

City of Hillsdale, Michigan

Financial Statements
And Independent Auditors' Report

Year Ended June 30, 2007

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2007, on our consideration of the City's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

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The Honorable Mayor and
Members of the City Council

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

Sincerely,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

November 30, 2007

Management's Discussion and Analysis

As management of the *City of Hillsdale, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$55,356,240 (*net assets*). Of this amount, \$14,603,175 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$5,197,831.
- As of the close of the current fiscal year, the City's Governmental funds reported combined ending fund balances of \$2,299,781. Approximately seventy-two percent (72%) of this total or \$1,666,592 is *available for spending* at the government's discretion (*unreserved and undesignated*).
- At the end of the current fiscal year, total fund balance for the general fund was \$681,335, or over fourteen percent (14.2%) of total general fund expenditures.
- The City's total bonded debt decreased by \$395,000 during the current fiscal year. Overall long-term debt for the City decreased almost nine percent (8.9%).

Overview of the Financial Statements

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

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

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

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

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

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

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

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

The City maintains sixteen 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 fund, capital improvement fund, and airport improvement fund, each of which are considered to be major funds. Data from the other fifteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

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

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

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

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

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

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain other information. This includes combining and individual fund financial statements and schedules, which can be found on pages 31-61 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Hillsdale, assets exceeded liabilities by \$55,356,240 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets, about sixty-seven percent (68%), reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure) less any outstanding related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City's Net Assets	Governmental		Business-type		Total		Total
	Activities		Activities		Total		Percent
	2006	2007	2006	2007	2006	2007	Change
Current and Other Assets	\$3,130,986	\$3,331,909	\$12,116,200	\$15,801,913	\$15,247,186	\$19,133,822	25.49%
Capital Assets	\$19,420,188	\$20,655,512	\$22,521,938	\$22,199,016	\$41,942,126	\$42,854,528	2.20%
Total Assets	\$22,551,174	\$23,987,421	\$34,638,138	\$38,000,929	\$57,189,312	\$61,988,350	8.40%
Long-term Liabilities Outstanding	\$1,107,203	\$971,939	\$4,177,610	\$3,777,298	\$5,284,813	\$4,749,237	-10.13%
Other Liabilities	\$328,152	\$422,205	\$1,417,941	\$1,460,668	\$1,746,093	\$1,882,873	7.83%
Total Liabilities	\$1,435,355	\$1,394,144	\$5,595,551	\$5,237,966	\$7,030,906	\$6,632,110	-5.67%
Net Assets:							
Invested In Capital Assets Net of Related Debt	\$18,369,188	\$19,752,512	\$18,106,938	\$18,179,016	\$36,476,126	\$37,931,528	4.00%
Restricted	\$1,521,164	\$1,578,521	\$1,225,861	\$1,243,016	\$2,747,025	\$2,821,537	2.71%
Unrestricted	\$1,225,467	\$1,262,244	\$9,709,788	\$13,340,931	\$10,935,255	\$14,603,175	33.54%
Total Net Assets	\$21,115,819	\$22,593,277	\$29,042,587	\$32,762,963	\$50,158,406	\$55,356,240	10.36%

An additional portion of the City's net assets (\$2,821,537) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$14,603,175, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

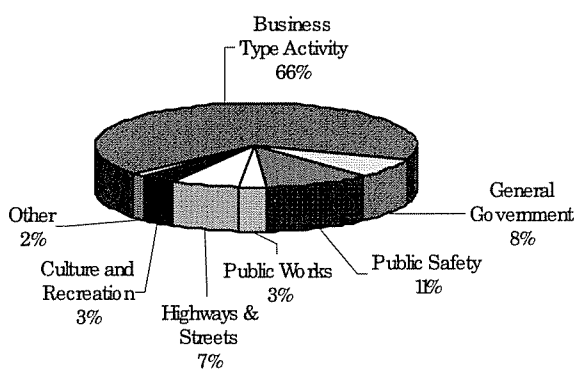
During the current fiscal year, the total government's net assets increased by \$5,197,831. The increase reflects the degree to which ongoing revenues exceed ongoing expenses in both the business-type and governmental activities. Net assets increased in the governmental activities by \$1,477,455 and increased by \$3,720,376 in the business-type activities.

City's Changes in Net Assets

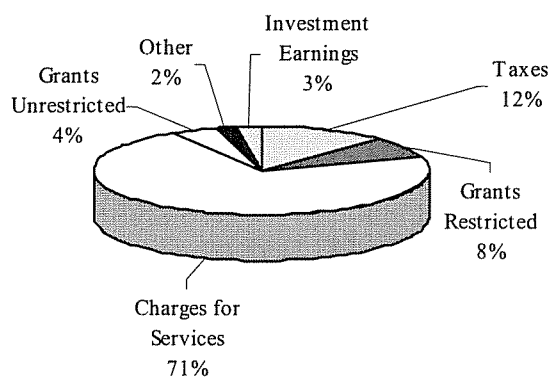
	Governmental		Business-type		Total		Total Percentage Change
	Activities 2006	2007	Activities 2006	2007	2006	2007	
Revenues:							
Program Revenues:							
Charges for Services	\$375,192	\$330,211	\$12,221,765	\$14,614,298	\$12,596,957	\$14,944,509	18.64%
Operating Grants & Contributions	1,211,946	1,283,633	312,951	234,420	\$1,524,897	\$1,518,053	-0.45%
Capital Grants & Contributions	89,763	1,631,569	0	0	\$89,763	\$1,631,569	1700.18%
Total Revenues	\$1,676,901	\$3,245,413	\$12,534,716	\$14,848,718	\$14,211,617	\$18,094,131	27.32%
Expenses:							
General Government	1,175,151	1,337,840			\$1,175,151	\$1,337,840	13.84%
Public Safety	1,690,177	1,842,539			\$1,690,177	\$1,842,539	9.01%
Public Services	527,574	472,648			\$527,574	\$472,648	-10.41%
Highways & Streets	1,719,973	1,244,808			\$1,719,973	\$1,244,808	-27.63%
Health (Building Inspect/Assessing)	153,560	157,208			\$153,560	\$157,208	2.38%
Recreation & Culture	586,329	587,083			\$586,329	\$587,083	0.13%
Interest on Long-term Debt	20,897	17,810			\$20,897	\$17,810	-14.77%
Other	17,963	55,489			\$17,963	\$55,489	208.91%
Unallocated Depreciation	36,368	36,368			\$36,368	\$36,368	0.00%
Electric			9,241,618	9,172,112	\$9,241,618	\$9,172,112	-0.75%
Water			1,024,046	1,065,397	\$1,024,046	\$1,065,397	4.04%
Sewer			976,308	970,275	\$976,308	\$970,275	-0.62%
Transportation			429,267	446,076	\$429,267	\$446,076	3.92%
Total Expenses	\$5,927,992	\$5,751,793	\$11,671,239	\$11,653,860	\$17,599,231	\$17,405,653	-1.10%
Increase (Decrease) in							
Net assets Before Transfers	(\$4,251,091)	(\$2,506,380)	\$863,477	\$3,194,858	(\$3,387,614)	\$688,478	-79.68%
General Revenues:							
Taxes	2,464,617	2,624,310			\$2,464,617	\$2,624,310	6.48%
Grants & Contributions Not Restricted							
To Specific Programs	931,294	921,869			\$931,294	\$921,869	-1.01%
Unrestricted Investment Earnings	106,929	154,617	137,562	377,947	\$244,491	\$532,564	117.83%
Other Revenues	508,365	559,100	(9,120)	45,521	\$499,242	\$604,621	21.11%
Transfers - Internal Activity	(56,097)	(276,061)	57,950	102,050	\$1,853	(\$174,011)	-9490.77%
Total General Revenues	3,955,108	3,983,835	186,392	525,518	4,141,497	4,509,353	8.88%
Net Income	(\$295,983)	1,477,455	\$1,049,869	\$3,720,376	\$753,883	\$5,197,831	589.47%
Net Assets - Beginning of Year	\$21,411,805	\$21,115,822	\$27,992,718	\$29,042,587	\$49,404,523	\$50,158,409	1.53%
Net Assets - End of Year	\$21,115,822	\$22,593,277	\$29,042,587	\$32,762,963	\$50,158,406	\$55,356,240	10.36%

The City's total revenue, including special items, was \$22,603,484. This represents an increase of about twenty three percent (23.16%) over last year. Overall, the biggest share of this revenue, seventy-one percent (71%), comes from charges for services. Ninety-eight percent (98%) of that is from business-type activities. Approximately twelve and one-half percent (12.5%) of all revenue comes from taxes. Another twelve percent (12%) is from federal, state, and local grant sources. All other revenues combined amount to only four and one-half percent (4.5%) of total revenues. Only six percent (6%) of the governmental activities revenue comes from charges for services as opposed to ninety-five (95%) for business-type activities (Board of Public Utilities and Dial-A-Ride). Forty-six percent (46%) of the governmental activities revenue comes from taxes.

**Functional Expenses for Fiscal Yr 2007
Governmental & Business-type Activities**



**Source of Revenue for Fiscal Yr 2007
Governmental & Business-type Activities**



On the expense side, the largest portion of the expenditures, sixty-six percent (66%) is for the business type activities (Board of Public Utilities and Dial-A-Ride). General government amounts to only eight percent (8%) of total costs of both business and governmental activities; public safety accounts for eleven percent (11%) of the overall expenditures, highways and streets amount to seven percent (7%), while recreation and culture and public works are both at three percent (3%) each.

Governmental activities. Governmental activities had net income of \$1,477,455. That is a significant improvement from last year's net loss of \$295,983. Key elements of this increase are as follows:

- Property tax revenue increased \$159,693 (6.5%) over last year.
- The airport improvement fund received grant monies for purchase of land totaling \$1,536,415.
- Payments in Lieu of Taxes (PILOT) revenue was up six percent (6%) or \$75,385 over last year. These are payments made to the local government in place of property taxes. The City receives a PILOT from the Board of Public Utilities, Greenwood Village, Hillside Place, and Hilltop Apartments.
- State Revenue Sharing was down for the sixth consecutive year.
- Governmental activities investment earnings were up for the third consecutive year. They went up \$47,688 or over forty-four percent (44%) from last year.

- Governmental activities operational costs decreased by \$176,199, which is about three percent (3%) below the prior year. The decrease is primarily the result of staffing level changes and the 6 month vacancy in the City Manager's office.
- The City transferred ownership of the Three Meadows Development property, purchased last year for \$180,000, to the Economic Development Corporation (EDC), a component unit of the City.

Business-type activities. Business-type activities increased the City's net assets by \$3,720,376, accounting for all of the growth in the government's net assets for the current year. Key elements of this increase are as follows:

- This year the electric fund's net income was \$3,498,673. This represents an increase in net income for this fund of \$2,769,317 from one year ago and accounts for over ninety-five percent (95%) of the total net income for the governmental and business-type activities combined. The increase in net income in this fund can be traced to a twenty-five percent (25%) increase in charges for services and a thirty-two percent (32%) increase in interest and other income.
- The water fund experienced a net income of \$459,563, which is up three hundred sixty-three percent (363%) from last year. Operating revenues in this fund were up over thirty-two percent (32%) from the prior year. The difference again is in the increase in charges for services due to rate increases.
- The sewer fund net income was down more than one hundred eight-five percent (185%) as a result of a thirty-seven percent (37%) reduction of charges for services as rates were lowered; the net loss was anticipated by management and budgeting was done accordingly.
- The transportation fund finished the year with a net loss of \$50,123. The major contributor to this deficit is a twenty-five percent (25%) reduction in state and federal capital grant monies.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,299,781. That is an increase of \$34,578 in comparison with the prior year. Of that combined ending fund balance, \$1,666,592 is designated as unreserved, undesignated. Overall, the total governmental fund revenues remained almost level, with just over a one percent (1.08%) or \$60,827 increase. The total expenditures decreased slightly by about three percent (3.0%) from last year. The decrease in expenditures is the result of a twenty-seven percent (27%) reduction in highway and street reconstruction/resurfacing work. The City had budgeted to do several street projects in the prior year with the preparation for Phase II of the M-99 reconstruction work to be done during the summer of 2007. The *reserved* fund balance of \$633,189 in the governmental funds is not available for new spending because it has already been committed 1) to generate income for the support and maintenance of R.L. Owen's Park

(\$20,250); 2) to generate income to pay for the perpetual care of the two municipal cemeteries, and Mrs. Stocks Park (\$545,509) and 3) \$67,430 is reserved for expenditures already paid for the 2007-08 fiscal year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance of the general fund was \$681,335. All of this balance except for \$65,823 is unreserved and therefore available for spending at the government's discretion.

During the current fiscal year, the fund balance of the City's general fund decreased by \$41,328. This is primarily attributable to a twenty percent (20%) increase in transfers out to other funds.

The *Capital Improvement Fund* ended the year with a fund balance of \$470,027 which is less than a \$1,000 more than the prior year's balance. Much of this money will be used in the next fiscal year for the M-99 reconstruction.

The *Airport Improvement Fund* end of year fund balance was \$157,224, which is an increase of \$16,107 from the prior year. The main activity in this fund was the receipt of grant revenue for airport expansion.

Other nonmajor governmental funds collectively experienced a decrease in fund balances for the year of \$160,118. There was little change in the total revenues and expenditures for these funds over the past fiscal year. However, the other financing sources/uses for these funds (transfers in/out from other governmental funds) increased substantially (453% or \$261,451) from the prior year. This increase is the result of a \$150,000 reduction in transfers out of the Major Street Fund to local streets and for capital improvement projects. The other major change was the \$191,970 increase in the General Fund transfer to the Local Street Fund.

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

Unrestricted net assets of the water, sewer, electric, and transportation funds at the end of the year amounted to a total of \$13,340,931. Net income for all City proprietary funds was \$3,720,376. The business-type funds that showed a net income for the year were the water and electric funds. Both the sewer and the transportation funds experienced net losses.

General Fund Budgetary Highlights

Differences between original and final amended revenue budgets for general fund totaled \$26,000. The only change was for the additional grant money received by the Fire Department from Dow Chemical Company to purchase confined space rescue equipment.

Differences between the original and final amended expenditure budgets for the general fund totaled \$122,265. The adjustments were made as follows: clerk's budget was decreased \$6,735 because of a shifting of staff from this office to the recreation department; city manager's budget went up \$86,000 to cover the cost of a severance package paid out to the former city manager; the administrative budget went up \$40,000 to cover the cost of additional legal fees associated with voted charter amendments; an additional \$5,000 was added to the treasurer's budget to refund overcharges for personal property taxes collected; the street light department was increased \$15,000 due to increased utility costs; general government operations increased \$21,000 to pay for an additional city wide election to fill a ward vacancy and additional work

done to finish the parking lot located behind the post office; public safety wages (police & fire) were increased \$33,000 to accommodate the hiring of a fourth firefighter and pay overages in police overtime; and the public services department budget was reduced by \$96,000 because the City no longer sells garbage labels (residents pay the solid waste company directly). The culture and recreation – parks budget was increased by \$25,000 to pay for costs associated with repair work done at the Fields of Dreams concession/restroom facility and dock space alignments.

Transfers out of the general fund were increased by \$48,810. The capital improvement fund transfer budget was increased by \$100,000 to fund infrastructure improvements in subsequent years and the transfer to the recreation fund was increased by \$5,000 to cover additional expenditures for staffing adjustments between the clerk's and recreation offices. Because the Board of Public Utilities agreed to hold repayment of the Three Meadows loan to the City in abeyance for 10 years, the budgeted transfer to the Three Meadows Development fund was reduced by \$56,190.

Budget to actual comparisons for all other City special revenue funds were favorable in varying degrees.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounted to \$37,931,528 (net of related debt). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, library books, recreational land improvements, roads, sidewalks, and storm water utility systems. The City's total capital assets increased in the current fiscal year approximately six percent (6.36%) for governmental activities and increased less than one-half of one percent (0.4%) for business-type activities.

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

- A variety of infrastructure projects (street resurfacings/ reconstructions and sidewalk construction) were done throughout the year at a combined cost of approximately \$463,902.
- The utilities (electric, water, and sewer funds) did a variety of projects throughout the year totaling just over \$1 million (\$1,009,083). Those projects included a new folder/insert machine; the purchase of a digger derrick truck; underground/overhead extensions and new lines in the electric utility; the addition of new services; electric meters; transformers; water meters; rebuild exhaust blower on engine #2; a laptop computer; Christmas decorations; portable generators; replacement of water valves; and the replacement of a screw pump.
- Primary government purchased one police patrol car, a mower deck, brush chipper, air compressor, leaf collection trailer and a conveyor system for a total cost of \$68,693.
- The library purchased numerous books at a cost of \$17,027.
- Land was purchased for airport improvements of \$1,583,290.

- Buildings and improvements consisted of upgrading the heating system in the Mitchell building (old Library) at a cost of \$9,243.
- Land improvements consisted of renovations to Mrs. Stocks Park in the amount of \$26,611.

City's Capital Assets (Net of Depreciation)							
	Governmental		Business-type		Total		Total
	Activities		Activities				Percent
	2006	2007	2006	2007	2006	2007	Change
Land	\$3,451,793	\$4,855,083	\$189,982	\$189,982	\$3,641,775	\$5,045,065	38.53%
Buildings and System Improvements	3,825,977	3,762,191	21,840,812	21,194,781	\$25,666,789	\$24,956,972	0-2.77%
Library Books	53,880	63,389			\$53,880	\$63,389	17.65%
Machinery and Equipment	846,664	821,577	123,211	75,897	\$969,875	\$897,474	-7.46%
Infrastructure	11,241,874	11,153,272			\$11,241,874	\$11,153,272	-0.79%
Construction in Progress	0	0	367,933	738,356	367,933	738,356	100.68%
Total	\$19,420,188	\$20,655,512	\$22,521,938	\$22,199,016	\$41,942,126	\$42,854,528	2.18%

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

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$4,020,000, which consisted of revenue bonds, where the City has pledged the income to be received from the constructed assets to pay the debt service of the related bond issues. The City has no general obligation bonds outstanding.

City's Outstanding Debt Revenue Bonds				
	Business-type		Total	
	Activities			
	2006	2007	2006	2007
Revenue Bonds	\$4,415,000	\$4,020,000	\$4,415,000	\$4,020,000
Total	\$4,415,000	\$4,020,000	\$4,415,000	\$4,020,000

The City's total debt decreased during the current fiscal year by \$524,909 or almost nine percent (8.9%). No new debt was issued during the year.

The City of Hillsdale has a revenue bond rating with Standard & Poor's of "BBB" and a "Baa1" rating from Moody's.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$18,178,679, which is significantly in excess of the City's total outstanding long-term debt obligation of \$4,923,000.

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

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2007-8 fiscal year:

- The unemployment rate for Hillsdale County (which includes the City) in September 2007 was 8.5%. That's up 1.3% from a year ago and 1.5% higher than the State of Michigan's unemployment rate for the same period.
- Inflationary trends in the region compare favorably to national indices.
- State shared revenues are likely to decrease due to declining revenue streams coming in to the State of Michigan, for which a portion are distributed back to municipalities based on the State constitution.

Requests for Information

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

City of Hillsdale, Michigan
Statement of Net Assets
June 30, 2007

	<u>Primary Government</u>			<u>Component Units</u>	
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>	<u>Tax Increment</u>	<u>Economic</u>
	<u>Activities</u>	<u>Activities</u>		<u>Finance</u>	<u>Development</u>
				<u>Authority</u>	<u>Corporation</u>
Assets:					
Cash and investments	\$ 2,336,441	\$ 7,850,160	\$ 10,186,601	\$ 314,787	\$ 105,852
Receivables	672,347	1,165,583	1,837,930	-	-
Internal balances	104,734	(103,642)	1,092	-	-
Prepaid items and other assets	100,004	145,291	245,295	-	-
Inventory	118,383	747,883	866,266	-	-
Investment in M.S.C.P.A.	-	5,996,638	5,996,638	-	-
Capital assets, net					
Assets not being depreciated	4,855,083	928,338	5,783,421	-	180,000
Assets being depreciated	<u>15,800,429</u>	<u>21,270,678</u>	<u>37,071,107</u>	<u>-</u>	<u>-</u>
Total assets	<u>23,987,421</u>	<u>38,000,929</u>	<u>61,988,350</u>	<u>314,787</u>	<u>285,852</u>
Liabilities:					
Accounts payable	191,782	81,063	272,845	-	-
Accrued expenses	49,711	927,681	977,392	-	-
Accrued interest	2,656	37,794	40,450	-	-
Noncurrent liabilities:					
Due within one year	178,056	414,130	592,186	-	-
Due in more than one year	<u>971,939</u>	<u>3,777,298</u>	<u>4,749,237</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>1,394,144</u>	<u>5,237,966</u>	<u>6,632,110</u>	<u>-</u>	<u>-</u>
Net Assets:					
Invested in capital assets, net of related debt	19,752,512	18,179,016	37,931,528	-	180,000
Restricted for:					
Debt service	3,080	1,243,016	1,246,096	-	-
Capital projects	1,009,682	-	1,009,682	-	-
Endowment and trust principal	565,759	-	565,759	-	-
Unrestricted	<u>1,262,244</u>	<u>13,340,931</u>	<u>14,603,175</u>	<u>314,787</u>	<u>105,852</u>
Total net assets	<u>\$ 22,593,277</u>	<u>\$ 32,762,963</u>	<u>55,356,240</u>	<u>\$ 314,787</u>	<u>\$ 285,852</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Activities
Year Ended June 30, 2007

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government					
Governmental activities:					
General government	\$ 1,337,840	\$ 161,798	\$ 496,704	\$ 95,154	\$ (584,184)
Public safety	1,842,539	-	16,912	-	(1,825,627)
Public works	472,648	34,631	-	1,536,415	1,098,398
Highways and streets	1,244,808	-	634,686	-	(610,122)
Health	157,208	-	-	-	(157,208)
Culture and recreation	587,083	133,782	135,331	-	(317,970)
Interest on long-term debt	17,810	-	-	-	(17,810)
Other	55,489	-	-	-	(55,489)
Unallocated depreciation	<u>36,368</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(36,368)</u>
Total governmental activities	<u>5,751,793</u>	<u>330,211</u>	<u>1,283,633</u>	<u>1,631,569</u>	<u>(2,506,380)</u>
Business-type activities:					
Electric	9,172,112	12,360,435	-	-	3,188,323
Sewer	970,275	719,683	-	-	(250,592)
Water	1,065,397	1,474,697	-	-	409,300
Transportation	<u>446,076</u>	<u>59,483</u>	<u>234,420</u>	<u>-</u>	<u>(152,173)</u>
Total business-type activities	<u>11,653,860</u>	<u>14,614,298</u>	<u>234,420</u>	<u>-</u>	<u>3,194,858</u>
Total primary government	<u>\$ 17,405,653</u>	<u>\$ 14,944,509</u>	<u>\$ 1,518,053</u>	<u>\$ 1,631,569</u>	<u>\$ 688,478</u>
Component Units					
Tax Increment Finance Authority	\$ 8,592	\$ -	\$ -	\$ -	\$ (8,592)
Economic Development Corporation	<u>1,601</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,601)</u>
Total component units	<u>\$ 10,193</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (10,193)</u>

continued..

City of Hillsdale, Michigan
Statement of Activities (Continued)
Year Ended June 30, 2007

	<u>Primary Government</u>			<u>Component Units</u>	
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>	<u>Tax Increment</u>	<u>Economic</u>
	<u>Activities</u>	<u>Activities</u>		<u>Finance</u>	<u>Development</u>
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Authority</u>	<u>Corporation</u>
Changes in Net Assets					
Net (expense) revenue	\$ (2,506,380)	\$ 3,194,858	\$ 688,478	\$ (8,592)	\$ (1,601)
General revenues:					
Property taxes	2,624,310	-	2,624,310	100,310	-
Unrestricted grants and contributions	921,869	-	921,869	-	-
Interest and investment earnings	154,617	377,947	532,564	14,133	5,326
Other revenues	559,100	45,521	604,621	-	-
Transfers - internal activities	(276,061)	102,050	(174,011)	(5,989)	180,000
Total general revenues, contributions and transfers	<u>3,983,835</u>	<u>525,518</u>	<u>4,509,353</u>	<u>108,454</u>	<u>185,326</u>
Changes in Net Assets	1,477,455	3,720,376	5,197,831	99,862	183,725
Net Assets - Beginning of Year	<u>21,115,822</u>	<u>29,042,587</u>	<u>50,158,409</u>	<u>214,925</u>	<u>102,127</u>
Net Assets - End of Year	<u>\$ 22,593,277</u>	<u>\$ 32,762,963</u>	<u>\$ 55,356,240</u>	<u>\$ 314,787</u>	<u>\$ 285,852</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan

Balance Sheet

Governmental Funds

June 30, 2007

	<u>General</u>	<u>Capital Improvement</u>	<u>Airport Improvement</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Assets</u>					
Cash	\$ 481,739	\$ 516,440	\$ 157,224	\$ 422,085	\$ 1,577,488
Short-term investments	-	-	-	459,361	459,361
Receivables:					
Accounts receivable	41,764	-	-	46,429	88,193
Special assessments	-	358,584	-	-	358,584
Due from other governmental units	123,970	-	-	101,600	225,570
Due from other funds	108,162	-	-	-	108,162
Prepaid expenditures	<u>65,823</u>	<u>-</u>	<u>-</u>	<u>1,607</u>	<u>67,430</u>
 Total assets	 <u>\$ 821,458</u>	 <u>\$ 875,024</u>	 <u>\$ 157,224</u>	 <u>\$ 1,031,082</u>	 <u>\$ 2,884,788</u>
 <u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 99,665	\$ 44,262	\$ -	\$ 30,415	\$ 174,342
Due to other funds	1,403	-	-	2,025	3,428
Salaries payable	25,344	2,151	-	7,447	34,942
Deferred revenue	-	358,584	-	-	358,584
Other liabilities	<u>13,711</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,711</u>
Total liabilities	<u>140,123</u>	<u>404,997</u>	<u>-</u>	<u>39,887</u>	<u>585,007</u>
Fund Balances:					
Reserved:					
Reserved for prepaid expenditures	65,823	-	-	1,607	67,430
Reserved for perpetual care and endowment	-	-	-	565,759	565,759
Unreserved; undesignated	615,512	470,027	-	-	1,085,539
Unreserved; undesignated-					
reported in nonmajor:					
Special revenue funds	-	-	-	394,246	394,246
Debt service funds	-	-	-	5,736	5,736
Capital project funds	<u>-</u>	<u>-</u>	<u>157,224</u>	<u>23,847</u>	<u>181,071</u>
Total fund balances	<u>681,335</u>	<u>470,027</u>	<u>157,224</u>	<u>991,195</u>	<u>2,299,781</u>
 Total liabilities and fund balances	 <u>\$ 821,458</u>	 <u>\$ 875,024</u>	 <u>\$ 157,224</u>	 <u>\$ 1,031,082</u>	 <u>\$ 2,884,788</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
June 30, 2007

Total Fund Balances - Governmental Funds \$ 2,299,781

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

Capital assets used in governmental activities are not financial
resources and are not reported in the funds.

The cost of the capital assets is

\$ 38,860,315

Accumulated depreciation is

(18,204,803)

20,655,512

Because the focus of governmental funds is on short-term financing,
some assets will not be available to pay for current-period expenditures.
Those assets (such as certain receivables) are offset by deferred revenues
in the governmental funds, and these are not included in fund balance.

Deferred special assessments

358,584

Internal service funds are used by management to charge the costs of certain
equipment usage and administrative costs to individual governmental funds.
The assets and liabilities of the internal service funds are included in governmental
activities in the Statement of Net Assets.

Net assets of governmental activities accounted for in the internal service fund

385,433

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

Contracts and loans payable

(903,000)

Accrued interest

(2,656)

Compensated absences

(200,377)

Total Net Assets - Governmental Activities

\$ 22,593,277

City of Hillsdale, Michigan
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2007

	<u>General</u>	<u>Capital Improvement</u>	<u>Airport Improvement</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues:					
Taxes	\$ 2,440,798	\$ -	\$ -	\$ 154,424	\$ 2,595,222
Intergovernmental - federal and State	925,336	-	1,536,415	651,887	3,113,638
Charges for services	-	-	-	112,547	112,547
Fines and violations	-	-	-	52,801	52,801
Miscellaneous	<u>1,368,427</u>	<u>27,129</u>	<u>19,901</u>	<u>171,235</u>	<u>1,586,692</u>
Total revenues	<u>4,734,561</u>	<u>27,129</u>	<u>1,556,316</u>	<u>1,142,894</u>	<u>7,460,900</u>
Expenditures:					
General government	1,335,516	-	-	-	1,335,516
Public safety	1,781,762	-	-	14,385	1,796,147
Public works	416,407	-	-	-	416,407
Highways and streets	-	-	-	755,113	755,113
Health	156,758	-	-	-	156,758
Culture and recreation	160,271	-	-	339,527	499,798
Debt service:					
Principal payments	-	-	-	148,000	148,000
Interest and fiscal charges	-	-	-	18,331	18,331
Capital outlay	<u>-</u>	<u>536,236</u>	<u>1,640,299</u>	<u>27,656</u>	<u>2,204,191</u>
Total expenditures	<u>3,850,714</u>	<u>536,236</u>	<u>1,640,299</u>	<u>1,303,012</u>	<u>7,330,261</u>
Revenues Over (Under) Expenditures	<u>883,847</u>	<u>(509,107)</u>	<u>(83,983)</u>	<u>(160,118)</u>	<u>130,639</u>
Other Financing Sources (Uses):					
Operating transfers in	22,000	509,944	100,000	432,505	1,064,449
Operating transfers out	<u>(947,175)</u>	<u>-</u>	<u>-</u>	<u>(213,335)</u>	<u>(1,160,510)</u>
Total other financing sources (uses)	<u>(925,175)</u>	<u>509,944</u>	<u>100,000</u>	<u>219,170</u>	<u>(96,061)</u>
Net Changes in Fund Balances	(41,328)	837	16,017	59,052	34,578
Fund Balances - Beginning of Year	<u>722,663</u>	<u>469,190</u>	<u>141,207</u>	<u>932,143</u>	<u>2,265,203</u>
Fund Balances - End of Year	<u>\$ 681,335</u>	<u>\$ 470,027</u>	<u>\$ 157,224</u>	<u>\$ 991,195</u>	<u>\$ 2,299,781</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Governmental Funds
Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds \$ 34,578

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

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

Depreciation expense	\$ (710,658)	
Transfer land to EDC	(180,000)	
Capital outlay	<u>2,148,702</u>	1,258,044

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

Current year deferred special assessments		29,633
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Bond proceeds are reported as financing sources in governmental funds
and thus contribute to the change in fund balance. In the Statement of Net
Assets, however, issuing debt increases long-term liabilities and does not
affect the Statement of Activities. Similarly, repayment of principal is an
expenditure in the governmental funds but reduces the liability in the
Statement of Net Assets.

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

Net operating income from governmental activities in the internal service fund		15,321
--	--	--------

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

Decrease in accrued interest payable on bonds		521
Increase in the accrual for compensated absences		<u>(8,642)</u>

Change in Net Assets of Governmental Activities \$ 1,477,455

City of Hillsdale, Michigan
Statement of Net Assets
Proprietary Funds
June 30, 2007

	Business-type Activities - Enterprise Funds				Total	Governmental Activities - Internal Service Funds
	Electric	Water	Sewer	Nonmajor Fund Dial-A-Ride		
Assets:						
Current assets:						
Cash and cash equivalents	\$ 2,213,940	\$ -	\$ 469,676	\$ 80,129	\$ 2,763,745	\$ 299,592
Receivables:						
Accounts (net of allowance for bad debt of \$120,000)	988,678	97,542	47,045	-	1,133,265	-
Accrued interest	24,115	3,298	4,905	-	32,318	-
Due from other funds	3,428	-	679,727	-	683,155	-
Inventory, at cost	330,418	77,320	9,481	-	417,219	118,383
Prepaid expenses	84,458	21,344	35,515	3,974	145,291	32,574
Total current assets	<u>3,645,037</u>	<u>199,504</u>	<u>1,246,349</u>	<u>84,103</u>	<u>5,174,993</u>	<u>450,549</u>
Noncurrent assets:						
Restricted investments	-	629,210	613,806	-	1,243,016	-
Designated investments	3,256,997	281,255	305,147	-	3,843,399	-
Total noncurrent assets	<u>3,256,997</u>	<u>910,465</u>	<u>918,953</u>	<u>-</u>	<u>5,086,415</u>	<u>-</u>
Capital assets:						
Land	17,467	49,613	122,902	-	189,982	-
Plant and equipment	29,046,691	9,933,943	13,134,577	562,126	52,677,337	1,608,345
Construction in progress	698,714	27,723	11,919	-	738,356	-
	<u>29,762,872</u>	<u>10,011,279</u>	<u>13,269,398</u>	<u>562,126</u>	<u>53,605,675</u>	<u>1,608,345</u>
Less accumulated depreciation	(17,492,604)	(4,369,954)	(9,057,872)	(486,229)	(31,406,659)	(1,208,027)
Net capital assets	<u>12,270,268</u>	<u>5,641,325</u>	<u>4,211,526</u>	<u>75,897</u>	<u>22,199,016</u>	<u>400,318</u>
Other assets:						
Long-term inventories	330,664	-	-	-	330,664	-
Investment in M.S.C.P.A	5,996,638	-	-	-	5,996,638	-
Total other assets	<u>6,327,302</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,327,302</u>	<u>-</u>
Total assets	<u>25,499,604</u>	<u>6,751,294</u>	<u>6,376,828</u>	<u>160,000</u>	<u>38,787,726</u>	<u>850,867</u>
Liabilities:						
Current liabilities (payable from current assets):						
Accounts payable	37,274	30,188	11,002	2,599	81,063	17,440
Accrued purchased power	865,050	-	-	-	865,050	-
Accrued expenses	36,244	4,830	5,347	2,136	48,557	1,058
Customer deposits	6,276	85	-	-	6,361	-
Due to other funds	40,748	683,284	1,898	60,867	786,797	-
Due to other governments	-	-	-	7,713	7,713	-
Total current liabilities (payable from current assets)	<u>985,592</u>	<u>718,387</u>	<u>18,247</u>	<u>73,315</u>	<u>1,795,541</u>	<u>18,498</u>
Current liabilities (payable from restricted assets):						
Bonds payable	-	260,000	150,000	-	410,000	-
Compensated absences	-	-	-	4,130	4,130	-
Accrued interest	-	33,119	4,675	-	37,794	-
Total current liabilities (payable from restricted assets)	<u>-</u>	<u>293,119</u>	<u>154,675</u>	<u>4,130</u>	<u>451,924</u>	<u>-</u>
Noncurrent liabilities:						
Accrued compensated absences	92,275	36,104	34,364	4,555	167,298	46,618
General obligation and revenue bonds payable	-	2,825,000	785,000	-	3,610,000	-
Total noncurrent liabilities	<u>92,275</u>	<u>2,861,104</u>	<u>819,364</u>	<u>4,555</u>	<u>3,777,298</u>	<u>46,618</u>
Total liabilities	<u>1,077,867</u>	<u>3,872,610</u>	<u>992,286</u>	<u>82,000</u>	<u>6,024,763</u>	<u>65,116</u>
Net Assets:						
Invested in capital assets, net of related debt	12,270,268	2,556,325	3,276,526	75,897	18,179,016	400,318
Restricted investments	-	629,210	613,806	-	1,243,016	-
Unrestricted (deficit)	12,151,469	(306,851)	1,494,210	2,103	13,340,931	385,433
Total net assets	<u>\$ 24,421,737</u>	<u>\$ 2,878,684</u>	<u>\$ 5,384,542</u>	<u>\$ 78,000</u>	<u>\$ 32,762,963</u>	<u>\$ 785,751</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
Year Ended June, 2007

	<u>Business-type Activities - Enterprise Funds</u>					<u>Governmental</u>
	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor</u>	<u>Totals</u>	<u>Internal</u>
				<u>Fund</u>		<u>Service</u>
			<u>Dial-A-Ride</u>		<u>Funds</u>	
Operating Revenues:						
Charges for services	\$ 12,360,435	\$ 1,474,697	\$ 719,683	\$ 59,012	\$ 14,613,827	\$ 484,804
Other	-	-	-	148	148	167,155
Total operating revenues	<u>12,360,435</u>	<u>1,474,697</u>	<u>719,683</u>	<u>59,160</u>	<u>14,613,975</u>	<u>651,959</u>
Operating Expenses:						
Purchased power	6,304,511	-	-	-	6,304,511	-
Production expense	863,998	55,739	-	-	919,737	-
Purification expense	-	232,293	-	-	232,293	-
Treatment expense	-	-	559,492	-	559,492	-
Transmission and distribution	1,164,930	415,347	-	-	1,580,277	-
Administrative	838,673	227,184	213,130	-	1,278,987	651,561
Sewer collection	-	-	177,478	-	177,478	-
Transportation	-	-	-	446,076	446,076	-
Total operating expenses	<u>9,172,112</u>	<u>930,563</u>	<u>950,100</u>	<u>446,076</u>	<u>11,498,851</u>	<u>651,561</u>
Operating Income (Loss)	<u>3,188,323</u>	<u>544,134</u>	<u>(230,417)</u>	<u>(386,916)</u>	<u>3,115,124</u>	<u>398</u>
Nonoperating Revenues (Expenses):						
Interest income	258,362	54,487	65,098	-	377,947	14,923
Interest expense	-	(134,834)	(20,175)	-	(155,009)	-
Other income (expense)	51,988	(4,224)	(2,243)	234,743	280,264	-
Total nonoperating revenues (expenses)	<u>310,350</u>	<u>(84,571)</u>	<u>42,680</u>	<u>234,743</u>	<u>503,202</u>	<u>14,923</u>
Net Income (Loss) Before Transfers	3,498,673	459,563	(187,737)	(152,173)	3,618,326	15,321
Transfers in from Other Funds	-	-	-	102,050	102,050	-
Net Income (Loss)	3,498,673	459,563	(187,737)	(50,123)	3,720,376	15,321
Net Assets - Beginning of Year	<u>20,923,064</u>	<u>2,419,121</u>	<u>5,572,279</u>	<u>128,123</u>	<u>29,042,587</u>	<u>770,430</u>
Net Assets - End of Year	<u>\$ 24,421,737</u>	<u>\$ 2,878,684</u>	<u>\$ 5,384,542</u>	<u>\$ 78,000</u>	<u>\$ 32,762,963</u>	<u>\$ 785,751</u>

City of Hillsdale, Michigan
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2007

	Business-type Activities - Enterprise Funds					Governmental
	Electric	Water	Sewer	Nonmajor	Total	Activities
				Fund		Internal
			Dial-A-Ride		Service Funds	
Cash Flows From Operating Activities:						
Cash received from customers, residents and users	\$ 14,099,660	\$ 1,436,161	\$ 735,355	\$ 59,012	\$ 16,330,188	\$ -
Other operating receipts	47,683	9,593	9,039	148	66,463	-
Receipts for interfund services provided	-	-	-	-	-	651,959
Cash paid to employees and suppliers	<u>(11,807,999)</u>	<u>(1,021,037)</u>	<u>(489,677)</u>	<u>(384,413)</u>	<u>(13,703,126)</u>	<u>(558,175)</u>
Net cash provided by (used in) operating activities	<u>2,339,344</u>	<u>424,717</u>	<u>254,717</u>	<u>(325,253)</u>	<u>2,693,525</u>	<u>93,784</u>
Cash Flows From Noncapital Financing Activities:						
Intergovernmental nonoperating revenues	-	-	-	234,743	234,743	-
Transfers from other funds	-	-	-	102,050	102,050	-
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>336,793</u>	<u>336,793</u>	<u>-</u>
Cash Flows From Capital and Related						
Financing Activities:						
Bond payments on capital debt	-	(250,000)	(145,000)	-	(395,000)	-
Interest on capital debt	-	(134,834)	(20,175)	-	(155,009)	-
Proceeds from the disposal of assets	143,013	-	-	-	143,013	-
Purchase of capital assets, net	<u>(778,250)</u>	<u>(48,511)</u>	<u>(4,296)</u>	<u>-</u>	<u>(831,057)</u>	<u>(68,694)</u>
Net cash used by capital and related financing activities	<u>(635,237)</u>	<u>(433,345)</u>	<u>(169,471)</u>	<u>-</u>	<u>(1,238,053)</u>	<u>(68,694)</u>
Cash Flows From Investing Activities:						
Unrealized gain on investments	(27,604)	(9,450)	(14,240)	-	(51,294)	-
Purchase of investments	(1,111,175)	(65,185)	(45,366)	-	(1,221,726)	-
Proceeds from the sale of investments	-	33,000	11,000	-	44,000	-
Other nonoperating income received	18,107	-	-	-	18,107	-
Other nonoperating expenses	-	(4,224)	(2,243)	-	(6,467)	-
Interest income received	258,362	54,487	65,098	-	377,947	14,923
Net cash provided by investing activities	<u>(862,310)</u>	<u>8,628</u>	<u>14,249</u>	<u>-</u>	<u>(839,433)</u>	<u>14,923</u>
Net Increase (Decrease) in Cash and Cash Equivalents	841,797	-	99,495	11,540	952,832	40,013
Cash and Cash Equivalents - Beginning of Year	<u>1,372,143</u>	<u>-</u>	<u>370,181</u>	<u>68,589</u>	<u>1,810,913</u>	<u>259,579</u>
Cash and Cash Equivalents - End of Year	<u>\$ 2,213,940</u>	<u>\$ -</u>	<u>\$ 469,676</u>	<u>\$ 80,129</u>	<u>\$ 2,763,745</u>	<u>\$ 299,592</u>

Continued..

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Cash Flows (Continued)
Proprietary Funds
Year Ended June 30, 2007

	<u>Business-type Activities - Enterprise Funds</u>					<u>Governmental</u>
	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor</u>	<u>Total</u>	<u>Activities</u>
				<u>Fund</u>		<u>Internal</u>
			<u>Dial-A-Ride</u>			<u>Service Funds</u>
Balance Sheet Classification of Cash						
Current assets - cash and cash equivalents	\$ 2,213,940	\$ -	\$ 469,676	\$ 80,129	2,763,745	\$ 299,592
Reconciliation of Operating Income (Loss)						
to Net Cash Provided by Operating Activities:						
Operating income (loss)	\$ 3,188,323	\$ 544,134	\$ (230,417)	\$ (386,916)	3,115,124	\$ 398
Adjustments to reconcile operating income (loss)						
to net cash provided by (used in) operating activities:						
Depreciation	626,703	212,325	158,502	47,314	1,044,844	91,416
Changes in:						
Accounts receivable	40,927	(28,530)	24,709	-	37,106	-
Due from other funds	14,078	-	322,008	-	336,086	-
Inventory	(23,320)	2,802	(2,905)	-	(23,423)	24,206
Prepaid expenses	(2,802)	(1,166)	(2,623)	725	(5,866)	(2,298)
Investment in M.S.C.P.A.	(1,532,922)	-	-	-	(1,532,922)	-
Accounts payable	(26,690)	20,363	(7,516)	(193)	(14,036)	(21,088)
Accrued expenses	60,907	(3,816)	(5,993)	1,562	52,660	1,150
Customer deposits	(793)	(414)	-	-	(1,207)	-
Due to other funds	(5,067)	(320,981)	(1,048)	12,255	(314,841)	-
Net Cash Provided by (Used in) Operating Activities	<u>\$ 2,339,344</u>	<u>\$ 424,717</u>	<u>\$ 254,717</u>	<u>\$ (325,253)</u>	<u>\$ 2,693,525</u>	<u>\$ 93,784</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	Hospital Private Purpose Trust Fund	Agency Funds
Assets:		
Cash and investments	\$ 14,893	\$ 9,884
Liabilities:		
Due to other agencies	-	\$ 9,884
Net Assets:		
Unrestricted	14,893	
Total net assets	\$ 14,893	

City of Hillsdale, Michigan
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2007

	<u>Hospital Private Purpose Trust Fund</u>
Revenue:	
Interest income	\$ 827
Expenses:	
Other	<u>722</u>
Change in Net Assets	105
Net Assets - Beginning of Year	<u>14,788</u>
Net Assets - End of Year	<u>\$ 14,893</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

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

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

Reporting Entity

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

In conformity with generally accepted accounting principles, the financial statements of the component units are included in the reporting entity as discretely presented component units.

Discretely Presented Component Units – The component unit columns in the combined financial statements include the financial data of the City's two component units. These units are reported in separate columns to emphasize that they are legally separate from the City:

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

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

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

The financial statements of the Hillsdale Housing Commission are excluded from the accompanying financial statements since the Housing Commission's operating and capital expenditures, including debt service, are financed entirely from federal grants and rentals. The City has no involvement in the determination of the Housing Commission's budget and rental rates, and has no obligation for the Housing Commission's outstanding debt. Summarized financial statements as of and for the year ended June 30, 2006, the date of their most recently prepared audited financial statements, are as follows:

Revenue	\$303,286	Assets	\$1,193,792
Expenses	375,475	Liabilities	35,354
Excess expenses over revenues	(72,189)	Fund equity	1,158,438
Other income (net)	(9,781)		
Net loss	(81,970)		

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

The government reports the following major governmental funds:

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

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

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

The government reports the following major proprietary funds:

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

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

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

Additionally, the government reports the following fund types:

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

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

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

Additional Financial Statement Presentation Information - Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

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

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

Investments are reported at fair value.

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

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

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

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

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

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

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

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

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the City for 2005 had a taxable value of approximately \$151,875,000 (not including properties subject to Industrial Facilities Tax exemption), representing 50% of estimated current market value. The government’s general operating tax rate for fiscal year 2005-06 was 14.9205 mills, with an additional .9947 mills levied for operations of the Mitchell Public Library.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information

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

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

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

Excess of Expenditures Over Appropriations

For the year ended June 30, 2007, expenditures that exceeded appropriations in the General Fund are disclosed in the Required Supplemental Information on pages 31-32.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 3 – Cash and Investments

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

	Primary Government	Component Units
Statement of Net Assets:		
Cash and investments	\$10,186,601	\$ 420,639
Statement of Fiduciary Net Assets:		
Hospital Private Purpose Trust Fund:		
Cash and investments	14,893	-
Agency Funds:		
Cash and investments	9,884	-
	<u>\$10,211,378</u>	<u>\$ 420,639</u>
	Primary Government	Component Unit(s)
Bank deposits (checking accounts, savings accounts and short-term CDs)	\$ 3,529,180	\$ (557)
Investments in securities, mutual funds and similar vehicles	6,679,748	421,196
Cash on hand	2,450	-
	<u>\$10,211,378</u>	<u>\$ 420,639</u>

Interest Rate Risk

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

Rating S&P	Rating Moody's	Investment Type	Remaining Maturity		
			12 Months or Less	1 to 5 Years	Greater Than 5 Years
N/A	N/A	Certificates of Deposit	\$ 614,893	\$ 5,000	\$ 0
NR	NR	Local Units of Government Investments Pool	5,524	0	0
NR	NR	Michigan CLASS Investments Pool	1,034,749	0	0
AAA	Aaa	U.S. Government Agency Bonds	300	4,269,315	421,335
AAA	Aaa	Financing Corporation Bond	0	0	27,480
N/A	N/A	Money Market Fund	3,706	0	0
N/A	N/A	Spartan U.S. Government Money Market	535,480	0	0
N/A	N/A	Fidelity Investment Cash	183,160	0	0

City of Hillsdale, Michigan
Notes to Financial Statements

Note 3 – Cash and Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented above is the actual rating as of year-end for each investment type.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the name of the local unit. The City has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, \$3,141,148 of the City's bank balance of \$3,517,020 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. As of year-end, City investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the City to buy the securities - Federal agency securities in the reported amount of \$4,690,950.

Note 4 – Receivables

Receivables of the governmental activities of the primary government at June 30, 2007, consist of the following:

Other governmental units (primarily the State of Michigan)	\$225,570
Accounts receivable	88,193
Special assessments	<u>358,584</u>
	<u>\$672,347</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 5 - Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

Primary Government	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$3,451,793	\$1,583,290	\$ 180,000	\$4,855,083
Capital assets being depreciated:				
Land improvements	245,499	26,611	-	272,110
Buildings and improvements	4,734,992	9,243	-	4,744,235
Books	474,392	17,027	-	491,419
Equipment and vehicles	2,519,614	117,323	45,060	2,591,877
Infrastructure	25,551,167	463,902	109,478	25,905,591
Total capital assets being depreciated	<u>33,525,664</u>	<u>634,106</u>	<u>154,538</u>	<u>34,005,232</u>
Accumulated depreciation:				
Land improvements	114,200	8,713	-	122,913
Buildings and improvements	1,040,314	90,927	-	1,131,241
Books	420,512	7,518	-	428,030
Equipment and vehicles	1,672,950	138,375	41,025	1,770,300
Infrastructure	14,309,293	552,505	109,479	14,752,319
Total accumulated depreciation	<u>17,557,269</u>	<u>798,038</u>	<u>150,504</u>	<u>18,204,803</u>
Total capital assets being depreciated - net	<u>15,968,395</u>	<u>(163,932)</u>	<u>(4,034)</u>	<u>15,800,429</u>
Governmental activities capital assets - net	<u>\$19,420,188</u>	<u>\$1,419,358</u>	<u>\$ (184,034)</u>	<u>\$20,655,512</u>
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 189,982	\$ -	\$ -	\$ 189,982
Construction in progress	367,933	370,423	-	738,356
Total capital assets not being depreciated	<u>557,915</u>	<u>370,423</u>	<u>-</u>	<u>928,338</u>
Capital assets being depreciated:				
Equipment	489,671	72,455	-	562,126
Plant and systems	51,853,229	460,632	198,650	52,115,211
Total capital assets being depreciated	<u>52,342,900</u>	<u>533,087</u>	<u>198,650</u>	<u>52,677,337</u>
Accumulated depreciation:				
Equipment	366,460	119,769	-	486,229
Plant and systems	30,012,417	997,530	89,517	30,920,430
Total accumulated depreciation	<u>30,378,877</u>	<u>1,117,299</u>	<u>89,517</u>	<u>31,406,659</u>
Total capital assets being depreciated - net	<u>21,964,023</u>	<u>(584,212)</u>	<u>(109,133)</u>	<u>21,270,678</u>
Business-type activities capital assets - net	<u>\$22,521,938</u>	<u>\$ (213,789)</u>	<u>\$ (109,133)</u>	<u>\$22,199,016</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 5 - Capital Assets (Continued)

During the year ended June 30, 2007, land in the amount of \$180,000 was transferred from the primary government to the EDC fund.

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

Governmental Activities:	
Public safety	\$ 43,706
Highways and streets	488,420
Culture and recreation	86,910
Public works	55,254
Unallocated	36,368
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	<u>87,380</u>
Total depreciation expense – governmental activities	<u>\$ 798,038</u>
Business-Type Activities:	
Electric	\$ 626,703
Water	212,325
Sewer	158,502
Transportation	<u>119,769</u>
Total depreciation expense – business-type activities	<u>\$ 1,117,299</u>

Note 6 - Interfund Receivables, Payables and Transfers

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

	<u>Receivable</u>	<u>Payable</u>
Due from/to other funds:		
General Fund	\$108,162	\$ 1,403
Nonmajor Governmental Funds	-	2,025
Imprest Payroll	-	1,092
Water Fund	-	683,284
Sewer Fund	679,727	1,898
Electric Fund	3,428	40,748
Nonmajor Enterprise Fund	-	60,867
	<u>\$791,317</u>	<u>\$ 791,317</u>
	<u>Transfers In</u>	<u>Transfers Out</u>
Transfers:		
General Fund	\$ 22,000	\$ 947,175
Capital Improvement	509,944	-
Nonmajor Governmental Funds	532,505	213,335
Component Units	-	5,989
Nonmajor Enterprise Fund	<u>102,050</u>	-
	<u>\$1,166,499</u>	<u>\$ 1,166,499</u>

City of Hillsdale, Michigan
Notes to Financial Statements

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

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

Note 7 - Investment in Michigan South Central Power Agency

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

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

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

The City of Hillsdale Board of Public Utilities is accounting for its investment in M.S.C.P.A. as a joint venture in accordance with GASB Statement No. 14. Information presented below is taken from financial statements of the M.S.C.P.A. for the year ended June 30, 2007, audited by other auditors whose report dated October 11, 2007, expressed an unqualified opinion for those statements.

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

City of Hillsdale, Michigan
Notes to Financial Statements

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

Summary information of the Hillsdale Board of Public Utilities investment in the M.S.C.P.A. as of and for the year ended June 30, 2007, is as follows:

	Total M.S.C.P.A.	Hillsdale Board of Public Utilities Portion 25.5%
Total assets	\$74,707,008	\$19,050,287
Total liabilities	<u>51,190,783</u>	<u>13,053,650</u>
Net Assets	<u>\$23,516,225</u>	<u>\$ 5,996,637</u>
Operating revenues	\$42,858,324	\$10,928,873
Operating expenses	<u>35,532,861</u>	<u>9,060,880</u>
Operating Income	7,325,463	1,867,993
Other income and expenses	<u>(1,314,005)</u>	<u>(335,071)</u>
Changes in Net Assets	6,011,458	1,532,922
Net Assets, Beginning of Year	<u>17,504,767</u>	<u>4,463,715</u>
Net Assets, End of Year	<u>\$23,516,225</u>	<u>\$ 5,996,637</u>

Note 8 - Long-Term Debt

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental activities:					
Contract and loans payable	\$1,051,000	\$ -	\$ 148,000	\$ 903,000	\$ 148,000
Compensated absences	<u>238,353</u>	<u>8,642</u>	<u>-</u>	<u>246,995</u>	<u>30,056</u>
	<u>\$1,289,353</u>	<u>\$ 8,642</u>	<u>\$ 148,000</u>	<u>\$1,149,995</u>	<u>\$ 178,056</u>
Business-type activities:					
Revenue bonds	\$4,415,000	\$ -	\$ 395,000	\$4,020,000	\$ 410,000
Compensated absences	<u>161,979</u>	<u>9,449</u>	<u>-</u>	<u>171,428</u>	<u>4,130</u>
	<u>\$4,576,979</u>	<u>\$ 9,449</u>	<u>\$ 395,000</u>	<u>\$4,191,428</u>	<u>\$ 414,130</u>

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

City of Hillsdale, Michigan
Notes to Financial Statements

Note 8 - Long-Term Debt (Continued)

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

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

Loan and installment obligations currently outstanding are as follows:

<u>Purpose</u>	<u>Due in Fiscal Year End</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities:			
Other government debt:			
Loan – Strategic Loan Fund – Road improvements	2013	0.00%	\$ 350,000
Municipal purchase contract - Library building improvements	2013	4.19%	385,000
Loan – Community Development Block Grant – Industrial park property acquisitions	2013	0.00%	<u>168,000</u>
			<u>\$ 903,000</u>

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

<u>Year Ending June 30,</u>	<u>Other Governmental Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 148,000	\$ 15,398
2009	148,000	12,465
2010	148,000	9,532
2011	148,000	6,599
2012	148,000	3,667
2013 – 2014	<u>163,000</u>	<u>733</u>
Total	<u>\$ 903,000</u>	<u>\$ 48,394</u>

Revenue Bonds - The government also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. No revenue bonds were issued during the current year. Revenue bonds outstanding at year end are as follows:

<u>Business-Type Activities</u>	<u>Due in Fiscal Year End</u>	<u>Interest Rates</u>	<u>Amount</u>
1999 Water	2019	4.75% - 5.10%	\$1,745,000
2002 Water Refunding	2015	3.00% - 4.00%	1,340,000
1992 Sewer	2013	2%	<u>935,000</u>
			<u>\$4,020,000</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 8 - Long-Term Debt (Continued)

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 410,000	\$146,314
2009	420,000	133,396
2010	430,000	120,010
2011	445,000	105,732
2012	465,000	90,561
2013 – 2017	1,485,000	228,781
2018 – 2019	<u>365,000</u>	<u>18,698</u>
Total	<u>\$4,020,000</u>	<u>\$843,492</u>

Note 9 - Segment Information – Enterprise Funds

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

Note 10 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2007, the City carried commercial insurance to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

Note 11 - Pension Plan

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

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

City of Hillsdale, Michigan
Notes to Financial Statements

Note 11 - Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2007, the City's pension cost of \$174,295 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability at December 31, 2006, the date of the latest actuarial valuation, is being amortized as a level percentage of projected payroll on an open basis over 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/04	\$100,000	100%	\$ -
6/30/05	156,000	100%	-
6/30/06	174,000	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) – Entry Age</u>	<u>Assets in Excess of AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/04	\$14,500,440	\$13,695,079	\$805,361	106%	\$3,674,352	-%
12/31/05	15,055,122	14,417,814	637,308	104%	3,624,840	-
12/31/06	15,928,490	15,021,669	906,821	106%	3,710,353	-

Note 12 - Commitments and Contingencies

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

City of Hillsdale, Michigan
Notes to Financial Statements

Note 13 – Dial-A-Ride Enterprise Fund

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

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

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

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

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

Required Supplemental Information

City of Hillsdale, Michigan
 Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>	
Revenues:			
City taxes:			
Property	\$ 2,353,000	\$ 2,353,000	\$ 2,230,488
Administrative fees	73,000	73,000	77,869
Interest and penalties	25,000	25,000	46,206
Industrial facilities tax	<u>100,000</u>	<u>100,000</u>	<u>86,235</u>
Total city taxes	2,551,000	2,551,000	2,440,798
State revenue	928,500	928,500	925,336
Other revenue	<u>1,312,200</u>	<u>1,338,200</u>	<u>1,368,427</u>
Total revenues	<u>4,791,700</u>	<u>4,817,700</u>	<u>4,734,561</u>
Expenditures:			
General government:			
Council	31,830	31,830	26,688
Clerk	132,025	125,290	121,721
City manager	207,045	293,045	263,972
Assistant city manager	86,750	86,750	84,081
Economic development	100,000	100,000	78,339
Administrative	169,500	209,500	180,750
Treasurer	139,305	144,305	182,871
Street lights	50,400	65,400	60,117
Airport	80,845	80,845	80,982
Finance department	93,680	93,680	90,205
General operation	<u>159,380</u>	<u>180,380</u>	<u>165,790</u>
Total general government	<u>1,250,760</u>	<u>1,411,025</u>	<u>1,335,516</u>
Public safety:			
Police	1,353,770	1,371,770	1,364,603
Fire	<u>405,345</u>	<u>420,345</u>	<u>417,159</u>
Total public safety	<u>1,759,115</u>	<u>1,792,115</u>	<u>1,781,762</u>
Public works:			
Public services	442,755	346,755	308,789
Cemetery	<u>114,440</u>	<u>114,440</u>	<u>107,618</u>
Total public works	<u>557,195</u>	<u>461,195</u>	<u>416,407</u>

Continued..

City of Hillsdale, Michigan
 Budgetary Comparison Schedule (Continued)
 General Fund
 Year Ended June 30, 2007

	Budgeted Amounts		Actual
	Original	Final	
Expenditures (Continued):			
Health:			
Assessor	\$ 136,120	\$ 136,120	\$ 127,211
Building inspector	<u>37,770</u>	<u>37,770</u>	<u>29,547</u>
Total health	<u>173,890</u>	<u>173,890</u>	<u>156,758</u>
 Culture and recreation	 <u>137,375</u>	 <u>162,375</u>	 <u>160,271</u>
 Total expenditures	 <u>3,878,335</u>	 <u>4,000,600</u>	 <u>3,850,714</u>
 Revenues Over (Under) Expenditures	 <u>913,365</u>	 <u>817,100</u>	 <u>883,847</u>
 Other Financing Sources (Uses):			
Transfers in	22,000	22,000	22,000
Transfers out	<u>(935,365)</u>	<u>(984,175)</u>	<u>(947,175)</u>
Total other financing sources (uses)	<u>(913,365)</u>	<u>(962,175)</u>	<u>(925,175)</u>
 Net Changes in Fund Balances	 -	 (145,075)	 (41,328)
 Fund Balances - Beginning of Year	 <u>722,663</u>	 <u>722,663</u>	 <u>722,663</u>
 Fund Balances - End of Year	 <u>\$ 722,663</u>	 <u>\$ 577,588</u>	 <u>\$ 681,335</u>

Other Supplemental Information

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

	Special Revenue	Debt Service	Capital Project	Permanent Funds	Total
<u>Assets</u>					
Cash and cash equivalents	\$ 284,380	\$ 5,736	\$ 25,571	\$ 106,398	\$ 422,085
Investments, at cost	-	-	-	459,361	459,361
Accounts receivable	46,429	-	-	-	46,429
Due from other governmental agencies	101,600	-	-	-	101,600
Prepaid expenditures	1,607	-	-	-	1,607
Total assets	\$ 434,016	\$ 5,736	\$ 25,571	\$ 565,759	\$ 1,031,082
 <u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 28,691	\$ -	\$ 1,724	\$ -	\$ 30,415
Accrued payroll and related liabilities	7,447	-	-	-	7,447
Due to other funds	2,025	-	-	-	2,025
Total liabilities	38,163	-	1,724	-	39,887
 Fund Balances:					
Reserved for prepaid items	1,607	-	-	-	1,607
Reserved for perpetual care and endowment	-	-	-	565,759	565,759
Unreserved:					
Unreserved; undesignated	394,246	5,736	23,847	-	423,829
Total fund balances	395,853	5,736	23,847	565,759	991,195
Total liabilities and fund balances	\$ 434,016	\$ 5,736	\$ 25,571	\$ 565,759	\$ 1,031,082

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2007

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Permanent Funds</u>	<u>Total</u>
Revenues:					
Taxes	\$ 154,424	\$ -	\$ -	\$ -	\$ 154,424
Intergovernmental - federal and State	651,887	-	-	-	651,887
Charges for services	103,377	-	-	9,170	112,547
Fines and violations	52,801	-	-	-	52,801
Miscellaneous	<u>58,524</u>	<u>-</u>	<u>75,224</u>	<u>37,487</u>	<u>171,235</u>
Total revenues	<u>1,021,013</u>	<u>-</u>	<u>75,224</u>	<u>46,657</u>	<u>1,142,894</u>
Expenditures:					
Public safety	14,385	-	-	-	14,385
Highways and streets	755,113	-	-	-	755,113
Culture and recreation	339,527	-	-	-	339,527
Debt service:					
Principal payments	-	148,000	-	-	148,000
Interest and fiscal charges	-	18,331	-	-	18,331
Capital outlay	<u>-</u>	<u>-</u>	<u>27,656</u>	<u>-</u>	<u>27,656</u>
Total expenditures	<u>1,109,025</u>	<u>166,331</u>	<u>27,656</u>	<u>-</u>	<u>1,303,012</u>
Revenues Over (Under) Expenditures	<u>(88,012)</u>	<u>(166,331)</u>	<u>47,568</u>	<u>46,657</u>	<u>(160,118)</u>
Other Financing Sources (Uses):					
Operating transfers in	212,170	166,335	49,000	5,000	432,505
Operating transfers out	<u>(76,000)</u>	<u>-</u>	<u>(93,335)</u>	<u>(44,000)</u>	<u>(213,335)</u>
Total other financing sources (uses)	<u>136,170</u>	<u>166,335</u>	<u>(44,335)</u>	<u>(39,000)</u>	<u>219,170</u>
Changes in Fund Balances	48,158	4	3,233	7,657	59,052
Fund Balances - Beginning of Year	<u>347,695</u>	<u>5,732</u>	<u>20,614</u>	<u>558,102</u>	<u>932,143</u>
Fund Balances - End of Year	<u>\$ 395,853</u>	<u>\$ 5,736</u>	<u>\$ 23,847</u>	<u>\$ 565,759</u>	<u>\$ 991,195</u>

City of Hillsdale, Michigan
 Combining Balance Sheet
 Nonmajor Special Revenue Funds
 June 30, 2007

	Library	Recreation Commission	Drug Forfeitures	Police			Local Street	Fire Equipment	Total
				Public Relations	Major Street				
Cash and cash equivalents	\$ 101,314	\$ 12,440	\$ 104	\$ 9,127	\$ 59,546	\$ 73,433	\$ 28,416	\$ 284,380	
Accounts receivable	46,429	-	-	-	-	-	-	46,429	
Due from other governmental agencies	8,105	-	-	-	70,345	23,150	-	101,600	
Prepaid expenditures	207	1,400	-	-	-	-	-	1,607	
Total assets	\$ 156,055	\$ 13,840	\$ 104	\$ 9,127	\$ 129,891	\$ 96,583	\$ 28,416	\$ 434,016	

Assets

Cash and cash equivalents
 Accounts receivable
 Due from other governmental agencies
 Prepaid expenditures
 Total assets

Liabilities and Fund Balances

Liabilities:

Accounts payable	\$ 2,188	\$ 5,563	\$ -	\$ -	\$ 10,376	\$ 10,564	\$ -	\$ 28,691
Accrued salaries and related liabilities	2,297	2,870	-	-	1,452	828	-	7,447
Due to other funds	2,025	-	-	-	-	-	-	2,025
Total liabilities	6,510	8,433	-	-	11,828	11,392	-	38,163

Fund Balances:

Reserved for prepaid items	207	1,400	-	-	-	-	-	1,607
Unreserved; undesignated	149,338	4,007	104	9,127	118,063	85,191	28,416	394,246
Total fund balances	149,545	5,407	104	9,127	118,063	85,191	28,416	395,853
Total liabilities and fund balances	\$ 156,055	\$ 13,840	\$ 104	\$ 9,127	\$ 129,891	\$ 96,583	\$ 28,416	\$ 434,016

Total liabilities and fund balances

City of Hillsdale, Michigan
 Combining Statement of Revenues, Expenditures, and
 Changes in Fund Balances
 Nonmajor Special Revenue Funds
 Year Ended June 30, 2007

	<u>Library</u>	<u>Recreation</u>	<u>Drug</u>	<u>Police</u>	<u>Local</u>	<u>Fire</u>	<u>Total</u>
	<u>Commission</u>	<u>Forfeitures</u>	<u>Public</u>	<u>Street</u>	<u>Street</u>	<u>Equipment</u>	
Revenues:							
Property taxes	\$ 154,424	\$ -	\$ -	\$ -	\$ -	\$ -	154,424
Intergovernmental - federal and State	17,439	-	-	480,391	154,057	-	651,887
Charges for services	29,419	73,958	-	-	-	-	103,377
Fines and violations	52,801	-	-	-	-	-	52,801
Miscellaneous	29,674	3,438	-	13,445	3,740	2,494	58,524
Total revenues	<u>283,757</u>	<u>77,396</u>	-	<u>13,445</u>	<u>157,797</u>	<u>2,494</u>	<u>1,021,013</u>
Expenditures:							
Public safety	-	-	-	14,385	-	-	14,385
Highways and streets	-	-	-	435,393	319,720	-	755,113
Culture and recreation	241,618	97,909	-	-	-	-	339,527
Total expenditures	<u>241,618</u>	<u>97,909</u>	-	<u>14,385</u>	<u>319,720</u>	-	<u>1,109,025</u>
Revenues Over (Under) Expenditures	<u>42,139</u>	<u>(20,513)</u>	-	<u>(940)</u>	<u>(161,923)</u>	<u>2,494</u>	<u>(88,012)</u>
Other Financing Sources (Uses):							
Transfers in	-	25,200	-	-	176,970	10,000	212,170
Transfers out	(51,000)	-	-	(25,000)	-	-	(76,000)
Total other financing sources (uses)	<u>(51,000)</u>	<u>25,200</u>	-	<u>(25,000)</u>	<u>176,970</u>	<u>10,000</u>	<u>136,170</u>
Changes in Fund Balances	<u>(8,861)</u>	<u>4,687</u>	-	<u>(940)</u>	<u>15,047</u>	<u>12,494</u>	<u>48,158</u>
Fund Balances - Beginning of Year	<u>158,406</u>	<u>720</u>	<u>104</u>	<u>10,067</u>	<u>70,144</u>	<u>15,922</u>	<u>347,695</u>
Fund Balances - End of Year	<u>\$ 149,545</u>	<u>\$ 5,407</u>	<u>\$ 104</u>	<u>\$ 9,127</u>	<u>\$ 85,191</u>	<u>\$ 28,416</u>	<u>\$ 395,853</u>

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Debt Service Funds
June 30, 2007

	<u>Assets</u>	<u>Bond and Interest</u>
Cash and cash equivalents		\$ <u>5,736</u>
	<u>Fund Balance</u>	
Unreserved; undesignated		<u>5,736</u>
Total fund balance		\$ <u>5,736</u>

City of Hillsdale, Michigan
 Combining Statement of Revenues, Expenditures, and
 Changes in Fund Balances
 Nonmajor Debt Service Funds
 Year Ended June 30, 2007

	Bond and Interest
Revenues:	
Interest income	\$ <u> -</u>
Expenditures:	
Principal retirement	148,000
Interest and fiscal charges	<u>18,331</u>
Total expenditures	<u>166,331</u>
Revenues Under Expenditures	(166,331)
Other Financing Sources:	
Transfers in	<u>166,335</u>
Changes in Fund Balance	4
Fund Balance - Beginning of Year	<u>5,732</u>
Fund Balance - End of Year	<u><u>\$ 5,736</u></u>

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2007

	<u>Library</u>	<u>Three</u>	<u>Field of</u>	<u>Stock</u>	<u>Total</u>
	<u>Improvement</u>	<u>Meadows</u>	<u>Dreams</u>	<u>Park</u>	
<u>Assets</u>					
Cash and cash equivalents	\$ 938	\$ 423	\$ 804	\$ 23,406	\$ 25,571
Accounts receivable	-	-	-	-	-
Due from other agencies	-	-	-	-	-
Total assets	<u>\$ 938</u>	<u>\$ 423</u>	<u>\$ 804</u>	<u>\$ 23,406</u>	<u>\$ 25,571</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ 750	\$ 974	\$ 1,724
Fund Balances:					
Unreserved; undesignated	<u>938</u>	<u>423</u>	<u>54</u>	<u>22,432</u>	<u>23,847</u>
Total fund balances	<u>938</u>	<u>423</u>	<u>54</u>	<u>22,432</u>	<u>23,847</u>
Total liabilities and fund balances	<u>\$ 938</u>	<u>\$ 423</u>	<u>\$ 804</u>	<u>\$ 23,406</u>	<u>\$ 25,571</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Capital Project Funds
Year Ended June 30, 2007

	<u>Library Improvement</u>	<u>Three Meadows</u>	<u>Field of Dreams</u>	<u>Stock Park</u>	<u>Total</u>
Revenues:					
Miscellaneous	39,986	-	55	35,183	75,224
Total revenues	<u>39,986</u>	<u>-</u>	<u>55</u>	<u>35,183</u>	<u>75,224</u>
Expenditures:					
Capital outlay	-	-	1,045	26,611	27,656
Total expenditures	<u>-</u>	<u>-</u>	<u>1,045</u>	<u>26,611</u>	<u>27,656</u>
Revenues Over (Under) Expenditures	<u>39,986</u>	<u>-</u>	<u>(990)</u>	<u>8,572</u>	<u>47,568</u>
Other Financing Sources (Uses):					
Transfers in	49,000	-	-	-	49,000
Transfers out	(88,335)	-	-	(5,000)	(93,335)
Total other financing sources (uses)	<u>(39,335)</u>	<u>-</u>	<u>-</u>	<u>(5,000)</u>	<u>(44,335)</u>
Changes in Fund Balances	651	-	(990)	3,572	3,233
Fund Balances - Beginning of Year	<u>287</u>	<u>423</u>	<u>1,044</u>	<u>18,860</u>	<u>20,614</u>
Fund Balances - End of Year	<u>\$ 938</u>	<u>\$ 423</u>	<u>\$ 54</u>	<u>\$ 22,432</u>	<u>\$ 23,847</u>

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Permanent Funds
June 30, 2007

	R.L. Owen Memorial	Cemetery Perpetual Care	Stock Park Maintenance	Total
<u>Assets</u>				
Cash and cash equivalents	\$ 20,250	\$ 80,902	\$ 5,246	\$ 106,398
Investments, at cost	-	454,361	5,000	459,361
Inventory	-	-	-	-
Prepaid expenditures	-	-	-	-
Total assets	\$ 20,250	\$ 535,263	\$ 10,246	\$ 565,759
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Due to other agencies	\$ -	\$ -	\$ -	\$ -
 Fund Balances:				
Reserved for perpetual care and endowment principal	20,250	535,263	10,246	565,759
Total fund balances	20,250	535,263	10,246	565,759
Total liabilities and fund balances	\$ 20,250	\$ 535,263	\$ 10,246	\$ 565,759

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Permanent Funds
Year Ended June 30, 2007

	R.L. Owen Memorial	Cemetery Perpetual Care	Stock Park Maintenance	Total
Revenues:				
Fees	\$ -	\$ 9,170	\$ -	\$ 9,170
Investment income	6,232	26,009	146	32,387
Other revenue	-	-	5,100	5,100
Total revenues	<u>6,232</u>	<u>35,179</u>	<u>5,246</u>	<u>46,657</u>
Other Financing Sources (Uses):				
Operating transfers in	-	-	5,000	5,000
Operating transfers out	-	(44,000)	-	(44,000)
Total other financing sources (uses)	<u>-</u>	<u>(44,000)</u>	<u>5,000</u>	<u>(39,000)</u>
Changes in Fund Balances	6,232	(8,821)	10,246	7,657
Fund Balances - Beginning of Year	<u>14,018</u>	<u>544,084</u>	<u>-</u>	<u>558,102</u>
Fund Balances - End of Year	<u>\$ 20,250</u>	<u>\$ 535,263</u>	<u>\$ 10,246</u>	<u>\$ 565,759</u>

City of Hillsdale, Michigan

Local Revenues

Dial-A-Ride Enterprise Fund

Year Ended June 30, 2007

	<u>07/01/2006 - 9/30/2006</u>	<u>10/01/2006 - 6/30/2007</u>	<u>Total</u>
Operating Revenues:			
Demand response (farebox) - nonurban	\$ 10,006	\$ 49,006	\$ 59,012
Other	<u>-</u>	<u>148</u>	<u>148</u>
 Total local revenues	<u>\$ 10,006</u>	<u>\$ 49,154</u>	<u>\$ 59,160</u>

City of Hillsdale, Michigan
 Local Revenues
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2006 Year End

	<u>10/01/2005 - 6/30/2006</u>	<u>07/01/2006 - 9/30/2006</u>	<u>Total</u>
Operating Revenues:			
Demand response (farebox) - nonurban	\$ 46,645	\$ 10,006	\$ 56,651
Other	<u>-</u>	<u>-</u>	<u>-</u>
 Total local revenues	 <u>\$ 46,645</u>	 <u>\$ 10,006</u>	 <u>\$ 56,651</u>

City of Hillsdale, Michigan
 Federal and State Awards
 Dial-A-Ride Enterprise Fund
 Year Ended June 30, 2007

	<u>07/01/2006 - 9/30/2006</u>	<u>10/01/2006 - 6/30/2007</u>	<u>Total</u>
Michigan Department of Transportation			
Local bus operating	\$ 39,148	\$ 127,881	\$ 167,029
Federal Transit Administration			
Section 5311	-	67,016	67,016
Section 5309	-	375	375
RTAP	-	323	323
	<u>\$ 39,148</u>	<u>\$ 195,595</u>	<u>\$ 234,743</u>
Total federal and state awards			

City of Hillsdale, Michigan
 Federal and State Awards
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2006 Year End

	<u>10/01/2005 - 6/30/2006</u>	<u>07/01/2006 - 9/30/2006</u>	<u>Total</u>
Michigan Department of Transportation			
Local bus operating	\$ 139,667	\$ 39,148	\$ 178,815
Federal Transit Administration			
Section 5311	54,438	-	54,438
Section 5309	73,410	-	73,410
RTAP	<u>-</u>	<u>-</u>	<u>-</u>
Total federal and state awards	<u>\$ 267,515</u>	<u>\$ 39,148</u>	<u>\$ 306,663</u>

City of Hillsdale
 Expenditures of Federal and State Awards
 Dial-A-Ride Enterprise Fund
 Year Ended June 30, 2007

Federal and State Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Grant Number Authorization Number	Program Award Amount	Current Year's Expenditures		Prior Year's Expenditures	Award Amount Remaining
				Total	State		
<u>U.S. Department of Transportation</u> Passed through Michigan Department of Transportation							
Capital Grant - Section 5309 (80/20)	20.500	2002-0044/Z2	\$ 375	\$ 375	\$ 75	\$ -	\$ -
Operating assistance - Section 5311	20.509	2007-223/Z1	74,725	47,082	-	-	27,643
Operating assistance - Section 5311	20.509	2002-0044/Z9	63,260	19,934	-	43,326	-
Rural Transit Assistance Program (RTAP)		N/A	323	323	-	-	-
<u>Michigan Department of Transportation</u> Operating Assistance - Act 51 Nonurban	N/A	N/A	167,029	167,029	167,029	-	-
			\$ 305,712	\$ 234,743	\$ 167,104	\$ 43,326	\$ 27,643

City of Hillsdale, Michigan
Operating and Contract Expenses
Dial-A-Ride Enterprise Fund
Year Ended June 30, 2007

	<u>Nonurban</u>	<u>Total</u>
Labor	\$ 183,951	\$ 183,951
Fringe benefits	125,181	125,181
Services	13,475	13,475
Materials and supplies	40,768	40,768
Insurance	12,783	12,783
Utilities	5,788	5,788
Miscellaneous	1,215	1,215
Rentals	15,600	15,600
Depreciation	<u>47,315</u>	<u>47,315</u>
 Total expenses	 <u>\$ 446,076</u>	 <u>\$ 446,076</u>

City of Hillsdale, Michigan
 Operating and Contract Expenses
 Dial-A-Ride Enterprise Fund
 Year Ended June 30, 2007

	Nonurban		Total
	07/01/2006 - 9/30/2006	10/01/2006 - 6/30/2007	
Labor	\$ 27,512	\$ 156,439	\$ 183,951
Fringe benefits	28,156	97,025	125,181
Services	325	13,150	13,475
Materials and supplies	4,602	36,166	40,768
Insurance	-	12,783	12,783
Utilities	227	5,561	5,788
Miscellaneous	187	1,028	1,215
Rentals	3,900	11,700	15,600
Depreciation	-	47,315	47,315
 Total expenses	 <u>\$ 64,909</u>	 <u>\$ 381,167</u>	 <u>\$ 446,076</u>

City of Hillsdale, Michigan
 Operating and Contract Expenses
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2006 Year End

	Nonurban		Total
	10/01/2005 - 6/30/2006	07/01/2006 - 9/30/2006	
Labor	\$ 164,983	\$ 27,512	\$ 192,495
Fringe benefits	70,212	28,156	98,368
Services	8,024	325	8,349
Materials and supplies	28,838	4,602	33,440
Insurance	17,208	-	17,208
Utilities	5,065	227	5,292
Miscellaneous	576	187	763
Rentals	11,700	3,900	15,600
Depreciation	42,896	-	42,896
 Total expenses	 <u>\$ 349,502</u>	 <u>\$ 64,909</u>	 <u>\$ 414,411</u>

City of Hillsdale, Michigan
 Nonurban Regular Service Revenue Report
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2006 Year End

Code	Description	Amount
401	Farebox Revenue	
40100	Passenger fares	\$ 56,651
411	State Formula and Contracts	
41101	State operating assistance	144,466
413	Federal Contracts	
41301	Federal Section 5311 (operating funds only)	<u>63,009</u>
	Total revenues	<u>\$ 264,126</u>

City of Hillsdale, Michigan
 Nonurban Regular Service Expense Report
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2006 Year End

Code	Description	Operations	Maintenance	General Administration	Total
501	Labor				
50101	Operators' salaries and wages	\$ 134,411	\$ -	\$ -	\$ 134,411
50102	Other salaries and wages		5,416	25,122	30,538
50103	Dispatchers salaries and wages	27,546	-	-	27,546
502	Fringe Benefits				
50200	Other fringe benefits	83,364	2,443	12,561	98,368
503	Services				
50305	Audit costs	-	-	874	874
50399	Other services	3,876	-	3,599	7,475
504	Materials and Supplies				
50401	Fuel and lubricants	27,407	-	-	27,407
50402	Tires and tubes	1,121	-	-	1,121
50499	Other materials and supplies	1,269	3,643	-	4,912
505	Utilities				
50500	Utilities	1,462	-	3,830	5,292
506	Insurance				
50603	Liability insurance	14,582	-	-	14,582
50699	Other insurance	-	-	2,626	2,626
509	Miscellaneous Expenses				
50902	Travel, meetings and training	-	-	763	763
50999	Miscellaneous				
512	Operating leases and rentals				
51200	Operating leases and rentals	15,600	-	-	15,600
513	Depreciation				
51300	Depreciation	42,896	-	-	42,896
550	Ineligible expenses				
55007	Ineligible depreciation	42,896	-	-	42,896
574	Ineligible expenses				
57402	Ineligible RTAP	-	-	-	-
	Total expenses				<u>\$ 414,411</u>
	Total ineligible expenses				<u>\$ 42,896</u>
	Total eligible expenses				<u>\$ 371,515</u>

City of Hillsdale, Michigan
 Nonurban Regular Service Nonfinancial Report
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2006 Year End

<u>Code</u>	<u>Public Service</u> <u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles	<u>65,446</u>	<u>-</u>	<u>-</u>	<u>65,446</u>

City of Hillsdale, Michigan
 Operating Assistance Calculation
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2006 Year End

	<u>Nonurban</u>
Total expenses	\$ 414,411
Less ineligible expenses	
Depreciation	<u>42,896</u>
Total State eligible expenses	<u>\$ 371,515</u>
Eligible expenses for State reimbursement	\$ 371,515
Reimbursement percentage	<u>0.388857</u>
State Operating Assistance	<u>\$ 144,466</u>
Total Federal eligible expenses	\$ 371,515
Less additional Federal ineligible expenses per A-87	
Audit costs	<u>874</u>
Eligible expenses for Federal reimbursement	<u>370,641</u>
Reimbursement percentage	<u>0.17</u>
Section 5311 operating assistance	<u>\$ 63,009</u>

City of Hillsdale, Michigan
Combining Statement of Net Assets
Internal Service Funds
June 30, 2007

	Department of				
	Public Service	Public	Revolving	Unemployment	
	Leave &	Service	Mobile	Insurance	Total
	Benefits	Inventory	Equipment	Insurance	Total
Assets:					
Current assets:					
Cash and cash equivalents	\$ 26,752	\$ 34,049	\$ 182,300	\$ 56,491	\$ 299,592
Inventory	-	118,383	-	-	118,383
Prepaid expenses	17,573	-	15,001	-	32,574
Total current assets	<u>44,325</u>	<u>152,432</u>	<u>197,301</u>	<u>56,491</u>	<u>450,549</u>
Capital assets:					
Equipment	-	-	1,608,345	-	1,608,345
Less: accumulated depreciation	-	-	(1,208,027)	-	(1,208,027)
Total capital assets, net	<u>-</u>	<u>-</u>	<u>400,318</u>	<u>-</u>	<u>400,318</u>
Total assets	<u>44,325</u>	<u>152,432</u>	<u>597,619</u>	<u>56,491</u>	<u>850,867</u>
Liabilities:					
Current liabilities:					
Accounts payable	-	2,550	14,890	-	17,440
Accrued payroll and related liabilities	-	-	1,058	-	1,058
Total current liabilities	<u>-</u>	<u>2,550</u>	<u>15,948</u>	<u>-</u>	<u>18,498</u>
Other liabilities:					
Compensated absences	36,756	-	9,862	-	46,618
Total liabilities	<u>36,756</u>	<u>2,550</u>	<u>25,810</u>	<u>-</u>	<u>65,116</u>
Net Assets:					
Invested in capital assets, net of related debt	-	-	400,318	-	400,318
Unrestricted	7,569	149,882	171,491	56,491	385,433
Total net assets	<u>\$ 7,569</u>	<u>\$ 149,882</u>	<u>\$ 571,809</u>	<u>\$ 56,491</u>	<u>\$ 785,751</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenses
and Changes in Net Assets
Internal Service Funds
Year Ended June 30, 2007

	Department of				
	Public Service	Public	Revolving	Unemployment	
	Leave &	Service	Mobile	Insurance	Total
	Benefits	Inventory	Equipment	Insurance	Total
Operating Revenues:					
Charges for services	\$ -	\$ 100,939	\$ 383,865	\$ -	\$ 484,804
Other revenue	<u>153,668</u>	<u>-</u>	<u>8,087</u>	<u>5,400</u>	<u>167,155</u>
Total operating revenues	<u>153,668</u>	<u>100,939</u>	<u>391,952</u>	<u>5,400</u>	<u>651,959</u>
Operating Expenses:					
Salaries	46,460	539	56,369	-	103,368
Fringe benefits	107,208	39	20,010	-	127,257
Supplies	-	101,827	9,667	-	111,494
Services	-	-	48,366	-	48,366
Maintenance	-	-	111,951	-	111,951
Insurance	-	-	27,568	-	27,568
Miscellaneous	-	804	11,806	12,939	25,549
Capital outlay	-	-	4,592	-	4,592
Depreciation	<u>-</u>	<u>-</u>	<u>91,416</u>	<u>-</u>	<u>91,416</u>
Total operating expenses	<u>153,668</u>	<u>103,209</u>	<u>381,745</u>	<u>12,939</u>	<u>651,561</u>
Operating Income (Loss)	-	(2,270)	10,207	(7,539)	398
Nonoperating Revenues:					
Interest income	<u>-</u>	<u>-</u>	<u>12,101</u>	<u>2,822</u>	<u>14,923</u>
Changes in Net Assets	-	(2,270)	22,308	(4,717)	15,321
Net Assets - Beginning of Year	<u>7,569</u>	<u>152,152</u>	<u>549,501</u>	<u>61,208</u>	<u>770,430</u>
Net Assets - End of Year	<u>\$ 7,569</u>	<u>\$ 149,882</u>	<u>\$ 571,809</u>	<u>\$ 56,491</u>	<u>\$ 785,751</u>

City of Hillsdale, Michigan
Combining Statement of Cash Flows
Internal Service Funds
Year Ended June 30, 2007

	Department of Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	Total
Cash Flows From Operating Activities:					
Cash paid to employees and suppliers	\$ (155,186)	\$ (86,690)	\$ (303,360)	\$ (12,939)	\$ (558,175)
Receipts for interfund services provided	153,668	100,939	391,952	5,400	651,959
Net cash provided by (used in) operating activities	<u>(1,518)</u>	<u>14,249</u>	<u>88,592</u>	<u>(7,539)</u>	<u>93,784</u>
Cash Flows From Capital and Related Financing Activities:					
Purchase of capital assets	-	-	(68,694)	-	(68,694)
Cash Flows From Investing Activities:					
Interest income	-	-	12,101	2,822	14,923
Net Increase (Decrease) in Cash and Cash Equivalents	(1,518)	14,249	31,999	(4,717)	40,013
Cash and Cash Equivalents - Beginning of Year	<u>28,270</u>	<u>19,800</u>	<u>150,301</u>	<u>61,208</u>	<u>259,579</u>
Cash and Cash Equivalents - End of Year	<u>\$ 26,752</u>	<u>\$ 34,049</u>	<u>\$ 182,300</u>	<u>\$ 56,491</u>	<u>\$ 299,592</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating income (loss)	\$ -	\$ (2,270)	\$ 10,207	\$ (7,539)	\$ 398
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and loss on asset disposal	-	-	91,416	-	91,416
Changes in:					
Accounts receivable	-	-	-	-	-
Inventory	-	24,206	-	-	24,206
Prepaid expenses	(1,356)	-	(942)	-	(2,298)
Accounts payable	-	(7,687)	(13,401)	-	(21,088)
Accrued expenses	(162)	-	1,312	-	1,150
Net Cash Provided by (Used in) Operating Activities	<u>\$ (1,518)</u>	<u>\$ 14,249</u>	<u>\$ 88,592</u>	<u>\$ (7,539)</u>	<u>\$ 93,784</u>

City of Hillsdale, Michigan
 Comparative Balance Sheets
 Tax Increment Finance Authority - Component Unit
 June 30, 2007 and 2006

	2007	2006
Assets:		
Cash and cash equivalents	\$ 314,787	\$ 214,925
Total assets	\$ 314,787	\$ 214,925
 Fund Balances:		
Unreserved; undesignated	\$ 314,787	\$ 214,925

City of Hillsdale, Michigan
Statement of Revenues, Expenditures and Changes
in Fund Balances - Budget to Actual
Tax Increment Finance Authority - Component Unit
Year Ended June 30, 2007
(With Comparative Amounts for the Year Ended June 30, 2006)

	<u>2007</u>			<u>2006</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>	
Revenues:				
Local sources:				
Property taxes	\$ 93,000	\$ 100,310	\$ 7,310	\$ 95,853
Earnings on investments	<u>7,500</u>	<u>14,133</u>	<u>6,633</u>	<u>7,457</u>
Total revenues	100,500	114,443	13,943	103,310
Expenditures:				
Capital outlay	<u>-</u>	<u>8,592</u>	<u>(8,592)</u>	<u>2,823</u>
Revenues Over (Under) Expenditures	<u>100,500</u>	<u>105,851</u>	<u>5,351</u>	<u>100,487</u>
Other Financing Sources (Uses):				
Operating transfers out	<u>(80,100)</u>	<u>(5,989)</u>	<u>74,111</u>	<u>(1,853)</u>
Total other financing sources (uses)	<u>(80,100)</u>	<u>(5,989)</u>	<u>74,111</u>	<u>(1,853)</u>
Net Changes in Fund Balances	20,400	99,862	79,462	98,634
Fund Balances - Beginning of Year	<u>214,925</u>	<u>214,925</u>	<u>-</u>	<u>116,291</u>
Fund Balances - End of Year	<u>\$ 235,325</u>	<u>\$ 314,787</u>	<u>\$ 79,462</u>	<u>\$ 214,925</u>

City of Hillsdale, Michigan
Comparative Balance Sheets
Economic Development Corporation - Component Unit
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets:		
Cash and cash equivalents	\$ <u>105,852</u>	\$ <u>102,127</u>
Fund Balances		
Unreserved; undesignated	\$ <u>105,852</u>	\$ <u>102,127</u>

City of Hillsdale, Michigan
Statement of Revenues, Expenditures and Changes
in Fund Balances - Budget to Actual
Economic Development Corporation - Component Unit
Year Ended June 30, 2007
(With Comparative Amounts for the Year Ended June 30, 2006)

	<u>2007</u>		Variance - Favorable (Unfavorable)	<u>2006</u>
	<u>Budget</u>	<u>Actual</u>		
Revenues:				
Local sources:				
Earnings on investments	-	5,326	5,326	3,552
Total revenues	-	5,326	5,326	3,552
Expenditures:				
Capital outlay	-	1,601	(1,601)	615
Revenues Over (Under) Expenditures	-	3,725	3,725	2,937
Net Changes in Fund Balances	-	3,725	3,725	2,937
Fund Balances - Beginning of Year	102,127	102,127	-	99,190
Fund Balances - End of Year	<u>\$ 102,127</u>	<u>\$ 105,852</u>	<u>\$ 3,725</u>	<u>\$ 102,127</u>



**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

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

We have audited the financial statements of the City of Hillsdale, Michigan as of and for the year ended June 30, 2007, and have issued our report thereon dated November 30, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hillsdale, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control over financial reporting. We consider the deficiencies described as 2007-1 and 2007-2 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above as 2007-1, is not a material weakness.

The Honorable Mayor
and Members of the City Council

Compliance

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

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the response and, accordingly, we express no opinion on it.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

November 30, 2007

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

Schedule of Findings and Responses

Finding 2007-1

Currently, the City's staff prepares the interim internal and annual financial statements. The annual financial statements for the year ended June 30, 2007, required relatively few audit adjustments, most of which the staff were aware needed to be recorded. Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled Communicating Internal Control Related Matters Identified in an Audit (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America. The staff of the City does understand all information included in the annual financial statements; however, we assist in preparing the footnotes to the annual financial statements. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standard #112.

Client Response

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