

**CITY OF HILLSDALE, MICHIGAN**

**YEAR ENDED JUNE 30, 2019**

**CITY OF HILLSDALE, MICHIGAN**  
**FINANCIAL STATEMENTS**  
**AND INDEPENDENT AUDITOR'S REPORT**  
**(with required supplementary information)**  
**YEAR ENDED JUNE 30, 2019**

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, 2019, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### 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, 2019, 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 34 - 39, 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 1, 2019 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 1, 2019

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, 2019.

### 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 \$64,888,017 (*net position*). Of this amount, \$12,915,333 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Governmental activities change in net position increased \$875,528. Business-type activities change in net position increased \$1,391,535.
- Combined net position at fiscal year-end was up 8.64% or \$5,159,932 from the prior year.
- 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, 2018 combined with the City's pension contributions for January – June 2019. The City's net pension liability for both governmental and business type activities for the fiscal year ending June 30, 2019 was \$6,110,602. This is a 52% increase from fiscal year 2018.
- As of the close of the current fiscal year, the City's Governmental funds reported combined ending fund balances of \$4,026,599. That is down \$68,384 or about one and one-half percent (1.66%) from the prior year.
- Investment in Michigan South Central Power Agency decreased \$1,130,082.
- 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 \$934,591. That represents over eighteen percent (18.39%) of total budgeted general fund expenditures for fiscal year 2019-20.

### 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 14-33 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 34-62 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 \$64,888,016 at the close of fiscal year 2019.

The total governmental and business-type activities *total liabilities* increased \$3,965,669, or twenty-eight percent (28.26%) from the prior year. This increase is directly related to the wastewater treatment plant renovations financed with the 2015 and 2016 revenue bonds and an interdepartmental loan from the Electric Fund to the Capital Improvement Fund.

By far the largest portion of the City's assets, more than seventy-four and one-half percent (74.59%), 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				
	2018	2019	2018	2019	2018	2019	
Current and Other Assets	\$5,015,807	\$6,106,221	\$14,465,975	\$18,666,263	\$19,481,782	\$24,772,484	27.16%
Capital Assets	\$22,895,178	\$24,194,655	\$31,295,865	\$32,467,453	\$54,191,043	\$56,662,108	4.56%
<b>Total Assets</b>	<b>\$27,910,985</b>	<b>\$30,300,876</b>	<b>\$45,761,840</b>	<b>\$51,133,716</b>	<b>\$73,672,825</b>	<b>\$81,434,592</b>	<b>10.54%</b>
Deferred Outflows	\$692,430	\$874,161	\$598,139	\$787,288	\$1,290,569	\$1,661,449	28.74%
Long-term Liabilities Outstanding	\$219,295	\$221,234	\$7,816,336	\$7,864,935	\$8,035,631	\$8,086,169	0.63%
Net Pension Liability	\$2,170,797	\$3,200,032	\$1,839,326	\$2,910,570	\$4,010,123	\$6,110,602	52.38%
Other Liabilities	\$481,393	\$1,632,860	\$1,507,012	\$2,170,197	\$1,988,405	\$3,803,057	91.26%
<b>Total Liabilities</b>	<b>\$2,871,485</b>	<b>\$5,054,126</b>	<b>\$11,162,674</b>	<b>\$12,945,702</b>	<b>\$14,034,159</b>	<b>\$17,999,828</b>	<b>28.26%</b>
Deferred Inflows	\$554,925	\$68,378	\$646,225	\$139,819	\$1,201,150	\$208,197	-82.67%
Net Position							
Invested In Capital Assets Net of Related Debt	\$22,895,178	\$24,194,655	\$23,614,797	\$24,207,301	\$46,509,975	\$48,401,956	4.07%
Restricted	\$2,798,156	\$3,087,181	\$351,045	\$483,546	\$3,149,201	\$3,570,727	13.39%
Unrestricted	(\$516,329)	(\$1,229,303)	\$10,585,238	\$14,144,636	\$10,068,909	\$12,915,333	28.27%
<b>Net Position</b>	<b>\$25,177,005</b>	<b>\$26,052,533</b>	<b>\$34,551,080</b>	<b>\$38,835,483</b>	<b>\$59,728,085</b>	<b>\$64,888,016</b>	<b>8.64%</b>

A portion of the City's assets (\$3,570,727) represents resources that are subject to internal and external restrictions on how they may be used. The remaining balance of \$12,915,333 are *unrestricted assets* that may be used to meet the government's ongoing obligations to citizens and creditors. That amount increased \$4,684,765, or more than forty-six and one-half percent (46.53%) from the prior year. That gain is reflective of a change in the way the MSCPA rate stabilization funds are recorded and other increases in current assets.

The City's total program revenue for 2019, (including restricted and operating grants and contributions) was \$19,253,216. This represents just over one percent (1.21%) increase from the prior year. Capital grants and contributions, which are one-time, project specific sources of revenue, increased one hundred-eight percent (108.37%) or \$485,704 from the prior year.

**City's Changes in Net Position**

	Governmental		Business-type		Total		Total
	Activities		Activities				Percentage
Revenues:	2018	2019	2018	2019	2018	2019	Change
Program Revenues:							
Charges for Services	\$427,490	\$564,529	\$16,584,845	\$16,232,492	\$17,012,335	\$16,797,021	-1.27%
Operating Grants & Contributions	<u>\$1,225,955</u>	\$1,244,130	\$253,422	\$194,390	\$1,479,377	\$1,438,520	-2.76%
Capital Grants & Contributions	\$370,528	\$626,870	\$77,643	\$390,805	\$448,171	\$1,017,675	127.07%
<b>Total Revenues</b>	<b>\$2,023,973</b>	<b>\$2,435,529</b>	<b>\$16,915,910</b>	<b>\$16,817,687</b>	<b>\$18,939,883</b>	<b>\$19,253,216</b>	<b>1.65%</b>
Expenses:							
General Government	\$1,940,011	\$2,236,979			\$1,940,011	\$2,236,979	15.31%
Public Safety	\$2,055,304	\$2,352,497			\$2,055,304	\$2,352,497	14.46%
Public Services	\$284,101	\$246,304			\$284,101	\$246,304	-13.30%
Highways & Streets	\$1,608,675	\$1,323,391			\$1,608,675	\$1,323,391	-17.73%
Community & economic development	\$188,345	\$202,178			\$188,345	\$202,178	7.34%
Recreation & Culture	\$710,193	\$676,957			\$710,193	\$676,957	-4.68%
Capital Outlay & Other	\$116,281	\$50,448			\$116,281	\$50,448	-56.62%
Electric			\$11,461,468	\$11,514,989	\$11,461,468	\$11,514,989	0.47%
Water			\$1,204,905	\$1,248,906	\$1,204,905	\$1,248,906	3.65%
Sewer			\$1,444,234	\$1,443,863	\$1,444,234	\$1,443,863	-0.03%
Transportation			\$345,868	\$358,193	\$345,868	\$358,193	3.56%
<b>Total Expenses</b>	<b>\$6,902,910</b>	<b>\$7,088,754</b>	<b>\$14,456,475</b>	<b>\$14,565,951</b>	<b>\$21,359,385</b>	<b>\$21,654,705</b>	<b>1.38%</b>
Increase (Decrease) in							
Net Position Before Transfers	(\$4,878,937)	(\$4,653,225)	\$2,459,435	\$2,251,736	(\$2,419,502)	(\$2,401,489)	-0.74%
General Revenues:							
Taxes	\$2,507,444	\$2,619,253			\$2,507,444	\$2,619,253	4.46%
To Specific Programs	\$1,054,030	\$1,014,670			\$1,054,030	\$1,014,670	-3.73%
Unrestricted Investment Earnings	\$46,616	\$58,473	\$601,068	\$64,338	\$647,684	\$122,811	-81.04%
Other Revenues	\$739,337	\$900,418	\$70,671	\$11,400	\$810,008	\$911,818	12.57%
Transfers - Internal Activity	\$966,871	\$935,939	(\$966,871)	(\$935,939)	\$0	\$0	0.00%
<b>Total General Revenues</b>	<b>\$5,314,298</b>	<b>\$5,528,753</b>	<b>(\$295,132)</b>	<b>(\$860,201)</b>	<b>\$5,019,166</b>	<b>\$4,668,552</b>	<b>-6.99%</b>
Changes in Net Position	\$435,361	\$875,528	\$2,164,303	\$1,391,535	\$2,599,664	\$2,267,063	-12.79%
Net Position - Beginning of Year	\$24,741,644	\$25,177,005	\$32,386,777	\$37,443,948	\$57,128,421	\$62,620,953	9.61%
Net Position - End of Year	\$25,177,005	\$26,052,533	\$34,551,080	\$38,835,483	\$59,728,085	\$64,888,016	8.64%

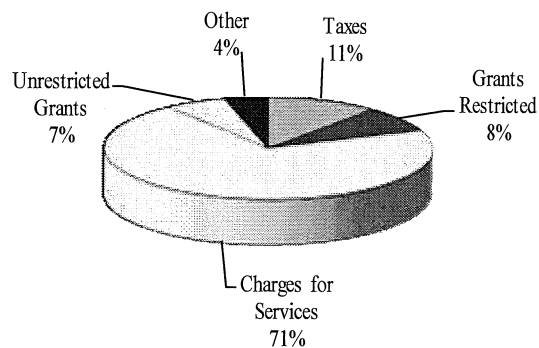
Total government wide, charges for services revenue dropped more than one percent (1.27%). Governmental activities charges for services increased thirty-two percent (32.05%). Business-type charges for services revenue decreased \$352,353 or more than two percent (2.12%). More

than ninety-six and one-half percent (96.66%) 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 more than seventy-seven percent (77.31%) of those charges.

General revenues, for both the governmental and business-type activities, decreased seven percent (6.99%). These revenues consist of taxes, investment earnings, internal transfers between funds, and various other miscellaneous revenues. The tax revenue increased four and one-half percent (4.46%) from the prior year. Governmental and business-type activities specific program revenues decreased about four percent (3.73%). Unrestricted investment earnings decreased 81.04% largely due to the MSCPA \$1,130,082 loss. Other revenues that come from various sources, some of which are from one-time sources increased twelve and one-half percent (12.57%).

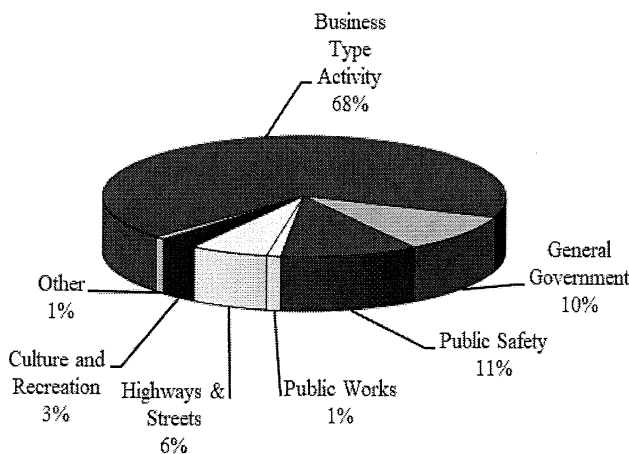
The pie graph to the right reveals the major sources of revenues collected by the municipality's governmental and business-type activities combined. Charges for services make up seventy-one (71%) of revenues. Seventy-seven percent (77%) of those monies come from the electric utility and are not used for general governmental operations. Taxes which are used primarily to fund general governmental activities, make up eleven percent (11%) of general revenues. Grants, restricted and unrestricted combined, account for fifteen percent (15%). Investment earnings and other miscellaneous revenue sources make up the remaining four percent (4%).

**Source of Revenue for Fiscal Yr 2019  
Governmental & Business-type Activities**



Total expenditures increased overall by one percent (0.99%) from fiscal year 2017-18. Five (5) of the governmental functions and/or programs experienced increases, while six (6) 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 \$69,967 as the City made changes in staffing assignments. The Capital Outlay and Other reductions came from various activities being cost conscious with their purchases. 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-three percent (53%), are incurred by the electric fund. General

**Functional Expenses for Fiscal Yr 2019  
Governmental & Business-type Activities**



governmental activities account for only ten percent (10%) of total expenditures; public safety makes up eleven percent (11%), highways and streets account for six percent (6%), recreation and culture spend around three percent (3%), and public works and other miscellaneous activities each make up the remaining two percent (2%).

**Governmental activities.** Governmental activities had a positive change in net position of three and one-half percent (3.48%) or \$875,528. 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 continued throughout the year on this project, which began last April. The expected completion date is not until December 2019.
- A Community Development Block Grant through MEDC was obtained by City for TIFA to do renovations to the Dawn Theater. Preliminary work has begun with an expected completion date of April 2021.
- Governmental activities expenditures decreased by approximately one percent (0.97%) as staff continues to be cost conscious in all departments.
- Net pension liability for the government-activities increased by forty-seven percent (47.41%). The Government Accounting Standards Board (GASB) Statement No. 68 requires each municipality to calculate a net pension liability each year. This is done through a series of complex calculations. It appears on the government wide statements only. Changes to the City's pension system have been made that will help limit the city's pension liability exposure into the future.

**Business-type activities.** Business-type activities experienced a net gain for the year of \$1,391,535. Key elements of the business-type activities increase are as follows:

- The electric fund contributed \$329,945 to that increase from operations. The water fund contributed \$425,577 as the result of rate adjustments put into place at the beginning of the fiscal year.
- The sewer fund realized a change in net position of \$713,195 resulting from rate increases that were implemented in July of 2018.
- Dial-A-Ride experienced a net decrease of \$77,182 as operating revenues declined by over thirty-six percent (36.25%) while expenditures remained relatively unchanged.
- Net pension liability for the business-type activities increased by over fifty-eight percent (58.24%). The Government Accounting Standards Board (GASB) Statement No. 68 requires each municipality to calculate a net pension liability each year. 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.

### **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, 2019 the City's governmental funds

reported combined ending fund balances of \$4,026,599. That is a \$68,384 or one and one-half percent (1.7%) decrease 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 \$96,967. 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 \$3,087,181. This constitutes a decrease of thirty-six and one-half percent (36.48%) decrease from the prior year. The reduction is attributable to the spend-down of the capital projects fund for street projects.

*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 \$842,451 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 \$934,591. Of that balance, \$92,140 is classified as non-spendable for prepaid expenditures. The remaining \$842,451 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, \$390,703 in Major and \$337,496 in Local, are thus designated to be spent only on the streets. These fund balances are classified as restricted, special revenue funds.

The Capital Improvement Fund accounts for and reports financial resources that are restricted, committed or assigned to expenditures for major capital outlays. This year the Capital Improvement Fund met the criteria to be classified and presented separately as a major fund. It has a fund balance of \$344,424, all of which is designated as restricted for capital purchases.

Other non-major governmental funds, after being adjusted for removal of the Capital Improvement Fund, collectively experienced a combined net increase in fund balances of \$441,314. None of these fund balances are considered unassigned. Of the \$2,019,385 balance, \$4,827 is classified as non-spendable, prepaid expenditures. The remaining non-major governmental fund balances totaling \$2,014,558 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 \$807,221. The restricted non-major special revenue fund balances of \$195,630 are for the Library, Recreation, Police OWUI and Drug Forfeitures Funds. The combined restricted fund balances of the Library Improvement, Airport Improvement, Mrs. Stocks Park, Fire Equipment, and Fields of Dreams Funds is \$245,990. The balance in the Debt Service Fund of \$765,717 is classified as restricted for 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 two and one-half percent (2.51%). This represents the amount of net position that is invested in capital and therefore not available for future spending. Restricted funds of \$483,546 for bond reserves and debt service 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 \$3,559,398 or more than thirty-three percent and one-half (33.63%). The proprietary funds had a total net position at fiscal year-end of \$38,835,483. That is a total overall increase of more than twelve percent (12.40%).

All of the proprietary funds realized an increase in net position for the year. The sewer fund ended the year with an increase in net position of \$713,195, as the wastewater treatment plant improvement project nears completion. The water fund increased its net position by \$425,577. Finally, the Dial-A-Ride operations resulted in a decrease in net position as expenditures exceeded revenue by \$77,182.

During the fiscal year end process it was discovered that in addition to the ownership percentage of net equity in the MSCPA, there was additional assets held by this entity, not being recorded. The cash in the rate stabilization account held at MSCPA on behalf of the BPU had not been recorded on previous financial statements. Consequently, the net position for fiscal year ending June 30, 2018 had to be restated to reflect this change. That change increased the 2018 net position \$2,892,868. The electric fund ended fiscal year 2019 with an increase in net position of \$329,945.

### **General Fund Budgetary Highlights**

The general fund revenue budget for fiscal year 2019 was originally \$4,782,250. It was amended up to \$4,876,650. These amendments were made because various miscellaneous revenues came in higher than anticipated.

Differences between the original and final amended General Fund expenditure budgets totaled \$94,400. Various adjustments, both positive and negative were made in various General Fund activities. An increase in the transfer to the Capital Improvement Fund was also added to prepare for future capital projects.

### **Capital Asset and Debt Administration**

**Capital assets.** The City's additions to capital assets in both its governmental and business type activities as of June 30, 2019, amounted to more than \$4.9 million. This investment in capital assets includes land, buildings and system improvements, machinery and equipment, library books, recreational land improvements, roads, sewer and water mains. The combined total capital assets, net of depreciation, increased more than four and one-half percent (4.56%).

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

- The governmental activities invested \$2,086,262 in various capital assets including: books, building and grounds improvements, server upgrades/replacement; security cameras; telephone system; a patrol vehicle and three plow trucks and a pickup truck and street and infrastructure investments.
- The business-type activities invested more than \$2.8 million in various capital assets such as: overhead and underground electric line construction; telephone system; 277

Upgrade Phase 1; Kauffman trailer; digger derrick truck; meter replacement; Phase 2 server upgrade; critical structure replacement; capacitor bank upgrade; distribution automation and monitoring upgrades; sonetics headset; voltage upgrades; fuel storage tank painted; VFD replacement of high service pumps 2 & 3; AMI water meter project; roof at wastewater treatment plant; grinder; hydrant replacement; digester roof at the wastewater treatment plant and other wastewater treatment plant system improvements.

City's Capital Assets							
(Net of Depreciation)							
	Governmental		Business-type		Total		Total
	Activities		Activities		Total		Percent
	2018	2019	2018	2019	2018	2019	2018-19
Land	\$8,613,943	\$8,782,693	\$361,042	\$361,042	\$8,974,985	\$9,143,735	1.88%
Buildings and System Improvements	3,429,173	3,385,150	22,353,320	21,832,768	\$25,782,493	\$25,217,918	-2.19%
Library Books	216,476	211,931			\$216,476	\$211,931	-2.10%
Machinery and Equipment	1,157,665	1,605,462	0	0	\$1,157,665	\$1,605,462	38.68%
Infrastructure	9,477,921	10,209,419			\$9,477,921	\$10,209,419	7.72%
Construction in Progress	0	0	8,581,503	10,273,643	8,581,503	10,273,643	19.72%
<b>Total</b>	<b>\$22,895,178</b>	<b>\$24,194,655</b>	<b>\$31,295,865</b>	<b>\$32,467,453</b>	<b>\$54,191,043</b>	<b>\$56,662,108</b>	<b>4.56%</b>

Additional information on the City's capital assets can be found in note No. 4 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 \$7,675,000 which consists 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		Total	
	2018	2019	2018	2019
Revenue Bonds	\$6,817,693	\$7,675,000	\$6,817,693	\$7,675,000
<b>Total</b>	<b>\$6,817,693</b>	<b>\$7,675,000</b>	<b>\$6,817,693</b>	<b>\$7,675,000</b>

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, 2018 was \$153,828,430. That translates into a debt limit of \$15,382,843. The City's revenue bond debt is exempt from that limit, so as of June 30, 2019 there is no debt applicable to the limit.

The City's bonded debt increased during the current fiscal year more than twelve and one-half percent (12.57%) or \$857,307. The City's total outstanding debt obligation, including the bond debt, as of June 30, 2019 was \$8,628,851, which includes \$368,699 in compensated absence liabilities as well as all other outstanding loan obligations, including the revenue bonds. The City's debt obligations due within the next year consist of \$345,000 in revenue bond payments and the Board of Public Utilities capital lease debt payment of \$287,682. Additional information on the City's long-term debt can be found in note No. 8 on pages 26-28 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City's budget for the 2019-20 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 2019-20 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 2020. 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 twelve percent (12%).
- A 2.75% wage increase were projected across the board for all employees.
- Utility rates were budgeted as follows: electric to increase 2.5%; sewer increasing 11.46%; and water going up 14.24%.

### **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, 2019**

	PRIMARY GOVERNMENT			COMPONENT UNITS	
	GOVERNMENTAL	BUSINESS-TYPE	TOTAL	TAX INCREMENT	ECONOMIC
	ACTIVITIES	ACTIVITIES		FINANCE	DEVELOPMENT
				AUTHORITY	CORPORATION
<b>ASSETS</b>					
Cash and investments	\$ 4,580,273	\$ 10,817,863	\$ 15,398,136	\$ 183,580	\$ 141,923
Restricted cash	-	483,546	483,546	-	-
Receivables	579,324	1,256,398	1,835,722	-	-
Loans receivable	-	-	-	265,000	-
Due from other governments	-	416,334	416,334	-	-
Interdepartmental loans	367,297	590,000	957,297	-	-
Internal balances	260,511	(260,511)	-	-	-
Prepaid items and other assets	166,674	397,590	564,264	-	-
Inventory	152,142	474,798	626,940	-	-
Investment in M.S.C.P.A.	-	4,490,245	4,490,245	-	-
Capital assets, net:					
Assets not being depreciated	8,782,693	10,634,685	19,417,378	65,000	148,067
Assets being depreciated	15,411,962	21,832,768	37,244,730	204,582	-
<b>TOTAL ASSETS</b>	<b>30,300,876</b>	<b>51,133,716</b>	<b>81,434,592</b>	<b>718,162</b>	<b>289,990</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pension related	874,161	787,288	1,661,449	-	-
<b>LIABILITIES</b>					
Accounts payable	698,801	716,564	1,415,365	3,028	771
Accrued expenses	66,762	820,951	887,713	-	-
Due to other governments	-	-	-	-	-
Interdepartmental loans	867,297	90,000	957,297	-	-
Net pension liability	3,200,032	2,910,570	6,110,602	-	-
Non-current liabilities:					
Due within one year	-	632,682	632,682	-	-
Due in more than one year	221,234	7,774,935	7,996,169	-	-
<b>TOTAL LIABILITIES</b>	<b>5,054,126</b>	<b>12,945,702</b>	<b>17,999,828</b>	<b>3,028</b>	<b>771</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Pension related	68,378	139,819	208,197	-	-
<b>NET POSITION</b>					
Net investment in capital assets	24,194,655	24,207,301	48,401,956	269,582	148,067
Restricted for:					
Debt service	765,717	483,546	1,249,263	-	-
Special revenues	923,829	-	923,829	-	-
Capital projects	590,414	-	590,414	-	-
Endowment and trust principal	807,221	-	807,221	-	-
Unrestricted	(1,229,303)	14,144,636	12,915,333	445,552	141,152
<b>TOTAL NET POSITION</b>	<b>\$ 26,052,533</b>	<b>\$ 38,835,483</b>	<b>\$ 64,888,016</b>	<b>\$ 715,134</b>	<b>\$ 289,219</b>

See accompanying notes to the basic financial statements.

**City of Hillsdale, Michigan**  
**Statement of Activities**  
**Year Ended June 30, 2019**

<b>FUNCTIONS / PROGRAMS</b>	<b>PROGRAM REVENUES</b>				
	<b>EXPENSES</b>	<b>CHARGES FOR SERVICES</b>	<b>OPERATING GRANTS AND CONTRIBUTIONS</b>	<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>	<b>NET (EXPENSE) REVENUE</b>
<b>PRIMARY GOVERNMENT</b>					
Governmental Activities:					
General government	\$ 2,236,979	\$ 460,544	\$ 16,013	\$ -	\$ (1,760,422)
Public safety	2,352,497	3,000	7,204	-	(2,342,293)
Public works	246,304	-	-	-	(246,304)
Highways and streets	1,323,391	-	1,121,841	-	(201,550)
Community and economic development	202,178	-	-	83,800	(118,378)
Culture and recreation	676,957	99,436	70,614	-	(506,907)
Capital outlay and other	50,448	1,549	28,458	543,070	522,629
<b>Total Governmental Activities</b>	<b>7,088,754</b>	<b>564,529</b>	<b>1,244,130</b>	<b>626,870</b>	<b>(4,653,225)</b>
Business-type Activities:					
Electric	11,514,989	12,550,015	-	-	1,035,026
Water	1,248,906	1,512,438	-	234,660	498,192
Sewer	1,443,863	2,122,823	-	156,145	835,105
Transportation	358,193	47,216	194,390	-	(116,587)
<b>Total Business-type Activities</b>	<b>14,565,951</b>	<b>16,232,492</b>	<b>194,390</b>	<b>390,805</b>	<b>2,251,736</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 21,654,705</b>	<b>\$ 16,797,021</b>	<b>\$ 1,438,520</b>	<b>\$ 1,017,675</b>	<b>\$ (2,401,489)</b>
<b>COMPONENT UNITS</b>					
Tax Increment Finance Authority	\$ 114,757	\$ -	\$ -	\$ 83,800	\$ (30,957)
Economic Development Corporation	6,924	-	-	-	(6,924)
<b>TOTAL COMPONENT UNITS</b>	<b>\$ 121,681</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 83,800</b>	<b>\$ (37,881)</b>

continued...

See accompanying notes to the basic financial statements.

**City of Hillsdale, Michigan**  
**Statement of Activities**  
**Year Ended June 30, 2019**

	<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>
<b>CHANGES IN NET POSITION</b>					
Net (expense) revenue	\$ (4,653,225)	\$ 2,251,736	\$ (2,401,489)	\$ (30,957)	\$ (6,924)
General Revenues:					
Property taxes - levied for general operations	1,810,616	-	1,810,616	104,926	-
Property taxes - levied for street maintenance	308,166	-	308,166	-	-
Property taxes - levied for sinking fund	369,411	-	369,411	-	-
Property taxes - levied for library operations	131,060	-	131,060	-	-
Unrestricted grants and contributions	1,014,670	-	1,014,670	-	-
Interest and investment gains, net	58,473	64,338	122,811	3,231	3,243
Other revenues (expenses)	900,418	11,400	911,818	16,348	14,416
Transfers - internal activities	935,939	(935,939)	-	-	-
Total general revenues, contributions and transfers	5,528,753	(860,201)	4,668,552	124,505	17,659
<b>CHANGES IN NET POSITION</b>	875,528	1,391,535	2,267,063	93,548	10,735
<b>NET POSITION - BEGINNING OF YEAR</b>	25,177,005	37,443,948	62,620,953	621,586	
<b>NET POSITION - BEGINNING YEAR - RESTATE</b>	-	-	-	-	278,484
<b>NET POSITION - END OF YEAR</b>	<u>\$ 26,052,533</u>	<u>\$ 38,835,483</u>	<u>\$ 64,888,016</u>	<u>\$ 715,134</u>	<u>\$ 289,219</u>

See accompanying notes to the basic financial statements.

FUND FINANCIAL STATEMENTS



**City of Hillsdale, Michigan**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2019**

	<b>General</b>	<b>Major Street</b>	<b>Local Street</b>	<b>Capital Improvement</b>	<b>Other Nonmajor Governmental Funds</b>	<b>TOTAL</b>
<b>ASSETS</b>						
Cash and investments	\$ 1,255,250	\$ 288,803	\$ 308,513	\$ 874,170	\$ 1,631,290	\$ 4,358,026
Receivables:						
Accounts receivable	116,858	122,335	40,304	251,656	36,488	567,641
Special assessments	25,465	-	-	-	-	25,465
Due from other funds	85,005	-	-	666,327	-	751,332
Interdepartmental notes receivable	-	-	-	-	367,297	367,297
Prepaid expenditures	92,140	-	-	-	4,827	96,967
<b>TOTAL ASSETS</b>	<b>1,574,718</b>	<b>411,138</b>	<b>348,817</b>	<b>1,792,153</b>	<b>2,039,902</b>	<b>6,166,728</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	91,004	17,802	10,616	556,924	14,435	690,781
Due to other funds	100,015	-	-	390,805	-	490,820
Salaries payable	37,598	2,633	705	-	6,082	47,018
Accrued liabilities	18,748	-	-	-	-	18,748
Unearned revenue	25,465	-	-	-	-	25,465
Interdepartmental note payable	367,297	-	-	500,000	-	867,297
<b>TOTAL LIABILITIES</b>	<b>640,127</b>	<b>20,435</b>	<b>11,321</b>	<b>1,447,729</b>	<b>20,517</b>	<b>2,140,129</b>
Fund Balances:						
Non-spendable:						
Prepaid expenditures	92,140	-	-	-	4,827	96,967
Restricted:						
Special revenue funds	-	390,703	337,496	-	195,630	923,829
Capital project funds	-	-	-	344,424	245,990	590,414
Permanent funds	-	-	-	-	807,221	807,221
Debt service	-	-	-	-	765,717	765,717
Unassigned	842,451	-	-	-	-	842,451
<b>TOTAL FUND BALANCES</b>	<b>934,591</b>	<b>390,703</b>	<b>337,496</b>	<b>344,424</b>	<b>2,019,385</b>	<b>4,026,599</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,574,718</b>	<b>\$ 411,138</b>	<b>\$ 348,817</b>	<b>\$ 1,792,153</b>	<b>\$ 2,039,902</b>	<b>\$ 6,166,728</b>

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, 2019

**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** \$ 4,026,599

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	47,264,023	
Accumulated depreciation is	<u>(23,069,368)</u>	24,194,655

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	25,465
--------------------------------------	--------

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	1,058,670	
Add portion included in long-term debt	30,883	
Less portion included in capital assets	<u>(668,256)</u>	421,297

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

Notes payable		
Compensated absences	221,234	
Net pension liability	<u>3,200,032</u>	(3,421,266)

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	(68,378)
Deferred outflows of resources related to pensions	<u>874,161</u>

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES** \$ 26,052,533

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, 2019**

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Capital Improvement</u>	<u>Other Nonmajor Governmental Funds</u>	<u>TOTAL</u>
<b>REVENUES</b>						
Taxes - general operating	\$ 1,992,842	\$ -	\$ -	\$ -	\$ 498,710	\$ 2,491,552
Federal revenues	83,800	-	-	532,970	-	616,770
State revenues	996,999	764,826	357,015	-	46,533	2,165,373
Licenses and permits	107,025	-	-	-	-	107,025
Contributions from local units	-	-	-	-	20,311	20,311
Charges for services	17,686	-	-	-	293,184	310,870
Fines and violations	2,641	-	-	-	39,474	42,115
Interest and rentals	111,638	4,638	237	-	75,187	191,700
Payments in lieu of taxes	1,069,882	-	-	-	-	1,069,882
Miscellaneous	207,571	9,110	41,419	144	60,603	318,847
<b>TOTAL REVENUES</b>	<u>4,590,084</u>	<u>778,574</u>	<u>398,671</u>	<u>533,114</u>	<u>1,034,002</u>	<u>7,334,445</u>
<b>EXPENDITURES</b>						
General government	1,370,513	-	-	-	149,968	1,520,481
Public safety	1,869,063	-	-	-	2,148	1,871,211
Public works	306,676	-	-	-	-	306,676
Highways and streets	-	617,395	400,032	-	-	1,017,427
Community and economic development	118,378	-	-	-	-	118,378
Culture and recreation	186,032	-	-	-	451,910	637,942
Capital outlay	-	-	-	1,413,147	43,262	1,456,409
<b>TOTAL EXPENDITURES</b>	<u>3,850,662</u>	<u>617,395</u>	<u>400,032</u>	<u>1,413,147</u>	<u>647,288</u>	<u>6,928,524</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>739,422</u>	<u>161,179</u>	<u>(1,361)</u>	<u>(880,033)</u>	<u>386,714</u>	<u>405,921</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Contribution from TIFA	10,000	-	-	-	-	10,000
Pass-through grant funds	(83,800)	-	-	-	-	(83,800)
Operating transfers in	202,732	-	195,440	615,000	72,100	1,085,272
Operating transfers out	(852,205)	(224,920)	(28,652)	(362,500)	(17,500)	(1,485,777)
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	<u>(723,273)</u>	<u>(224,920)</u>	<u>166,788</u>	<u>252,500</u>	<u>54,600</u>	<u>(474,305)</u>
<b>NET CHANGES IN FUND BALANCES</b>	16,149	(63,741)	165,427	(627,533)	441,314	(68,384)
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>918,442</u>	<u>454,444</u>	<u>172,069</u>	<u>971,957</u>	<u>1,578,071</u>	<u>4,094,983</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 934,591</u>	<u>\$ 390,703</u>	<u>\$ 337,496</u>	<u>\$ 344,424</u>	<u>\$ 2,019,385</u>	<u>\$ 4,026,599</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 30, 2019

<b>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ (68,384)</b>
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	1,754,402
Depreciation expense	(897,843)
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.	
	(9,862)
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.	
	454,963
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	3,209
Changes in net pension liability/expense	(360,957)
<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 875,528</u></b>

See accompanying notes to the basic financial statements.

**City of Hillsdale, Michigan**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2019**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL ACTIVITIES
	Electric	Water	Sewer	Nonmajor Fund Dial-A-Ride	TOTAL	Internal Service Funds
<b>ASSETS</b>						
Current assets:						
Cash and investments	\$ 8,636,659	\$ 1,048,058	\$ 969,285	\$ 163,861	\$ 10,817,863	\$ 222,248
Restricted cash	-	-	483,546	-	483,546	-
Receivables:						
Accounts (net of allowance for bad debts of \$13,518)	1,026,354	79,974	122,053	8,750	1,237,131	11,683
Due from State	-	-	416,334	-	416,334	-
Other receivables	13,542	-	5,725	-	19,267	-
Due from other funds	15	234,660	156,145	-	390,820	-
Inventory, at cost	384,415	87,609	2,774	-	474,798	152,142
Prepaid expenses	103,202	31,167	32,809	4,512	171,690	44,243
<b>TOTAL CURRENT ASSETS</b>	<u>10,164,187</u>	<u>1,481,468</u>	<u>2,188,671</u>	<u>177,123</u>	<u>14,011,449</u>	<u>430,316</u>
Capital assets:						
Land	181,108	49,613	122,902	7,419	361,042	-
Plant, systems, and equipment	38,026,573	11,743,838	14,151,003	1,080,424	65,001,838	2,454,539
Construction in progress	-	373,341	9,900,302	-	10,273,643	-
	38,207,681	12,166,792	24,174,207	1,087,843	75,636,523	2,454,539
Less: accumulated depreciation	(24,994,201)	(7,069,159)	(10,708,050)	(397,660)	(43,169,070)	(1,786,283)
<b>NET CAPITAL ASSETS</b>	<u>13,213,480</u>	<u>5,097,633</u>	<u>13,466,157</u>	<u>690,183</u>	<u>32,467,453</u>	<u>668,256</u>
Other assets:						
Interdepartmental loan receivable	590,000	-	-	-	590,000	-
Prepaid operating lease (net of \$46,543 amortization)	193,761	-	-	-	193,761	-
Other investment	32,141	-	-	-	32,141	-
Investment in M.S.C.P.A.	4,490,245	-	-	-	4,490,245	-
<b>TOTAL OTHER ASSETS</b>	<u>5,306,147</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,306,147</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>28,683,814</u>	<u>6,579,101</u>	<u>15,654,828</u>	<u>867,306</u>	<u>51,785,049</u>	<u>1,098,572</u>
<b>DEFERRED OUTFLOWS OF RESOURCES - Pension</b>	<u>393,643</u>	<u>196,823</u>	<u>196,822</u>	<u>-</u>	<u>787,288</u>	<u>-</u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	133,090	25,361	521,054	37,059	716,564	8,022
Due to other funds	11,688	348,733	229,251	61,660	651,332	-
Accrued interest	11,741	1,241	46,174	-	59,156	-
Accrued expenses	716,564	5,982	5,845	10,303	738,694	997
Customer deposits	114,504	9,110	8,558	-	132,172	-
Energy optimization program	(109,070)	-	-	-	(109,070)	-
Current portion of long-term debt	211,082	38,300	383,300	-	632,682	-
<b>TOTAL CURRENT LIABILITIES</b>	<u>1,089,599</u>	<u>428,727</u>	<u>1,194,182</u>	<u>109,022</u>	<u>2,821,530</u>	<u>9,019</u>
Noncurrent liabilities:						
Accrued compensated absences	101,295	13,054	25,858	7,258	147,465	30,883
Interdepartmental loan payable	-	-	90,000	-	90,000	-
Bonds and capital lease payable	218,770	39,350	7,369,350	-	7,627,470	-
Net pension liability	1,455,296	727,637	727,637	-	2,910,570	-
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>1,775,361</u>	<u>780,041</u>	<u>8,212,845</u>	<u>7,258</u>	<u>10,775,505</u>	<u>30,883</u>
<b>TOTAL LIABILITIES</b>	<u>2,864,960</u>	<u>1,208,768</u>	<u>9,407,027</u>	<u>116,280</u>	<u>13,597,035</u>	<u>39,902</u>
<b>DEFERRED INFLOWS OF RESOURCES - Pension</b>	<u>69,909</u>	<u>34,955</u>	<u>34,955</u>	<u>-</u>	<u>139,819</u>	<u>-</u>
<b>NET POSITION</b>						
Net investment in capital assets	12,783,628	5,019,983	5,713,507	690,183	24,207,301	-
Restricted - bond reserves and debt service	-	-	483,546	-	483,546	-
Unrestricted	13,358,960	512,218	212,615	60,843	14,144,636	1,058,670
<b>TOTAL NET POSITION</b>	<u>\$ 26,142,588</u>	<u>\$ 5,532,201</u>	<u>\$ 6,409,668</u>	<u>\$ 751,026</u>	<u>\$ 38,835,483</u>	<u>\$ 1,058,670</u>

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, 2019**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL ACTIVITIES
	Electric	Water	Sewer	Nonmajor Fund	TOTAL	Internal Service Funds
				Dial-A-Ride		
<b>OPERATING REVENUES</b>						
Charges for services	\$ 12,550,015	\$ 1,512,438	\$ 2,122,823	\$ 47,216	\$ 16,232,492	\$ 321,013
Federal grants	-	-	-	71,316	71,316	-
State grants	-	-	-	123,074	123,074	-
Miscellaneous	-	-	-	-	-	194,818
<b>TOTAL OPERATING REVENUES</b>	<u>12,550,015</u>	<u>1,512,438</u>	<u>2,122,823</u>	<u>241,606</u>	<u>16,426,882</u>	<u>515,831</u>
<b>OPERATING EXPENSES</b>						
Production expense	9,036,165	94,306	-	-	9,130,471	-
Distribution	1,462,078	465,947	-	-	1,928,025	-
Collection system	-	-	238,065	-	238,065	-
Treatment	-	-	619,363	-	619,363	-
Purification	-	274,704	-	-	274,704	-
Administrative and general	1,016,746	413,949	586,435	-	2,017,130	-
Highways and streets	-	-	-	-	-	575,241
Transportation	-	-	-	358,193	358,193	-
<b>TOTAL OPERATING EXPENSES</b>	<u>11,514,989</u>	<u>1,248,906</u>	<u>1,443,863</u>	<u>358,193</u>	<u>14,565,951</u>	<u>575,241</u>
<b>OPERATING INCOME (LOSS)</b>	<u>1,035,026</u>	<u>263,532</u>	<u>678,960</u>	<u>(116,587)</u>	<u>1,860,931</u>	<u>(59,410)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Investment income	67,944	17,684	1,660	-	87,288	3,714
Federal grants	-	234,660	156,145	-	390,805	107,006
Payments in lieu of taxes	(740,075)	(85,299)	(118,570)	-	(943,944)	-
Gain (loss) on disposal of property	-	-	-	11,400	11,400	11,153
Gain (loss) on investment	(22,950)	-	-	-	(22,950)	-
Transfers in from other funds	-	-	-	89,665	89,665	392,500
Transfers out to other funds	(10,000)	(5,000)	(5,000)	(61,660)	(81,660)	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>(705,081)</u>	<u>162,045</u>	<u>34,235</u>	<u>39,405</u>	<u>(469,396)</u>	<u>514,373</u>
<b>CHANGES IN NET POSITION</b>	329,945	425,577	713,195	(77,182)	1,391,535	454,963
<b>NET POSITION - BEGINNING OF YEAR</b>	-	5,106,624	5,696,473	828,208	11,631,305	603,707
<b>NET POSITION - BEGINNING OF YEAR - RESTATED</b>	<u>25,812,643</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,812,643</u>	<u>-</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 26,142,588</u>	<u>\$ 5,532,201</u>	<u>\$ 6,409,668</u>	<u>\$ 751,026</u>	<u>\$ 38,835,483</u>	<u>\$ 1,058,670</u>

See accompanying notes to the basic financial statements.

**City of Hillsdale, Michigan**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2019**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL ACTIVITIES
	Electric	Water	Sewer	Nonmajor Fund	TOTAL	Internal Service Funds
				Dial-A-Ride		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Cash received from customers, residents and users	\$ 12,361,227	\$ 1,388,668	\$ 1,951,453	\$ 47,215	\$ 15,748,563	\$ -
Other operating receipts	181,529	32,287	94,700	211,657	520,173	-
Cash paid to suppliers of goods and services	(9,610,994)	(683,910)	(834,249)	(55,453)	(11,184,606)	(226,465)
Cash paid to employees for services	(1,108,079)	(176,279)	(264,600)	(212,002)	(1,760,960)	(295,861)
Receipts for interfund services provided	-	-	-	-	-	504,148
<b>Net Cash Provided By (Used In)</b>						
Operating Activities	1,823,683	560,766	947,304	(8,583)	3,323,170	(18,178)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Receipt of cash reserves from joint venture	4,000,000	-	-	-	4,000,000	-
Transfers (to) from other funds	(10,000)	(5,000)	(5,000)	28,005	8,005	-
Payments in lieu of taxes	(740,075)	(85,299)	(118,570)	-	(943,944)	-
<b>Net Cash Provided By (Used In)</b>						
Noncapital Financing Activities	3,249,925	(90,299)	(123,570)	28,005	3,064,061	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Principal payments on capital debt	(203,665)	(37,279)	(372,279)	-	(613,223)	-
Transfers from other funds, net	-	-	-	-	-	392,500
Interdepartment loan receipt (payment), net	(394,272)	(195,728)	90,000	-	(500,000)	-
Capital grants	-	-	-	-	-	107,006
Proceeds from the disposal of assets	-	-	-	11,400	11,400	11,153
Purchase of capital assets, net	(445,209)	(135,761)	(151,837)	-	(732,807)	(500,611)
<b>Net Cash Provided By (Used In)</b>						
Capital and Related Financing Activities	(1,043,146)	(368,768)	(434,116)	11,400	(1,834,630)	10,048
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchase of investments	(3,700,000)	-	-	-	(3,700,000)	-
Interest income received	80,234	22,453	1,660	-	104,347	3,713
<b>Net Cash Provided By (Used In)</b>						
Investing Activities	(3,619,766)	22,453	1,660	-	(3,595,653)	3,713
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	410,696	124,152	391,278	30,822	956,948	(4,417)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	2,571,489	213,269	1,061,553	133,039	3,979,350	226,665
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 2,982,185</u>	<u>\$ 337,421</u>	<u>\$ 1,452,831</u>	<u>\$ 163,861</u>	<u>\$ 4,936,298</u>	<u>\$ 222,248</u>

continued...

See accompanying notes to the basic financial statements.

**City of Hillsdale, Michigan**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2019**

	<b>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</b>					<b>GOVERNMENTAL</b>
	<b>Electric</b>	<b>Water</b>	<b>Sewer</b>	<b>Nonmajor</b>	<b>TOTAL</b>	<b>Internal</b>
				<b>Fund</b>		<b>Service</b>
<b>BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS</b>				<b>Dial-A-Ride</b>		<b>Funds</b>
Cash and investments	\$ 8,636,659	\$ 1,048,058	\$ 1,452,831	\$ 163,861	\$ 11,301,409	\$ 222,248
Less amounts classified as investments	(5,654,504)	(710,637)	-	-	(6,365,141)	-
<b>Total cash and cash equivalents</b>	<b><u>\$ 2,982,155</u></b>	<b><u>\$ 337,421</u></b>	<b><u>\$ 1,452,831</u></b>	<b><u>\$ 163,861</u></b>	<b><u>\$ 4,936,268</u></b>	<b><u>\$ 222,248</u></b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>						
Operating income (loss)	\$ 1,035,026	\$ 263,532	\$ 678,960	\$ (116,587)	\$ 1,860,931	\$ (59,410)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization	717,680	228,201	193,075	57,531	1,196,487	57,694
Interdepartmental	(60,126)	57,653	2,473	-	-	-
Noncash pension expense	187,845	93,922	93,922	-	375,689	-
(Increase)/decrease in:						
Receivables	85,747	(18,014)	(24,424)	17,500	60,809	(11,683)
Due from other funds	40	(234,660)	(156,145)	-	(390,765)	-
Inventory	(60,843)	(5,312)	615	-	(65,540)	(218)
Prepays and other assets	31,988	2,239	1,793	1,223	37,243	1,107
Increase/(decrease) in:						
Accounts payable	626	13,443	147,197	26,245	187,511	(10,994)
Accrued expenses	(59,130)	3,690	11,133	(2,119)	(46,426)	5,326
Due to other funds	(55,170)	156,072	(1,295)	7,624	107,231	-
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b><u>\$ 1,823,683</u></b>	<b><u>\$ 560,766</u></b>	<b><u>\$ 947,304</u></b>	<b><u>\$ (8,583)</u></b>	<b><u>\$ 3,323,170</u></b>	<b><u>\$ (18,178)</u></b>

See accompanying notes to the basic financial statements.



**City of Hillsdale, Michigan**  
**Statement of Net Position**  
**Fiduciary Funds**  
**June 30, 2019**

	<b>HOSPITAL PRIVATE PURPOSE TRUST FUND</b>	<b>AGENCY FUNDS</b>
<b>ASSETS</b>		
Cash and investments	\$ 15,000	\$ 32,133
<b>LIABILITIES</b>		
Due to other agencies	-	\$ 32,133
<b>NET POSITION</b>		
Unrestricted	15,000	
TOTAL NET POSITION	\$ 15,000	

See accompanying notes to the basic financial statements.

**City of Hillsdale, Michigan**  
Statement of Changes in Net Position  
Fiduciary Funds  
Year Ended June 30, 2019

	<u><b>HOSPITAL PRIVATE PURPOSE TRUST FUND</b></u>
<b>ADDITIONS:</b>	
Investment income	<u>\$ 115</u>
<b>DEDUCTIONS:</b>	
Other	<u>115</u>
<b>CHANGES IN NET POSITION</b>	-
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>15,000</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 15,000</u></u>

See accompanying notes to the basic financial statements.

NOTES TO FINANCIAL STATEMENTS

**City of Hillsdale, Michigan**  
Notes to Financial Statements  
June 30, 2019

**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, 2019

**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  
Year Ended June 30, 2019

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.

**Capital Improvement Fund** – This fund is a capital projects fund. It accounts for grant revenues and transfers in from other funds that are used to purchase or construct capital projects within 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  
Year Ended June 30, 2019

**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  
Year Ended June 30, 2019

**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  
Year Ended June 30, 2019

***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  
Year Ended June 30, 2019

**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 2018 had a taxable value of approximately \$127,571,448 (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, 2019, 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.

**Disbursing Taxes Collected for Other Units of Government** – For the year ended June 30, 2019, the City was not in compliance with MCL211.43, with regard to timely remitting tax collections.

**City of Hillsdale, Michigan**  
Notes to Financial Statements  
Year Ended June 30, 2019

**Note 3: Cash and Investments**

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

	<u>Primary</u>	<u>Component</u>	<u>Totals</u>
<b>Statement of Net Position:</b>			
Cash and investments	\$ 15,398,136	\$ 325,503	\$ 15,723,639
Restricted cash	483,546	-	483,546
<b>Statement of Fiduciary Net Position:</b>			
Cash and investments	47,133	-	47,133
<b>Total</b>	<u>\$ 15,928,815</u>	<u>\$ 325,503</u>	<u>\$ 16,254,318</u>

**Deposits and Investments**

Bank deposits (checking, savings, certificates of deposit and money market)	\$ 10,841,881
Investments	5,410,937
Cash on hand	1,500
<b>Total</b>	<u>\$ 16,254,318</u>

The City's investments are summarized as follows:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>	<u>FV Level</u>
MBIA Investment Fund	N/A	\$ 588,468	S&P – AAAm	Level 2
U.S. Governmental Agency Bonds	1 – 2 yrs.	4,456,505	N/A	Level 1
Municipal Bonds	1 – 3 yrs.	365,964	S&P – A+ – AA-	Level 2
		<u>\$ 5,410,937</u>		

***Interest Rate Risk***

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

***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  
Year Ended June 30, 2019

***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, \$7,953,299 of the City's bank balance of \$14,503,443 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  
Year Ended June 30, 2019

**Note 4: Capital Assets**

Capital assets activity for the year ended June 30, 2019 was as follows:

<b>Primary Government</b>	<b>Beginning Balance</b>	<b>Additions and Transfers</b>	<b>Disposals and Adjustments</b>	<b>Ending Balance</b>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 8,613,943	\$ 168,750	\$ -	\$ 8,782,693
Capital assets being depreciated:				
Land improvements	773,631	-	-	773,631
Buildings and improvements	5,155,779	90,870	-	5,246,649
Books	305,617	17,234	43,775	279,076
Equipment and vehicles	3,737,111	584,820	238,765	4,083,166
Infrastructure	26,705,467	1,393,338	-	28,098,805
Total capital assets being depreciated	<u>36,677,605</u>	<u>2,086,262</u>	<u>282,540</u>	<u>38,481,327</u>
Accumulated depreciation:				
Land improvements	359,843	28,631	-	388,474
Buildings and improvements	2,140,394	106,262	-	2,246,656
Books	89,141	21,779	43,775	67,145
Equipment and vehicles	2,579,446	137,023	238,765	2,477,704
Infrastructure	17,227,546	661,840	-	17,889,386
Total accumulated depreciation	<u>22,396,370</u>	<u>955,535</u>	<u>282,540</u>	<u>23,069,365</u>
Total capital assets being depreciated - net	<u>14,281,235</u>	<u>1,130,727</u>	<u>-</u>	<u>15,411,962</u>
Governmental activities capital assets - net	<u>\$ 22,895,178</u>	<u>\$ 1,299,477</u>	<u>\$ -</u>	<u>\$ 24,194,655</u>
<b>Business-Type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 361,042	\$ -	\$ -	\$ 361,042
Construction in progress	8,581,503	2,143,096	450,956	10,273,643
Total capital assets not being depreciated	<u>8,942,545</u>	<u>2,143,096</u>	<u>450,956</u>	<u>10,634,685</u>
Capital assets being depreciated:				
Plant, systems and equipment	64,403,125	675,934	77,221	65,001,838
Accumulated depreciation:				
Plant, systems and equipment	42,049,805	1,196,486	77,221	43,169,070
Total capital assets being depreciated - net	<u>22,353,320</u>	<u>(520,552)</u>	<u>-</u>	<u>21,832,768</u>
Business-type activities capital assets - net	<u>\$ 31,295,865</u>	<u>\$ 1,622,544</u>	<u>\$ 450,956</u>	<u>\$ 32,467,453</u>

**City of Hillsdale, Michigan**  
Notes to Financial Statements  
Year Ended June 30, 2019

Component Units	Beginning Balance	Additions and Transfers	Disposals and Adjustments	Ending Balance
<b>Capital assets not being depreciated:</b>				
Land – EDC	\$ 172,721	\$ -	\$ 24,654	\$ 148,067
Land – TIFA	65,000	-	-	65,000
Total capital assets not being depreciated	<u>237,721</u>	<u>-</u>	<u>24,654</u>	<u>213,067</u>
<b>Capital assets being depreciated:</b>				
Infrastructure – TIFA	381,672	-	-	381,672
Buildings - TIFA	400,498	86,314	275,347	211,465
Total capital assets being depreciated	<u>782,170</u>	<u>86,314</u>	<u>275,347</u>	<u>593,137</u>
<b>Accumulated depreciation:</b>				
Infrastructure	381,672	-	-	381,672
Building	6,007	14,226	13,350	6,883
Total accumulated depreciation	<u>387,679</u>	<u>14,226</u>	<u>13,350</u>	<u>388,555</u>
Total capital assets being depreciated - net	<u>394,491</u>	<u>72,088</u>	<u>261,998</u>	<u>204,582</u>
Component unit capital assets, net	<u>\$ 632,212</u>	<u>\$ 72,088</u>	<u>\$ 286,652</u>	<u>\$ 417,649</u>

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

<b>Governmental Activities:</b>	
Public safety	\$ 63,171
Highways and streets	560,202
Culture and recreation	133,219
Public works	89,578
General government	51,673
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	<u>57,692</u>
Total depreciation expense – governmental activities	<u>\$ 955,535</u>
<b>Business-Type Activities:</b>	
Electric	\$ 717,680
Water	228,201
Sewer	193,075
Transportation	<u>57,530</u>
Total depreciation expense – business-type activities	<u>\$ 1,196,486</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.

<b>Due from/to other funds:</b>	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 85,005	\$ 100,015
Capital Improvement Fund	666,327	390,805
Water Fund	234,660	348,733
Sewer Fund	156,145	229,251
Electric Fund	15	11,688
Nonmajor Enterprise Fund	-	61,660
	<u>\$ 1,142,152</u>	<u>\$ 1,142,152</u>

**City of Hillsdale, Michigan**  
Notes to Financial Statements  
Year Ended June 30, 2019

Transfer In	Transfer Out	Amount
General Fund	Library Fund	\$ 2,000
General Fund	Cemetery Fund	15,500
General Fund	Dial-A-Ride Fund	61,660
General Fund	Local Street Fund	28,652
General Fund	Major Street Fund	74,920
General Fund	Electric Fund	10,000
General Fund	Water Fund	5,000
General Fund	Sewer Fund	5,000
Local Street Fund	General Fund	45,440
Local Street Fund	Major Street Fund	150,000
Recreation Fund	General Fund	62,100
Capital Improvement Fund	General Fund	615,000
Field of Dreams Fund	General Fund	10,000
Dial-A-Ride Fund	General Fund	89,665
Public Services Inventory Fund	General Fund	30,000
Revolving Mobile Equipment Fund	Capital Improvement Fund	362,500

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 various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Note 6: Interfund Loans**

On May 15, 2007 Council approved a loan from the Oak Grove and Lakeview Cemetery Perpetual Care Fund to the General Fund up to \$450,000 for the purchase of a pumper fire truck. The loan commenced on July 1, 2017 in the amount of \$447,048 and is due in bi-annual installments of \$25,782.68 at 2.8% interest. The final payment is scheduled to be paid by June 30, 2027. The balance as of June 30, 2019 is \$367,297.

On June 17, 2019 Council approved a loan from the Electric Fund to the Sewer Fund up to \$900,000 for capital expenditures occurring in the Sewer Fund. The loan commenced on June 20, 2019 with an initial draw of \$90,000. Annual principal payments of \$90,000 are due annually along with interest at 2.5%. The final payment is scheduled to be paid by June 20, 2029. The balance as of June 30, 2019 is \$90,000.

On June 17, 2019 Council approved a loan from the Electric Fund to the Capital Improvement Fund up to \$1,300,000 for street reconstruction. The loan commenced on June 20, 2019 with an initial draw of \$500,000. Annual principal payments of \$300,000 are due annually along with interest at 2.5%. The final payment is scheduled to be paid by May 30, 2024. The balance as of June 30, 2019 is \$500,000.

**Note 7: TIFA – Promissory Note**

The City's Tax Increment Finance Authority entered into an agreement to sell property known as the Keefer House for \$275,000. The agreement called for a \$10,000 deposit and the remaining \$265,000 in a promissory note from Keefer House Hotel, LLC. The note calls for the entire principal of \$265,000 including interest at 0% to be paid on or before May 25, 2021.

Pursuant to the terms set forth in the Purchase Agreement, if borrower completes construction and renovation of the Keefer House Hotel property on or before May 25, 2021, the borrower will be entitled to forgiveness of any remaining principal, and the note shall be considered paid in full. In the event that the borrower fails to complete construction and renovation on or before May 25, 2021, all outstanding principal shall be due and payable.

**City of Hillsdale, Michigan**  
Notes to Financial Statements  
Year Ended June 30, 2019

**Note 8: 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 9: Investment in Joint Venture**

The City is a member of the Michigan South Central Power Agency (MSCPA), which provided electric services to the residents of its member communities. The participating communities provide annual funding for its operations. During the current year, the City paid \$8,607,248 for purchased power. The City is unaware of any other circumstances that would cause any additional benefit or burden to participating governments in the near future. Complete financial statements for the Michigan South Central Power Agency can be obtained from the administrative offices at 168 Division St., Coldwater, Michigan 49036.

The City's Board of Publica Utilities owns an approximate 17.30% interest in the Michigan South Central Power Agency (MSCPA). The City records the investment using the equity method and calculates 17.30% of the MSCPA's equity at year end. The MSCPA also holds assets of the City, which have been included in the MSCPA's equity over the years. The calculation of the investment includes 100% of the City's assets held at the MSCPA plus 17.30% of the equity net of the City's assets.

**Note 10: Long-Term Debt**

Long-term liability activity for the year ended June 30, 2019 was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
Compensated absences	\$ 219,295	\$ 1,939	\$ -	\$ 221,234	\$ -
	<u>\$ 219,295</u>	<u>\$ 1,939</u>	<u>\$ -</u>	<u>\$ 221,234</u>	<u>\$ -</u>
<b>Business-type activities:</b>					
Revenue bonds	\$ 6,817,693	\$ 1,192,307	\$ 335,000	\$ 7,675,000	\$ 345,000
Capital leases	863,375	-	278,223	585,152	287,682
Compensated absences	135,268	12,197	-	147,465	-
	<u>\$ 7,816,336</u>	<u>\$ 1,204,504</u>	<u>\$ 613,223</u>	<u>\$ 8,407,617</u>	<u>\$ 632,682</u>

**Business-Type Activities**

<b>2015 Sewage Disposal System Revenue Bonds</b> – interest rate of 2.50%, annual principal payments ranging from \$250,000 to \$405,000 through 2037.	\$ 5,925,000
<b>2016 Sewage Disposal System Revenue Bonds</b> – maturing \$75,000 to \$120,000 annually plus interest at 2.50% through 2040.	1,750,000
<b>Capital Lease</b> – Government Capital Corporation annual lease payments of \$226,737 including interest at 3.60% through September 16, 2020.	429,852
<b>Capital Lease Agreement</b> – Key Government Finance, Inc., annual lease payments of \$80,855 including interest at 2.74% through September 30, 2020.	155,300
Total	<u>\$ 8,260,152</u>



**City of Hillsdale, Michigan**  
Notes to Financial Statements  
Year Ended June 30, 2019

Annual debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 632,682	\$ 200,765	\$ 833,447
2021	647,470	184,453	831,923
2022	360,000	165,636	525,636
2023	370,000	154,480	524,480
2024	375,000	145,230	520,230
2025 - 2029	2,035,000	579,774	2,614,774
2030 - 2034	2,305,000	312,649	2,617,649
Thereafter	1,535,000	44,314	1,579,314
Total	<u>\$ 8,260,152</u>	<u>\$ 1,787,301</u>	<u>\$ 10,047,453</u>

**Note 11: 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, 2019, 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 12: 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](http://www.mersofmich.com).

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, 2018 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefits	73
Inactive employees entitled to but not yet receiving benefits	45
Active employees	60
	<u>178</u>

**City of Hillsdale, Michigan**  
Notes to Financial Statements  
Year Ended June 30, 2019

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, 2018, 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, 2018 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.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Gross Return</u>
Global Equity	55.50%	4.80%
Global Fixed Income	18.50%	0.70%
Real Assets	13.50%	1.31%
Diversifying Strategies	12.50%	0.94%

Discount Rate – The discount rate used to measure the total pension liability is 8.0% for 2018. 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:

**City of Hillsdale, Michigan**  
Notes to Financial Statements  
Year Ended June 30, 2019

	Changes in Net Pension Liability		
	Increase (Decrease)		
	Liability	Fiduciary Net Position	Liability
	(a)	(b)	(a) - (b)
<b>Balances as of 12/31/17</b>	\$ 23,718,182	\$ 19,708,058	\$ 4,010,124
<b>Changes for the Year</b>			
Service cost	363,207	-	363,207
Interest on Total Pension Liability	1,849,895	-	1,849,895
Difference in experience	(194,427)	-	(194,427)
Changes in assumptions	-	-	-
Benefit changes	7,156	-	7,156
Employer contribution	-	510,189	(510,189)
Employee contributions	-	203,833	(203,833)
Net investment income	-	(751,004)	751,004
Benefit payments	(1,552,182)	(1,552,182)	-
Administrative	-	(37,665)	37,665
Other	-	-	-
<b>Net changes</b>	473,649	(1,626,829)	2,100,478
<b>Balances as of 12/31/18</b>	<u>\$ 24,191,831</u>	<u>\$ 18,081,229</u>	<u>\$ 6,110,602</u>

*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.

	1% Decrease	Current Discount Rate	1% Increase
Net Pension Liability	<u>\$ 2,518,573</u>	<u>\$</u>	<u>\$ (2,149,517)</u>

*Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions* – For the year ended June 30, 2019 the City recognized pension expense of \$1,309,065. The City reported deferred outflows and inflows of resources related to the pension at June 30, 2019 from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences in experience	\$ 21,085	\$ 208,197
Differences in assumptions	-	-
Net difference between projected and actual investment returns	<u>1,381,732</u>	<u>-</u>
Pension contributions subsequent to measurement date	<u>258,632</u>	<u>-</u>
<b>Total</b>	<u>\$ 1,661,449</u>	<u>\$ 208,197</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, 2019. Other amounts reported as deferred inflows and deferred outflows of resources will be recognized in pension expense as follows:

**City of Hillsdale, Michigan**  
Notes to Financial Statements  
Year Ended June 30, 2019

<u>Year Ended June 30</u>	
2020	\$ 401,212
2021	114,193
2022	220,691
2023	<u>458,524</u>
	<u>\$ 1,194,620</u>

**Note 13: Street Maintenance**

During the year, the general fund collected \$308,166 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:

Local street transfer	\$ 45,440
Street lighting	55,477
Public Services Department - Administration	<u>207,249</u>
	<u>\$ 308,166</u>

**Note 14: 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 15: 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.

**City of Hillsdale, Michigan**  
Notes to Financial Statements  
Year Ended June 30, 2019

**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, 2018 through June 30, 2019, Dial-A-Ride paid \$3,636 in 50201 Pension. Of this amount, \$3,636 paid the actuarial required minimum contribution and \$-0- was paid in excess of the actuarial required minimum contribution. The entire amount of \$3,636 was expensed on the books and is included in Dial-A-Ride’s total eligible expenses for the fiscal year ending September 30, 2019.

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

**Note 16: Tax Abatements**

The City employs a variety of tax abatement programs that reduce the taxes an individual or entity otherwise would owe, with the intent of encouraging certain behaviors that benefit the City and economic development.

The City has the following tax abatement programs and the reduction of tax related to each:

Industrial Facilities Exemption – new facilities	\$	14,016
Industrial Facilities Exemption – rehab facilities		14,171
Commercial Rehabilitation (Act) Exemption		5,304
Obsolete Properties Rehabilitation Act		8,494
Neighborhood Enterprise Zone		10,022
	\$	52,007

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

**Note 17: 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”).

**City of Hillsdale, Michigan**  
Notes to Financial Statements  
Year Ended June 30, 2019

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 January 1, 2019, \$499,105,000 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.

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 \$2,354,485,000 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 January 1, 2019, \$2,222,975,882 aggregate principal amount of the Combined Hydroelectric Bonds and approximately \$31.6 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.

In August 2017, AMP filed a lawsuit against Voith Hydro, Inc. ("Voith"), the supplier of major powerhouse equipment, including the turbines and generators for the Combined Hydroelectric Projects and the Meldahl Project (as hereinafter defined).

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 January 1, 2019, \$685,215,000 aggregate principal amount of the Meldahl Bonds and approximately \$2.4 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.

**City of Hillsdale, Michigan**  
Notes to Financial Statements  
Year Ended June 30, 2019

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 January 1, 2019, \$125,300,000 aggregate principal amount of the 2016 Greenup Bonds was 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.

**Note 18: Restatement of Net Position  
Electric Fund**

During the year ended June 30, 2019, management was alerted to the fact that in addition to the ownership % of net equity in the MSCPA, as previously reported, cash in the rate stabilization account at MSCPA was also held on behalf of the BPU and should be reported.

Net position – June 30, 2018	\$	22,919,775
Addition to investment in MSCPA		2,892,868
Restated net position – June 30, 2018	\$	25,812,643

**EDC**

During the year, it was discovered that the reporting of lot sales in prior years was incorrect. There was a reduction in the land cost for the sale price, not the actual cost. Therefore, the remaining lot values, in total, were undervalued on the balance sheet. A correction was made to increase the lot values to their original cost.

Net position – June 30, 2018	\$	300,262
Addition to assets (reduces net position)		(21,778)
Restated net position – June 30, 2018	\$	278,484

**Note 19: 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**  
**Required Supplemental Information**  
**General Fund**  
**Budgetary Comparison Schedule**  
**Year Ended June 30, 2019**

	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	
<b>REVENUES</b>			
City Taxes:			
Property taxes - general	\$ 1,914,500	\$ 1,914,500	\$ 1,540,329
Property taxes - street maintenance	-	-	308,166
Administrative fees	62,000	62,000	62,766
Interest and penalties	16,000	16,000	25,505
Industrial facilities tax	46,700	46,700	56,076
Total City taxes	<u>2,039,200</u>	<u>2,039,200</u>	<u>1,992,842</u>
State revenue	1,068,000	1,068,000	996,999
Federal revenue	-	-	83,800
Licenses and permits	108,800	108,800	107,025
Charges for services	22,400	22,400	17,686
Fines and violations	4,750	4,750	2,641
Interest and rentals	114,600	121,100	111,638
Payments in lieu of tax	1,100,000	1,100,000	1,069,882
Miscellaneous	127,000	214,900	207,571
<b>TOTAL REVENUES</b>	<u>4,584,750</u>	<u>4,679,150</u>	<u>4,590,084</u>
<b>EXPENDITURES</b>			
General government:			
Council	29,330	29,330	23,202
City manager	211,395	182,395	178,875
Human resources	47,175	47,175	47,387
Administrative	173,400	161,400	184,310
Elections	12,550	21,050	20,201
Assessing	179,210	134,210	129,479
Clerk	130,495	111,795	101,498
Finance department	98,710	98,710	94,699
Treasurer	145,890	145,890	145,467
Building and grounds	131,745	151,745	147,213
Parking lots	62,915	62,915	47,402
Cemeteries	122,365	122,365	117,866
Airport	138,455	138,455	132,914
Total general government	<u>1,483,635</u>	<u>1,407,435</u>	<u>1,370,513</u>
Public safety:			
Police	1,458,365	1,458,365	1,435,729
Fire	416,555	416,555	417,482
Code enforcement	30,000	30,000	15,852
Total public safety	<u>1,904,920</u>	<u>1,904,920</u>	<u>1,869,063</u>
Public works:			
Public services	271,100	261,100	251,199
Street lights	68,125	58,125	55,477
Total public works	<u>339,225</u>	<u>319,225</u>	<u>306,676</u>

continued...

**City of Hillsdale, Michigan**  
**Required Supplemental Information**  
**General Fund**  
**Budgetary Comparison Schedule**  
**Year Ended June 30, 2019**

	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	
<b>EXPENDITURES (CONTINUED)</b>			
Community and economic development:			
Planning	\$ 108,735	\$ 99,335	\$ 95,299
Economic development	25,400	25,400	23,079
Total community and economic development	134,135	124,735	118,378
Culture and recreation - parks	208,130	198,130	186,032
TOTAL EXPENDITURES	4,070,045	3,954,445	3,850,662
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	514,705	724,705	739,422
<b>OTHER FINANCING SOURCES (USES)</b>			
Contribution from TIFA	15,000	15,000	10,000
Pass-through grant funds	-	-	(83,800)
Operating transfers in	182,500	182,500	202,732
Operating transfers (out)	(712,205)	(922,205)	(852,205)
TOTAL OTHER FINANCING SOURCES (USES)	(514,705)	(724,705)	(723,273)
<b>NET CHANGE IN FUND BALANCE</b>	-	-	16,149
<b>FUND BALANCE - BEGINNING OF YEAR</b>	918,442	918,442	918,442
<b>FUND BALANCE - END OF YEAR</b>	\$ 918,442	\$ 918,442	\$ 934,591

**City of Hillsdale, Michigan**  
 Required Supplemental Information  
 Major Street Fund  
 Budgetary Comparison Schedule  
 Year Ended 30, 2019

	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	
<b>REVENUES</b>			
State revenue	\$ 700,000	\$ 780,000	\$ 764,826
Interest and rentals	3,500	3,500	4,638
Miscellaneous	9,000	9,000	9,110
<b>TOTAL REVENUES</b>	<b>712,500</b>	<b>792,500</b>	<b>778,574</b>
<b>EXPENDITURES</b>			
Highways and streets:			
Street surface	169,030	249,030	248,728
Trunkline street surface	14,555	14,555	19,012
R.O.W. maintenance	91,385	91,385	87,578
Trunkline R.O.W. maintenance	7,800	7,800	4,114
Trees	39,220	39,220	41,853
Trunkline trees	1,280	1,280	1,036
Drainage	44,535	44,535	57,397
Trunkline R.O.W. drainage	2,440	2,440	1,537
Traffic	87,125	87,125	73,762
Trunkline traffic	8,620	8,620	6,444
Winter maintenance	81,150	81,150	63,031
Trunkline winter maintenance	18,220	18,220	12,903
<b>TOTAL EXPENDITURES</b>	<b>565,360</b>	<b>645,360</b>	<b>617,395</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>147,140</b>	<b>147,140</b>	<b>161,179</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	(218,500)	(218,500)	(224,920)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(218,500)</b>	<b>(218,500)</b>	<b>(224,920)</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>(71,360)</b>	<b>(71,360)</b>	<b>(63,741)</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>454,444</b>	<b>454,444</b>	<b>454,444</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 383,084</b>	<b>\$ 383,084</b>	<b>\$ 390,703</b>

**City of Hillsdale, Michigan**  
Required Supplemental Information  
Local Street Fund  
Budgetary Comparison Schedule  
Year Ended June 30, 2019

	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	
<b>REVENUES</b>			
State revenue	\$ 230,000	\$ 290,000	\$ 357,015
Interest and rentals	-	-	237
Miscellaneous	4,500	4,500	41,419
<b>TOTAL REVENUES</b>	<u>234,500</u>	<u>294,500</u>	<u>398,671</u>
<b>EXPENDITURES</b>			
Highways and streets:			
Street surface	144,985	159,985	141,846
R.O.W. maintenance	79,100	79,100	62,221
Trees	60,100	60,100	51,706
Drainage	43,660	83,660	62,426
Traffic	31,085	36,085	32,738
Winter maintenance	49,510	49,510	49,095
<b>TOTAL EXPENDITURES</b>	<u>408,440</u>	<u>468,440</u>	<u>400,032</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(173,940)</u>	<u>(173,940)</u>	<u>(1,361)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	195,440	195,440	195,440
Transfers out	(21,500)	(21,500)	(28,652)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>173,940</u>	<u>173,940</u>	<u>166,788</u>
<b>NET CHANGES IN FUND BALANCES</b>	-	-	165,427
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>172,069</u>	<u>172,069</u>	<u>172,069</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 172,069</u>	<u>\$ 172,069</u>	<u>\$ 337,496</u>

**City of Hillsdale, Michigan**  
**Required Supplementary Information**  
**Schedule of Changes in the Net Pension Liability and Related Ratios**  
**Plan Year December 31**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<b>Total Pension Liability</b>					
Service cost	\$ 364,196	\$ 355,050	\$ 363,158	\$ 368,215	\$ 363,207
Interest	1,621,607	1,677,361	1,765,765	1,796,684	1,849,895
Changes of benefit terms	-	-	(9,325)	(7,990)	7,156
Difference between expected and actual experience	-	110,760	(249,508)	42,169	(194,427)
Changes of assumptions	-	1,013,079	-	-	-
Benefit payments including employee refunds	(1,232,671)	(1,378,158)	(1,461,617)	(1,510,668)	(1,552,182)
Other	(1)	1	-	(1)	-
<b>Net Change in Total Pension Liability</b>	<u>753,131</u>	<u>1,778,093</u>	<u>408,473</u>	<u>688,409</u>	<u>473,649</u>
<b>Total Pension Liability - beginning</b>	<u>20,090,076</u>	<u>20,843,207</u>	<u>22,621,300</u>	<u>23,029,773</u>	<u>23,718,182</u>
<b>Total Pension Liability - ending</b>	<u>\$ 20,843,207</u>	<u>\$ 22,621,300</u>	<u>\$ 23,029,773</u>	<u>\$ 23,718,182</u>	<u>\$ 24,191,831</u>
<b>Plan Fiduciary Net Position</b>					
Contributions-employer	\$ 332,464	\$ 346,141	\$ 336,160	\$ 421,866	\$ 510,189
Contributions-employee	137,790	156,571	164,437	190,637	203,833
Net investment income	1,138,603	(270,721)	1,932,425	2,370,564	(751,004)
Benefit payments including employee refunds	(1,232,671)	(1,378,158)	(1,461,617)	(1,510,668)	(1,552,182)
Administrative expense	(41,685)	(39,960)	(38,182)	(37,600)	(37,665)
Other	2	-	-	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	<u>334,503</u>	<u>(1,186,127)</u>	<u>933,223</u>	<u>1,434,799</u>	<u>(1,626,829)</u>
<b>Plan Fiduciary Net Position - beginning</b>	<u>18,191,663</u>	<u>18,526,166</u>	<u>17,340,036</u>	<u>18,273,259</u>	<u>19,708,058</u>
<b>Plan Fiduciary Net Position - ending</b>	<u>\$ 18,526,166</u>	<u>\$ 17,340,039</u>	<u>\$ 18,273,259</u>	<u>\$ 19,708,058</u>	<u>\$ 18,081,229</u>
<b>Employer Net Pension Liability - ending</b>	<u>\$ 2,317,041</u>	<u>\$ 5,281,261</u>	<u>\$ 4,756,514</u>	<u>\$ 4,010,124</u>	<u>\$ 6,110,602</u>
<b>Plan Fiduciary Net Position as a percentage of the Total Pension Liability</b>	88.88%	76.65%	79.35%	83.09%	74.74%
<b>Covered Employee Payroll</b>	\$ 3,531,325	\$ 3,426,822	\$ 3,440,133	\$ 3,436,078	\$ 3,769,509
<b>Employer's Net Pension Liability as a percentage of covered employee payroll</b>	65.61%	154.12%	138.27%	116.71%	162.11%

**City of Hillsdale, Michigan**  
**Required Supplementary Information**  
**Pension Plan Schedule of Employer Contributions**  
**Year Ended June 30**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actuarial Determined Contributions	\$ 330,003	\$ 348,500	\$ 353,776	\$ 490,020	\$ 523,811
Contributions in relation to the actuarially determined contribution	<u>330,003</u>	<u>348,500</u>	<u>353,776</u>	<u>490,020</u>	<u>523,811</u>
Contribution deficiency (excess)	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Covered Employee Payroll	3,531,325	3,955,056	3,714,246	3,899,437	3,713,486
Contributions as a percentage of covered employee payroll	9.35%	8.81%	9.52%	12.57%	14.11%

OTHER SUPPLEMENTARY INFORMATION

**City of Hillsdale, Michigan**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2019**

	<u>Special Revenue</u>	<u>Capital Project</u>	<u>Debt Service Fund</u>	<u>Permanent Funds</u>	<u>TOTAL</u>
<b>ASSETS</b>					
Cash and investments	\$ 169,996	\$ 255,653	\$ 765,717	\$ 439,924	\$ 1,631,290
Accounts receivable	35,033	1,455	-	-	36,488
Interdepartmental notes receivable	-	-	-	367,297	367,297
Prepaid expenditures	4,827	-	-	-	4,827
<b>TOTAL ASSETS</b>	<u>209,856</u>	<u>257,108</u>	<u>765,717</u>	<u>807,221</u>	<u>2,039,902</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	3,317	11,118	-	-	14,435
Accrued payroll and related liabilities	6,082	-	-	-	6,082
<b>TOTAL LIABILITIES</b>	<u>9,399</u>	<u>11,118</u>	<u>-</u>	<u>-</u>	<u>20,517</u>
Fund Balances:					
Non-spendable					
Prepaid expenditures	4,827	-	-	-	4,827
Restricted	195,630	245,990	765,717	807,221	2,014,558
<b>TOTAL FUND BALANCES</b>	<u>200,457</u>	<u>245,990</u>	<u>765,717</u>	<u>807,221</u>	<u>2,019,385</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 209,856</u>	<u>\$ 257,108</u>	<u>\$ 765,717</u>	<u>\$ 807,221</u>	<u>\$ 2,039,902</u>



**City of Hillsdale, Michigan**  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year Ended June 30, 2019

	Special Revenue	Capital Project	Debt Service Fund	Permanent Funds	TOTAL
<b>REVENUES</b>					
Taxes	\$ 129,299	\$ -	\$ 369,411	\$ -	\$ 498,710
State revenues	26,718	-	19,815	-	46,533
Federal revenue	-	-	-	-	-
Contributions	10,211	10,100	-	-	20,311
Charges for services	89,977	196,022	-	7,185	293,184
Fines and violations	39,474	-	-	-	39,474
Interest and rentals	11,472	39,271	3,319	21,125	75,187
Miscellaneous	44,741	9,849	-	6,013	60,603
<b>TOTAL REVENUES</b>	<u>351,892</u>	<u>255,242</u>	<u>392,545</u>	<u>34,323</u>	<u>1,034,002</u>
<b>EXPENDITURES</b>					
General government	-	149,968	-	-	149,968
Public safety	2,148	-	-	-	2,148
Culture and recreation	450,818	1,092	-	-	451,910
Capital outlay	-	43,262	-	-	43,262
<b>TOTAL EXPENDITURES</b>	<u>452,966</u>	<u>194,322</u>	<u>-</u>	<u>-</u>	<u>647,288</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(101,074)</u>	<u>60,920</u>	<u>392,545</u>	<u>34,323</u>	<u>386,714</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	62,100	10,000	-	-	72,100
Transfers out	(2,000)	-	-	(15,500)	(17,500)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>60,100</u>	<u>10,000</u>	<u>-</u>	<u>(15,500)</u>	<u>54,600</u>
<b>CHANGES IN FUND BALANCES</b>	(40,974)	70,920	392,545	18,823	441,314
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>241,431</u>	<u>175,070</u>	<u>373,172</u>	<u>788,398</u>	<u>1,578,071</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 200,457</u>	<u>\$ 245,990</u>	<u>\$ 765,717</u>	<u>\$ 807,221</u>	<u>\$ 2,019,385</u>

**City of Hillsdale, Michigan**  
**Combining Balance Sheet**  
**Nonmajor Special Revenue Funds**  
**June 30, 2019**

	<u>Library</u>	<u>Recreation Commission</u>	<u>Drug Forfeitures</u>	<u>Police</u>	<u>TOTAL</u>
<b>ASSETS</b>					
Cash and investments	\$ 143,280	\$ 7,909	\$ 8,508	\$ 10,299	\$ 169,996
Accounts receivable	35,033	-	-	-	35,033
Due from other funds	-	-	-	-	-
Prepaid expenditures	2,212	2,615	-	-	4,827
	<u>180,525</u>	<u>10,524</u>	<u>8,508</u>	<u>10,299</u>	<u>209,856</u>
<b>TOTAL ASSETS</b>					
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	1,625	1,692	-	-	3,317
Accrued payroll and related liabilities	2,323	3,759	-	-	6,082
	<u>3,948</u>	<u>5,451</u>	<u>-</u>	<u>-</u>	<u>9,399</u>
<b>TOTAL LIABILITIES</b>					
Fund Balances:					
Non-spendable					
Prepaid expenditures	2,212	2,615	-	-	4,827
Restricted	174,365	2,458	8,508	10,299	195,630
	<u>176,577</u>	<u>5,073</u>	<u>8,508</u>	<u>10,299</u>	<u>200,457</u>
<b>TOTAL FUND BALANCES</b>					
<b>TOTAL LIABILITIES AND FUND BALANCES</b>					
	<u>\$ 180,525</u>	<u>\$ 10,524</u>	<u>\$ 8,508</u>	<u>\$ 10,299</u>	<u>\$ 209,856</u>

**City of Hillsdale, Michigan**  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Special Revenue Funds  
Year Ended June 30, 2019

	<u>Library</u>	<u>Recreation Commission</u>	<u>Drug Forfeitures</u>	<u>Police</u>	<u>TOTAL</u>
<b>REVENUES</b>					
Taxes	\$ 129,299	\$ -	\$ -	\$ -	\$ 129,299
State revenue	26,718	-	-	-	26,718
Contributions	8,356	1,855	-	-	10,211
Charges for services	7,522	82,455	-	-	89,977
Fines and violations	36,488	-	2,986	-	39,474
Interest and rentals	11,472	-	-	-	11,472
Miscellaneous	44,382	-	-	359	44,741
<b>TOTAL REVENUES</b>	<u>264,237</u>	<u>84,310</u>	<u>2,986</u>	<u>359</u>	<u>351,892</u>
<b>EXPENDITURES</b>					
Public safety	-	-	228	1,920	2,148
Culture and recreation	305,122	145,696	-	-	450,818
Capital outlay	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>305,122</u>	<u>145,696</u>	<u>228</u>	<u>1,920</u>	<u>452,966</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(40,885)</u>	<u>(61,386)</u>	<u>2,758</u>	<u>(1,561)</u>	<u>(101,074)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	62,100	-	-	62,100
Transfers out	(2,000)	-	-	-	(2,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(2,000)</u>	<u>62,100</u>	<u>-</u>	<u>-</u>	<u>60,100</u>
<b>CHANGES IN FUND BALANCES</b>	<u>(42,885)</u>	<u>714</u>	<u>2,758</u>	<u>(1,561)</u>	<u>(40,974)</u>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>219,462</u>	<u>4,359</u>	<u>5,750</u>	<u>11,860</u>	<u>241,431</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 176,577</u>	<u>\$ 5,073</u>	<u>\$ 8,508</u>	<u>\$ 10,299</u>	<u>\$ 200,457</u>

City of Hillsdale, Michigan  
Combining Balance Sheet  
Nonmajor Capital Project Funds  
June 30, 2019

	<u>Fields of Dreams</u>	<u>Stock Park</u>	<u>Cold Springs Park</u>	<u>Airport Improvement</u>	<u>Three Meadows Development</u>	<u>Fire Equipment</u>	<u>TOTAL</u>
<b>ASSETS</b>							
Cash and investments	\$ 1,594	\$ 47,541	\$ 2,000	\$ 184,690	\$ 5,381	\$ 14,447	\$ 255,653
Accounts receivable	1,200	255	-	-	-	-	1,455
Due from other funds	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<u>2,794</u>	<u>47,796</u>	<u>2,000</u>	<u>184,690</u>	<u>5,381</u>	<u>14,447</u>	<u>257,108</u>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable	1,254	-	-	9,864	-	-	11,118
<b>TOTAL LIABILITIES</b>	<u>1,254</u>	<u>-</u>	<u>-</u>	<u>9,864</u>	<u>-</u>	<u>-</u>	<u>11,118</u>
Fund Balances:							
Restricted	1,540	47,796	2,000	174,826	5,381	14,447	245,990
<b>TOTAL FUND BALANCES</b>	<u>1,540</u>	<u>47,796</u>	<u>2,000</u>	<u>174,826</u>	<u>5,381</u>	<u>14,447</u>	<u>245,990</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 2,794</u>	<u>\$ 47,796</u>	<u>\$ 2,000</u>	<u>\$ 184,690</u>	<u>\$ 5,381</u>	<u>\$ 14,447</u>	<u>\$ 257,108</u>

**City of Hillsdale, Michigan**  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Capital Project Funds  
Year Ended June 30, 2019

	<u>Field of Dreams</u>	<u>Stock Park</u>	<u>Cold Springs Park</u>	<u>Airport Improvement</u>	<u>Three Meadows Development</u>	<u>Fire Equipment</u>	<u>TOTAL</u>
<b>REVENUES</b>							
Interest and rentals	\$ 380	\$ 1,054	\$ -	\$ 37,837	\$ -	\$ -	\$ 39,271
Charges for services	8,422	-	-	184,600	-	3,000	196,022
Contributions	-	10,100	-	-	-	-	10,100
Miscellaneous	-	-	-	-	1,549	8,300	9,849
<b>TOTAL REVENUES</b>	<u>8,802</u>	<u>11,154</u>	<u>-</u>	<u>222,437</u>	<u>1,549</u>	<u>11,300</u>	<u>255,242</u>
<b>EXPENDITURES</b>							
General government	-	-	-	149,968	-	-	149,968
Culture and recreation	-	1,092	-	-	-	-	1,092
Capital outlay	37,441	5,821	-	-	-	-	43,262
<b>TOTAL EXPENDITURES</b>	<u>37,441</u>	<u>6,913</u>	<u>-</u>	<u>149,968</u>	<u>-</u>	<u>-</u>	<u>194,322</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(28,639)</u>	<u>4,241</u>	<u>-</u>	<u>72,469</u>	<u>1,549</u>	<u>11,300</u>	<u>60,920</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in (out)	10,000	-	-	-	-	-	10,000
<b>CHANGES IN FUND BALANCES</b>	(18,639)	4,241	-	72,469	1,549	11,300	70,920
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>20,179</u>	<u>43,555</u>	<u>2,000</u>	<u>102,357</u>	<u>3,832</u>	<u>3,147</u>	<u>175,070</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 1,540</u>	<u>\$ 47,796</u>	<u>\$ 2,000</u>	<u>\$ 174,826</u>	<u>\$ 5,381</u>	<u>\$ 14,447</u>	<u>\$ 245,990</u>

**City of Hillsdale, Michigan**  
**Combining Balance Sheet**  
**Nonmajor Permanent Funds**  
**June 30, 2019**

	<u>R.L. Owen Memorial</u>	<u>Cemetery Perpetual Care</u>	<u>Stock Park Maintenance</u>	<u>TOTAL</u>
<b>ASSETS</b>				
Cash and investments	\$ 46,352	\$ 328,679	\$ 64,893	\$ 439,924
Notes receivable	-	367,297	-	367,297
<b>TOTAL ASSETS</b>	<u>46,352</u>	<u>695,976</u>	<u>64,893</u>	<u>807,221</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Fund Balances:				
Restricted	<u>46,352</u>	<u>695,976</u>	<u>64,893</u>	<u>807,221</u>
<b>TOTAL FUND BALANCES</b>	<u>46,352</u>	<u>695,976</u>	<u>64,893</u>	<u>807,221</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 46,352</u>	<u>\$ 695,976</u>	<u>\$ 64,893</u>	<u>\$ 807,221</u>

**City of Hillsdale, Michigan**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Permanent Funds**  
**Year Ended June 30, 2019**

	<u>R.L. Owen Memorial</u>	<u>Cemetery Perpetual Care</u>	<u>Stock Park Maintenance</u>	<u>TOTAL</u>
<b>REVENUES</b>				
Charges for services	\$ -	\$ 7,185	\$ -	\$ 7,185
Interest and rentals	4,283	15,720	1,122	21,125
Miscellaneous	-	-	6,013	6,013
<b>TOTAL REVENUES</b>	<u>4,283</u>	<u>22,905</u>	<u>7,135</u>	<u>34,323</u>
<b>EXPENDITURES</b>				
General government	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>4,283</u>	<u>22,905</u>	<u>7,135</u>	<u>34,323</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in (out)	-	(15,500)	-	(15,500)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>(15,500)</u>	<u>-</u>	<u>(15,500)</u>
<b>CHANGES IN FUND BALANCES</b>	4,283	7,405	7,135	18,823
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>42,069</u>	<u>688,571</u>	<u>57,758</u>	<u>788,398</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 46,352</u>	<u>\$ 695,976</u>	<u>\$ 64,893</u>	<u>\$ 807,221</u>

**City of Hillsdale, Michigan**  
 Local Revenues  
 Dial-A-Ride Enterprise Fund  
 Year Ended June 30, 2019

	<u>7/1/2018 - 9/30/2018</u>	<u>10/1/2018 - 6/30/2019</u>	<u>7/1/2018 - 6/30/2019</u>
<b>OPERATING REVENUES AND TRANSFERS</b>			
Demand response (farebox) - nonurban	\$ 9,568	\$ 37,648	\$ 47,216
Sale of City property - bus	-	11,400	11,400
Transfer in from general fund	-	89,665	89,665
	<hr/>	<hr/>	<hr/>
TOTAL LOCAL REVENUES	<u>\$ 9,568</u>	<u>\$ 138,713</u>	<u>\$ 148,281</u>



**City of Hillsdale, Michigan**  
 Local Revenues  
 Dial-A-Ride Enterprise Fund  
 Based on a September 30, 2018 Year End

	<u>10/1/2017 - 6/30/2018</u>	<u>7/1/2018 - 9/30/2018</u>	<u>10/1/2017 - 9/30/2018</u>
<b>OPERATING REVENUES AND TRANSFERS</b>			
Demand response (farebox) - nonurban	\$ 37,649	\$ 9,568	\$ 47,217
Transfer in from general fund	50,000	-	50,000
TOTAL LOCAL REVENUES	<u>\$ 87,649</u>	<u>\$ 9,568</u>	<u>\$ 97,217</u>

**City of Hillsdale, Michigan**  
**Federal and State Awards**  
**Dial-A-Ride Enterprise Fund**  
**Year Ended June 30, 2019**

	<u>7/1/2018 - 9/30/2018</u>	<u>10/1/2018 - 6/30/2019</u>	<u>7/1/2018 - 6/30/2019</u>
Michigan Department of Transportation			
Local bus operating 2019	\$ -	\$ 104,634	\$ 104,634
Local bus operating 2018	35,371	-	35,371
Preliminary reconciliation fiscal year 2017	-	(23,873)	(23,873)
Federal Transit Administration			
Section 5311	27,937	15,379	43,316
Mobility management Federal	7,000	21,000	28,000
Mobility management State	1,750	5,250	7,000
Section 5310 - Capital	-	(291)	(291)
	<u>\$ 72,058</u>	<u>\$ 122,099</u>	<u>\$ 194,157</u>
TOTAL FEDERAL AND STATE AWARDS			

**City of Hillsdale, Michigan**  
**Federal and State Awards**  
**Dial-A-Ride Enterprise Fund**  
Based on a September 30, 2018 Year End

	<u>10/1/2017 - 6/30/2018</u>	<u>7/1/2018 - 9/30/2018</u>	<u>TOTAL</u>
Michigan Department of Transportation			
Local bus operating 2017	\$ 95,776	\$ -	\$ 95,776
Local bus operating 2018	-	35,371	35,371
Preliminary reconciliation fiscal year 2016	(5,361)	-	(5,361)
Federal Transit Administration			
Section 5311	26,786	27,937	54,723
Section 5310 Bus	97,054	-	97,054
Mobility management Federal	21,000	7,000	28,000
Mobility management State	5,250	1,750	7,000
TOTAL FEDERAL AND STATE AWARDS	<u>\$ 240,505</u>	<u>\$ 72,058</u>	<u>\$ 312,563</u>

**City of Hillsdale, Michigan**  
Expenditures of Federal and State Awards  
Dial-A-Ride Enterprise Fund  
Year Ended June 30, 2019

FEDERAL CFDA NUMBER	GRANT NUMBER AUTHORIZATION NUMBER	PROGRAM AWARD AMOUNT	CURRENT YEAR'S EXPENDITURES			PRIOR YEARS' EXPENDITURES	AWARD AMOUNT REMAINING	
			TOTAL	FEDERAL	STATE			
<b>FEDERAL AND STATE GRANTOR / PASS THROUGH</b>								
<b>GRANTOR / PROGRAM TITLE</b>								
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>								
Passed through Michigan Department of Transportation								
Bus capital - Section 5310	20.513	2017-0063/P3	\$ 97,328	\$ -	\$ -	\$ -	\$ 97,054	\$ 274
Mobility management fy 2018 - Section 5311	20.509	2017-0063/P4	35,000	8,750	7,000	1,750	26,250	-
Operating assistance fy 2018 - Section 5311	20.509	2017-0063/P5/R1	67,803	43,316	43,316	-	14,578	9,909
Bus capital - Section 5310	20.513	2017-0063/P6	96,030	-	-	-	-	96,030
Mobility management fy 2019 - Section 5311	20.509	2017-0063/P7	35,000	26,250	21,000	5,250	-	8,750
Operating assistance fy 2019 - Section 5311	20.509	2017-0063/P8	65,970	-	-	-	-	65,970
			397,131	78,316	71,316	7,000	137,882	180,933
<b>MICHIGAN DEPARTMENT OF TRANSPORTATION</b>								
Operating Assistance - Act 51								
Nonurban 2019 budget	N/A	N/A	139,513	104,634	-	104,634	-	34,879
Nonurban 2018 budget	N/A	N/A	143,664	35,916	-	35,916	107,748	-
Nonurban 2017 reconciled	N/A	N/A	142,140	-	-	-	118,267	23,873
			\$ 822,448	\$ 218,866	\$ 71,316	\$ 147,550	\$ 363,897	\$ 239,685

**City of Hillsdale, Michigan**  
**Operating and Contract Expenses**  
**Dial-A-Ride Enterprise Fund**  
**Year Ended June 30, 2019**

	<u>NONURBAN</u>	<u>TOTAL</u>
Labor	\$ 188,428	\$ 188,428
Fringe benefits	68,438	68,438
Services	54,050	54,050
Materials & supplies	28,700	28,700
Insurance	10,639	10,639
Utilities	9,553	9,553
Depreciation	57,531	57,531
Other	2,281	2,281
	<hr/>	<hr/>
TOTAL EXPENSES	<u>\$ 419,620</u>	<u>\$ 419,620</u>

**City of Hillsdale, Michigan**  
**Operating and Contract Expenses**  
**Dial-A-Ride Enterprise Fund**  
**Year Ended June 30, 2019**

	NONURBAN		TOTAL
	07/01/2018 - 9/30/2018	10/01/2018 - 6/30/2019	
Labor	\$ 33,230	\$ 155,198	\$ 188,428
Fringe benefits	18,330	50,108	68,438
Services	5,150	23,550	28,700
Materials & supplies	1,523	52,527	54,050
Insurance	(493)	11,132	10,639
Utilities	1,917	7,636	9,553
Depreciation	-	57,531	57,531
Other	-	2,281	2,281
<b>TOTAL EXPENSES</b>	<b>\$ 59,657</b>	<b>\$ 359,963</b>	<b>\$ 419,620</b>

**City of Hillsdale, Michigan**  
**Operating and Contract Expenses**  
**Dial-A-Ride Enterprise Fund**  
Based on a September 30, 2018 Year End

	NONURBAN		TOTAL
	10/1/2017 - 6/30/2018	7/1/2018 - 9/30/2018	
Labor	\$ 146,750	\$ 33,230	\$ 179,980
Fringe benefits	50,388	18,330	68,718
Services	48,617	5,150	53,767
Materials & supplies	24,102	1,523	25,625
Insurance	12,496	(493)	12,003
Utilities	5,939	1,917	7,856
Miscellaneous	-	-	-
Depreciation	54,697	-	54,697
<b>TOTAL EXPENSES</b>	<b>\$ 342,989</b>	<b>\$ 59,657</b>	<b>\$ 402,646</b>

**City of Hillsdale, Michigan**  
 Nonurban Regular Service Revenue Report  
 Dial-A-Ride Enterprise Fund  
 Based on a September 30, 2018 Year End

<u>CODE</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
<b>401</b>	<b>Farebox Revenue</b>	
40100	Passenger Fares	\$ 47,217
<b>409</b>	<b>Local Revenues</b>	
40910	Local operating assistance	50,000
<b>411</b>	<b>State Formula and Contracts</b>	
41101	State operating assistance	126,010
<b>413</b>	<b>Federal Contracts</b>	
41301	Federal Section 5311 (operating funds only)	<u>57,615</u>
	<b>TOTAL REVENUES</b>	<u><u>\$ 280,842</u></u>



**City of Hillsdale, Michigan**  
 Nonurban Regular Service Expense Report  
 Dial-A-Ride Enterprise Fund  
 Based on a September 30, 2018 Year End

CODE	DESCRIPTION	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL
<b>501</b>	<b>Labor</b>				
50101	Operators' salaries and wages	\$ 104,940	\$ -	\$ -	\$ 104,940
50102	Other salaries and wages	-	4,645	26,107	30,752
50103	Dispatchers' salaries and wages	38,928	-	-	38,928
<b>502</b>	<b>Fringe Benefits</b>				
50200	Other fringe benefits	57,529	3,093	13,456	74,078
<b>503</b>	<b>Services</b>				
50305	Audit costs	-	-	1,422	1,422
50399	Other	10,280	348	38,727	49,355
<b>504</b>	<b>Materials and Supplies</b>				
50401	Fuel and lubricants	17,364	-	-	17,364
50402	Tires and tubes	817	-	-	817
50499	Other materials and supplies	1,888	3,916	-	5,804
<b>505</b>	<b>Utilities</b>				
50500	Utilities	7,857	-	3,392	11,249
<b>506</b>	<b>Insurance</b>				
50603	Liability insurance	7,021	-	-	7,021
50699	Other insurance	-	-	4,982	4,982
<b>512</b>	<b>Operating Leases and Rentals</b>				
51200	Operating leases and rentals	1,237	-	-	1,237
<b>513</b>	<b>Depreciation</b>				
51300	Depreciation	54,697	-	-	54,697
<b>550</b>	<b>Ineligible Expenses</b>				
55007	Ineligible depreciation	(54,697)	-	-	(54,697)
<b>604</b>	<b>Ineligible Expenses</b>				
57604	Ineligible mobility management	-	-	(35,000)	(35,000)
	Total expenses				<u>\$ 402,646</u>
	Total ineligible expenses				<u>\$ (89,697)</u>
	Total eligible expenses				<u>\$ 312,949</u>

**City of Hillsdale, Michigan**  
 Nonurban Regular Service Non-Financial Information  
 Dial-A-Ride Enterprise Fund  
 Based on a September 30, 2018 Year End

	<u>WEEKDAY</u>	<u>SATURDAY</u>	<u>SUNDAY</u>	<u>TOTAL</u>
Non-Financial Information				
Annual Reconciliation				
10/1/2017 - 9/30/2018				
Vehicle Hours	4,687	-	-	4,687
Vehicle Miles	50,303	-	-	50,303
Passengers Reg.	12,268	-	-	12,268
Passengers - Sr.	5,361	-	-	5,361
Passengers - Per. Disb.	6,744	-	-	6,744
Passengers - Sr. Disb.	3,289	-	-	3,289
Total Demand - Response	27,662	-	-	27,662
Days Operated	250	-	-	250
	<u>Quantity</u>			
Total Demand - Response Vehicles	5			
Demand-Response Vehicles w/Lifts	5			
Diesel/Gasoline Gallons Consumed	8,197			
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, 2018 Year End

	<u>NONURBAN</u>
Total expenses	\$ 402,646
Less ineligible expenses:	
Depreciation and other	89,697
Total State eligible expenses	<u>312,949</u>
Eligible expenses for State reimbursement	312,949
Reimbursement percentage	<u>40.2653%</u>
State operating assistance	<u>126,010</u>
Total federal eligible expenses	312,949
Less additional federal ineligible expenses:	
Audit costs	1,516
Eligible expenses for federal reimbursement	<u>311,433</u>
Reimbursement percentage	<u>18.5000%</u>
Section 5311 operating assistance	<u>\$ 57,615</u>

**City of Hillsdale, Michigan**  
**Combining Statement of Net Position**  
**Internal Service Funds**  
**June 30, 2019**

	<b>Department of Public Service Leave &amp; Benefits</b>	<b>Public Service Inventory</b>	<b>Revolving Mobile Equipment</b>	<b>Unemployment Insurance</b>	<b>TOTAL</b>
<b>ASSETS</b>					
Current assets:					
Cash and investments	\$ 27,264	\$ 14,238	\$ 106,433	\$ 74,313	\$ 222,248
Accounts receivable	-	11,683	-	-	11,683
Inventory	-	152,142	-	-	152,142
Prepaid expenses	20,384	-	23,859	-	44,243
<b>TOTAL CURRENT ASSETS</b>	<b>47,648</b>	<b>178,063</b>	<b>130,292</b>	<b>74,313</b>	<b>430,316</b>
Capital assets:					
Equipment	-	-	2,454,539	-	2,454,539
Less: accumulated depreciation	-	-	(1,786,283)	-	(1,786,283)
<b>TOTAL CAPITAL ASSETS, NET</b>	<b>-</b>	<b>-</b>	<b>668,256</b>	<b>-</b>	<b>668,256</b>
<b>TOTAL ASSETS</b>	<b>47,648</b>	<b>178,063</b>	<b>798,548</b>	<b>74,313</b>	<b>1,098,572</b>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	321	1,552	6,149	-	8,022
Accrued payroll and related liabilities	-	12	985	-	997
<b>TOTAL CURRENT LIABILITIES</b>	<b>321</b>	<b>1,564</b>	<b>7,134</b>	<b>-</b>	<b>9,019</b>
Other liabilities:					
Compensated absences	24,748	-	6,135	-	30,883
<b>TOTAL LIABILITIES</b>	<b>25,069</b>	<b>1,564</b>	<b>13,269</b>	<b>-</b>	<b>39,902</b>
<b>NET POSITION</b>					
Net investment in capital assets	-	-	-	-	-
Unrestricted	22,579	176,499	785,279	74,313	1,058,670
<b>TOTAL NET POSITION</b>	<b>\$ 22,579</b>	<b>\$ 176,499</b>	<b>\$ 785,279</b>	<b>\$ 74,313</b>	<b>\$ 1,058,670</b>

**City of Hillsdale, Michigan**  
Combining Statement of Revenues, Expenses, and Changes in Net Position  
Internal Service Funds  
Year Ended June 30, 2019

	Department of Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	TOTAL
<b>OPERATING REVENUES</b>					
Charges for services	\$ -	\$ 7,195	\$ 313,818	\$ -	\$ 321,013
Miscellaneous	194,818	-	-	-	194,818
<b>TOTAL OPERATING REVENUES</b>	<b>194,818</b>	<b>7,195</b>	<b>313,818</b>	<b>-</b>	<b>515,831</b>
<b>OPERATING EXPENSES</b>					
Salaries	58,177	4,184	63,516	-	125,877
Fringe benefits	136,641	3,184	34,116	-	173,941
Supplies	-	15,114	105,567	-	120,681
Contracted services	-	2,120	11,319	-	13,439
Maintenance	-	2,964	25,425	-	28,389
Insurance	-	-	43,710	-	43,710
Miscellaneous	-	-	6,939	93	7,032
Capital outlay	-	-	4,478	-	4,478
Depreciation	-	-	57,694	-	57,694
<b>TOTAL OPERATING EXPENSES</b>	<b>194,818</b>	<b>27,566</b>	<b>352,764</b>	<b>93</b>	<b>575,241</b>
<b>OPERATING INCOME (LOSS)</b>	<b>-</b>	<b>(20,371)</b>	<b>(38,946)</b>	<b>(93)</b>	<b>(59,410)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Operating transfers in	-	30,000	362,500	-	392,500
Federal grant	-	-	107,006	-	107,006
Gain (loss) on disposal of assets	-	-	11,153	-	11,153
Interest income	-	-	1,869	1,845	3,714
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>-</b>	<b>30,000</b>	<b>482,528</b>	<b>1,845</b>	<b>514,373</b>
<b>CHANGES IN NET POSITION</b>	<b>-</b>	<b>9,629</b>	<b>443,582</b>	<b>1,752</b>	<b>454,963</b>
<b>NET POSITION - BEGINNING OF YEAR</b>	<b>22,579</b>	<b>166,870</b>	<b>341,697</b>	<b>72,561</b>	<b>603,707</b>
<b>NET POSITION - END OF YEAR</b>	<b>\$ 22,579</b>	<b>\$ 176,499</b>	<b>\$ 785,279</b>	<b>\$ 74,313</b>	<b>\$ 1,058,670</b>

**City of Hillsdale, Michigan**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**Year Ended June 30, 2019**

	<b>Department of Public Service Leave &amp; Benefits</b>	<b>Public Service Inventory</b>	<b>Revolving Mobile Equipment</b>	<b>Unemployment Insurance</b>	<b>TOTAL</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash paid to suppliers	\$ -	\$ (26,269)	\$ (200,103)	\$ (93)	\$ (226,465)
Cash paid to employees	(190,024)	(7,362)	(98,475)	-	(295,861)
Receipts for interfund services provided	194,818	(4,488)	313,818	-	504,148
Net Cash Provided By (Used In) Operating Activities	4,794	(38,119)	15,240	(93)	(18,178)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from sale of capital assets	-	-	11,153	-	11,153
Transfers from other funds	-	30,000	362,500	-	392,500
Capital grants	-	-	107,006	-	107,006
Purchase of capital assets	-	-	(500,611)	-	(500,611)
Net Cash Provided By (Used In) Capital and Related Financing Activities	-	30,000	(19,952)	-	10,048
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest income received	-	-	1,868	1,845	3,713
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	4,794	(8,119)	(2,844)	1,752	(4,417)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	22,470	22,357	109,277	72,561	226,665
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 27,264	\$ 14,238	\$ 106,433	\$ 74,313	\$ 222,248
<b>BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS</b>					
Cash and investments	\$ 27,264	\$ 14,238	\$ 106,433	\$ 74,313	\$ 222,248
Less amounts classified as investments	-	-	-	-	-
	\$ 27,264	\$ 14,238	\$ 106,433	\$ 74,313	\$ 222,248
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>					
Operating income (loss)	\$ -	\$ (20,371)	\$ (38,946)	\$ (93)	\$ (59,410)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	-	-	57,694	-	57,694
(Increase)/decrease in:					
Accounts receivable	-	(11,683)	-	-	(11,683)
Due from other funds	-	-	-	-	-
Inventory	-	(218)	-	-	(218)
Prepaid expenses	(783)	-	1,890	-	1,107
Increase/(decrease) in:					
Accounts payable	(586)	(5,853)	(4,555)	-	(10,994)
Accrued expenses	6,163	6	(843)	-	5,326
Net Cash Provided By (Used In) Operating Activities	\$ 4,794	\$ (38,119)	\$ 15,240	\$ (93)	\$ (18,178)

OTHER REPORTS

**CITY OF HILLSDALE, MICHIGAN**  
**ADDITIONAL REPORTS REQUIRED BY**  
**THE UNIFORM GUIDANCE**  
**YEAR ENDED JUNE 30, 2019**



**CITY OF HILLSDALE, MICHIGAN**

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**JUNE 30, 2019**

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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, 2019, 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 1, 2019.

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 2019-1, 2019-2 and 2019-3.

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*, and which are described in the accompanying schedule of findings and questioned costs as item 2019-4.

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

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, 2019. 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, 2019.

## 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, 2019, and the related notes to the financial statements, which collectively comprise City of Hillsdale basic financial statements. We issued our report thereon dated November 1, 2019, 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

**CITY OF HILLSDALE, MICHIGAN  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2019**

	<b>Federal CFDA Number</b>	<b>Federal or Pass-Through Grant Number</b>	<b>Award Amount</b>	<b>Federal Expenditures</b>
<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>				
Passed-through the Michigan Strategic Fund				
CDBG Blight Elimination	14.228	MSC-218006-ESB	\$ 1,415,000	\$ 83,800
CDBG ICE Grant	14.228	MSC-216038-ICE	2,000,000	923,775
<b>Total U.S. Department of Housing and Urban Development</b>			3,415,000	1,007,575
<b><u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u></b>				
Passed-through the Michigan Department of Environmental Quality				
Capitalization Grants for Clean Water State Revolving Loan Funds	66.458	5610-01	7,435,000	75,891
Capitalization Grants for Clean Water State Revolving Loan Funds	66.458	5610-02	2,000,000	46,498
USEPA Clean Diesel Grant	66.040	DS00E66604-0	108,750	107,006
<b>Total U.S. Environmental Protection Agency</b>			9,543,750	229,395
<b><u>U.S. DEPARTMENT OF TRANSPORTATION</u></b>				
Passed-through Michigan Department of Transportation				
Operating assistance - Section 5311	20.509	2017-0063/P5/R1	67,803	43,316
Mobility management - Section 5311	20.509	2017-0063/P7	35,000	21,000
Mobility management - Section 5311	20.509	2017-0063/P4	35,000	7,000
<b>Total U.S. Department of Transportation</b>			137,803	71,316
 <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			\$ 13,096,553	\$ 1,308,286

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, 2019**

**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, 2019. 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:

CDBG ICE Grant – CFDA #14.228

**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	\$ 616,770
Proprietary funds - revenue	462,121
Proprietary funds - bonds payable	122,389
Internal service funds - revenue	<u>107,006</u>
	<u>\$ 1,308,286</u>

**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, 2019, the outstanding loan payable was \$7,675,000, which consists of both Federal and State funds.

**Note 6:** Of the federal expenditures presented in the schedule of expenditures of federal awards, the City provided the following to subrecipients:

U.S. Department of Housing and Urban Development  
 Passed through Michigan Strategic Fund

CDBG Blight Elimination – CFDA #14.228	\$83,800
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**CITY OF HILLSDALE, MICHIGAN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2019**

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>  X  </u> Yes	<u>    </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>
14.228	Community Block Development Grants
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, 2019**

Section II - Financial Statement Findings

**Finding 2019-1 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 2019-2 Capital Assets record keeping – TIFA and EDC Component Units**

Internal Control Finding considered a material weakness

*Requirement:* The business office is responsible for the accounting of the Tax Increment Finance Authority and the Economic Development Corporation Fund, including the record keeping of capital assets. During the year, the TIFA fund did not properly capitalize certain expenditures as required. It also came to our attention that the EDC was not properly accounting for gain or loss on the sale of lots for current and prior years, and the land values on the books were understated.

*Condition:* Management did not capitalize material expenditures related to building renovations in the TIFA fund. Management recorded sales of lots incorrectly during the year and in prior years.

*Cause:* 1) Lack of adequate year end closing procedures related to the analysis of what expenditures are required to be capitalized. 2) Lot sale transactions were not recorded using generally accepted accounting principles.

*Effect:* 1) At the time of audit, TIFA capital assets were understated by \$86,000; 2) At the time of audit, the EDC was reporting a loss on sale of lots in the amount of (\$53,868), when in fact, was actually a gain of \$10,734. In addition, the land values in the EDC were understated due to prior period errors in the recording of lot sales.

*View of responsible officials:* Year-end procedures will be improved to identify any errors in recording expenditures and/or sales.

**Finding 2019-3 Capital outlay – Capital Improvement Fund**  
**Internal Control Finding considered a material weakness**

*Requirement:* Capital outlay expense accounts should reflect actual amounts paid for purchases and/or services.

*Condition:* At the time of audit, the capital outlay line item for demolition of the Broad Street building showed both an expense for a check that had been written, plus an accrual for the same amount.

*Cause:* The original check was voided after the year end, and in the meantime, the year end accrual was made.

*Effect:* The balance in the capital outlay line item was overstated by \$187,500.

*View of responsible officials:* Year-end procedures will be improved to identify any errors in reporting.

**Finding 2019-4 Distribution of property taxes to other governmental units**  
**Compliance Finding**

*Requirement:* The City Treasurer is required to remit tax collections on a timely basis according to MCL 211.43. Tax distributions should be submitted within 10 business days after the 1<sup>st</sup> and the 15<sup>th</sup> day of each month.

*Condition:* As of June 30, 2019, final adjustments and delivery of the total amount of tax collections were delinquent to the County of Hillsdale and the State of Michigan.

*Cause:* The Treasurer was inexperienced and did not have a good understanding of the property tax allocation scheme.

*Effect:* The City was delinquent in remitting taxes to the County of Hillsdale and the State of Michigan in the amount of \$89,879; the City in turn, overpaid the local school districts by \$57,747.

*View of responsible officials:* The City Treasurer will receive additional training on property tax allocations.

**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, 2019**

**Finding 2018-1 Financial Statement Preparation (Repeat finding)**

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. 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 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:*

**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.

*Status:*

**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.

*Status:*

**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.

*Status:*

**City of Hillsdale/Hillsdale Board of Public Utilities**  
**Corrective Action Plan**  
**June 30, 2019 Fiscal Year-End Audit Findings**

**November 22, 2019**

**2019-1 Financial Statement Preparation (Repeat finding)**  
Internal Control Finding considered a material weakness

This was a repeat deficiency from previous years. Preparation of the city's financial statements is done by the auditing firm. The City is aware that GAAP requires that management maintain internal controls over both recording and processing and summarizing accounting data and reporting government-wide and fund financial statements, including the related footnotes. As is the case with many small to medium sized communities, the City has relied on independent external auditors to assist with the preparation of the financial statements and footnotes. It is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary expertise required to prepare the financial statements internally. It is anticipated that the City will continue to use external auditors for technical assistance and expect that this situation will continue into future years.

**2019-2 Capital Assets record keeping – TIFA and EDC Component Units**  
Internal Control Finding considered a material weakness

The business office is responsible for the accounting of the Tax Increment Finance Authority and the Economic Development Corporation Funds, including the record keeping of capital assets. The TIFA fund did not capitalize certain expenditures as required and EDC was not properly accounting for gain or loss on the sale of lots for current and prior years causing the land values on the books to be understated.

This year was an unusually busy year for capital activity in both these units. Moving forward closer attention will be paid to capital items and new fiscal year-end processes will be developed so that no capital items are not missed.

**2019-3 Capital outlay – Capital Improvement Fund**  
Internal control Finding considered a material weakness

Capital outlay expense accounts should reflect actual amounts paid for purchases and/or services. At the time of audit, the capital outlay line item for demolition of the Broad Street building showed both an expense for a check that had been written, plus an accrual for the same amount. The original check was voided after the year end had closed and a year-end accrual was also made.

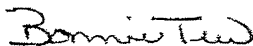
More attention will be paid during the year-end process so that these errors in reporting are eradicated.

**2019-4 Distribution of property taxes to other governmental units**  
Compliance Finding

The City Treasurer is required to remit tax collections on a timely basis according to MCL 211.43. Tax distributions should be submitted within 10 business days after the 1<sup>st</sup> and the 15<sup>th</sup> day of each month. As of June 30, 2019, final adjustments and delivery of the total amount of tax collections were delinquent to the County of Hillsdale and the State of Michigan. Overpayments had been made to local school districts as well. The treasurer was inexperienced and did not have a good understanding of the property tax allocation scheme.

Additional training will be provided to the City Treasurer on property tax allocations and proper disbursement procedures will be developed moving forward.

Respectfully submitted:



Bonnie Tew  
Finance Director