



**CITY OF HILLSDALE  
HILLSDALE COUNTY, MICHIGAN  
ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2020**

# TABLE OF CONTENTS

	<u>Page</u>
<b>FINANCIAL SECTION</b>	
<b>Independent Auditor's Report</b>	1
<b>Management's Discussion and Analysis</b>	5
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>Government-wide Financial Statements</b>	
Statement of Net Position	17
Statement of Activities	18
<b>Fund Financial Statements</b>	
<b>Governmental Funds</b>	
Balance Sheet	19
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	20
Statement of Revenues, Expenditures, and Changes in Fund Balance	21
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances with the Statement of Activities	22
<b>Proprietary Funds</b>	
Statement of Net Position	23
Statement of Revenues, Expenses, and Changes in Net Position	24
Statement of Cash Flows	25
<b>Fiduciary Funds</b>	
Statement of Fiduciary Net Position	27
Statement of Changes in Fiduciary Net Position	28
<b>Component Units</b>	
Combining Statement of Net Position	29
Combining Statement of Activities	30
<b>Notes to the Financial Statements</b>	32
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	64
Schedule of Changes in Net Pension Liability and Related Ratios	65
Schedule of Contributions - Pension	66

# TABLE OF CONTENTS

Page

## **OTHER SUPPLEMENTARY INFORMATION**

### **Governmental Funds**

Combining Balance Sheet – Nonmajor Governmental Funds	68
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds	71

### **Internal Service Funds**

Combining Statement of Net Position - Internal Service Funds	74
Combining Statement of Revenues, Expenses, and Changes in Net Position - Internal Service Funds	75
Combining Statement of Cash Flows - Internal Service Funds	76

### **Dial-A-Ride Transit Schedules**

Schedules of Local Revenues	78
Schedule of Expenditures of Federal and State Awards	79
Schedules of Federal and State Awards	80
Operating and Contract Expenses	81
Operating Expenses by Program	82
Nonurban Regular Service Revenue Report	83
Regular Service Operating and Contract Expenses	84
Operating Assistance Calculation	85
Schedule of Nonfinancial Information	86

## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

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 (the "City") as of and for the year ended June 30, 2020, 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, as of June 30, 2020, 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, required pension schedules, and budgetary comparison schedules, as listed in the table of contents, 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's basic financial statements. The combining and individual fund financial statements and schedules and the Dial-A-Ride transportation fund transit schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules, along with the Dial-A-Ride transportation fund transit schedules, are the responsibility of management and were derived from and relate 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 combining and individual fund financial statements and

schedules, along with the Dial-A-Ride transportation fund transit schedules, are 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 December 7, 2020, on our consideration of the City'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the typed name of the firm.

Gabridge & Company, PLC  
Grand Rapids, Michigan  
December 7, 2020

## **Management's Discussion and Analysis**

**City of Hillsdale**  
**Management's Discussion and Analysis**  
**June 30, 2020**

As management of the City of Hillsdale, Michigan (The "City" or "government") 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, 2020. We encourage readers to consider the information presented here in conjunction with the financial statements.

**Financial Highlights**

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$70,585,925 (*net position*).
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$4,884,046, an increase of \$857,447 in comparison with the prior year. Approximately 20.6% of this amount, or \$1,007,056, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,007,056, or approximately 20.8% of total general fund expenditures and transfers out.

**Overview of the Financial Statements**

The discussion and analysis provided here is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support 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 financial information on all of the City's assets, deferred outflows, liabilities, and deferred inflows, with the difference 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 City's net position changed during the most recent fiscal year. All changes in net position 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 for some items that will only result in cash flows in future fiscal periods (e.g., changes in the City's net pension liability and capital asset activity).



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 services, streets and highways, airport, community and economic development, and recreation and culture. The business-type activities of the City include electric, water, and sewer services as well as Dial-A-Ride transportation services.

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

**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 assessing 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 several 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, airport improvement, and capital improvement funds, which are considered to be major funds. Data from the other remaining funds are presented as a separate column as they are considered nonmajor funds.

The City adopts an annual appropriated budget for the general fund and each special revenue fund. A budgetary comparison schedule for the general fund and each major special revenue fund has been provided to demonstrate compliance with these budgets.

**Proprietary Funds.** The City maintains two 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 enterprises funds to account for its electric, water, sewer, and Dial-A-Ride operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The City uses several internal service funds to account for various costs by allocating the cost to the funds that are using the resources. Because these services predominantly benefit governmental rather than business-type functions, they have been included within the 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 the water, sewer, and electric operations, of which are considered to be major funds of the City. Dial-A-Ride is considered to be a nonmajor proprietary fund and is noted in a separate column of the financial statements. The internal service funds data is presented in the proprietary fund financial statements.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported 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 City reports two types of fiduciary funds, which are agency funds and private purpose trust funds.

*Agency funds* report resources held by the City in a custodial capacity for individuals, private organizations, and other governments.

*Private purpose trust funds* report resources earmarked for other services. In the City's case, the resources are earmarked for hospital care.

**Notes to the Financial Statements.** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's budgetary comparison schedules and the City's pension schedules.

This report also presents other supplementary information which includes the combining and individual fund statements and the Dial-A-Ride transit schedules. The combining statements and transit schedules are presented immediately following the required supplementary information on pensions.

## Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows of resources by \$70,585,925 at the close of the most recent fiscal year.

### City of Hillsdale's Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
<b>ASSETS</b>						
<i>Current Assets</i>						
Cash and investments	\$ 4,813,103	\$ 4,580,273	\$ 11,606,789	\$ 10,817,863	\$ 16,419,892	\$ 15,398,136
Receivables	204,937	579,324	2,856,577	1,672,732	3,061,514	2,252,056
Inventories	139,963	152,142	454,828	474,798	594,791	626,940
Prepaid Items	97,501	166,674	160,653	171,690	258,154	338,364
<b>Total Current Assets</b>	<b>5,255,504</b>	<b>5,478,413</b>	<b>15,078,847</b>	<b>13,137,083</b>	<b>20,334,351</b>	<b>18,615,496</b>
<i>Noncurrent Assets</i>						
Restricted cash	-	-	672,751	483,546	672,751	483,546
Long-term prepaid operating lease	-	-	182,363	193,761	182,363	193,761
Interdepartmental loan receivable	-	367,297	250,000	590,000	250,000	957,297
Prepaid stranded costs	-	-	32,126	32,141	32,126	32,141
Investment in M.S.C.P.A.	-	-	4,086,875	4,490,245	4,086,875	4,490,245
Capital assets, net	26,334,473	24,194,655	33,677,548	32,467,453	60,012,021	56,662,108
<b>Total Assets</b>	<b>31,589,977</b>	<b>30,040,365</b>	<b>53,980,510</b>	<b>51,394,229</b>	<b>85,570,487</b>	<b>81,434,594</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Pension-related	405,915	874,161	379,219	787,288	785,134	1,661,449
<b>Total Deferred Outflows of Resources</b>	<b>405,915</b>	<b>874,161</b>	<b>379,219</b>	<b>787,288</b>	<b>785,134</b>	<b>1,661,449</b>
<b>LIABILITIES</b>						
<i>Current Liabilities</i>						
Accounts payable	105,090	698,801	160,027	716,564	265,117	1,415,365
Accrued and other liabilities	70,871	66,762	1,615,204	870,867	1,686,075	937,629
Accrued interest	-	-	47,070	59,156	47,070	59,156
Current portion of long-term debt	-	-	428,700	632,682	428,700	632,682
Internal balances	(183,984)	(260,511)	183,984	260,511	-	-
<b>Total Current Liabilities</b>	<b>(8,023)</b>	<b>505,052</b>	<b>2,434,985</b>	<b>2,539,780</b>	<b>2,426,962</b>	<b>3,044,832</b>
<i>Noncurrent Liabilities</i>						
Compensated absences	234,867	221,234	174,917	147,465	409,784	368,699
Interdepartmental loan payable	-	867,297	250,000	90,000	250,000	957,297
Energy optimization program	-	-	(119,083)	(109,070)	(119,083)	(109,070)
Long-term debt, net	-	-	6,980,000	7,627,470	6,980,000	7,627,470
Net pension liability	2,851,458	3,200,032	2,661,547	2,910,570	5,513,005	6,110,602
<b>Total Liabilities</b>	<b>3,078,302</b>	<b>4,793,615</b>	<b>12,382,366</b>	<b>13,206,215</b>	<b>15,460,668</b>	<b>17,999,830</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Pension-related	159,768	68,378	149,260	139,819	309,028	208,197
<b>Total Deferred Inflows of Resources</b>	<b>159,768</b>	<b>68,378</b>	<b>149,260</b>	<b>139,819</b>	<b>309,028</b>	<b>208,197</b>
<b>NET POSITION</b>						
Net investment in capital assets	26,334,473	24,194,655	26,268,848	24,207,301	52,603,321	48,401,956
Restricted	3,815,342	3,087,181	672,751	483,546	4,488,093	3,570,727
Unrestricted	(1,391,993)	(1,229,303)	14,886,504	14,144,636	13,494,511	12,915,333
<b>Total Net Position</b>	<b>\$ 28,757,822</b>	<b>\$ 26,052,533</b>	<b>\$ 41,828,103</b>	<b>\$ 38,835,483</b>	<b>\$ 70,585,925</b>	<b>\$ 64,888,016</b>

The largest portion of the City's net position of \$52,603,321 (74.5%) reflects its investment in capital assets (e.g., construction in progress, land, buildings and improvements, furniture and fixtures, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

## **Governmental Activities**

Cash and investments increased by \$232,830 during the year to \$4,813,103 as of year-end. The primary reason for this was the increase in fund balance of \$857,447. Receivables decreased by \$374,387 because of decreased intergovernmental grant receivables in the capital improvement fund for construction projects. Due to the several construction projects coming to a close during fiscal 2020, accounts payable decreased by \$593,711 as the City had less construction-related payables at year-end. Interdepartmental loan receivable and loan payable decreased to \$0 as balances between funds were paid off. Net pension liability and its related deferrals was restated during the year as indicated in the notes to the financial statements.

## **Business-type Activities**

Cash and investments, including restricted cash, increased by \$978,131 during the current year to \$12,279,540 as of year-end. The primary reason for this was the increase in net position of \$1,606,687. A portion of receivables, indicated as due from other governments on the detailed financial statements, decreased from \$416,334 in the prior year to \$14,137 in the current year as the City received the final draw from the state revolving fund during the current year. Receivables, particularly unbilled receivables, were restated during the year as indicated in the notes to the financial statements.

The interdepartmental loan receivable decreased by a net \$340,000, consisting of monies loaned of \$250,000 against monies received of \$590,000. The City's investment in M.S.C.P.A. decreased by \$403,370 as the M.S.C.P.A. itself recorded a decrease in net position of \$4,083,573.

Net pension liability and its related deferrals was restated during the year as indicated in the notes to the financial statements. Accrued and other liabilities increased by \$744,337, primarily consisting of two months of purchased power expenses to be allocated when compared to one month in the prior year. Accounts payable decreased by \$556,537 as expenses related to the final state revolving fund draw were accrued in the prior year.

The City's overall net position increased \$4,255,970 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

**City of Hillsdale's Changes in Net Position**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
<b>Revenues</b>						
<b>Program Revenues</b>						
Charges for services	\$ 823,692	\$ 564,529	\$ 16,585,317	\$ 16,232,492	\$ 17,409,009	\$ 16,797,021
Operating grants and contributions	1,103,691	1,244,130	492,056	194,390	1,595,747	1,438,520
Capital grants and contributions	2,002,998	626,870	96,030	390,805	2,099,028	1,017,675
<b>Total Program Revenues</b>	<b>3,930,381</b>	<b>2,435,529</b>	<b>17,173,403</b>	<b>16,817,687</b>	<b>21,103,784</b>	<b>19,253,216</b>
<b>General Revenues</b>						
Taxes	2,662,468	2,619,253	-	-	2,662,468	2,619,253
Unrestricted state sources	1,174,528	1,014,670	-	-	1,174,528	1,014,670
Miscellaneous revenues	-	900,418	-	11,400	-	911,818
Payment in lieu of taxes	1,078,649	-	-	-	1,078,649	-
Investment income and net gain/losses	94,716	58,473	(182,372)	64,338	(87,656)	122,811
Transfers, net	132,882	935,939	(132,882)	(935,939)	-	-
<b>Total General Revenues and Transfers</b>	<b>5,143,243</b>	<b>5,528,753</b>	<b>(315,254)</b>	<b>(860,201)</b>	<b>4,827,989</b>	<b>4,668,552</b>
<b>Total Revenues</b>	<b>9,073,624</b>	<b>7,964,282</b>	<b>16,858,149</b>	<b>15,957,486</b>	<b>25,931,773</b>	<b>23,921,768</b>
<b>Expenses</b>						
General government	1,470,164	2,287,427	-	-	1,470,164	2,287,427
Public safety	1,992,855	2,352,497	-	-	1,992,855	2,352,497
Public works	2,125,559	1,569,695	-	-	2,125,559	1,569,695
Community and economic development	148,462	202,178	-	-	148,462	202,178
Recreation and culture	687,301	676,957	-	-	687,301	676,957
Electric	-	-	12,198,429	11,514,989	12,198,429	11,514,989
Water	-	-	1,241,333	1,248,906	1,241,333	1,248,906
Sewer	-	-	1,457,268	1,443,863	1,457,268	1,443,863
Transportation	-	-	354,432	358,193	354,432	358,193
<b>Total Expenses</b>	<b>6,424,341</b>	<b>7,088,754</b>	<b>15,251,462</b>	<b>14,565,951</b>	<b>21,675,803</b>	<b>21,654,705</b>
<b>Change in Net Position</b>	<b>2,649,283</b>	<b>875,528</b>	<b>1,606,687</b>	<b>1,391,535</b>	<b>4,255,970</b>	<b>2,267,063</b>
<i>Net Position at the Beginning of Period</i>	<i>26,108,539</i>	<i>25,177,005</i>	<i>40,221,416</i>	<i>37,443,948</i>	<i>66,329,955</i>	<i>62,620,953</i>
<b>Net Position at the End of Period</b>	<b>\$ 28,757,822</b>	<b>\$ 26,052,533</b>	<b>\$ 41,828,103</b>	<b>\$ 38,835,483</b>	<b>\$ 70,585,925</b>	<b>\$ 64,888,016</b>

**Governmental Activities.** Governmental activities increased the City's net position by \$2,649,283. The total increase was the result of total revenues of \$9,073,624 less total expenses of \$6,424,341. Capital grants and contributions increased from \$626,870 in the prior year to \$2,002,998 during the current year in large part due to increased grant revenue related to the airport runway and apron projects as well as several streets projects completed during the year. An increase in taxable value increased overall taxes collected slightly by \$43,215.

The City had a decrease in governmental expenses of \$664,413 primarily due to overall pension expense decreasing by just over \$400,000 stemming from improved investment performance.

**Business-type Activities.** Charges for services increased by \$352,825, primarily a result of overall increase in utility rates. In the prior year, the City approved a 2.5% increase in electric rates, a 11.47% increase in wastewater (sewer) rates, and a 14.24% increase in the water rates. Investment income and loss on investment in M.S.C.P.A consisted of \$189,566 and \$(371,938), respectively, for a net loss in investment-related items of \$(182,372).

## Financial Analysis of Governmental Funds

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

**Governmental Funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Council.

At June 30, 2020, the City's governmental funds reported combined fund balances of \$4,884,046, an increase of \$857,447 in comparison with the prior year. Approximately 20.6% of this amount, or \$1,007,056, constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable*, *assigned*, or *restricted* to indicate that it is: 1) not in spendable form, \$63,276, or 1.3%, for prepaid items, or 2) restricted for particular purposes, \$3,813,714, or 78.1%, for major and local streets, debt service, capital improvement projects, and various permanent sources.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,007,056 while total fund balance increased to \$1,068,704. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents approximately 20.8% of total general fund expenditures and transfers out while total fund balance represents approximately 22.0% of that same amount.

The fund balance of the City's general fund increased by \$134,113 during the current fiscal year. This compares to an increase of \$16,149 in the prior year. The primary reason for the current year increase in general fund balance relates to increased property tax, payments in lieu of taxes, and intergovernmental revenues. Expenditures remained relatively consist with an increase in airport-related and administrative-related expenditures during the current year.

The airport improvement fund, a major fund, had a \$178,606 increase in fund balance during the current fiscal year which put the overall fund balance at \$353,432. The increase in largely a result of increased intergovernmental revenues received during the current year for the airport runway and apron projects.

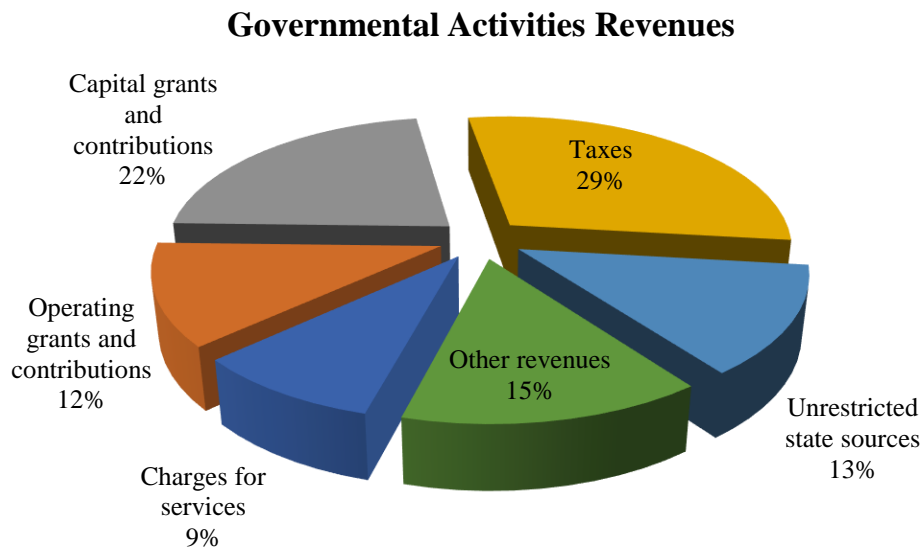
The capital improvement fund, a major fund, had a \$386,217 increase in fund balance during the current fiscal year which put the overall fund balance at \$730,641. The increase is related to increased intergovernmental revenue received for the ICE grant and other street improvement projects.

**Proprietary Funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

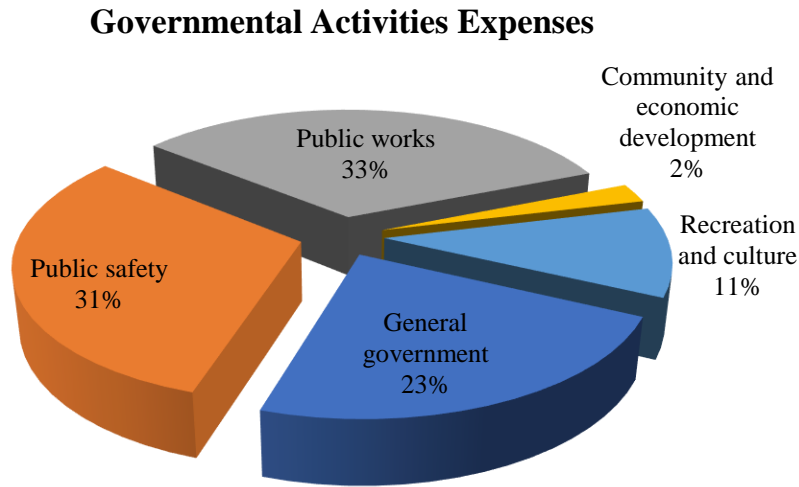
Unrestricted net position of the electric fund was \$13,419,274. The increase in net position was \$292,149. Unrestricted net position of the water fund was \$1,064,561. The increase in net position was \$432,114. Unrestricted net position of the sewer fund was \$413,378. The sewer fund had \$672,751 as restricted net position for debt service and bond reserves. The increase in net position was \$904,839. Unrestricted net position of the Dial-A-Ride, a nonmajor enterprise fund, was a deficit of \$(10,709). The decrease in net position was \$22,415. Detailed information regarding the change in net position for these funds can be found in an earlier section of this report.

### Governmental Activities

The following chart summarizes the revenue sources for the governmental activities of the City for the most recent fiscal year-end.



The following chart summarizes the expenses for the governmental activities of the City for the most recent fiscal year-end.



### General Fund Budgetary Highlights

*Original budget compared to final budget.* There were no significant increases or decreases to the original budgeted appropriations or estimated revenues during the year. Minor adjustments were made in various functions to better allocate costs.

*Final budget compared to actual results.* The City had the following minor expenditures in excess of the amounts appropriated during the year ended June 30, 2020:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
<b>General Fund</b>			
Administrative	\$ 220,000	\$ 224,258	\$ (4,258)
Building and grounds	132,860	134,516	(1,656)
Fire	415,075	419,042	(3,967)
Airport	135,040	138,251	(3,211)
Economic development	56,965	59,091	(2,126)

### Capital Assets and Debt Administration

#### *Capital Assets*

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2020 amounts to \$60,012,021 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, furniture, equipment, vehicles, and utility, street, and airport infrastructure.



The City completed the following major capital asset purchases were made the following construction projects were completed during the year:

- Wastewater treatment plant upgrades
- HVAC replacement
- Voltage upgrade
- Distribution expansion and upgrades
- Substation equipment and upgrades
- Several vehicles (dump truck, bucket truck, and police vehicle)
- Various street improvements

As of June 30, 2020, the following major projects remain open at year-end:

- Office sidewalk and parking lot
- Water filter and media replacement
- Ice-grant-related projects (sewer and water infrastructure)
- Dawn Theater reconstruction

More detailed information about the City's capital assets can be found in note 4.

### ***Long-term Debt***

As described in note 6 to the financial statements, the City had \$7,408,700, a \$851,452 decrease from the prior year, in long-term debt outstanding at the end of the fiscal year. The City is well under its legal debt limit as of year-end. More detailed information about the City's long-term debt can be found in note 5.

### **Economic Condition and Outlook**

Management estimates that approximately \$5.11 million of revenues will be available for appropriation in the general fund in the upcoming budget. Expenditures are expected to change by small amounts compared to 2020. The City continues to review all budget line items for opportunities to reduce expenditures when possible. The budget will be monitored during the year to identify any necessary amendments. In 2021, the City plans again to use current revenues to provide essential services, to maintain the City's financial reserves at similar levels, and to complete several construction projects as indicated above. The ongoing costs of providing essential services for the citizens of the City will again need to be monitored in order to maintain the financial condition of the City. Additionally, management and the City Council are currently working to determine the significance that the COVID-19 Pandemic will have on the City's upcoming revenues.

### **Contacting the City**

This financial report is designed to provide a general overview of the City's finances to its citizens, customers, investors, and creditors and to demonstrate the City's accountability for the resources

it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Finance Department  
City of Hillsdale  
97 North Broad Street  
Hillsdale, MI 49242

or by contacting Finance Director, Bonnie Tew, 517.437.6446 or [finance@cityofhillsdale.org](mailto:finance@cityofhillsdale.org) or City Manager, David Mackie, 517.437.6444 or [dmackie@cityofhillsdale.org](mailto:dmackie@cityofhillsdale.org).

## **Basic Financial Statements**

**City of Hillsdale  
Statement of Net Position  
June 30, 2020**

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>ASSETS</b>				
<i>Current Assets</i>				
Cash and investments	\$ 4,813,103	\$ 11,606,789	\$ 16,419,892	\$ 292,108
Accounts receivable	52,757	2,825,206	2,877,963	50,520
Special assessments receivable	15,602	--	15,602	--
Due from other governments	136,578	14,137	150,715	--
Loans receivable	--	--	--	265,000
Other receivables	--	17,234	17,234	--
Inventory	139,963	454,828	594,791	--
Prepaid items	97,501	160,653	258,154	--
<b>Total Current Assets</b>	<b>5,255,504</b>	<b>15,078,847</b>	<b>20,334,351</b>	<b>607,628</b>
<i>Noncurrent Assets</i>				
Restricted cash	--	672,751	672,751	--
Long-term prepaid operating lease	--	182,363	182,363	--
Interdepartmental loan receivable	--	250,000	250,000	--
Investment in M.S.C.P.A.	--	4,086,875	4,086,875	--
Prepaid stranded costs	--	32,126	32,126	--
Capital assets not being depreciated	8,810,318	1,644,296	10,454,614	355,483
Capital assets being depreciated, net	17,524,155	32,033,252	49,557,407	200,352
<b>Total Assets</b>	<b>31,589,977</b>	<b>53,980,510</b>	<b>85,570,487</b>	<b>1,163,463</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension-related	405,915	379,219	785,134	--
<b>Total Deferred Outflows of Resources</b>	<b>405,915</b>	<b>379,219</b>	<b>785,134</b>	<b>--</b>
<b>LIABILITIES</b>				
<i>Current Liabilities</i>				
Accounts payable	105,090	160,027	265,117	22,741
Accrued liabilities	62,071	1,395,354	1,457,425	--
Due to other governments	--	82,326	82,326	--
Accrued interest	--	47,070	47,070	--
Customer deposits	--	137,524	137,524	--
Unearned revenue	8,800	--	8,800	--
Current portion of long-term debt	--	428,700	428,700	--
Internal Balances	(183,984)	183,984	--	--
<b>Total Current Liabilities</b>	<b>(8,023)</b>	<b>2,434,985</b>	<b>2,426,962</b>	<b>22,741</b>
<i>Noncurrent Liabilities</i>				
Compensated absences	234,867	174,917	409,784	--
Interdepartmental loan payable	--	250,000	250,000	--
Energy optimization program	--	(119,083)	(119,083)	--
Long-term debt	--	6,980,000	6,980,000	--
Net pension liability	2,851,458	2,661,547	5,513,005	--
<b>Total Liabilities</b>	<b>3,078,302</b>	<b>12,382,366</b>	<b>15,460,668</b>	<b>22,741</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension-related	159,768	149,260	309,028	--
<b>Total Deferred Inflows of Resources</b>	<b>159,768</b>	<b>149,260</b>	<b>309,028</b>	<b>--</b>
<b>NET POSITION</b>				
Net investment in capital assets	26,334,473	26,268,848	52,603,321	555,835
<i>Restricted for:</i>				
Capital projects	1,248,998	--	1,248,998	--
Bond reserves and debt service	696,429	672,751	1,369,180	--
Permanent funds	854,628	--	854,628	--
Streets and highways	874,957	--	874,957	--
Public safety	21,368	--	21,368	--
Recreation and culture	118,962	--	118,962	--
<i>Unrestricted</i>	(1,391,993)	14,886,504	13,494,511	584,887
<b>Total Net Position</b>	<b>\$ 28,757,822</b>	<b>\$ 41,828,103</b>	<b>\$ 70,585,925</b>	<b>\$ 1,140,722</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Hillsdale  
Statement of Activities  
For the Year Ended June 30, 2020**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
<b>Primary Government</b>								
<b>Governmental Activities:</b>								
General government	\$ 1,470,164	\$ 431,538	\$ 14,427	\$ 829,991	\$ (194,208)	\$ --	\$ (194,208)	\$ --
Public safety	1,992,855	9,517	2,025	--	(1,981,313)	--	(1,981,313)	--
Public works	2,125,559	218,098	1,067,252	1,162,849	322,640	--	322,640	--
Community and economic development	148,462	--	--	--	(148,462)	--	(148,462)	--
Recreation and culture	687,301	164,539	19,987	10,158	(492,617)	--	(492,617)	--
<b>Total Governmental Activities</b>	<b>6,424,341</b>	<b>823,692</b>	<b>1,103,691</b>	<b>2,002,998</b>	<b>(2,493,960)</b>	<b>--</b>	<b>(2,493,960)</b>	<b>--</b>
<b>Business-type Activities:</b>								
Dial-A-Ride (Nonmajor)	354,432	38,139	207,421	96,030	--	(12,842)	(12,842)	--
Electric	12,198,429	12,753,310	--	--	--	554,881	554,881	--
Sewer	1,457,268	2,212,896	178,430	--	--	934,058	934,058	--
Water	1,241,333	1,580,972	106,205	--	--	445,844	445,844	--
<b>Total Business-type Activities</b>	<b>15,251,462</b>	<b>16,585,317</b>	<b>492,056</b>	<b>96,030</b>	<b>--</b>	<b>1,921,941</b>	<b>1,921,941</b>	<b>--</b>
<b>Total Primary Government</b>	<b>\$ 21,675,803</b>	<b>\$ 17,409,009</b>	<b>\$ 1,595,747</b>	<b>\$ 2,099,028</b>	<b>\$ (2,493,960)</b>	<b>\$ 1,921,941</b>	<b>\$ (572,019)</b>	<b>--</b>
<b>Component Units</b>								
Economic Development Corporation	\$ 16,362	\$ --	\$ --	\$ --	--	--	--	(16,362)
Tax Increment Finance Authority	73,675	400	109,175	--	--	--	--	35,900
<b>Total Component Units</b>	<b>\$ 90,037</b>	<b>\$ 400</b>	<b>\$ 109,175</b>	<b>\$ --</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>19,538</b>
<b>General Purpose Revenues and Transfers:</b>								
<b>Revenues</b>								
Taxes					2,662,468	--	2,662,468	112,168
Investment income					94,716	189,566	284,282	4,663
Intergovernmental					1,174,528	--	1,174,528	--
Loss on investment in M.S.C.P.A.					--	(371,938)	(371,938)	--
Payments in lieu of taxes					1,078,649	--	1,078,649	--
<b>Transfers</b>					132,882	(132,882)	--	--
<b>Total General Revenues and Transfers</b>					<b>5,143,243</b>	<b>(315,254)</b>	<b>4,827,989</b>	<b>116,831</b>
<b>Change in Net Position</b>					<b>2,649,283</b>	<b>1,606,687</b>	<b>4,255,970</b>	<b>136,369</b>
<i>Net Position at Beginning of Period (Restated, Note 18)</i>					26,108,539	40,221,416	66,329,955	1,004,353
<b>Net Position at End of Period</b>					<b>\$ 28,757,822</b>	<b>\$ 41,828,103</b>	<b>\$ 70,585,925</b>	<b>\$ 1,140,722</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Hillsdale  
Balance Sheet  
Governmental Funds  
June 30, 2020**

	<u>Capital Projects</u>				
	<u>General</u>	<u>Airport Improvement</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	
<b>ASSETS</b>					
Cash and investments	\$ 1,214,583	\$ 353,459	\$ 731,984	\$ 2,314,470	\$ 4,614,496
Accounts receivable	52,744	--	--	13	52,757
Special assessments receivable	15,602	--	--	--	15,602
Due from other governments	--	--	--	136,578	136,578
Prepaid items	61,648	--	--	1,628	63,276
Due from other funds	183,984	--	--	325,727	509,711
<b>Total Assets</b>	<b>\$ 1,528,561</b>	<b>\$ 353,459</b>	<b>\$ 731,984</b>	<b>\$ 2,778,416</b>	<b>\$ 5,392,420</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 65,737	\$ --	\$ 1,343	\$ 29,903	\$ 96,983
Accrued liabilities	52,791	27	--	8,444	61,262
Unearned revenue	--	--	--	8,800	8,800
Due to other funds	325,727	--	--	--	325,727
<b>Total Liabilities</b>	<b>444,255</b>	<b>27</b>	<b>1,343</b>	<b>47,147</b>	<b>492,772</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue	15,602	--	--	--	15,602
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>459,857</b>	<b>27</b>	<b>1,343</b>	<b>47,147</b>	<b>508,374</b>
<b>FUND BALANCE</b>					
Nonspendable	61,648	--	--	1,628	63,276
Restricted	--	353,432	730,641	2,729,641	3,813,714
Unassigned	1,007,056	--	--	--	1,007,056
<b>Total Fund Balance</b>	<b>1,068,704</b>	<b>353,432</b>	<b>730,641</b>	<b>2,731,269</b>	<b>4,884,046</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<b>\$ 1,528,561</b>	<b>\$ 353,459</b>	<b>\$ 731,984</b>	<b>\$ 2,778,416</b>	<b>\$ 5,392,420</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Hillsdale**  
**Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position**  
**June 30, 2020**

Total Fund Balance - Governmental Funds	\$	4,884,046
Net position of internal service funds that are treated as proprietary in the fund level statements are treated as governmental in the entity-wide statements.		935,361
General government capital assets of \$46,364,599, net of accumulated depreciation of \$20,636,600, are not financial resources and, accordingly, are not reported in the funds.		25,727,999
The City's net pension liability, plus pension related deferred outflows and inflows of resources related to its participation in the MERS defined benefit pension plan, are not recorded in the governmental funds but are recorded in the statement of net position.		(2,605,311)
Compensated absences are not due in and payable in the current period and, therefore, are not reported in the funds.		(199,875)
Certain receivables are not available to pay for current period expenditures and, therefore, are unavailable in the funds.		15,602
<b>Total Net Position - Governmental Funds</b>	<b>\$</b>	<b><u>28,757,822</u></b>

**City of Hillsdale**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2020**

	Capital Projects				Other Governmental Funds	Total Governmental Funds
	General	Airport Improvement	Capital Improvement			
<b>Revenues</b>						
Taxes	\$ 2,018,095	\$ --	\$ --	\$ 644,373	\$ 2,662,468	
Payments in lieu of taxes	1,078,649	--	--	--	1,078,649	
Intergovernmental	1,115,398	1,162,849	829,991	1,148,740	4,256,978	
Contributions from local units	--	--	--	23,958	23,958	
Licenses and permits	105,945	--	--	--	105,945	
Charges for services	15,727	134,615	--	57,946	208,288	
Fines and violations	1,066	--	--	33,054	34,120	
Interest and rentals	126,971	45,905	--	77,365	250,241	
Miscellaneous	233,546	--	31	87,620	321,197	
<b>Total Revenues</b>	4,695,397	1,343,369	830,022	2,073,056	8,941,844	
<b>Expenditures</b>						
General government	1,373,120	--	26,777	12,500	1,412,397	
Public safety	1,853,708	--	--	4,697	1,858,405	
Public works	457,714	91,541	754	839,611	1,389,620	
Community and economic development	140,386	--	--	--	140,386	
Recreation and culture	172,106	--	--	463,989	636,095	
Capital outlay	--	1,073,222	1,666,274	40,880	2,780,376	
<b>Total Expenditures</b>	3,997,034	1,164,763	1,693,805	1,361,677	8,217,279	
<b>Excess of Revenues Over (Under) Expenditures</b>	698,363	178,606	(863,783)	711,379	724,565	
<b>Other Financing Sources (Uses)</b>						
Transfers in	288,155	--	1,250,000	202,405	1,740,560	
Transfers out	(852,405)	--	--	(755,273)	(1,607,678)	
<b>Net Other Financing Sources (Uses)</b>	(564,250)	--	1,250,000	(552,868)	132,882	
<b>Net Change in Fund Balance</b>	<b>134,113</b>	<b>178,606</b>	<b>386,217</b>	<b>158,511</b>	<b>857,447</b>	
<i>Fund Balance at Beginning of Period</i>	934,591	174,826	344,424	2,572,758	4,026,599	
<b>Fund Balance at End of Period</b>	<b>\$ 1,068,704</b>	<b>\$ 353,432</b>	<b>\$ 730,641</b>	<b>\$ 2,731,269</b>	<b>\$ 4,884,046</b>	

The Notes to the Financial Statements are an integral part of these Financial Statements



**City of Hillsdale**  
**Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance with Statement of Activities**  
**For the Year Ended June 30, 2020**

Total Net Change in Fund Balances - Governmental Funds	\$	857,447
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.		(123,309)
Governmental fund report capital outlay as expenditures; however, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which capital outlay expenditures of \$2,987,751 is in excess of depreciation expense of \$925,622.		2,062,129
Changes in the City's net pension liability, along with the pension related deferred outflows and inflows of resources, for the current year are not reported in the governmental funds but are reported in the statement of activities.		(127,597)
Change to compensated absences are not shown in the fund financial statements.		(9,524)
Some receivables are long-term in nature and are collectible over several years. However, the current receipts are reflected as revenues on the fund statements.		(9,863)
<b>Changes in Net Position - Governmental Funds</b>	<b>\$</b>	<b><u>2,649,283</u></b>

**City of Hillsdale  
Statement of Net Position  
Proprietary Funds  
June 30, 2020**

	Business-type Activities - Enterprise Funds					Governmental Activities
	Electric	Sewer	Water	Dial-A-Ride (Nonmajor)	Total Enterprise Funds	Internal Service Funds
<b>ASSETS</b>						
<i>Current Assets</i>						
Cash and investments	\$ 9,718,832	\$ 709,541	\$ 1,066,330	\$ 112,086	\$ 11,606,789	\$ 198,607
Accounts receivable	2,290,248	307,231	227,727	--	2,825,206	--
Due from other governments	--	--	--	14,137	14,137	--
Other receivables	6,247	10,531	456	--	17,234	--
Inventory	373,191	3,839	77,798	--	454,828	139,963
Prepaid items	97,475	32,364	28,804	2,010	160,653	34,225
<b>Total Current Assets</b>	<b>12,485,993</b>	<b>1,063,506</b>	<b>1,401,115</b>	<b>128,233</b>	<b>15,078,847</b>	<b>372,795</b>
<i>Noncurrent Assets</i>						
Restricted cash	--	672,751	--	--	672,751	--
Long-term prepaid operating lease	182,363	--	--	--	182,363	--
Interdepartmental loan receivable	250,000	--	--	--	250,000	--
Investment in M.S.C.P.A.	4,086,875	--	--	--	4,086,875	--
Prepaid stranded costs	32,126	--	--	--	32,126	--
Capital assets not being depreciated	186,721	656,023	794,133	7,419	1,644,296	--
Capital assets being depreciated, net	13,397,774	13,365,063	4,538,514	731,901	32,033,252	606,474
<b>Total Assets</b>	<b>30,621,852</b>	<b>15,757,343</b>	<b>6,733,762</b>	<b>867,553</b>	<b>53,980,510</b>	<b>979,269</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Pension-related	295,995	41,612	41,612	--	379,219	--
<b>Total Deferred Outflows of Resources</b>	<b>295,995</b>	<b>41,612</b>	<b>41,612</b>	<b>--</b>	<b>379,219</b>	<b>--</b>
<b>LIABILITIES</b>						
<i>Current Liabilities</i>						
Accounts payable	109,618	21,100	18,827	10,482	160,027	8,107
Accrued liabilities	1,377,373	7,811	7,298	2,872	1,395,354	809
Due to other governments	30,372	--	--	51,954	82,326	--
Accrued interest	--	46,441	629	--	47,070	--
Customer deposits	118,822	9,061	9,641	--	137,524	--
Current portion of long-term debt	--	389,350	39,350	--	428,700	--
Due to other funds	83,091	21,955	19,365	59,573	183,984	--
<b>Total Current Liabilities</b>	<b>1,719,276</b>	<b>495,718</b>	<b>95,110</b>	<b>124,881</b>	<b>2,434,985</b>	<b>8,916</b>
<i>Noncurrent Liabilities</i>						
Compensated absences	118,480	27,671	14,705	14,061	174,917	34,992
Interdepartmental loan payable	--	250,000	--	--	250,000	--
Energy optimization program	(119,083)	--	--	--	(119,083)	--
Long-term debt	--	6,980,000	--	--	6,980,000	--
Net pension liability	2,078,901	291,323	291,323	--	2,661,547	--
<b>Total Liabilities</b>	<b>3,797,574</b>	<b>8,044,712</b>	<b>401,138</b>	<b>138,942</b>	<b>12,382,366</b>	<b>43,908</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Pension-related	116,504	16,378	16,378	--	149,260	--
<b>Total Deferred Inflows of Resources</b>	<b>116,504</b>	<b>16,378</b>	<b>16,378</b>	<b>--</b>	<b>149,260</b>	<b>--</b>
<b>NET POSITION</b>						
Net investment in capital assets	13,584,495	6,651,736	5,293,297	739,320	26,268,848	606,474
<i>Restricted for:</i>						
Bond reserves and debt service	--	672,751	--	--	672,751	--
<i>Unrestricted</i>	13,419,274	413,378	1,064,561	(10,709)	14,886,504	328,887
<b>Total Net Position</b>	<b>\$ 27,003,769</b>	<b>\$ 7,737,865</b>	<b>\$ 6,357,858</b>	<b>\$ 728,611</b>	<b>\$ 41,828,103</b>	<b>\$ 935,361</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Hillsdale**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2020**

	<b>Business-type Activities - Enterprise Funds</b>					<b>Governmental</b>
	<b>Electric</b>	<b>Sewer</b>	<b>Water</b>	<b>Dial-A-Ride (Nonmajor)</b>	<b>Total Enterprise Funds</b>	<b>Activities Internal Service Funds</b>
<b>Operating Revenues</b>						
Interdepartmental revenue	\$ 230,676	\$ 6,009	\$ 11,202	\$ --	\$ 247,887	\$ --
Charges for services	--	--	--	38,139	38,139	254,312
Miscellaneous	85,874	66,531	--	--	152,405	194,585
Residential	4,783,104	927,939	669,851	--	6,380,894	--
Business	1,352,308	168,248	150,550	--	1,671,106	--
Commercial	3,095,464	371,690	285,381	--	3,752,535	--
Industrial	3,076,834	300,749	173,902	--	3,551,485	--
Apartments	--	361,331	255,954	--	617,285	--
Street light sales	53,398	--	--	--	53,398	--
Penalty charges	21,679	4,207	2,924	--	28,810	--
<b>Total Operating Revenues</b>	<u>12,699,337</u>	<u>2,206,704</u>	<u>1,549,764</u>	<u>38,139</u>	<u>16,493,944</u>	<u>448,897</u>
<b>Operating Expenses</b>						
Production	8,631,023	--	54,389	--	8,685,412	--
Distribution	1,021,859	--	329,302	--	1,351,161	--
Collection system	--	163,736	--	--	163,736	--
Treatment	--	491,463	--	--	491,463	--
Purification	--	--	233,341	--	233,341	--
Administrative and general	1,804,516	427,454	391,154	--	2,623,124	--
Transportation	--	--	--	307,538	307,538	--
Operations	--	--	--	--	--	476,174
Depreciation	737,102	185,466	231,632	46,894	1,201,094	104,792
<b>Total Operating Expenses</b>	<u>12,194,500</u>	<u>1,268,119</u>	<u>1,239,818</u>	<u>354,432</u>	<u>15,056,869</u>	<u>580,966</u>
<b>Operating Income (Loss)</b>	<u>504,837</u>	<u>938,585</u>	<u>309,946</u>	<u>(316,293)</u>	<u>1,437,075</u>	<u>(132,069)</u>
<b>Non-Operating Revenues (Expenses)</b>						
Investment income	170,861	1,608	17,097	--	189,566	8,760
Federal sources	--	178,430	106,205	87,532	372,167	--
State sources	--	--	--	119,889	119,889	--
Loss on investment in M.S.C.P.A.	(371,938)	--	--	--	(371,938)	--
Gain on disposal of property	9,918	101	2,858	--	12,877	--
Miscellaneous income	44,055	6,091	28,350	--	78,496	--
Interest expense	(3,929)	(189,149)	(1,515)	--	(194,593)	--
<b>Net Non-Operating Revenues (Expenses)</b>	<u>(151,033)</u>	<u>(2,919)</u>	<u>152,995</u>	<u>207,421</u>	<u>206,464</u>	<u>8,760</u>
<b>Income Before Contributions and Transfers</b>	<u>353,804</u>	<u>935,666</u>	<u>462,941</u>	<u>(108,872)</u>	<u>1,643,539</u>	<u>(123,309)</u>
Federal capital contributions	--	--	--	76,824	76,824	--
State capital contributions	--	--	--	19,206	19,206	--
Transfers in	--	--	--	50,000	50,000	--
Transfers out	(61,655)	(30,827)	(30,827)	(59,573)	(182,882)	--
<b>Change In Net Position</b>	<u>292,149</u>	<u>904,839</u>	<u>432,114</u>	<u>(22,415)</u>	<u>1,606,687</u>	<u>(123,309)</u>
<i>Net Position at Beginning of Period</i>	26,711,620	6,833,026	5,925,744	751,026	40,221,416	1,058,670
<b>Net Position at End of Period</b>	<u>\$ 27,003,769</u>	<u>\$ 7,737,865</u>	<u>\$ 6,357,858</u>	<u>\$ 728,611</u>	<u>\$ 41,828,103</u>	<u>\$ 935,361</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Hillsdale  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2020**

	<b>Business-type Activities - Enterprise Funds</b>					<b>Governmental Activities Internal Service Funds</b>
	<b>Electric</b>	<b>Sewer</b>	<b>Water</b>	<b>Dial-A-Ride (Nonmajor)</b>	<b>Total Enterprise Funds</b>	
<b>Cash Flows from Operating Activities</b>						
Cash received from customers, residents, and users	\$ 12,440,604	\$ 2,077,122	\$ 1,498,702	\$ 38,139	\$ 16,054,567	\$ -
Cash payments to suppliers for goods and services	(8,686,688)	(930,341)	(448,735)	(70,287)	(10,136,051)	(309,421)
Cash payments to employees for services and benefits	(1,088,958)	(527,393)	(464,085)	(261,954)	(2,342,390)	(140,550)
Cash payments in lieu of taxes (PILOT)	(732,462)	(124,467)	(89,512)	-	(946,441)	-
Cash received for other operating receipts	85,874	66,531	-	-	152,405	-
Cash received for interfund activity	-	-	-	-	-	460,580
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>2,018,370</u>	<u>561,452</u>	<u>496,370</u>	<u>(294,102)</u>	<u>2,782,090</u>	<u>10,609</u>
<b>Cash Flows from Non-capital and Related Financing Activities</b>						
Other non-operating income	44,055	6,091	28,350	-	78,496	-
State grant revenue	-	-	-	114,502	114,502	-
Federal grant revenue	-	594,764	106,205	139,486	840,455	-
Change in due to/due from other funds	71,418	(51,151)	(94,708)	(2,087)	(76,528)	-
Transfers to/from other funds	(61,655)	(30,827)	(30,827)	(9,573)	(132,882)	-
<b>Net Cash Provided by Non-capital and Related Financing Activities</b>	<u>53,818</u>	<u>518,877</u>	<u>9,020</u>	<u>242,328</u>	<u>824,043</u>	<u>-</u>
<b>Cash Flows from Capital and Related Financing Activities</b>						
Interdepartmental loans made	(250,000)	250,000	-	-	-	-
Interdepartmental loans paid back	590,000	(90,000)	-	-	500,000	-
State capital contributions	-	-	-	19,206	19,206	-
Federal capital contributions	-	-	-	76,824	76,824	-
Change in prepaid operating lease	11,398	-	-	-	11,398	-
Capital asset activity, net	(1,098,199)	(740,294)	(463,788)	(96,031)	(2,398,312)	(43,010)
Principal and interest payments on long-term debt	(445,507)	(572,182)	(40,427)	-	(1,058,116)	-
<b>Net Cash Used by Capital and Related Financing Activities</b>	<u>(1,192,308)</u>	<u>(1,152,476)</u>	<u>(504,215)</u>	<u>(1)</u>	<u>(2,849,000)</u>	<u>(43,010)</u>
<b>Cash Flows from Investing Activities</b>						
Change in investment of joint venture	31,432	-	-	-	31,432	-
Investment income	170,861	1,608	17,097	-	189,566	8,760
<b>Net Cash Provided by Investing Activities</b>	<u>202,293</u>	<u>1,608</u>	<u>17,097</u>	<u>-</u>	<u>220,998</u>	<u>8,760</u>
<b>Net Increase (Decrease) in Cash and Investments</b>	1,082,173	(70,539)	18,272	(51,775)	978,131	(23,641)
<i>Cash and Investments - Beginning of Year</i>	8,636,659	1,452,831	1,048,058	163,861	11,301,409	222,248
<b>Cash and Investments - End of Year</b>	<u>\$ 9,718,832</u>	<u>\$ 1,382,292</u>	<u>\$ 1,066,330</u>	<u>\$ 112,086</u>	<u>\$ 12,279,540</u>	<u>\$ 198,607</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Hillsdale**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2020**

	Business-type Activities - Enterprise Funds					Governmental Activities
	Electric	Sewer	Water	Dial-A-Ride (Nonmajor)	Total Enterprise Funds	Internal Service Funds
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>						
Operating income (loss)	\$ 504,837	\$ 938,585	\$ 309,946	\$ (316,293)	\$ 1,437,075	\$ (132,069)
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities</b>						
Depreciation expense	737,102	185,466	231,632	46,894	1,201,094	104,792
<b>Changes in Assets, Liabilities, and Deferrals</b>						
Receivables	(184,472)	(58,748)	(51,137)	-	(294,357)	11,683
Other receivables	7,295	(4,806)	(456)	-	2,033	-
Inventory	11,224	(1,065)	9,811	-	19,970	12,179
Prepaid items	5,727	445	2,363	2,502	11,037	10,018
Accounts payable	(23,473)	(499,954)	(6,534)	(26,577)	(556,538)	85
Accrued payroll	9,884	1,966	1,316	-	13,166	-
Accrued liabilities	650,925	-	-	(7,431)	643,494	(188)
Energy optimization program	(10,013)	-	-	-	(10,013)	-
Due to other governments	30,372	-	-	-	30,372	-
Customer deposits	4,318	503	531	-	5,352	-
Net pension liability and related deferrals	257,459	(2,753)	(2,753)	-	251,953	-
Compensated absences	17,185	1,813	1,651	6,803	27,452	4,109
<b>Net Cash Provided by Operating Activities</b>	\$ 2,018,370	\$ 561,452	\$ 496,370	\$ (294,102)	\$ 2,782,090	\$ 10,609

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Hillsdale  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2020**

	Private Purpose Trust	Agency	
	Hospital Private Purpose Trust Fund	Payroll	Tax Collection
<b>ASSETS</b>			
Cash and investments	\$ 15,009	\$ 3,458	\$ 19,453
<i>Total Assets</i>	<u>15,009</u>	<u>3,458</u>	<u>19,453</u>
<b>LIABILITIES</b>			
Due to other agencies	--	3,458	19,453
<i>Total Liabilities</i>	<u>15,009</u>	<u>\$ 3,458</u>	<u>\$ 19,453</u>
<b>NET POSITION</b>			
Held in Trust	<u>\$ 15,009</u>		

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Hillsdale**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Fund**  
**For the Year Ended June 30, 2020**

	<b>Hospital Private Purpose Trust Fund</b>
<b>Additions</b>	
Investment income	\$ 9
<i>Total Additions</i>	9
<b>Deductions</b>	
<i>Total Deductions</i>	--
<i>Change in Net Position</i>	<b>9</b>
<i>Net Position at Beginning of Period</i>	15,000
<i>Net Position at End of Period</i>	<b>\$ 15,009</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Hillsdale**  
**Combining Statement of Net Position**  
**Component Units**  
**June 30, 2020**

	<b>Economic Development Corporation</b>	<b>Tax Increment Finance Authority</b>	<b>Total Component Units</b>
<b>ASSETS</b>			
<i>Current Assets</i>			
Cash and investments	\$ 127,434	\$ 164,674	\$ 292,108
Accounts receivable	--	50,520	50,520
Loans receivable	--	265,000	265,000
<b>Total Current Assets</b>	<b>127,434</b>	<b>480,194</b>	<b>607,628</b>
<i>Noncurrent Assets</i>			
Capital assets not being depreciated	148,067	207,416	355,483
Capital assets being depreciated, net	--	200,352	200,352
<b>Total Assets</b>	<b>275,501</b>	<b>887,962</b>	<b>1,163,463</b>
<b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Accounts payable	--	22,741	22,741
<b>Total Liabilities</b>	<b>--</b>	<b>22,741</b>	<b>22,741</b>
<b>NET POSITION</b>			
Net investment in capital assets	148,067	407,768	555,835
<i>Unrestricted</i>	127,434	457,453	584,887
<b>Total Net Position</b>	<b>\$ 275,501</b>	<b>\$ 865,221</b>	<b>\$ 1,140,722</b>

The Notes to the Financial Statements are an integral part of these Financial Statements



**City of Hillsdale  
Combining Statement of Activities  
Component Units  
For the Year Ended June 30, 2020**

	<b>Economic Development Corporation</b>	<b>Tax Increment Finance Authority</b>	<b>Total Component Units</b>
<b>Expenses</b>			
General government	\$ --	\$ 73,675	\$ 73,675
Community and economic development	16,362	--	16,362
<b>Total Expenses</b>	<b>16,362</b>	<b>73,675</b>	<b>90,037</b>
<b>Program Revenues</b>			
Charges for services	--	400	400
Operating grants and contributions	--	109,175	109,175
<b>Total Program Revenues</b>	<b>--</b>	<b>109,575</b>	<b>109,575</b>
<b>Net Program Revenues (Expenses)</b>	<b>(16,362)</b>	<b>35,900</b>	<b>19,538</b>
<b>General Revenue</b>			
Taxes	--	112,168	112,168
Investment income	2,644	2,019	4,663
<b>Total General Revenues</b>	<b>2,644</b>	<b>114,187</b>	<b>116,831</b>
<b>Change in Net Position</b>	<b>(13,718)</b>	<b>150,087</b>	<b>136,369</b>
<i>Net Position at Beginning of Period</i>	289,219	715,134	1,004,353
<b>Net Position at End of Period</b>	<b>\$ 275,501</b>	<b>\$ 865,221</b>	<b>\$ 1,140,722</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

## **Notes to the Financial Statements**

## City of Hillsdale

### Notes to the Financial Statements

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#### **Note 1 - Summary of Significant Accounting Policies**

The financial statements of the City of Hillsdale (the “City” or “primary government”) have been prepared in conformity with generally accepted accounting principles 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 City’s accounting policies are described below.

#### **Reporting Entity**

The City of Hillsdale 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 financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The component units discussed below are included in the City’s reporting entity as discretely presented component units because of the significance of their operational or financial relationships with the City. These component units are reported in a separate column to emphasize that they are legally separate from the City. A combining statement of net position and statement of activities for these discretely presented component units are included as part of the basic financial statements.

#### ***Discretely Presented Component Units***

The ***Tax Increment Finance Authority*** (the “Authority”) is reported in a separate column to emphasize that it is legally separate from the City. The Authority is responsible for directing improvements to a district in the City using funds derived from the capturing of real and personal property taxes within the district. The members of the governing board of the Authority are appointed by the City Council. The budgets and expenditures of the Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Authority. Complete financial statements for this component unit are not prepared.

The ***Economic Development Corporation*** (the “EDC”) is reported in a separate column to emphasize that it is legally separate from the City. The EDC is responsible for granting loans to businesses operating within the City. The members of the governing board of the EDC are appointed by the City Council. The budgets and expenditures of the EDC must be approved by the

## City of Hillsdale

### Notes to the Financial Statements

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City Council. The City also has the ability to significantly influence operations of the EDC. Complete financial statements for this component unit are not prepared.

The ***Brownfield Redevelopment Authority*** (the “Authority”) is reported in a separate column to emphasize that it is legally separate from the City. The Authority was established in order to revitalize environmentally distressed areas within a brownfield redevelopment area. The members of the governing board of the Authority are appointed by the City Council. The budgets and expenditures of the Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Authority. Complete financial statements for this component unit are not prepared. To date, the Authority has had no activity.

#### ***Related Organization***

The ***Hillsdale Housing Commission*** (the “Commission”) was established by the City to provide qualifying senior and low-income family housing. Commission includes a 60-unit low-income housing program and receives subsidies and annual contributions from the U.S. Department of Housing and Urban Development. The members of the governing board of the Commission are appointed by the City Manager. Members of the governing board may be removed by the City only for cause. The Commission determines its own budget (subject to federal approval), sets rental rates, and may issue debt in its own name. The City is not responsible for deficits or liabilities of the Commission; however, the Commission makes annual payments “in lieu of taxes” to the City. Accordingly, the City has elected to exclude the Commission and all related note disclosures in these financial statements. The Commission is audited separately from the City and complete financial statements may be obtained from the Commission’s executive director at 45 North West Street, Hillsdale, Michigan 49242.

#### **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 nonfiduciary activities of the primary government. 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.

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

## City of Hillsdale

### Notes to the Financial Statements

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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**

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, except for agency funds which do not have a measurement focus. 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.

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 when they are collectible 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 30 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absences expenditures are recorded only when payment is due.

Property taxes, state shared revenues, 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 City.

The City of Hillsdale reports the following major governmental funds:

The ***general 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.

The ***capital improvement fund*** accounts for grant revenues and transfers in from other funds that are used to purchase or construct capital projects within the City.

The ***airport improvement fund*** accounts for grant revenues and transfers in from other funds that are used to purchase or construct airport-related capital projects within the City.

## City of Hillsdale

### Notes to the Financial Statements

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The City reports the following major proprietary funds:

The *electric fund* accounts for the activities of the City's electric generation and distribution systems.

The *sewer fund* accounts for the activities of the City's sewage collection and treatment systems.

The *water fund* accounts for the activities of the City's water production, purification, and distribution systems.

Additionally, the government reports the following fund types:

*Special revenue funds* are used to 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.

*Debt service funds* account for the servicing of long-term debt not being financed by proprietary or nonexpendable trust funds.

*Capital projects funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those being financed by proprietary or nonexpendable trust funds).

*Internal service funds* account for shared services and equipment usage provided to the City departments and funds on a cost reimbursement basis. The City's internal service funds account for leave and benefits, inventory purchasing, equipment rental, and unemployment insurance.

*Agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for asset that the government holds for others in an agency capacity (such as taxes collected for other governments or contributions earmarked for hospital care).

*Permanent funds* account for monies held in trust to be used for specific activities as specified in related trust agreements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transactions, such as payments-in-lieu of taxes, where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water, electric, and sewer function and various other

## City of Hillsdale

### Notes to the Financial Statements

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functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. The enterprise funds also recognize the portion of fees intended to recover the cost of connecting new customers to the system as operating revenue. Operating expenses for the enterprise funds include depreciation on capital assets, cost of sales and services, and administrative services. All revenues and expenses are not meeting this definition are reported as nonoperating revenues and expenses.

#### ***Budgetary and Budgetary Accounting***

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The general fund and special revenue funds are subject to legal budgetary accounting controls and all are budgeted annually. 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).

#### **Assets, Liabilities, and Fund Equity**

##### ***Cash, Cash Equivalents, and Investments***

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

State statutes and City policy authorize the City to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

## City of Hillsdale

### Notes to the Financial Statements

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- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- In United States government or federal agency obligation repurchase agreements.
- Bankers' acceptances of United States banks.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through March, 1997.

Investments are stated at fair value.

#### ***Restricted Cash***

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements.

#### ***Receivables and Payables***

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

All trade receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

All trade receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The balance of the allowance for doubtful accounts at year-end within the electric fund, sewer fund, and water fund were \$4,984, \$4,311, and \$4,222, respectively.

#### ***Prepaid Items***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.



## City of Hillsdale

### Notes to the Financial Statements

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#### ***Inventories***

Inventories are stated at cost (purchase price), whereas inventories held for resale are stated at lower of cost or market. Inventories of the Hillsdale Board of Public Utilities (reported as business-type activities, major proprietary funds) are valued at cost, which approximates market, using the average cost method. Cost is determined by the first-in, first-out method. Inventories of governmental funds are recorded as expenditures when purchased.

#### ***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 columns in the government-wide financial statements. Capital assets are defined by the city as assets with an estimated useful life in excess of one year and an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition 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.

Capital assets are depreciated using the straight-line method over the following useful lives:

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

#### ***Compensated Absences***

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

#### ***Long-term Obligations***

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the

## City of Hillsdale

### Notes to the Financial Statements

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applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when 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 Outflows / Inflows of Resources***

In addition to assets and liabilities, the statement of financial position or balance sheet will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. *Deferred outflows of resources*, a separate financial statement element, represents a consumption of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. *Deferred inflows of resources*, a separate financial statement element, represents an acquisition of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The City reports both deferred inflows and deferred outflows, both of which relate to the City's portion of the City's net pension liability. The net pension liability amounts are related to differences between expected and actual experience, changes in assumptions, differences between projected and actual pension plan investment earnings, and contributions made subsequent to the measurement date. These amounts are deferred and recognized as an outflow or inflow of resources in the period to which they apply. In addition, the City reports unavailable revenue from receivables collected beyond 60 days after the end of the year, as reported only in the governmental funds balance sheet. These amounts are deferred and are recognized as an inflow of resources in the period that the amounts become available.

#### ***Pension***

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.

## City of Hillsdale

### Notes to the Financial Statements

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#### ***Net Position Flow Assumption***

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

#### ***Fund Balance Flow Assumptions***

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

#### ***Fund Balance Policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either: a) not in spendable form or b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The *committed fund balance* classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the *assigned fund balance* classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The City Council is authorized to assign fund balance. The City Council may also assign fund balance as it does

## City of Hillsdale

### Notes to the Financial Statements

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when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

*Unassigned fund balance* is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the City Council. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, the unassigned classification is used only to report a deficit.

#### ***Property Tax Revenue Recognition***

The City property tax is levied on July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. The billings are due on or before September 15, after which time the bill becomes delinquent and penalties and interest may be assessed by the City; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Hillsdale County.

It is the City's policy to recognize revenues in the current year when they are levied and made available for the financing of City operations.

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 the 2019 levy had a taxable value of approximately \$130,743,368 (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	0.9947
Public safety equipment	1.000

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 downtown Hillsdale.

# City of Hillsdale

## Notes to the Financial Statements

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### *Use of Estimates*

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. 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.

### *Subsequent Events*

Subsequent events have been evaluated through December 7, 2020. The City will be affected by the recent and ongoing outbreak of the Coronavirus (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. COVID-19 has caused significant government and business disruptions through mandated and voluntary closings and stay at home orders.

Management is in the process of determining the significance that the outbreak will have on the City's upcoming budget. Charges for services, state revenue sharing, and grant revenues are expected to decrease during fiscal year 2021. Further, expenditures for personal protective equipment will be incurred during fiscal year 2021. Actual changes in both revenues and expenditures because of COVID-19 remain highly uncertain.

### **Note 2 – Stewardship, Compliance, and Accountability**

#### *Excess of Expenditures Over Budget*

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The City incurred the following expenditures in certain budgetary funds which were in excess of the amounts appropriated during the year ended June 30, 2020:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
<b>General Fund</b>			
Administrative	\$ 220,000	\$ 224,258	\$ (4,258)
Building and grounds	132,860	134,516	(1,656)
Fire	415,075	419,042	(3,967)
Airport	135,040	138,251	(3,211)
Economic development	56,965	59,091	(2,126)

## City of Hillsdale

### Notes to the Financial Statements

#### ***Unrestricted Net Position Deficit***

Governmental activities for the City had an unrestricted net position deficit of \$(1,383,913) while Dial-A-Ride, a nonmajor enterprise fund, had an unrestricted net position deficit of \$(10,709) for the year ended June 30, 2020.

#### **Note 3 - Cash and Cash Equivalents**

Following is a reconciliation of deposit and investment balances as of June 30, 2020:

	<b>Primary Government</b>	<b>Component Units</b>	<b>Totals</b>
<b>Statement of Net Position</b>			
Cash and investments	\$ 16,419,892	\$ 292,108	\$ 16,712,000
Restricted cash	672,751	-	672,751
<b>Statement of Fiduciary Net Position</b>			
	37,920	-	37,920
<b><i>Deposits Managed by the City Treasurer</i></b>	<b>\$ 17,130,563</b>	<b>\$ 292,108</b>	<b>\$ 17,422,671</b>
	<b>Deposits and Investments</b>		
		Checking and savings accounts	\$ 8,190,018
		Investments	9,231,404
		Cash on hand	1,249
		<b>Total</b>	<b>\$ 17,422,671</b>

***Custodial Credit Risk - Deposits.*** Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits might not be returned. State law does not require, and the City does not have a policy for deposit custodial credit risk. As of year-end, \$8,223,004 of the City's bank balance of \$8,723,004 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the City believes it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

***Custodial Credit Risk - Investments.*** Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year-end, substantially all of the investment securities were uninsured and uncollateralized.

## City of Hillsdale

### Notes to the Financial Statements

Following is a summary of the City's investments as of June 30, 2020:

Certificates of deposit	\$ 754,231
Commercial paper	349,041
Fixed rate bonds	2,341,084
U.S. government agency securities	5,188,875
Michigan CLASS	598,173
<b><i>Total Investments</i></b>	<b><u>\$ 9,231,404</u></b>

***Credit Risk - Investments.*** State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment credit risk. All investments are insured under SPIC.

Credit risk ratings, where applicable, are summarized as follows:

Standards & Poor's AAAM	\$ 3,487,505
Standards & Poor's AA+	2,019,781
Standards & Poor's A+	99,726
Not applicable	3,624,392
<b><i>Total Investments</i></b>	<b><u>\$ 9,231,404</u></b>

***Interest Rate Risk.*** Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. 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. Maturity dates for investments held at year-end are summarized as follows:

No maturity	\$ 2,889,332
Less than 1 year	1,449,765
1-5 years	4,892,307
<b><i>Total Investments</i></b>	<b><u>\$ 9,231,404</u></b>

## City of Hillsdale

### Notes to the Financial Statements

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#### ***Concentration of Credit Risk***

The City's investment policy places no limit on the amount it may invest in one issuer. At June 30, 2020, the City maintained investments in Federal Farm Credit Banks, Federal Home Loan Mortgage Corporation, Federated Government Obligations, and Michigan CLASS totaling approximately 21.9%, 24.9%, 31.3%, and 6.48%, respectively, of the City's total investments.

#### ***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.

The City had \$8,633,231 of investments had a Level 1 fair value measurement as of June 30, 2020. While the remaining \$598,173 of investments was Michigan CLASS with a fair value measurement of Level 2.

#### ***Restricted Cash***

**Sewer Fund** - The ordinance authorizing issuance of the 2015 Sewage Disposal System Revenue Bond and 2016 Sewage Disposal System Revenue Bond required that specific accounts be established, and monies deposited as follows:

*Bond and Interest Redemption Fund* - At least one-half of the amount of interest due on the next ensuing interest payment plus not less than one quarter of the principal maturing on the next principal payment. At June 30, 2020, the City was required to have \$131,125 in this account.



## City of Hillsdale

### Notes to the Financial Statements

*Bond Reserve Account* - The lesser of 10% of the principal balance of the bonds, an amount equal to the maximum annual principal and interest requirements on the bonds, or 125% of the average annual principal and interest requirements. A June 30, 2020, the City was required to have \$541,626 in this account.

The total restricted cash for the City's sewer fund was \$672,751.

#### Note 4 - Capital Assets

Capital asset activity for governmental activities during the year was as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Capital Assets not Being Depreciated				
Land	\$ 8,782,693	\$ 27,625	\$ -	\$ 8,810,318
Capital Assets Being Depreciated				
Land improvements	773,631	-	-	773,631
Buildings and improvements	5,246,649	85,262	-	5,331,911
Books	279,076	12,944	-	292,020
Vehicles and equipment	1,628,627	133,800	-	1,762,427
Infrastructure	26,666,172	2,728,120	-	29,394,292
<i>Total Capital Assets Being Depreciated</i>	<u>34,594,155</u>	<u>2,960,126</u>	<u>-</u>	<u>37,554,281</u>
Less Accumulated Depreciation				
Land improvements	(388,474)	(28,631)	-	(417,105)
Buildings and improvements	(2,246,656)	(112,798)	-	(2,359,454)
Books	(67,145)	(21,236)	-	(88,381)
Vehicles and equipment	(691,421)	(95,011)	-	(786,432)
Infrastructure	(16,317,282)	(667,946)	-	(16,985,228)
<i>Total Accumulated Depreciation</i>	<u>(19,710,978)</u>	<u>(925,622)</u>	<u>-</u>	<u>(20,636,600)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>14,883,177</u>	<u>2,034,504</u>	<u>-</u>	<u>16,917,681</u>
<b>Internal Service Fund</b>				
Motor Pool Assets	668,256	(61,782)	-	606,474
<i>Capital Assets, Governmental Activities</i>	<u>\$ 24,334,126</u>	<u>\$ 2,000,347</u>	<u>\$ -</u>	<u>\$ 26,334,473</u>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>Internal Service Fund</b>				
Capital Assets Being Depreciated				
Vehicles and equipment	\$ 2,454,539	\$ 43,010	\$ -	\$ 2,497,549
Less Accumulated Depreciation				
Vehicles and equipment	(1,786,283)	(104,792)	-	(1,891,075)
<i>Capital Assets, Internal Service Fund</i>	<u>\$ 668,256</u>	<u>\$ (61,782)</u>	<u>\$ -</u>	<u>\$ 606,474</u>

**City of Hillsdale**

Notes to the Financial Statements

Capital asset activity for business-type activities during the year was as follows:

<b>Business-type Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Capital Assets not Being Depreciated				
Land	\$ 361,042	\$ -	\$ -	\$ 361,042
Construction in progress	10,273,643	1,552,528	(10,542,917)	1,283,254
<i>Total Capital Assets not Being Depreciated</i>	<u>10,634,685</u>	<u>1,552,528</u>	<u>(10,542,917)</u>	<u>1,644,296</u>
Capital Assets Being Depreciated				
Plant, systems, and equipment	65,001,838	11,697,179	(324,080)	76,374,937
Less Accumulated Depreciation				
Plant, systems, and equipment	(43,169,070)	(1,201,094)	28,479	(44,341,685)
<i>Total Capital Assets Being Depreciated, Net</i>	<u>21,832,768</u>	<u>10,496,085</u>	<u>(295,601)</u>	<u>32,033,252</u>
<b><i>Capital Assets, Business-type Activities</i></b>	<u><b>\$ 32,467,453</b></u>	<u><b>\$ 12,048,613</b></u>	<u><b>\$ (10,838,518)</b></u>	<u><b>\$ 33,677,548</b></u>

Depreciation expense was charged to the functions of the City as follows:

<b>Governmental Activities</b>	
General government	\$ 48,233
Public safety	61,638
Public works	673,949
Recreation and culture	141,802
Depreciation charged to internal service funds	104,792
<b><i>Total Governmental Activities</i></b>	<u><b>\$ 1,030,414</b></u>
<b>Business-type Activities</b>	
Electric fund	\$ 737,102
Sewer fund	185,466
Water fund	231,632
Dial-A-Ride	46,894
<b><i>Total Business-type Activities</i></b>	<u><b>\$ 1,201,094</b></u>

## City of Hillsdale

### Notes to the Financial Statements

Capital asset activity for the Economic Development Corporation (EDC) and Tax Increment Finance Authority (TIFA) (component units) during the year was as follows:

<b>Economic Development Corporation</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Capital Assets not Being Depreciated				
Land	\$ 148,067	\$ -	\$ -	\$ 148,067
<b>Tax Increment Finance Authority</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Capital Assets not Being Depreciated				
Land	\$ 65,000	\$ -	\$ -	\$ 65,000
Construction in progress	-	142,415	-	142,415
<i>Total Capital Assets not Being Depreciated</i>	65,000	142,415	-	207,415
Capital Assets Being Depreciated				
Infrastructure	381,672	-	-	381,672
Buildings	211,465	-	-	211,465
<i>Total Capital Assets Being Depreciated</i>	593,137	-	-	593,137
Less Accumulated Depreciation				
Infrastructure	(381,672)	-	-	(381,672)
Buildings	(6,883)	(4,229)	-	(11,112)
<i>Total Accumulated Depreciation</i>	(388,555)	(4,229)	-	(392,784)
<i>Total Capital Assets Being Depreciated, Net</i>	204,582	(4,229)	-	200,353
<b>Capital Assets, TIFA</b>	<b>\$ 269,582</b>	<b>\$ 138,186</b>	<b>\$ -</b>	<b>\$ 407,768</b>

### Note 5 - Long-term Obligations

Long-term debt as of June 30, 2020 was comprised of the following (all within business-type activities):

2015 Sewage Disposal System Revenue Bonds - maturing \$250,000 to \$405,000 annually plus interest at 2.50% through 2037	\$ 5,660,000
2016 Sewage Disposal System Revenue Bonds -maturing \$75,000 to \$120,000 annually plus interest at 2.50% through 2040.	1,670,000
Capital Lease Agreement - Key Government Finance, Inc., annual lease payments of \$80,855 including interest at 2.74% through September 30, 2020.	78,700
	<b>\$ 7,408,700</b>

**City of Hillsdale**

Notes to the Financial Statements

The following is a summary of long-term obligations activity of the City for the year ended June 30, 2020:

<b>Governmental Activities</b>	<b>Balance at June 30, 2019</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at June 30, 2020</b>	<b>Due Within One Year</b>
Compensated absences	\$ 221,234	\$ 13,633	\$ -	\$ 234,867	\$ -
<b>Business-type Activities</b>	<b>Balance at June 30, 2019</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at June 30, 2020</b>	<b>Due Within One Year</b>
2015 Sewage Disposal System Revenue Bonds	\$ 5,925,000	\$ -	\$ (265,000)	\$ 5,660,000	\$ 270,000
Government Capital Corporation	429,852	-	(429,852)	-	-
2016 Sewage Disposal System Revenue Bonds	1,750,000	-	(80,000)	1,670,000	80,000
Key Government Financing, Inc.	155,300	-	(76,600)	78,700	78,700
Compensated absences	147,465	27,452	-	174,917	-
<b>Total Business-type Activities</b>	<b>\$ 8,407,617</b>	<b>\$ 27,452</b>	<b>\$ (851,452)</b>	<b>\$ 7,583,617</b>	<b>\$ 428,700</b>

Annual debt service requirements, exclusive of compensated absences, to maturity are as follows:

<b>Business-type Activities</b>			
<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 428,700	\$ 185,406	\$ 614,106
2022	360,000	174,500	534,500
2023	370,000	165,500	535,500
2024	375,000	158,052	533,052
2025	390,000	150,876	540,876
2026 - 2030	2,085,000	584,006	2,669,006
2031 - 2035	2,365,000	310,130	2,675,130
2036 - 2037	1,035,000	39,002	1,074,002
<b>Totals</b>	<b>\$ 7,408,700</b>	<b>\$ 1,767,472</b>	<b>\$ 9,176,172</b>

**Note 6 - Interfund Balances and Interfund Transfers**

The sum of all balances presented in the table below agree with the sum of interfund balances presented in the statement of net position. Those interfund balances resulted primarily from the time lag between the dates that: 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

**City of Hillsdale**

Notes to the Financial Statements

As of June 30, 2020, the interfund balances were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Electric	\$ 83,091
General fund	Sewer	21,955
General fund	Water	19,365
General fund	Dial-A-Ride	59,573
Nonmajor governmental funds	General fund	325,727

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

The following transfers occurred between funds of the City for the current year:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General fund	Electric	\$ 61,655
General fund	Sewer	30,827
General fund	Water	30,827
Dial-A-Ride	General fund	50,000
General fund	Dial-A-Ride	59,573
General fund	Nonmajor governmental funds	105,273
Capital improvement	Nonmajor governmental funds	650,000
Capital improvement	General fund	600,000
Nonmajor governmental funds	General fund	202,405

**Note 7 - Interdepartmental Loans**

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. During the current year, the Sewer Fund paid back the \$90,000 of the loan and drew an additional \$250,000. Annual principal payments of \$250,000 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, 2020 was \$250,000.

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. During the current year, the capital improvement fund paid back the \$500,000. The balance as of June 30, 2020 was \$0.

**City of Hillsdale**

Notes to the Financial Statements

**Note 8 - 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 the Michigan Legislature under Public Act 135 of 1945 and administered by a nine-member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

Retirement benefits for employees are calculated as follows:

<u>Division</u>	<u>Benefit Multiplier</u>	<u>Benefit Maximum</u>	<u>Final Average Compensation (Years)</u>	<u>Normal Retirement Age</u>	<u>Unreduced Benefit (Age/Years of Service)</u>	<u>Reduced Benefit (Age/Years of Service)</u>	<u>Vesting (Years)</u>
DPS EEs - Closed	2.25%	80%	3	60	-	50/25 or 55/15	10
Police - Open	2.50%	80%	3	60	55/25	50/25 or 55/15	10
Fire - Open	2.50%	80%	3	60	55/20	50/25 or 55/15	10
BPU Union - Closed	2.25%	80%	3	60	55/25	50/25 or 55/15	10
General Nonunion - Closed	2.25%	80%	3	60	-	50/25 or 55/15	10
BPU Nonunion - Closed	2.25%	80%	3	60	-	50/25 or 55/15	10
City Manager - Open	2.50%	80%	3	60	-	50/25 or 55/15	10
City Treasurer - Open	2.00%	80%	3	60	-	50/25 or 55/15	10

***Employees Covered by Benefit Terms***

At the December 31, 2019 valuation date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	75
Inactive plan members entitled to but not yet receiving benefits	43
Active plan members	58
<b><i>Total employees covered by MERS</i></b>	<b>176</b>

***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.

## City of Hillsdale

### Notes to the Financial Statements

For the year ended June 30, 2020, the City had the following contribution rates:

<u>Division</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>
DPS EEs - Closed	4.00%	\$0 / month
Police - Open	5.00%	28.56%
Fire - Open	5.00%	17.69%
BPU Union - Closed	9.16%	\$8,066 / month
General Nonunion - Closed	5.00%	\$5,591 / month
BPU Nonunion - Closed	5.00%	\$10,095 / month
City Manager - Open	5.00%	\$888 / month
City Treasurer - Open	5.00%	\$42 / month

#### *Net Pension Liability*

The net pension liability reported at June 30, 2020 was determined using a measure of the total pension liability and the pension net position as of December 31, 2019. The December 31, 2019 total pension liability was determined by an actuarial valuation performed as of December 31, 2019.

#### *Actuarial Assumptions*

The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.00% in the long-term
Investment rate of return	7.35%, net of investment expense, including inflation

Although no specific price inflation assumptions are needed for the valuation, the 3.00% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the RP-2014 Group Annuity 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 of 2009-2013.

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,

**City of Hillsdale**

Notes to the Financial Statements

net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money Weighted Rate of Return
Global equity	60.00%	7.75%	3.15%
Global fixed income	20.00%	3.75%	0.25%
Private investments	20.00%	9.75%	1.45%
Inflation			2.50%
Administrative fee			0.25%
<b><i>Investment rate of return</i></b>			<b>7.60%</b>

***Discount Rate***

The discount rate used to measure the total pension liability is 7.60%. 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.



**City of Hillsdale**

Notes to the Financial Statements

Changes in the net pension liability during the measurement year were as follows:

<b>Changes in Net Pension Liability</b>	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability</b>	<b>Plan Net Position</b>	<b>Net Pension Liability</b>
<b>Balance at December 31, 2018</b>	\$ 24,191,831	\$ 18,081,229	\$ 6,110,602
Service cost	382,857	-	382,857
Interest	1,887,904	-	1,887,904
Difference between expected and actual experience	(317,723)	-	(317,723)
Changes in assumptions	671,798	-	671,798
Contributions - employer	-	525,911	(525,911)
Contributions - employee	-	303,901	(303,901)
Net investment income	-	2,434,545	(2,434,545)
Benefit payments, including refunds	(1,568,899)	(1,568,899)	-
Administrative expenses	-	(41,924)	41,924
<i>Net changes</i>	<u>1,055,937</u>	<u>1,653,534</u>	<u>(597,597)</u>
<b>Balance at December 31, 2019</b>	<b>\$ 25,247,768</b>	<b>\$ 19,734,763</b>	<b>\$ 5,513,005</b>
	<b>Allocated as follows:</b>		
		Governmental Activities	\$ 2,851,458
		Business-type Activities	2,661,547
			<u>\$ 5,513,005</u>

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

The following presents the net pension liability of the City, calculated using the discount rate of 7.60%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.60%) or one percentage point higher (8.60%) than the current rate.

	<b>1% Decrease (6.60%)</b>	<b>Current Discount Rate (7.60%)</b>	<b>1% Increase (8.60%)</b>
Net pension liability of the City	<u>\$ 8,216,533</u>	<u>\$ 5,513,005</u>	<u>\$ 3,212,098</u>

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

## City of Hillsdale

### Notes to the Financial Statements

#### ***Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions***

For the year ended June 30, 2020 the City recognized pension expense of \$908,907.

The City reported deferred outflows/inflows of resources related to pensions from the following sources:

<b>Source</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Excess (deficit) investment returns	\$ 64,648	\$ -
Changes in assumptions	447,865	-
Difference between expected and actual experience	10,543	309,028
* Employer contributions to the plan subsequent to the measurement date	262,078	-
<b>Total</b>	<b>\$ 785,134</b>	<b>\$ 309,028</b>
<b>Allocated as follows:</b>		
Governmental Activities	\$ 405,915	\$ 159,768
Business-type Activities	379,219	149,260
	<b>\$ 785,134</b>	<b>\$ 309,028</b>

\*The amount reported as deferred outflows/inflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction/addition in the net pension liability for the year ending June 30, 2021.

Amounts reported as deferred outflows/inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Years Ending June 30,</b>	<b>Amount</b>
2021	\$ 28,360
2022	134,858
2023	254,666
2024	(203,856)

#### **Note 9 - Promissory Note**

On May 15, 2018, the City's Tax Increment Finance Authority ("TIFA") entered into an agreement to sell property known as the Keefer House Hotel 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

## City of Hillsdale

### Notes to the Financial Statements

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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.

As of June 30, 2020, construction on the Keefer House Hotel is underway and is projected to be completed on or before May 25, 2021. The City has elected to include the full \$265,000 as a loan receivable on its financial statements.

#### **Note 10 - Dial-A-Ride**

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

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

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

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

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

**Ineligible Expenses** - Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense manual. Audit costs are the only cost in which eligibility differs from the State R&E Manual and the federal Uniform Guidance. 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, 2019 through June 30, 2020, Dial-A-Ride paid \$3,694 in 50200 fringe benefits for retirement benefits. Of this amount, \$3,694 paid the actuarial required minimum contribution and \$0 was paid in excess of the actuarial required minimum contribution. The entire amount of \$3,694 was expensed on the books and is included in Dial-A-Ride's total eligible expenses for the fiscal year ending September 30, 2019.

## City of Hillsdale

### Notes to the Financial Statements

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#### **Note 11 - Investment in Joint Venture**

##### ***Michigan South Central Power Agency***

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 \$8,364,008 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 owns an approximate 19.08% interest in the Michigan South Central Power Agency (MSCPA). The City records the investment using the equity method and calculates 19.08% 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 19.08% of the equity net of the City's assets. At June 30, 2020, the City's investment in MSCPA was \$4,086,875, consisting of a \$3,592,846 equity share and \$494,029 of assets held at the MSCPA.

#### **Note 12 - Prepaid Operating Lease**

In 2014, the City entered 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 for total upfront costs of \$240,304 will be amortized over the 20-year life of the lease. As of June 30, 2020, the balance of the long-term prepaid operating lease is \$182,363.

#### **Note 13 - Prepaid Stranded Costs**

##### ***American Municipal Power – Generating Station Project***

The City is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio. The City's share was 12,000 kilowatts of a total 771,281 kilowatts, giving the City a 1.56 percent share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. These costs were therefore deemed impaired and participants were obligated to pay costs already incurred. In prior years, the payment of these costs was not considered probable due to AMP's pursuit of legal action to void them. As a result of a March 31, 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The City's estimated share at March 31, 2014 of the impaired costs is \$2,076,796. The City received a credit of \$775,876 related to their participation in the AMP

## City of Hillsdale

### Notes to the Financial Statements

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Fremont Energy Center (AFEC) Project, and another credit of \$542,698 related to the AMPGS costs deemed to have future benefit for the project participants, leaving a net impaired cost estimate of \$758,222. Because payment is now probable and reasonably estimable, the City is reporting a payable to AMP in its business-type activities and in its electric enterprise fund for these impaired costs. AMP financed these costs on its revolving line of credit. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact the City's liability. These amounts will be recorded as they become estimable.

In late 2016, AMP reached a Settlement in the Bechtel Corporation litigation. On December 8, 2016, at the AMPGS Participants meeting, options for the allocation of the Settlement funds were approved. The AMPGS Participants and the AMP Board of Trustees voted to allocate the Settlement among the participants and the AMP General Fund based on each participant's original project share in kW including the AMP General Fund's project share.

Since March 31, 2014, the City has made payments of \$817,344 to AMP toward its net impaired cost estimate. Also since March 31, 2014, the City's allocation of additional costs incurred by the project is \$25,233 and interest expense incurred on AMP's line-of-credit of \$1,763, resulting in a net credit balance for impaired cost estimate at June 30, 2020 of \$32,126. The City does have a potential PHFU (plant held for future use costs) liability of \$608,243 resulting in a net total potential liability of \$576,117, assuming the credit balance earns zero interest and the assets making up the PHFU (principally the land comprising the Meigs County site) have no value. Stranded costs as well as PHFU costs are subject to change, including future borrowing costs on the AMP line of credit. Activities include items such negative items as property taxes as well as positive items revenue from leases or sale of all or a portion of the Meigs County site property.

The City has opted to not record the potential PHFU liability given the uncertainty regarding the outcome of the project; however, prepaid stranded costs have been recorded as \$32,126 for the year-ended June 30, 2020.

#### **Note 14 - Purchased Power Contracts**

##### ***AFEC***

AMP Fremont Energy Center (86 Members). On July 28, 2011, AMP acquired from FirstEnergy Generation Corporation ("*FirstEnergy*") the Fremont Energy Center ("*AFEC*"), a combined cycle, natural gas fueled electric generating plant, 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. AFEC has a capacity of 512 MW (unfired)/675 MW (fired) and consists 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

## City of Hillsdale

### Notes to the Financial Statements

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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 86 of its Members (the “AFEC Power Sales Contract”).

In 2012, to provide permanent financing for the 90.69% Interest, AMP issued, in two series, \$546,085,000 of its AMP Fremont Energy Center Project Revenue Bonds (the “2012 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. In 2017, AMP issued bonds (the “AFEC Refunding Bonds” and, together with the 2012 AFEC Bonds, the “AFEC Bonds”) to refund a portion of the 2012 AFEC Bonds. As of January 1, 2020, \$489,280,000 aggregate principal amount of AFEC Bonds was outstanding.

The City 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***

***Combined Hydroelectric Projects (79 Members).*** 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, or refinance certain obligations incurred in respect of, 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, 2020, \$2,194,396,471 aggregate principal amount of the Combined Hydroelectric Bonds and approximately \$31.1 million aggregate principal amount of subordinate obligations, consisting of notes evidencing draws on the Line of Credit, were outstanding under the indenture securing the Combined Hydroelectric Bonds.

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).

## City of Hillsdale

### Notes to the Financial Statements

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

#### ***Meldahl Hydroelectric Project***

Meldahl Hydroelectric Project (48 Members). 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, 2020, \$675,680,000 aggregate principal amount of the Meldahl Bonds and approximately \$3.6 million aggregate principal amount of subordinate obligations, consisting of notes evidencing draws on the Line of Credit, were outstanding under the indenture securing the Meldahl Bonds.

The City has executed a take-or-pay power sales contract with AMP as a participant of the Meldahl Project of 731 kW or .70% of capacity and associated energy from the Meldahl Hydroelectric Projects.

#### ***Greenup Hydroelectric Project***

Greenup Hydroelectric Project (47 Members). 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, 2020, \$124,035,000 aggregate principal amount of the 2016 Greenup Bonds and approximately \$900,000 aggregate principal amount of subordinate obligations, consisting of notes evidencing draws on the Line of Credit, were outstanding under the indenture securing the 2016 Greenup Bonds.

## City of Hillsdale

### Notes to the Financial Statements

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The City 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 15 - Tax Abatement Disclosure**

Industrial property tax abatements are granted in the State of Michigan under Public Act 198, as amended, to promote economic development, creation of jobs, and new or improvement facilities. The industrial facilities tax (IFT) exemption must be approved by both the City (after a public hearing is held) and the State of Michigan. IFT exemptions can cover real and/or personal property. By State law, the exemption must be applied for no later than six months after commencement of the project, and must be accompanied by a written agreement between the taxpayer and the City. An exemption allows for taxation on IFT property at 50% of the local property tax millage rate for a period of 1 to 12 years. Accordingly, such agreements meet the criteria of "tax abatements" under GASB Statement No. 77. For the year ended June 30, 2020, the City's property taxes were reduced by \$14,432 under this program.

Neighborhood enterprise zone tax abatements are granted in the State of Michigan under Public Act 147, as amended, to encourage investment in the construction or rehabilitation of multiple types of housing for both homeownership and rental. The project must be located in a Neighborhood Enterprise Zone (NEZ) as established by the City Commission. A qualifying project involves the construction of new housing for either homeownership or rental. A rehabilitation project involves the rehabilitation of existing housing, and requires a minimum investment in the rehabilitation. A new construction project must include rental apartments, contain retail space on the first floor, and be located in a Downtown Revitalization District. For new facilities, the rate of taxation of a new facility is equal to 50% of the average rate of taxation levied on commercial, industrial, and utility property in the State in the immediately preceding calendar year. The amount of the abatement is equal to the taxable value of the qualifying property applied to the millage rate that is the difference between the NEZ millage rate and the ad valorem millage rate. For rehabilitation facilities, the taxable value is set ("frozen") at that value established in the year immediately preceding the effective date of the NEZ exemption for a property. The amount of the abatement is the difference between the taxes that would be levied on the current taxable value and the NEZ taxes levied on the value of the qualifying property in the year immediately preceding the effective date of the exemption certificate. Accordingly, such agreements meet the criteria of "tax abatements" under GASB Statement No. 77. For the year ended June 30, 2020, the City's property taxes were reduced by \$817 under this program.

#### **Note 16 - 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, 2020, the City carried commercial insurance to cover all risks of losses. The City has had



## City of Hillsdale

### Notes to the Financial Statements

no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

#### **Note 17 - 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 18 - Restatement of Net Position**

In the prior year, the allocation of net pension liability and its related deferrals was overstated in the sewer and water funds while being understated in the electric fund and governmental activities. The correction made during the current year increased net pension liability and its related deferrals in the electric fund and governmental activities while the correction decreased net pension liability and its related deferrals in the sewer and water funds. The resulting correction caused a decrease in net position of the electric fund and governmental activities and an increase in net position of the sewer and water funds.

In addition, in the prior year, the City did not record unbilled receivables at year-end. To improve revenue recognition, a subsequent correction was made to record unbilled receivables in the electric fund, sewer fund, and water fund of \$1,079,422, \$126,430, and \$96,616, respectively. As a result of the correction, net position increased by the same amount in each of the respective funds.

The City also in the prior year incorrectly recorded depreciation for assets that were disposed. The subsequent correction increased net capital assets and net position by \$139,471.

The following graphic illustrates the changes to net position:

	Governmental Activities	Business-type Activities			Total
		Electric Fund	Sewer Fund	Water Fund	
<b>Net Position as of June 30, 2019, as reported</b>	\$ 26,052,533	\$ 26,142,588	\$ 6,409,668	\$ 5,532,201	\$ 38,835,483
Allocation of net pension liability and related deferrals	(83,465)	(510,390)	296,928	296,927	83,465
Correction of accumulated depreciation on fixed assets	139,471	-	-	-	-
Adjustment to record unbilled receivables	-	1,079,422	126,430	96,616	1,302,468
<b>Net Position as of June 30, 2020, as restated</b>	<u>\$ 26,108,539</u>	<u>\$ 26,711,620</u>	<u>\$ 6,833,026</u>	<u>\$ 5,925,744</u>	<u>\$ 40,221,416</u>

## **Required Supplementary Information**

**City of Hillsdale**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2020**

	Budgeted Amounts		Actual	Variance
	Original	Final		Positive (Negative) Final to Actual
<b>Revenues</b>				
Taxes	\$ 2,024,800	\$ 2,024,800	\$ 2,018,095	\$ (6,705)
Payments in lieu of taxes	1,120,500	1,120,500	1,078,649	(41,851)
State revenues	1,037,100	1,037,100	1,115,398	78,298
Licenses and permits	110,300	110,300	105,945	(4,355)
Charges for services	20,400	20,400	15,727	(4,673)
Fines and violations	2,000	2,000	1,066	(934)
Interest and rentals	139,230	139,230	126,971	(12,259)
Miscellaneous	282,200	215,200	233,546	18,346
<b>Total Revenues</b>	<u>4,736,530</u>	<u>4,669,530</u>	<u>4,695,397</u>	<u>25,867</u>
<b>Other Financing Sources</b>				
Transfers in	346,000	346,000	288,155	(57,845)
<b>Total Revenues and Other Financing Sources</b>	<u>5,082,530</u>	<u>5,015,530</u>	<u>4,983,552</u>	<u>(31,978)</u>
<b>Expenditures</b>				
<b>General government</b>				
Council	27,185	27,185	24,599	2,586
City manager	168,595	159,595	155,878	3,717
Human resources	145,715	132,715	128,289	4,426
Administrative	186,500	220,000	224,258	(4,258)
Elections	12,850	11,250	7,937	3,313
Assessing	192,675	157,675	141,379	16,296
Clerk	100,140	93,140	91,670	1,470
Finance department	193,325	198,325	196,440	1,885
Treasurer	151,840	156,840	152,949	3,891
Building and grounds	142,860	132,860	134,516	(1,656)
Parking lots	60,985	28,485	21,016	7,469
Cemeteries	124,850	107,350	94,189	13,161
<b>Total general government</b>	<u>1,507,520</u>	<u>1,425,420</u>	<u>1,373,120</u>	<u>52,300</u>
<b>Public safety</b>				
Police	1,468,650	1,461,355	1,415,787	45,568
Fire	442,575	415,075	419,042	(3,967)
Code enforcement	30,000	20,000	18,879	1,121
<b>Total public safety</b>	<u>1,941,225</u>	<u>1,896,430</u>	<u>1,853,708</u>	<u>42,722</u>
<b>Public works</b>				
Airport	135,040	135,040	138,251	(3,211)
Public services	272,650	272,650	259,475	13,175
Engineering services	--	5,000	3,634	1,366
Street lights	68,500	63,500	56,354	7,146
<b>Total public works</b>	<u>476,190</u>	<u>476,190</u>	<u>457,714</u>	<u>18,476</u>
<b>Community and economic development</b>				
Planning	92,965	88,565	81,295	7,270
Economic development	56,965	56,965	59,091	(2,126)
<b>Total community and economic development</b>	<u>149,930</u>	<u>145,530</u>	<u>140,386</u>	<u>5,144</u>
<b>Recreation and culture</b>				
Parks	191,310	171,310	172,106	(796)
<b>Total Expenditures</b>	<u>4,266,175</u>	<u>4,114,880</u>	<u>3,997,034</u>	<u>117,846</u>
<b>Other Financing Uses</b>				
Transfers out	816,355	900,650	852,405	48,245
<b>Total Expenditures and Other Financing Uses</b>	<u>5,082,530</u>	<u>5,015,530</u>	<u>4,849,439</u>	<u>166,091</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>				
	--	--	134,113	134,113
<b>Net Change in Fund Balance</b>	<u>--</u>	<u>--</u>	<u>134,113</u>	<u>134,113</u>
<b>Fund Balance at Beginning of Period</b>	934,591	934,591	934,591	--
<b>Fund Balance at End of Period</b>	<u>\$ 934,591</u>	<u>\$ 934,591</u>	<u>\$ 1,068,704</u>	<u>\$ 134,113</u>

**City of Hillsdale**  
**Required Supplementary Information**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Last Six Calendar Years (Schedule is built prospectively upon implementation of GASB 68)**

	2019	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>						
Service cost	\$ 382,857	\$ 363,207	\$ 368,215	\$ 363,158	\$ 355,050	\$ 364,196
Interest	1,887,904	1,849,895	1,796,683	1,765,765	1,677,362	1,621,606
Changes in benefit terms	-	7,156	(7,990)	(9,325)	-	-
Differences between expected and actual experience	(317,723)	(194,427)	42,169	(249,508)	110,760	-
Changes in assumptions	671,798	-	-	-	1,013,079	-
Benefit payments, including refunds	(1,568,899)	(1,552,182)	(1,510,668)	(1,461,617)	(1,378,158)	(1,232,671)
<b>Net Change in Pension Liability</b>	1,055,937	473,649	688,409	408,473	1,778,093	753,131
<i>Total Pension Liability - Beginning</i>	24,191,831	23,718,182	23,029,773	22,621,300	20,843,207	20,090,076
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 25,247,768</u>	<u>\$ 24,191,831</u>	<u>\$ 23,718,182</u>	<u>\$ 23,029,773</u>	<u>\$ 22,621,300</u>	<u>\$ 20,843,207</u>
<b>Plan Fiduciary Net Position</b>						
Contributions - employer	\$ 525,911	\$ 510,189	\$ 421,866	\$ 336,160	\$ 346,141	\$ 332,464
Contributions - employee	303,901	203,833	190,637	164,437	156,571	137,790
Net investment income (loss)	2,434,545	(751,004)	2,370,564	1,932,425	(270,721)	1,138,603
Benefit payments, including refunds	(1,568,899)	(1,552,182)	(1,510,668)	(1,461,617)	(1,378,158)	(1,232,671)
Administrative expenses	(41,924)	(37,665)	(37,600)	(38,185)	(39,960)	(41,683)
<b>Net Change in Plan Fiduciary Net Position</b>	1,653,534	(1,626,829)	1,434,799	933,220	(1,186,127)	334,503
<i>Plan Fiduciary Net Position - Beginning</i>	18,081,229	19,708,058	18,273,259	17,340,039	18,526,166	18,191,663
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 19,734,763</u>	<u>\$ 18,081,229</u>	<u>\$ 19,708,058</u>	<u>\$ 18,273,259</u>	<u>\$ 17,340,039</u>	<u>\$ 18,526,166</u>
<b>Net Pension Liability - Ending (a) - (b)</b>	\$ 5,513,005	\$ 6,110,602	\$ 4,010,124	\$ 4,756,514	\$ 5,281,261	\$ 2,317,041
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	78.16%	74.74%	83.09%	79.35%	76.65%	88.88%
Covered Payroll	\$ 3,500,819	\$ 3,769,509	\$ 3,436,078	\$ 3,440,133	\$ 3,426,822	\$ 3,531,325
Net Pension Liability as a Percentage of Covered Payroll	157.48%	162.11%	116.71%	138.27%	154.12%	65.61%

Per GASB No. 68, the required supplementary information should include 10 year fiscal history built prospectively; historical information prior to implementation of GASB No. 68 is not available.

**City of Hillsdale  
Required Supplementary Information  
Schedule of Contributions  
Last 6 Fiscal Years**

	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 529,357	\$ 523,811	\$ 490,020	\$ 353,776	\$ 348,500	\$ 330,003
Contributions in relation to the actuarially determined contribution	529,357	523,811	490,020	353,776	348,500	330,003
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	3,631,756	3,713,486	3,899,437	3,714,246	3,955,056	3,531,325
Contributions as a Percentage of Covered Payroll	14.58%	14.11%	12.57%	9.52%	8.81%	9.35%

*Notes*

**Valuation Date**

Actuarially determined contribution amounts are calculated as of December 31 each year, which is 6 months prior to the beginning of the fiscal year in which the contributions are required.

**Methods and assumptions used to determine contribution rates**

Actuarial cost method	Entry-age Normal
Amortization method	Level percentage of pay
Remaining amortization period	19 years
Asset valuation method	10-year smoothed
Inflation	2.50%
Salary increases	3.00% in the long-term
Investment rate of return	7.35%, net of investment expense, including inflation
Retirement age	Experience-based tables of rates that are specific to the type of eligibility condition
Mortality	RP-2014 Group Annuity Table of a 50% male and 50% female blend

## **Combining and Individual Fund Statements and Schedules**

**City of Hillsdale  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2020**

**Special Revenue**

	<u>Local Street</u>	<u>Major Street</u>	<u>Library</u>	<u>Police</u>	<u>Drug Forfeitures</u>	<u>Recreation Commission</u>
<b>ASSETS</b>						
Cash and investments	\$ 358,021	\$ 409,914	\$ 124,422	\$ 11,924	\$ 9,444	\$ 10,400
Accounts receivable	--	--	13	--	--	--
Due from other governments	33,765	102,813	--	--	--	--
Prepaid items	--	--	162	--	--	1,466
Due from other funds	--	--	--	--	--	--
<b>Total Assets</b>	<b>\$ 391,786</b>	<b>\$ 512,727</b>	<b>\$ 124,597</b>	<b>\$ 11,924</b>	<b>\$ 9,444</b>	<b>\$ 11,866</b>
<b>LIABILITIES</b>						
Accounts payable	\$ 11,473	\$ 12,592	\$ 4,265	\$ --	\$ --	\$ 1,483
Accrued liabilities	1,876	3,615	2,321	--	--	632
Unearned revenue	--	--	8,800	--	--	--
<b>Total Liabilities</b>	<b>13,349</b>	<b>16,207</b>	<b>15,386</b>	<b>--</b>	<b>--</b>	<b>2,115</b>
<b>FUND BALANCE</b>						
Nonspendable	--	--	162	--	--	1,466
Restricted	378,437	496,520	109,049	11,924	9,444	8,285
Unassigned	--	--	--	--	--	--
<b>Total Fund Balance</b>	<b>378,437</b>	<b>496,520</b>	<b>109,211</b>	<b>11,924</b>	<b>9,444</b>	<b>9,751</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 391,786</b>	<b>\$ 512,727</b>	<b>\$ 124,597</b>	<b>\$ 11,924</b>	<b>\$ 9,444</b>	<b>\$ 11,866</b>

Continued...

**City of Hillsdale  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2020**

	<u>Debt Service</u>	<u>Capital Projects</u>				
	<u>Debt Service Fund</u>	<u>Field of Dreams</u>	<u>Stock Park</u>	<u>Cold Springs Park</u>	<u>Three Meadows Development</u>	<u>Fire Equipment</u>
<b>ASSETS</b>						
Cash and investments	\$ 696,429	\$ 2,571	\$ 54,739	\$ --	\$ 8,080	\$ 99,625
Accounts receivable	--	--	--	--	--	--
Due from other governments	--	--	--	--	--	--
Prepaid items	--	--	--	--	--	--
Due from other funds	--	--	--	--	--	--
<b>Total Assets</b>	<b>\$ 696,429</b>	<b>\$ 2,571</b>	<b>\$ 54,739</b>	<b>\$ --</b>	<b>\$ 8,080</b>	<b>\$ 99,625</b>
<b>LIABILITIES</b>						
Accounts payable	\$ --	\$ --	\$ 90	\$ --	\$ --	\$ --
Accrued liabilities	--	--	--	--	--	--
Unearned revenue	--	--	--	--	--	--
<b>Total Liabilities</b>	<b>--</b>	<b>--</b>	<b>90</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>FUND BALANCE</b>						
Nonspendable	--	--	--	--	--	--
Restricted	696,429	2,571	54,649	--	8,080	99,625
Unassigned	--	--	--	--	--	--
<b>Total Fund Balance</b>	<b>696,429</b>	<b>2,571</b>	<b>54,649</b>	<b>--</b>	<b>8,080</b>	<b>99,625</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 696,429</b>	<b>\$ 2,571</b>	<b>\$ 54,739</b>	<b>\$ --</b>	<b>\$ 8,080</b>	<b>\$ 99,625</b>

Continued...



**City of Hillsdale  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2020**

	<b>Permanent</b>			<b>Total Nonmajor Governmental Funds</b>
	<b>R.L. Owen Memorial</b>	<b>Cemetery Perpetual Care</b>	<b>Stock Park Maintenance</b>	
<b>ASSETS</b>				
Cash and investments	\$ 50,871	\$ 408,797	\$ 69,233	\$ 2,314,470
Accounts receivable	--	--	--	13
Due from other governments	--	--	--	136,578
Prepaid items	--	--	--	1,628
Due from other funds	--	325,727	--	325,727
<b><i>Total Assets</i></b>	<b><u>\$ 50,871</u></b>	<b><u>\$ 734,524</u></b>	<b><u>\$ 69,233</u></b>	<b><u>\$ 2,778,416</u></b>
<b>LIABILITIES</b>				
Accounts payable	\$ --	\$ --	\$ --	\$ 29,903
Accrued liabilities	--	--	--	8,444
Unearned revenue	--	--	--	8,800
<b><i>Total Liabilities</i></b>	<b><u>--</u></b>	<b><u>--</u></b>	<b><u>--</u></b>	<b><u>47,147</u></b>
<b>FUND BALANCE</b>				
Nonspendable	--	--	--	1,628
Restricted	50,871	734,524	69,233	2,729,641
Unassigned	--	--	--	--
<b><i>Total Fund Balance</i></b>	<b><u>50,871</u></b>	<b><u>734,524</u></b>	<b><u>69,233</u></b>	<b><u>2,731,269</u></b>
<b><i>Total Liabilities and Fund Balance</i></b>	<b><u>\$ 50,871</u></b>	<b><u>\$ 734,524</u></b>	<b><u>\$ 69,233</u></b>	<b><u>\$ 2,778,416</u></b>

Concluded.

**City of Hillsdale**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2020**

	<b>Special Revenue</b>					
	<u>Local Street</u>	<u>Major Street</u>	<u>Library</u>	<u>Police</u>	<u>Drug Forfeitures</u>	<u>Recreation Commission</u>
<b>Revenues</b>						
Taxes	\$ --	\$ --	\$ 131,334	\$ --	\$ --	\$ --
Intergovernmental	259,182	808,070	40,282	--	--	--
Contributions from local units	--	--	13,800	--	--	--
Charges for services	--	--	5,649	--	--	30,928
Fines and violations	--	--	31,903	--	1,151	--
Interest and rentals	1,267	6,647	7,222	--	--	19,085
Miscellaneous	27,820	11,656	35,562	1,625	--	3,731
<b>Total Revenues</b>	<u>288,269</u>	<u>826,373</u>	<u>265,752</u>	<u>1,625</u>	<u>1,151</u>	<u>53,744</u>
<b>Expenditures</b>						
General government	--	--	--	--	--	--
Public safety	--	--	--	--	215	--
Public works	348,136	491,475	--	--	--	--
Recreation and culture	--	--	331,118	--	--	126,471
Capital outlay	--	--	--	--	--	--
<b>Total Expenditures</b>	<u>348,136</u>	<u>491,475</u>	<u>331,118</u>	<u>--</u>	<u>215</u>	<u>126,471</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>(59,867)</u>	<u>334,898</u>	<u>(65,366)</u>	<u>1,625</u>	<u>936</u>	<u>(72,727)</u>
<b>Other Financing Sources (Uses)</b>						
Transfers in	125,000	--	--	--	--	77,405
Transfers out	(24,192)	(229,081)	(2,000)	--	--	--
<b>Net Other Financing Sources (Uses)</b>	<u>100,808</u>	<u>(229,081)</u>	<u>(2,000)</u>	<u>--</u>	<u>--</u>	<u>77,405</u>
<b>Net Change in Fund Balance</b>	<b>40,941</b>	<b>105,817</b>	<b>(67,366)</b>	<b>1,625</b>	<b>936</b>	<b>4,678</b>
<i>Fund Balance at Beginning of Period</i>	337,496	390,703	176,577	10,299	8,508	5,073
<b>Fund Balance at End of Period</b>	<u>\$ 378,437</u>	<u>\$ 496,520</u>	<u>\$ 109,211</u>	<u>\$ 11,924</u>	<u>\$ 9,444</u>	<u>\$ 9,751</u>

Continued...

**City of Hillsdale**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2020**

	Debt Service		Capital Projects			
	Debt Service Fund	Field of Dreams	Stock Park	Cold Springs Park	Three Meadows Development	Fire Equipment
<b>Revenues</b>						
Taxes	\$ 384,299	\$ --	\$ --	\$ --	\$ --	\$ 128,740
Intergovernmental	41,206	--	--	--	--	--
Contributions from local units	--	--	10,158	--	--	--
Charges for services	--	1,031	--	--	--	--
Fines and violations	--	--	--	--	--	--
Interest and rentals	17,707	--	1,095	--	--	--
Miscellaneous	--	--	--	--	2,699	1,800
<b>Total Revenues</b>	443,212	1,031	11,253	--	2,699	130,540
<b>Expenditures</b>						
General government	12,500	--	--	--	--	--
Public safety	--	--	--	--	--	4,482
Public works	--	--	--	--	--	--
Recreation and culture	--	--	4,400	2,000	--	--
Capital outlay	--	--	--	--	--	40,880
<b>Total Expenditures</b>	12,500	--	4,400	2,000	--	45,362
<b>Excess of Revenues Over (Under) Expenditures</b>	430,712	1,031	6,853	(2,000)	2,699	85,178
<b>Other Financing Sources (Uses)</b>						
Transfers in	--	--	--	--	--	--
Transfers out	(500,000)	--	--	--	--	--
<b>Net Other Financing Sources (Uses)</b>	(500,000)	--	--	--	--	--
<b>Net Change in Fund Balance</b>	(69,288)	1,031	6,853	(2,000)	2,699	85,178
<b>Fund Balance at Beginning of Period</b>	765,717	1,540	47,796	2,000	5,381	14,447
<b>Fund Balance at End of Period</b>	\$ 696,429	\$ 2,571	\$ 54,649	\$ --	\$ 8,080	\$ 99,625

Continued...

**City of Hillsdale**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2020**

	Permanent			Total Nonmajor Governmental Funds
	R.L. Owen Memorial	Cemetery Perpetual Care	Stock Park Maintenance	
<b>Revenues</b>				
Taxes	\$ --	\$ --	\$ --	\$ 644,373
Intergovernmental	--	--	--	1,148,740
Contributions from local units	--	--	--	23,958
Charges for services	--	20,338	--	57,946
Fines and violations	--	--	--	33,054
Interest and rentals	4,519	18,210	1,613	77,365
Miscellaneous	--	--	2,727	87,620
<b>Total Revenues</b>	<b>4,519</b>	<b>38,548</b>	<b>4,340</b>	<b>2,073,056</b>
<b>Expenditures</b>				
General government	--	--	--	12,500
Public safety	--	--	--	4,697
Public works	--	--	--	839,611
Recreation and culture	--	--	--	463,989
Capital outlay	--	--	--	40,880
<b>Total Expenditures</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>1,361,677</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>4,519</b>	<b>38,548</b>	<b>4,340</b>	<b>711,379</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	--	--	--	202,405
Transfers out	--	--	--	(755,273)
<b>Net Other Financing Sources (Uses)</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(552,868)</b>
<b>Net Change in Fund Balance</b>	<b>4,519</b>	<b>38,548</b>	<b>4,340</b>	<b>158,511</b>
<b>Fund Balance at Beginning of Period</b>	<b>46,352</b>	<b>695,976</b>	<b>64,893</b>	<b>2,572,758</b>
<b>Fund Balance at End of Period</b>	<b>\$ 50,871</b>	<b>\$ 734,524</b>	<b>\$ 69,233</b>	<b>\$ 2,731,269</b>

Concluded.

**City of Hillsdale**  
**Combining Statement of Net Position**  
**Internal Service Funds**  
**June 30, 2020**

**Internal Service**

	<b>Department of Public Service Leave and Benefits</b>	<b>Unemployment Insurance</b>	<b>Revolving Mobile Equipment</b>	<b>Public Service Inventory</b>	<b>Total Internal Service Funds</b>
<b>ASSETS</b>					
<i>Current Assets</i>					
Cash and investments	\$ 40,124	\$ 83,141	\$ 42,119	\$ 33,223	\$ 198,607
Inventory	--	--	--	139,963	139,963
Prepaid items	10,430	--	23,795	--	34,225
<b>Total Current Assets</b>	<b>50,554</b>	<b>83,141</b>	<b>65,914</b>	<b>173,186</b>	<b>372,795</b>
<i>Noncurrent Assets</i>					
Capital assets being depreciated, net	--	--	606,474	--	606,474
<b>Total Assets</b>	<b>50,554</b>	<b>83,141</b>	<b>672,388</b>	<b>173,186</b>	<b>979,269</b>
<b>LIABILITIES</b>					
<i>Current Liabilities</i>					
Accounts payable	334	120	4,841	2,812	8,107
Accrued liabilities	--	--	809	--	809
<b>Total Current Liabilities</b>	<b>334</b>	<b>120</b>	<b>5,650</b>	<b>2,812</b>	<b>8,916</b>
<i>Noncurrent Liabilities</i>					
Compensated absences	27,640	--	7,352	--	34,992
<b>Total Liabilities</b>	<b>27,974</b>	<b>120</b>	<b>13,002</b>	<b>2,812</b>	<b>43,908</b>
<b>NET POSITION</b>					
Net investment in capital assets	--	--	606,474	--	606,474
<i>Unrestricted</i>	22,580	83,021	52,912	170,374	328,887
<b>Total Net Position</b>	<b>\$ 22,580</b>	<b>\$ 83,021</b>	<b>\$ 659,386</b>	<b>\$ 170,374</b>	<b>\$ 935,361</b>

**City of Hillsdale**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position**  
**Internal Service Funds**  
**For the Year Ended June 30, 2020**

**Internal Service**

	<b>Department of Public Service</b>		<b>Unemployment Insurance</b>		<b>Revolving Mobile Equipment</b>		<b>Public Service Inventory</b>		<b>Total Internal Service Funds</b>
	<b>Leave and Benefits</b>								
<b>Operating Revenues</b>									
Charges for services	\$ --	\$ 8,600	\$ 240,018	\$ 5,694	\$ 254,312				
Miscellaneous	174,825	--	19,760	--	194,585				
<b>Total Operating Revenues</b>	<b>174,825</b>	<b>8,600</b>	<b>259,778</b>	<b>5,694</b>	<b>448,897</b>				
<b>Operating Expenses</b>									
Salaries	42,853	--	65,730	474	109,057				
Fringe benefits	131,971	--	35,222	192	167,385				
Supplies	--	--	86,851	10,996	97,847				
Contracted services	--	--	40,597	43	40,640				
Maintenance	--	--	10,534	--	10,534				
Insurance	--	--	43,254	--	43,254				
Utilities	--	1,568	5,348	--	6,916				
Miscellaneous	--	--	427	114	541				
Depreciation	--	--	104,792	--	104,792				
<b>Total Operating Expenses</b>	<b>174,824</b>	<b>1,568</b>	<b>392,755</b>	<b>11,819</b>	<b>580,966</b>				
<b>Operating Income (Loss)</b>	<b>1</b>	<b>7,032</b>	<b>(132,977)</b>	<b>(6,125)</b>	<b>(132,069)</b>				
<b>Non-Operating Revenues (Expenses)</b>									
Investment income	--	1,676	7,084	--	8,760				
<b>Net Non-Operating Revenues (Expenses)</b>	<b>--</b>	<b>1,676</b>	<b>7,084</b>	<b>--</b>	<b>8,760</b>				
<b>Change In Net Position</b>	<b>1</b>	<b>8,708</b>	<b>(125,893)</b>	<b>(6,125)</b>	<b>(123,309)</b>				
<i>Net Position at Beginning of Period</i>	22,579	74,313	785,279	176,499	1,058,670				
<b>Net Position at End of Period</b>	<b>\$ 22,580</b>	<b>\$ 83,021</b>	<b>\$ 659,386</b>	<b>\$ 170,374</b>	<b>\$ 935,361</b>				

**City of Hillsdale  
Combining Statement of Cash Flows  
Internal Service Funds  
For the Year Ended June 30, 2020**

	<b>Internal Service</b>				<b>Total Internal Service Funds</b>
	<b>Department of Public Service Leave and Benefits</b>	<b>Unemployment Insurance</b>	<b>Revolving Mobile Equipment</b>	<b>Public Service Inventory</b>	
<b>Cash Flows from Operating Activities</b>					
Cash Payments to Employees for Services and Fringe Benefits	\$ (39,961)	\$ -	\$ (99,911)	\$ (678)	\$ (140,550)
Cash Payments to Suppliers for Goods and Services	(122,004)	(1,448)	(188,255)	2,286	(309,421)
Payments for Interfund Activity	174,825	8,600	259,778	17,377	460,580
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>12,860</b>	<b>7,152</b>	<b>(28,388)</b>	<b>18,985</b>	<b>10,609</b>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Purchase of Capital Assets	-	-	(43,010)	-	(43,010)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>-</b>	<b>-</b>	<b>(43,010)</b>	<b>-</b>	<b>(43,010)</b>
<b>Cash Flows from Investing Activities</b>					
Interest Income	-	1,676	7,084	-	8,760
<b>Net Cash Provided by Investing Activities</b>	<b>-</b>	<b>1,676</b>	<b>7,084</b>	<b>-</b>	<b>8,760</b>
<b>Net Increase (Decrease) in Cash and Equivalents</b>	<b>12,860</b>	<b>8,828</b>	<b>(64,314)</b>	<b>18,985</b>	<b>(23,641)</b>
<i>Cash and Equivalents - Beginning of Year</i>	27,264	74,313	106,433	14,238	222,248
<b>Cash and Equivalents - End of Year</b>	<b>\$ 40,124</b>	<b>\$ 83,141</b>	<b>\$ 42,119</b>	<b>\$ 33,223</b>	<b>\$ 198,607</b>

**City of Hillsdale  
Combining Statement of Cash Flows  
Internal Service Funds  
For the Year Ended June 30, 2020**

	<u>Internal Service</u>				<u>Total Internal Service Funds</u>
	<u>Department of Public Service Leave and Benefits</u>	<u>Unemployment Insurance</u>	<u>Revolving Mobile Equipment</u>	<u>Public Service Inventory</u>	
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>					
<b>Operating Income</b>	\$ 1	\$ 7,032	\$ (132,977)	\$ (6,125)	\$ (132,069)
<b>Adjustments to Reconcile Operating Income to Net Cash   Provided (Used) by Operating Activities</b>					
Depreciation Expense	-	-	104,792	-	104,792
<b>Changes in Assets and Liabilities</b>					
Receivables	-	-	-	11,683	11,683
Inventory	-	-	-	12,179	12,179
Prepaid items	9,954	-	64	-	10,018
Accounts payable	13	120	(1,308)	1,260	85
Accrued liabilities	-	-	(176)	(12)	(188)
Compensated absences	2,892	-	1,217	-	4,109
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 12,860</u>	<u>\$ 7,152</u>	<u>\$ (28,388)</u>	<u>\$ 18,985</u>	<u>\$ 10,609</u>



**City of Hillsdale  
Dial-A-Ride Fund  
Schedule 1 - Schedule of Local Revenues  
For the Year Ended June 30, 2020**

	<u>7/1/19 - 9/30/19</u>	<u>10/1/19 - 6/30/20</u>	<u>Total</u>
<b>Local Revenues</b>			
Demand Response (Farebox)			
Regular Service	\$ 8,726	\$ 29,413	\$ 38,139
Transfers in from General Fund	-	50,000	50,000
<b>Total Local Revenues</b>	<u>\$ 8,726</u>	<u>\$ 79,413</u>	<u>\$ 88,139</u>

**City of Hillsdale  
Dial-A-Ride Fund  
Schedule 1A - Schedule of Local Revenues  
For the Year Ended September 30, 2019**

	<u>10/1/18 - 6/30/19</u>	<u>7/1/19 - 9/30/19</u>	<u>Total</u>
<b>Local Revenues</b>			
Demand Response (Farebox)			
Regular Service	\$ 37,648	\$ 8,726	\$ 46,374
Sale of City Property	11,400	-	11,400
Transfers in from General Fund	89,665	-	89,665
<b>Total Local Revenues</b>	<u>\$ 138,713</u>	<u>\$ 8,726</u>	<u>\$ 147,439</u>

**City of Hillsdale**  
**Schedule of Expenditures of Federal and State Awards**  
**For the Year Ended June 30, 2020**

Federal Grantor / Pass Through Grantor Program Title	Federal CFDA Number	State Grantor Number	Program or Award Amount	Current Year Expenditures		
				Total	Federal	State
<b>Michigan Department of Transportation (MDOT)</b>						
2018 Local Bus Operating Assistance (Act 51)			(10,246)	\$ (10,246)	\$ -	\$ (10,246)
2019 Local Bus Operating Assistance (Act 51)			26,187	26,187	-	26,187
2020 Local Bus Operating Assistance (Act 51)			96,948	96,948	-	96,948
Mobility Management (FY 19) - Section 5311		2017-0063 - P7	3,500	3,500	-	3,500
Mobility Management (FY 20) - Section 5311		2017-0063 - P9	3,500	3,500	-	3,500
Capital Grant - Bus - Section 5310		2017-0063 - P6	19,206	19,206	-	19,206
<b><i>Total State Assistance</i></b>				<u>139,095</u>	<u>-</u>	<u>139,095</u>
<b>U.S. Department of Transportation</b>						
Passed Through MDOT						
Mobility Management (FY 18) - Section 5311	20.516	2017-0063 - P7	14,000	14,000	14,000	-
Mobility Management (FY 19) - Section 5311	20.516	2017-0063 - P9	14,000	14,000	14,000	-
Operating Assistance (FY 19)	20.509	2017-0063 - P8	12,287	12,287	12,287	-
Operating Assistance (FY 20)	20.509	2017-0063 - P10	47,245	47,245	47,245	-
Capital Grant - Bus - Section 5310	20.513	2017-0063 - P6	76,824	76,824	76,824	-
<b><i>Total Federal Assistance</i></b>				<u>164,356</u>	<u>164,356</u>	<u>-</u>
<b><i>Total State and Federal Assistance</i></b>				<u>\$ 303,451</u>	<u>\$ 164,356</u>	<u>\$ 139,095</u>

**City of Hillsdale  
Dial-A-Ride Fund  
Schedule 2A - Schedule of Federal & State Awards  
For the Year Ended June 30, 2020**

	<u>Jul. 1, 2019 to Sep. 30, 2019</u>	<u>Oct. 1, 2019 to Jun. 30, 2020</u>	<u>Total</u>
<b>Michigan Department of Transportation</b>			
Local Bus Operating (Act 51)	\$ 26,187	\$ 96,948	\$ 123,135
Mobility Management	1,750	5,250	7,000
Capital Grants	-	19,206	19,206
Prior Year Settlement	-	(10,246)	(10,246)
<b>Federal Transit Administration</b>			
Section 5311 - Operating	12,287	47,245	59,532
Mobility Management	7,000	21,000	28,000
Capital Grants	-	76,824	76,824
<b>Total</b>	<u>\$ 47,224</u>	<u>\$ 256,227</u>	<u>\$ 303,451</u>

**City of Hillsdale  
Dial-A-Ride Fund  
Schedule 2B - Schedule of Federal & State Awards  
For the Year Ended September 30, 2019**

	<u>Oct. 1, 2018 to Jun. 30, 2019</u>	<u>Jul. 1, 2019 to Sep. 30, 2019</u>	<u>Total</u>
<b>Michigan Department of Transportation</b>			
Local Bus Operating (Act 51)	\$ 104,634	\$ 26,187	\$ 130,821
Mobility Management	5,250	1,750	7,000
Prior Year Settlement	(23,873)	-	(23,873)
<b>Federal Transit Administration</b>			
Section 5311 - Operating	15,379	12,287	27,666
Mobility Management	21,000	7,000	28,000
Capital Grants	(291)	-	(291)
<b>Total</b>	<u>\$ 122,099</u>	<u>\$ 47,224</u>	<u>\$ 169,323</u>

**City of Hillsdale  
Dial-A-Ride Fund  
Schedule 3 - Operating & Contract Expenses  
For the Year Ended June 30, 2020**

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<b>Expenses</b>	Nonurban
Labor	\$ 195,303
Fringe Benefits	73,454
Services	40,458
Materials and Supplies	24,197
Utilities	8,327
Insurance	23,094
Operating Lease and Rentals	522
Miscellaneous	1,756
Depreciation	46,894
<b><i>Total Expenses</i></b>	<b>\$ 414,005</b>

**City of Hillsdale  
Dial-A-Ride Fund  
Schedule 3A - Operating Expenses By Program  
For the Year Ended June 30, 2020**

	<b>Nonurban</b>		<b>Total</b>
	July 1, 2019 to Sept. 30, 2019	Oct. 1, 2019 to June 30, 2020	
<b>Expenses</b>			
Labor	\$ 42,247	\$ 153,056	\$ 195,303
Fringe Benefits	19,831	53,623	73,454
Services	6,125	34,333	40,458
Materials and Supplies	5,831	18,366	24,197
Utilities	1,606	6,721	8,327
Insurance	1,222	21,872	23,094
Operating Lease and Rentals	59	463	522
Miscellaneous	433	1,323	1,756
Depreciation	-	46,894	46,894
<b>Total Expenses</b>	<b>\$ 77,354</b>	<b>\$ 336,651</b>	<b>\$ 414,005</b>

**City of Hillsdale  
Dial-A-Ride Fund  
Schedule 3B - Operating Expenses by Program  
For the Year Ended September 30, 2019**

	<b>Nonurban</b>		<b>Total</b>
	Oct. 1, 2018 to June 30, 2019	July 1, 2019 to Sept. 30, 2019	
<b>Expenses</b>			
Labor	\$ 155,198	\$ 42,247	\$ 197,445
Fringe Benefits	50,108	19,831	69,939
Services	52,527	6,125	58,652
Materials and Supplies	23,550	5,831	29,381
Utilities	7,636	1,606	9,242
Insurance	11,132	1,222	12,354
Operating Lease and Rentals	-	59	59
Miscellaneous	2,281	433	2,714
Depreciation	57,531	-	57,531
<b>Total Expenses</b>	<b>\$ 359,963</b>	<b>\$ 77,354</b>	<b>\$ 437,317</b>

**City of Hillsdale  
Dial-A-Ride Fund  
Schedule 4R - Nonurban Regular Service Revenue Report  
For the Year Ended September 30, 2019**

<b>Code</b>	<b>Description</b>	<b>Amount</b>
<b>401</b>	<b>Farebox Revenue</b>	
40100	Passenger Fares	\$ 46,374
<b>407</b>	<b>Gains from the Sale of Capital Assets</b>	
40100	Gains from the Sale of Capital Assets	11,400
<b>409</b>	<b>Local Revenues</b>	
40910	Local Operating Assistance	89,665
<b>411</b>	<b>State Formula and Contracts</b>	
41101	State Operating Assistance	131,609
<b>413</b>	<b>Federal Contracts</b>	
41301	Federal Section 5311 (operating funds only)	61,817
	<b><i>Total Regular Service Revenues</i></b>	<b><u>\$ 340,865</u></b>

**City of Hillsdale  
Dial-A-Ride Fund  
Schedule 4E - Regular Service Operating and Contract Expenses  
For the Year Ended September 30, 2019**

	Operations	Maintenance	General and Administrative	Total System
<b>Operating Expenses</b>				
<b>501 Labor</b>				
50101 Operators Salaries and Wages	\$ 125,569	\$ -	\$ -	\$ 125,569
50102 Other Salaries and Wages	-	3,166	30,581	33,747
50103 Dispatchers' Salaries and Wages	38,129	-	-	38,129
<b>502 Fringe Benefits</b>				
50200 Fringe Benefits	51,239	2,297	16,403	69,939
<b>503 Services</b>				
50305 Audit Costs	-	-	1,358	1,358
50399 Other Services	18,997	130	38,167	57,294
<b>504 Materials and Supplies</b>				
50401 Fuel and Lubricants	20,102	-	-	20,102
50402 Tires and Tubes	2,855	-	-	2,855
50499 Other Materials and Supplies	2,292	4,132	-	6,424
<b>505 Utilities</b>				
50500 Utilities	6,089	-	3,153	9,242
<b>506 Insurance</b>				
50603 Liability Insurance	7,646	-	4,708	12,354
<b>509 Miscellaneous Expenses</b>				
50902 Travel, Meetings, and Training	30	-	-	30
50999 Other Miscellaneous Expenses	402	-	2,282	2,684
<b>512 Operating Leases and Rentals</b>				
51200 Operating Leases and Rentals	59	-	-	59
<b>513 Depreciation</b>				
51300 Depreciation	57,531	-	-	57,531
<b>Total Operating Expenses</b>	<u>330,940</u>	<u>9,725</u>	<u>96,652</u>	<u>437,317</u>
<b>550 Ineligible Expense</b>				
55007 Ineligible Depreciation	57,531	-	-	57,531
<b>604 Ineligible Expense</b>				
57604 Ineligible Mobility Management	-	-	35,000	35,000
<b>Total Ineligible Expenses</b>	<u>\$ 57,531</u>	<u>\$ -</u>	<u>\$ 35,000</u>	<u>92,531</u>
<b>Total Eligible Expenses</b>				<u>\$ 344,786</u>

**City of Hillsdale  
Dial-A-Ride Fund  
Schedule 5 - Operating Assistance Calculation  
For the Year Ended September 30, 2019**

	<b>Nonurban</b>
Total Expenses	\$ 437,317
Less Ineligible Expenses	
Depreciation	57,531
Ineligible Mobility Management	35,000
Total Ineligible Expenses per R&E Manual	92,531
Total State Eligible Expenses	344,786
Eligible Expenses for State Reimbursement	344,786
Reimbursement Rate	38.1712%
State Operating Assistance	\$ 131,609
Total Federal Eligible Expenses	
State Eligible Expense (per above)	\$ 344,786
Less: Additional Federal Ineligible Expenses - Audit Costs	1,358
Eligible Expenses for Federal Reimbursement	343,428
Reimbursement Rate	18.00%
Federal Operating Assistance	\$ 61,817



**City of Hillsdale  
Dial-A-Ride Fund  
Schedule 4N of Nonfinancial Information  
For the Year Ended September 30, 2019**

	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
Vehicle Hours	5,303	-	-	5,303
Vehicle Miles	54,496	-	-	54,496
Passengers, Regular	10,487	-	-	10,487
Passengers, Elderly	6,020	-	-	6,020
Passengers, Persons w/Disabilities	6,493	-	-	6,493
Passengers, Elderly Persons w/Disabilities	4,072	-	-	4,072
<b><i>Total Demand Response</i></b>	<b><i>27,072</i></b>	<b><i>-</i></b>	<b><i>-</i></b>	<b><i>27,072</i></b>
Days Operated	249	-	-	249
		<u>Quantity</u>		
Total Demand Response Vehicles		4		
Demand Response Vehicles with Lifts		4		
Diesel/Gasoline Gallons Consumed		9,846		
Total Transit (full-time equivalent) Employees		4		
Total Revenue Vehicles (full-time equivalent) Operators		3		



**CITY OF HILLSDALE  
HILLSDALE COUNTY, MICHIGAN  
SINGLE AUDIT ACT COMPLIANCE  
YEAR ENDED JUNE 30, 2020**

## TABLE OF CONTENTS

<b>SINGLE AUDIT ACT COMPLIANCE</b>	<b>Page</b>
Independent Auditor's Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	1
Schedule of Expenditures of Federal Awards	2
Notes to the Schedule of Expenditures of Federal Awards	3
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	4
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	6
Schedule of Findings and Questioned Costs	8

**INDEPENDENT AUDITOR'S REPORT ON THE SCHEUDLE OF EXPENDITURES OF  
FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan (the "City") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 7, 2020, 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 *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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.



Gabridge & Company, PLC  
Grand Rapids, MI  
December 7, 2020

**City of Hillsdale**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2020**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through / Grantor Number</u>	<u>Grant Period</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Housing and Urban Development</b>				
<b>Passed-through the Michigan Strategic Fund:</b>				
CDBG Block Grant Program - Dawn Theater Grant	14.228	MSC 218006-SBS		\$ 109,175
CDBG Block Grant Program - ICE Grant	14.228	MSC 216038-ICE		764,626
<b><i>Total U.S. Department of Housing and Urban Development</i></b>				<u>873,801</u>
<b>U.S. Department of Transportation</b>				
<b>Passed-through the Michigan Department of Transportation</b>				
Mobility Management (FY 18) - Section 5311	20.516	2017-0063-P7		14,000
Mobility Management (FY 19) - Section 5311	20.516	2017-0063-P9		14,000
Operating Assistance (FY19)	20.509	2017-0063-P8		12,287
Operating Assistance (FY20)	20.509	2017-0063-P10		47,245
Capital Grant - Bus - Section 5310	20.513	2017-0063-P6		76,824
<b><i>Total U.S. Department of Transportation</i></b>				<u>164,356</u>
<b><i>Total Expenditures of Federal Awards</i></b>				<u>\$ 1,038,157</u>

See Notes to the Schedule of Expenditures of Federal Awards

## City of Hillsdale

### Notes to the Schedule of Expenditures of Federal Awards

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#### **NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Hillsdale, Michigan (the "City") under programs of the federal government for the year ended June 30, 2020. 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). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

The City's reporting entity is defined in Note 1 of the City's Audited Financial Statements.

#### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

For purposes of charging indirect costs to federal awards, the City has not elected to use the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

#### **NOTE 3 - RECONCILIATION TO THE FINANCIAL STATEMENTS**

A reconciliation of the amounts presented in the Schedule to the amounts presented in the financial statements is as follows:

Intergovernmental revenues reported in the governmental fund financial statements:	\$ 4,256,978
Subtract: state and local sources	(3,667,812)
Add: federal sources of non-operating revenues in the proprietary fund financial statements:	448,991
<b>Total expenditures of federal awards:</b>	<b><u>\$ 1,038,157</u></b>

**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***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan (the “City”), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated December 7, 2020.

**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 charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

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

## **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.

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the typed name of the firm.

Gabridge & Company, PLC  
Grand Rapids, MI  
December 7, 2020



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

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

**Report on Compliance for Each Major Federal Program**

We have audited compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Hillsdale, Michigan's (the "City") major federal programs for the year ended June 30, 2020. The City'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 the City'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* (the "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 the City'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 the City's compliance.

***Opinion on its Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

## Report on Internal Control over Compliance

Management of the City 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 the City'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 the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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 have not been identified.

### *Purpose of this Report*

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.



Gabridge & Company, PLC  
Grand Rapids, MI  
December 7, 2020

**City of Hillsdale**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2020**

<b>SECTION I - SUMMARY OF AUDITOR'S RESULTS</b>
-------------------------------------------------

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal controls over financial reporting	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No (none reported)
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No (none reported)
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of Major Programs

Name of Federal Program or Cluster	CFDA Number
CDBG Block Grant Program	14.228
Dollar threshold used to distinguish between Type A and B programs?	\$750,000
Auditee qualified as a low-risk auditee?	No

<b>SECTION II - FINANCIAL STATEMENT FINDINGS</b>
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None

<b>SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS</b>
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None

<b>SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS</b>
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None

December 7, 2020

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan (the “City”) as of and for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 31, 2020. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the fiscal year ended June 30, 2020. We noted no transactions entered by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management’s estimate of the useful life of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management’s estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- The assumptions used in the actuarial valuations of the pension plan are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

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

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

#### *Disagreements with Management*

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

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 7, 2020.

#### *Management Consultations with Other Independent Accountants*

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

#### *Other Audit Findings or Issues*

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

### Other Matters

We applied certain limited procedures to management's discussion and analysis, budgetary comparison schedules, and the required pension schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual fund financial statements and schedules, along with the schedule of expenditures of federal awards, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### Restriction on Use

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

Very truly yours,

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the printed name of the company.

Gabridge & Company, PLC  
Grand Rapids, MI