,487	1,782	5,373	44,642
504	Materials and Supplies				
50401	Fuel and lubricants	14,342	-	-	14,342
50402	Tires and tubes	589	-	-	589
50499	Other materials and supplies	1,188	-	-	1,188
505	Utilities				
50500	Utilities	7,327	-	3,938	11,265
506	Insurance				
50603	Liability insurance	2,587	-	-	2,587
50699	Other insurance	-	-	3,487	3,487
509	Miscellaneous Expenses				
50902	Travel, meetings and training	-	-	-	-
50999	Miscellaneous	-	-	-	-
512	Operating Leases and Rentals				
51200	Operating leases and rentals	764	-	-	764
513	Depreciation				
51300	Depreciation	63,731	-	-	63,731
540	Ineligible refunds & credits				
54000	Ineligible refunds & credits (insurance)	-	-	-	-
550	Ineligible Expenses				
55007	Ineligible depreciation	63,731	-	-	63,731
604	Ineligible Expenses				
57604	Ineligible mobility management	35,000	-	-	35,000
	Total expenses				<u>\$ 393,020</u>
	Total ineligible expenses				<u>\$ 98,731</u>
	Total eligible expenses				<u>\$ 294,289</u>

CITY OF HILLSDALE, MICHIGAN
 NONURBAN REGULAR SERVICE NON-FINANCIAL INFORMATION
 DIAL-A-RIDE ENTERPRISE FUND
 BASED ON A SEPTEMBER 30, 2017 YEAR END

	<u>WEEKDAY</u>	<u>SATURDAY</u>	<u>SUNDAY</u>	<u>TOTAL</u>
Non-Financial Information				
Annual Reconciliation				
10/1/2016 - 9/30/2017				
Vehicle Hours	4,943	-	-	4,943
Vehicle Miles	48,350	-	-	48,350
Passengers Reg.	13,446	-	-	13,446
Passengers - Sr.	4,575	-	-	4,575
Passengers - Per. Disb.	6,434	-	-	6,434
Passengers - Sr. Disb.	3,662	-	-	3,662
Total Demand - Response	<u>28,117</u>	<u>-</u>	<u>-</u>	<u>28,117</u>
Days Operated	<u>249</u>	<u>-</u>	<u>-</u>	<u>249</u>
	<u>Quantity</u>			
Total Demand - Response Vehicles	4			
Demand-Response Vehicles w/Lifts	4			
Diesel/Gasoline Gallons Consumed	8,201			
Total Transit (full-time equivalent) Employees	4			
Total Revenue Vehicles (full-time equivalent) Operators	3			

CITY OF HILLSDALE, MICHIGAN
OPERATING ASSISTANCE CALCULATION
DIAL-A-RIDE ENTERPRISE FUND
BASED ON A SEPTEMBER 30, 2017 YEAR END

	<u>NONURBAN</u>
Total expenses	\$ 393,020
Less ineligible expenses:	
Depreciation and other	98,731
Total State eligible expenses	<u>294,289</u>
Eligible expenses for State reimbursement	294,289
Reimbursement percentage	<u>0.389955</u>
State operating assistance	<u>114,759</u>
Total federal eligible expenses	294,289
Less additional federal ineligible expenses:	
Audit costs	1,516
Eligible expenses for federal reimbursement	<u>292,773</u>
Reimbursement percentage	<u>0.1850</u>
Section 5311 operating assistance	<u>\$ 54,163</u>

CITY OF HILLSDALE, MICHIGAN
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2018

	Department of Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	TOTAL
ASSETS					
Current assets:					
Cash and investments	\$ 22,470	\$ 22,357	\$ 109,277	\$ 72,561	\$ 226,665
Due from other funds	-	-	-	-	-
Inventory	-	151,924	-	-	151,924
Prepaid expenses	19,601	-	25,749	-	45,350
TOTAL CURRENT ASSETS	<u>42,071</u>	<u>174,281</u>	<u>135,026</u>	<u>72,561</u>	<u>423,939</u>
Capital assets:					
Equipment	-	-	2,184,012	-	2,184,012
Less: accumulated depreciation	-	-	(1,958,674)	-	(1,958,674)
TOTAL CAPITAL ASSETS, NET	<u>-</u>	<u>-</u>	<u>225,338</u>	<u>-</u>	<u>225,338</u>
TOTAL ASSETS	<u>42,071</u>	<u>174,281</u>	<u>360,364</u>	<u>72,561</u>	<u>649,277</u>
LIABILITIES					
Current liabilities:					
Accounts payable	907	7,405	10,704	-	19,016
Accrued payroll and related liabilities	-	6	812	-	818
TOTAL CURRENT LIABILITIES	<u>907</u>	<u>7,411</u>	<u>11,516</u>	<u>-</u>	<u>19,834</u>
Other liabilities:					
Compensated absences	18,585	-	7,151	-	25,736
TOTAL LIABILITIES	<u>19,492</u>	<u>7,411</u>	<u>18,667</u>	<u>-</u>	<u>45,570</u>
NET POSITION					
Net investment in capital assets	-	-	225,338	-	225,338
Unrestricted	22,579	166,870	116,359	72,561	378,369
TOTAL NET POSITION	<u>\$ 22,579</u>	<u>\$ 166,870</u>	<u>\$ 341,697</u>	<u>\$ 72,561</u>	<u>\$ 603,707</u>

CITY OF HILLSDALE, MICHIGAN
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 INTERNAL SERVICE FUNDS
 YEAR ENDED JUNE 30, 2018

	Department of Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	TOTAL
OPERATING REVENUES					
Charges for services	\$ 180,289	\$ 5,915	\$ 308,217	\$ -	\$ 494,421
Miscellaneous	-	-	11,467	1,125	12,592
TOTAL OPERATING REVENUES	180,289	5,915	319,684	1,125	507,013
OPERATING EXPENSES					
Salaries	44,307	3,572	71,839	-	119,718
Fringe benefits	135,982	2,455	32,945	-	171,382
Supplies	-	28,837	112,199	-	141,036
Contracted services	-	6,404	11,418	-	17,822
Maintenance	-	2,033	13,970	-	16,003
Insurance	-	-	42,881	-	42,881
Miscellaneous	-	-	6,644	3,359	10,003
Capital outlay	-	-	3,995	-	3,995
Depreciation	-	-	69,107	-	69,107
TOTAL OPERATING EXPENSES	180,289	43,301	364,998	3,359	591,947
OPERATING INCOME (LOSS)	-	(37,386)	(45,314)	(2,234)	(84,934)
NONOPERATING REVENUES					
Gain (loss) on disposal of assets	-	-	2,000	-	2,000
Interest income	-	-	1,130	1,096	2,226
TOTAL NONOPERATING REVENUES (EXPENSES)	-	-	3,130	1,096	4,226
CHANGES IN NET POSITION	-	(37,386)	(42,184)	(1,138)	(80,708)
NET POSITION - BEGINNING OF YEAR	22,579	204,256	383,881	73,699	684,415
NET POSITION - END OF YEAR	\$ 22,579	\$ 166,870	\$ 341,697	\$ 72,561	\$ 603,707

CITY OF HILLSDALE, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2018

	Department of Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash paid to suppliers	\$ -	\$ (31,186)	\$ (188,915)	\$ (3,359)	\$ (223,460)
Cash paid to employees	(172,909)	(6,437)	(103,760)	-	(283,106)
Receipts for interfund services provided	180,289	5,915	319,684	1,125	507,013
Net Cash Provided By (Used In) Operating Activities	<u>7,380</u>	<u>(31,708)</u>	<u>27,009</u>	<u>(2,234)</u>	<u>447</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of capital assets	-	-	2,000	-	2,000
Purchase of capital assets	-	-	-	-	-
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>-</u>	<u>2,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income received	-	-	1,130	1,096	2,226
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,380	(31,708)	30,139	(1,138)	4,673
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>15,090</u>	<u>54,065</u>	<u>79,138</u>	<u>73,699</u>	<u>221,992</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 22,470</u></u>	<u><u>\$ 22,357</u></u>	<u><u>\$ 109,277</u></u>	<u><u>\$ 72,561</u></u>	<u><u>\$ 226,665</u></u>
BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS					
Cash and investments	\$ 22,470	\$ 22,357	\$ 109,277	\$ 72,561	\$ 226,665
Less amounts classified as investments	-	-	-	-	-
	<u><u>\$ 22,470</u></u>	<u><u>\$ 22,357</u></u>	<u><u>\$ 109,277</u></u>	<u><u>\$ 72,561</u></u>	<u><u>\$ 226,665</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	\$ -	\$ (37,386)	\$ (45,314)	\$ (2,234)	\$ (84,934)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	-	-	69,107	-	69,107
(Increase)/decrease in:					
Accounts receivable	-	-	-	-	-
Due from other funds	-	-	-	-	-
Inventory	-	791	-	-	791
Prepaid expenses	1,906	-	(3,578)	-	(1,672)
Increase/(decrease) in:					
Accounts payable	673	5,297	5,504	-	11,474
Accrued expenses	4,801	(410)	1,290	-	5,681
Net Cash Provided By (Used In) Operating Activities	<u><u>\$ 7,380</u></u>	<u><u>\$ (31,708)</u></u>	<u><u>\$ 27,009</u></u>	<u><u>\$ (2,234)</u></u>	<u><u>\$ 447</u></u>

CITY OF HILLSDALE, MICHIGAN
ADDITIONAL REPORTS REQUIRED BY
THE UNIFORM GUIDANCE
YEAR ENDED JUNE 30, 2018

CITY OF HILLSDALE, MICHIGAN

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JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and
Members of City Council
City of Hillsdale
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, 2018, 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 November 20, 2018.

Internal Control Over Financial Reporting

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

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. 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 charges with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses. They are referenced as 2018-1, 2018-2, 2018-3 and 2018-4.

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 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.

CHBW & CO., P.C.

Certified Public Accountants



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of Hillsdale's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Hillsdale's major federal programs for the year ended June 30, 2018. The City of Hillsdale's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Hillsdale's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Hillsdale's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, City of Hillsdale complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Hillsdale, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Hillsdale basic financial statements. We issued our report thereon dated November 20, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

CHBW & Co., P.C.

Certified Public Accountants

Hillsdale, Michigan
November 20, 2018

CITY OF HILLSDALE, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>	<u>Federal CFDA Number</u>	<u>Federal or Pass-Through Grant Number</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>
Passed-through the Michigan Strategic Fund				
CDBG Blight Elimination	14.228	MSC-215008-ESB	\$ 785,500	\$ 37,394
CDBG ICE Grant	14.228	MSC-216038-ICE	94,400	340,558
Total U.S. Department of Housing and Urban Development			<u>879,900</u>	<u>377,952</u>
 <u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>				
Passed-through the Michigan Department of Environmental Quality				
Capitalization Grants for Clean Water State Revolving Loan Funds	66.468	5610-01	7,435,000	383,237
Capitalization Grants for Clean Water State Revolving Loan Funds	66.468	5610-02	2,000,000	
Total U.S. Environmental Protection Agency			<u>9,435,000</u>	<u>383,237</u>
 <u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Passed-through Michigan Department of Transportation				
Operating assistance - Section 5311	20.509	2017-0063/P1	67,433	41,335
Operating assistance - Section 5311	20.509	2017-0063/P5	97,328	14,578
Mobility management - Section 5311	20.509	2017-0063/P2	35,000	17,500
Mobility management - Section 5311	20.509	2017-0063/P4	35,000	26,250
Capital - Section 5310	20.509	2017-0063/P3	77,643	77,643
Total U.S. Department of Transportation			<u>312,404</u>	<u>177,306</u>
 <u>U.S. DEPARTMENT OF JUSTICE</u>				
Bullet Proof Vest Program	16.607		1,444	721
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 10,628,748</u>	<u>\$ 939,216</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

CITY OF HILLSDALE, MICHIGAN
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
JUNE 30, 2018

Note 1: Basis of presentation – The schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Hillsdale under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and reconciles with the amounts presented in the preparation of the financial statements.

Note 2: The following was audited as a major program:

Clean Water State Revolving Funds – CFDA #66.458

Note 3: The threshold for distinguishing Type A and Type B programs was \$750,000.

Note 4: Federal expenditures are reported in the following fund financial statements as follows:

Governmental funds - revenue	\$	378,673
Proprietary funds - revenue		177,306
Proprietary funds - bonds payable		383,237
	\$	939,216

Note 5: Outstanding loans – the City has an outstanding loan commitment under the Clean Water State Revolving Loan Fund from the Michigan Department of Environmental Quality, as a passthrough agency for the Environmental Protection Agency (CFDA #66.458). As of June 30, 2018, the outstanding loan payable was \$6,817,693, which consists of both Federal and State funds.

Note 6: The City did not have any subrecipients to their federal programs during the year.

CITY OF HILLSDALE, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	<u> X </u> Yes	<u> </u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> No
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> No

Type of auditor's report issued:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with §200.516 of the Uniform Guidance?	<u> </u> Yes	<u> X </u> No

Major Programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.458	Clean Water State Revolving Funds
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$750,000</u>
Auditee qualified as low-risk auditee?	<u> </u> Yes <u> X </u> No

CITY OF HILLSDALE, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Section II - Financial Statement Findings

Finding 2018-1 Financial Statement Preparation (Repeat finding)

Internal Control Finding considered a material weakness

Requirement: The preparation of GAAP financial statements requires internal controls over (1) recording, processing, and summarizing accounting data, and (2) reporting the fund financial statements, including the related footnotes.

Condition: The City has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the City's internal controls. In addition, the City relied on the auditors for assistance with adjusting the net pension liability and related deferred amounts.

Cause: This condition is caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the added time and expense of outsourcing to another accounting firm, or obtaining the necessary training for its management to perform this task.

Effect: The result of this condition is that the City lacks internal controls over the preparation of financial statements and notes, and instead relies, in part, on its external auditors for assistance with this task.

View of responsible officials: The City will continue to evaluate the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP. In addition, the City will carefully review the draft financial statements and notes prior to approving them and accept responsibility for their content and presentation.

Finding 2018-2 Inventory and Capital Assets – Utility funds

Internal Control Finding considered a material weakness

Requirement: The business office is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: Management was not able to produce supporting documentation (inventory list; capital assets schedule) for the respective account balances on the financial statements. In addition, an asset disposal transaction was not recorded properly.

Cause: 1) Lack of adequate financial analysis to timely detect discrepancies between the financial statements and supporting documentation. 2) Asset disposal (sale) transaction was left to complete at year end; however, it was overlooked.

Effect: 1) At the time of audit, the supporting documentation given to the auditor for test purposes was dated more than 60 days after the fiscal year end and did not agree to the balances on the financial statements. 2) The financial statements were materially misstated due to only recording the gross proceeds from sale of assets.

View of responsible officials: The City's utility office has undergone a complete conversion of all their accounting systems, including the modules specific to inventory and capital assets. More software support will be sought before year end to address reporting issues. Also, year-end procedures will be improved to reconcile all accounts to supporting documentation.

Finding 2018-3 Pooled cash account – Utility funds
Internal Control Finding considered a material weakness

Requirement: Each fund using the pooled *Operations Account* should show the respective balance on the fund financial statements as either a positive amount, or in case of a negative amount, a *due to* (liability) to another fund.

Condition: The sewer fund operations (pooled) cash account was a negative (\$255,241) at year end, and there was not a *due to other funds* reported.

Cause: The negative cash was caused by funding the bond covenant requirements up front and not leaving enough in the operations account to cover expenses. The cause for not creating a liability (*due to other funds*) is unknown.

Effect: The sewer fund, in effect, borrowed cash from all other funds within the pooled account, and the liability was not recognized.

View of responsible officials: In the upcoming year, all receipts of cash will be used for operations, and the Sewer fund pooled cash will be restored.

Finding 2018-4 Material journal entries proposed by auditors
Internal Control Finding considered a material weakness

Requirement: Management is responsible for the fair presentation in the financial statements of financial position, results of operations, in conformity with U.S. generally accepted accounting principles.

Condition: Material journal entries for the proper classification of property tax revenue and federal grant revenue were proposed by the auditors. These misstatements were not detected by the City's internal control over financial reporting. These entries were brought to the attention of management and were subsequently recorded in the City's general ledger.

Cause: Misstatements were not identified and corrected by management.

Effect: The City's accounting records were initially misstated by amounts material to the financial statements. Necessary adjustments were brought to the attention of management and were subsequently recorded in the City's general ledger.

View of responsible officials: A more thorough account review process has been implemented to ensure that material journal entries are not required during the audit process, in the future.

CITY OF HILLSDALE, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)
YEAR ENDED JUNE 30, 2018

Section III – Federal Award Findings and Questioned Costs

None

CITY OF HILLSDALE, MICHIGAN
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018

Finding 2017-1 Financial Statement Preparation

Internal Control Finding considered a significant deficiency

Requirement: The preparation of GAAP financial statements requires internal controls over (1) recording, processing, and summarizing accounting data, and (2) reporting the fund financial statements, including the related footnotes.

Condition: The City has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the City's internal controls.

Cause: This condition is caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the added time and expense of outsourcing to another accounting firm, or obtaining the necessary training for its Treasurer to perform this task.

Effect: The result of this condition is that the City lacks internal controls over the preparation of financial statements and notes, and instead relies, in part, on its external auditors for assistance with this task.

Status: Unchanged

Finding 2017-2 Utility Funds – Material Audit Adjustments

Internal Control Finding considered a material weakness

Requirement: The business office is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: During the course of the audit, there were many audit findings that resulted in material adjustments to the financial statements. Specific and material items that required correction included capital assets, customer deposits, accounts payable, bonds payable, deferred inflows, deferred outflows and pension expense.

Cause: Lack of adequate financial analysis to timely detect material misstatements in the financial statements, and lack of proper review and oversight of third-party consultants engaged to assist in the year-end close procedures.

Effect: At the time of audit, the financial statements were materially misstated.

Status: Corrected