

City of Hillsdale, Michigan
Financial Statements
And Independent Auditors' Report
Year Ended June 30, 2008

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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, 2008, 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, 2008, 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 12, 2008, 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.

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 12, 2008

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, 2008.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$58,669,417 (*net assets*). Of this amount, \$15,844,629 (*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 \$3,313,181.
- As of the close of the current fiscal year, the City's Governmental funds reported combined ending fund balances of \$2,422,593. Approximately seventy-six percent (76%) of this total or \$1,851,941 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 \$691,438, or fifteen percent (15%) of total general fund expenditures.
- The City's total bonded debt decreased by \$410,000 during the current fiscal year. Overall long-term debt for the City decreased just over ten percent (10.2%).

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 eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, capital improvement, and airport improvement funds, each of which are considered to be major funds. Data from the other fifteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

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

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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-30 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 \$58,669,417 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets, over sixty-seven percent (67.8%), reflects its investment in land, buildings, vehicles, equipment and infrastructure less any outstanding related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it 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				Percent
	2007	2008	2007	2008	2007	2008	Change
Current and Other Assets	\$3,331,909	\$3,449,993	\$15,801,913	\$17,202,180	\$19,133,822	\$20,652,173	7.94%
Capital Assets	\$20,655,512	\$21,756,230	\$22,199,016	\$22,389,998	\$42,854,528	\$44,146,228	3.01%
Total Assets	\$23,987,421	\$25,206,223	\$38,000,929	\$39,592,178	\$61,988,350	\$64,798,401	4.53%
Long-term Liabilities Outstanding	\$971,939	\$831,978	\$3,777,298	\$3,354,642	\$4,749,237	\$4,186,620	-11.85%
Other Liabilities	\$422,205	\$317,293	\$1,460,668	\$1,625,071	\$1,882,873	\$1,942,364	3.16%
Total Liabilities	\$1,394,144	\$1,149,271	\$5,237,966	\$4,979,713	\$6,632,110	\$6,128,984	-7.59%
Net Assets:							
Invested in Capital Assets Net of Related Debt	\$19,752,512	\$21,001,230	\$18,179,016	\$18,779,998	\$37,931,528	\$39,781,228	4.88%
Restricted	\$1,578,521	\$1,768,600	\$1,243,016	\$1,274,960	\$2,821,537	\$3,043,560	7.87%
Unrestricted	\$1,262,244	\$1,287,122	\$13,340,931	\$14,557,507	\$14,603,175	\$15,844,629	8.50%
Total Net Assets	\$22,593,277	\$24,056,952	\$32,762,963	\$34,612,465	\$55,356,240	\$58,669,417	5.99%

An additional portion of the City's net assets (\$3,043,560) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$15,844,629, may be used to meet the government's ongoing obligations to citizens and creditors.

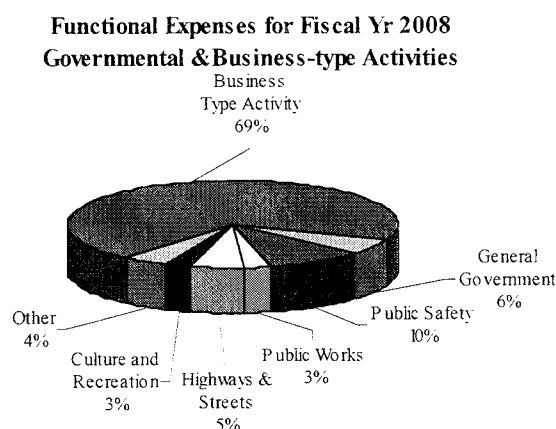
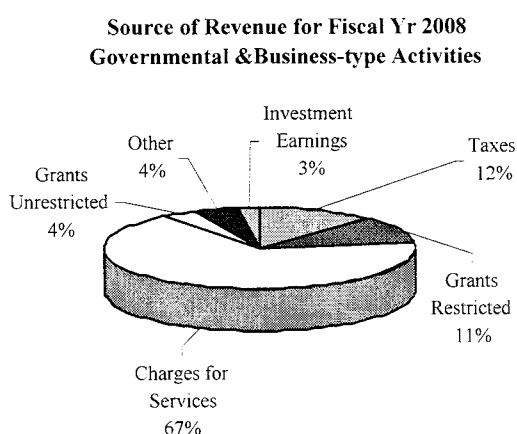
At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

During the current fiscal year the total government's net assets increased by \$3,313,181. 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 \$1,463,676 and increased by \$1,849,505 in the business-type activities.

City's Changes in Net Assets

	Governmental		Business-type		Total		Total Percentage Change
	Activities 2007	Activities 2008	Activities 2007	Activities 2008	2007	2008	
Revenues:							
Program Revenues:							
Charges for Services	\$330,211	\$279,586	\$14,614,298	\$14,631,527	\$14,944,509	\$14,911,113	-0.22%
Operating Grants & Contributions	1,283,633	1,274,969	234,420	189,238	\$1,518,053	\$1,464,207	-3.55%
Capital Grants & Contributions	1,631,569	1,124,523	0	0	\$1,631,569	\$1,124,523	-31.08%
Total Program Revenues	\$3,245,413	\$2,679,078	\$14,848,718	\$14,820,765	\$18,094,131	\$17,499,843	-3.28%
Expenses:							
General Government	1,337,840	1,239,710			\$1,337,840	\$1,239,710	-7.33%
Public Safety	1,842,539	1,850,863			\$1,842,539	\$1,850,863	0.45%
Public Services	472,648	487,734			\$472,648	\$487,734	3.19%
Highways & Streets	1,244,808	974,027			\$1,244,808	\$974,027	-21.75%
Health (Building Inspect/Assessing)	157,208	160,549			\$157,208	\$160,549	2.13%
Recreation & Culture	587,083	521,523			\$587,083	\$521,523	-11.17%
Interest on Long-term Debt	17,810	15,242			\$17,810	\$15,242	-14.42%
Other	55,489	629,910			\$55,489	\$629,910	1035.20%
Unallocated Depreciation	36,368	36,368			\$36,368	\$36,369	0.00%
Electric			9,172,112	10,982,282	\$9,172,112	\$10,982,282	19.74%
Water			1,065,397	993,436	\$1,065,397	\$993,436	-6.75%
Sewer			970,275	1,029,550	\$970,275	\$1,029,550	6.11%
Transportation			446,076	458,280	\$446,076	\$458,280	2.74%
Total Expenses	\$5,751,793	\$5,915,926	\$11,653,860	\$13,463,548	\$17,405,653	\$19,379,474	11.34%
Increase (Decrease) in							
Net assets Before Transfers	(\$2,506,380)	(\$3,236,848)	\$3,194,858	\$1,357,217	\$688,478	(\$1,879,631)	-373.01%
General Revenues:							
Taxes	2,624,310	2,687,158			\$2,624,310	\$2,687,158	2.39%
Grants & Contributions Not Restricted							
To Specific Programs	921,869	891,550			\$921,869	\$891,550	-3.29%
Unrestricted Investment Earnings	154,617	136,721	377,947	354,820	\$532,564	\$491,541	-7.70%
Other Revenues	559,100	992,563	45,521	1,208	\$604,621	\$993,771	64.36%
Prior Year Adjustment CDBG					\$0	\$0	
Loss on sale of Land					\$0	\$0	
Transfers - Internal Activity	(276,061)	(7,468)	102,050	136,260	(\$174,011)	\$128,792	174.01%
Total General Revenues	3,983,835	4,700,524	525,518	492,288	4,509,353	5,192,812	15.16%
Net Income	\$1,477,455	\$1,463,676	\$3,720,376	\$1,849,505	\$5,197,831	\$3,313,181	-36.26%
Net Assets - Beginning of Year	\$21,115,822	\$22,593,276	\$29,042,587	\$32,762,960	\$50,158,409	\$55,356,236	10.36%
Net Assets - End of Year	\$22,593,277	\$24,056,952	\$32,762,963	\$34,612,465	\$55,356,240	\$58,669,417	5.99%

The City's total program revenue, (including restricted/operating grants and contributions); was \$17,499,843. This is a decrease of just over three percent (3.28%) from last year. Overall, the biggest share of this revenue, (85%) comes from charges for services. Only about ten percent (10.4%) of the governmental activities revenue comes from charges for services as opposed to ninety-nine (98.7%) for business-type activities (Board of Public Utilities and Dial-A-Ride). General revenues, (taxes, unrestricted contributions and grants, and all miscellaneous revenues) were up over fifteen percent (15.16%) from last year. The biggest increase in this category was in other revenue, up 64%. Approximately twelve percent (11.8%) of all revenue of both governmental and business-type activity comes from taxes. For the governmental activities, tax revenue represents over thirty-six percent (36.4%) of total revenue sources. Another fifteen percent (15.3%) 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.



On the expense side, the largest portion of the expenditures, sixty-nine percent (69%) is for the business type activities (Board of Public Utilities and Dial-A-Ride). General government amounts to only six percent (6%) of total costs of both business and governmental activities; public safety accounts for ten percent (10%) of the overall expenditures, highways and streets amount to five percent (5%), while recreation and culture and public works are both at three percent (3%) each.

Governmental activities. Governmental activities had a net income of \$1,463,676. That amounts to less than a 1% decrease from last year's net income of \$1,477,455. Key elements from operations for the year are:

- Property tax revenue increased slightly \$104,762 (4%) over last year.
- The Airport Improvement Fund received grant funding for the purchase of land totaling \$1,013,768.
- State Revenue Sharing was down for the seventh consecutive year.
- Governmental activities operational costs decreased by \$127,801, which is about two percent (1.74%) below the prior year. This is the second consecutive year that these cost have declined. The decreased is primarily the result of decreased capital spending and further reductions in staffing levels and changes in health insurance coverages.

Business-type activities. Business-type activities increased the City's net assets by \$1,849,505, accounting for fifty-five percent of the total government's growth in net assets for the current year. Key elements of this increase are as follows:

- This year the electric fund's net income was \$1,599,936. This represents a decrease in net income for this fund of \$1,898,737 from one year ago. This accounts for over eighty-six percent (86.5%) of the total net income for all the business-type activities. The decrease in net income in this fund can be directly linked to a twenty-eight percent (28%) increase in the purchased power costs.
- The water fund experienced a net income of \$554,533, which is up about twenty-one percent (20.67%) from last year. Charges for services were up in this fund about three percent (2.6%). The increase is due to rate increases planned over a period of years to recoup shortages experienced in earlier years.
- The sewer fund ended the year with a net loss of \$233,353. A few years ago the utility lowered sewer rates to expend excess earnings in that fund from previous years.
- The transportation fund finished the year with a net loss of \$71,611. The major contributor to this deficit is a nineteen percent (19.4%) reduction in state and federal funding.

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 \$2,422,593. That is an increase of \$122,813 in comparison with the prior year. Of that combined ending fund balance, \$1,851,941 is designated as unreserved, undesignated. Overall, the total governmental fund revenues remained almost level, with just about a two percent (1.72%) or \$128,159 decrease from the prior year. The total expenditures decreased by about the same amount as the revenues decreased (\$127,801). The decrease in expenditures is attributed to a reduction in capital spending and a reduction in the cost of general government. The reductions in these two areas were offset, somewhat, by increased costs for winter maintenance on the streets and highways last winter and slight increases in public safety and recreation and culture. The work on Phase II of the M-99 reconstruction work was finalized this past summer which took the bulk of our capital resources. The third and final phase of this project will begin in the fall of 2008. The *reserved* fund balance of \$570,652 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 (\$20,547); and 2) to generate income to pay for the perpetual care of the two municipal cemeteries, and Mrs. Stocks Park (\$550,105).

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 \$691,438. All of this balance is unreserved, undesignated and therefore available for spending at the government's discretion.

During the current fiscal year, the fund balance of the City's general fund increased by \$10,101. This is primarily attributable to a four percent (4.3%) decrease in transfers out to other funds.

The *Capital Improvement Fund* ended the year with a fund balance of \$686,234 which represents a 45% increase from the prior year. All of this money will be used in the next fiscal year for the Phase III of the M-99 reconstruction project for storm sewer upgrades.

Other nonmajor governmental funds collectively experienced a net decrease in fund balances for the year of \$101,354. More than half of that decrease comes from increased highway and street maintenance costs due to high cost of winter maintenance last winter. The remainder of the decrease is attributable to the construction of a new pavilion structure for Mrs. Stocks Park.

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 \$14,557,507. Net income for all City proprietary funds was \$1,849,505. Both the water and the electric funds showed a net income for the year. The sewer and transportation funds ended the year with a net loss.

General Fund Budgetary Highlights

Differences between original and final amended revenue budgets for the general fund totaled \$2,000. The only change was a decrease in the transfer in from the Library Fund, as additional work planned at the Library for the Public Works department was not needed.

Differences between the original and final amended expenditure budgets for the general fund totaled \$199,850. The adjustments were made as follows: council's budget was reduced \$2,750 and the money was reallocated to cover overages in other departments; the clerk's budget was decreased \$44,000 because of a shifting of staff from this office to the recreation department; the administrative budget went up \$40,000 to cover the cost of additional legal fees associated with numerous legal cases and union negotiations; \$5,000 was reallocated to other departments from street lights; the airport budget was increased by \$6,000 to cover increased utilities costs; general government operations increased \$15,100 to pay for additional maintenance and repair work done at the Transfer Facility, Airport and general labor at various other City-owned properties; public safety (Fire) capital was increased \$12,000 to cover the cost of confined space rescue equipment purchased with a grant received from Dow Chemical Company in the prior year; and the public services department budget was reduced by \$19,500 and the money reallocated to cover overages; the cemetery wage and equipment rental line items were increased \$25,000 to pay for the staff work done on the new storage building constructed at Lakeview Cemetery; the assessor and building inspector budgets were both reduced by \$7,000 and \$8,500 respectively to be reallocated in other departments that were over budget; and the parks department was increased \$50,500 to pay for the additional cost for work done on the pump house and pavilion installed in Mrs. Stocks Park.

Transfers out of the general fund were increased by \$138,000. 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 \$38,000 to cover additional expenditures for staffing adjustments between the clerk and recreation offices.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities increased for the year ended June 30, 2008 in the amount of \$1,291,700 (net of depreciation). 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. The City's total capital assets increased in the current fiscal year over five percent (5.33%) for governmental activities and increased just about one percent (0.86%) 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 \$621,832.
- The utility (electric, water, and sewer funds) did a variety of projects throughout the year totaling over \$1.5 million (\$1,581,938). The electric fund capital projects included: extension to the Moore Road line; the purchase of a load tap changer on transformer; triple/single reclosures; purchase of a director's vehicle; 4160 to 13.2 upgrade on feeder 4; purchase of outage management system software; new generators at the power plant; and land betterments at the power plant. For the water and sewer funds: improvements were made to the water and sewer lines in connection with the M-99 reconstruction project and a new boiler was installed at the Waste Water Treatment Plant.
- Primary government purchased one police patrol car, a pickup truck and a mower deck for a total cost of \$49,150.
- The library purchased numerous books at a cost of \$23,956.
- Buildings and improvements consisted of heating system upgrades in the Mitchell building (old Library) at a cost of \$10,752; installation of a new security fence at the Transfer Facility for \$6,498; a new fence was installed around the compost site at the Department of Public Services building for \$12,850; \$10,636 was used to construct a storage facility at Lakeview Cemetery; and a columbarium was placed at Oak Grove Cemetery for a cost of \$14,631.
- Land improvements in the amount of \$77,634 were done in Mrs. Stocks Park. They consisted of the construction of the MaryAnn MacRitchie pavilion and the installation of water and electrical service to the park.

City's Capital Assets
(Net of Depreciation)

	Governmental		Business-type		Total		Total
	Activities		Activities				Percent
	2007	2008	2007	2008	2007	2008	2007-08
Land	\$4,855,083	\$5,946,260	\$189,982	\$296,393	\$5,045,065	\$6,242,653	23.74%
Buildings and System Improvements	3,762,191	3,789,397	21,194,781	21,769,845	\$24,956,972	\$25,559,242	2.41%
Library Books	63,389	70,756	0	0	\$63,389	\$70,756	11.62%
Machinery and Equipment	821,577	719,069	75,897	44,876	\$897,474	\$763,945	-14.88%
Infrastructure	11,153,272	11,230,748	0	0	\$11,153,272	\$11,230,748	0.69%
Construction in Progress	0	0	738,356	278,884	738,356	278,884	-62.23%
Total	\$20,655,512	\$21,756,230	\$22,199,016	\$22,389,998	\$42,854,528	\$44,146,228	3.01%

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 \$3,610,000, 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			
	2007	2008	2007	2008
Revenue Bonds	\$4,020,000	\$3,610,000	\$4,020,000	\$3,610,000
Total	\$4,020,000	\$3,610,000	\$4,020,000	\$3,610,000

The City's total debt decreased during the current fiscal year by \$607,274 or eleven percent (11.10%). 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 \$19,034,066, which is significantly in excess of the City's total outstanding long-term debt obligation of \$4,365,000.

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 2008-9 fiscal years:

- The unemployment rate for Hillsdale County (which includes the City) in September 2008 was 10.6%. That's up 2.1% from a year ago and 2.2% higher than the State of Michigan's unemployment rate for the same period.
- The property tax inflationary rate for the 2008 calendar year was 2.3%. That rate for 2009 will be 4.4%. However with foreclosures increasing and a declining business climate it is anticipated that tax revenues will remain relatively flat in the next year.
- 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, 2008

	Primary Government			Component Units	
	Governmental	Business-type	Total	Tax Increment	Economic
	Activities	Activities		Finance	Development
				Authority	Corporation
Assets:					
Cash and investments	\$ 2,438,260	\$ 7,057,314	\$ 9,495,574	\$ 309,505	\$ 109,299
Receivables	643,072	1,586,386	2,229,458	-	-
Internal balances	101,164	(98,560)	2,604	-	-
Prepaid items and other assets	110,746	150,698	261,444	-	-
Inventory	156,751	907,829	1,064,580	-	-
Investment in M.S.C.P.A.	-	7,598,513	7,598,513	-	-
Capital assets, net					
Assets not being depreciated	5,946,260	575,277	6,521,537	-	180,000
Assets being depreciated	15,809,970	21,814,721	37,624,691	-	-
Total assets	<u>25,206,223</u>	<u>39,592,178</u>	<u>64,798,401</u>	<u>309,505</u>	<u>289,299</u>
Liabilities:					
Accounts payable	80,218	86,547	166,765	-	-
Accrued expenses	55,075	1,083,911	1,138,986	450	-
Accrued interest	2,500	34,613	37,113	-	-
Noncurrent liabilities:					
Due within one year	179,500	420,000	599,500	-	-
Due in more than one year	831,978	3,354,642	4,186,620	-	-
Total liabilities	<u>1,149,271</u>	<u>4,979,713</u>	<u>6,128,984</u>	<u>450</u>	<u>-</u>
Net Assets:					
Invested in capital assets, net of related debt	21,001,230	18,779,998	39,781,228	-	180,000
Restricted for:					
Debt service	3,235	1,274,960	1,278,195	-	-
Capital projects	1,194,713	-	1,194,713	-	-
Endowment and trust principal	570,652	-	570,652	-	-
Unrestricted	<u>1,287,122</u>	<u>14,557,507</u>	<u>15,844,629</u>	<u>309,055</u>	<u>109,299</u>
Total net assets	<u>\$ 24,056,952</u>	<u>\$ 34,612,465</u>	<u>58,669,417</u>	<u>\$ 309,055</u>	<u>\$ 289,299</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Activities
Year Ended June 30, 2008

<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	\$ 1,239,710	\$ 129,050	\$ 483,497	\$ 110,755	\$ (516,408)
Public safety	1,850,863	-	13,127	-	(1,837,736)
Public works	487,734	17,818	-	1,013,768	543,852
Highways and streets	974,027	-	639,290	-	(334,737)
Health	160,549	-	-	-	(160,549)
Culture and recreation	521,523	132,718	139,055	-	(249,750)
Interest on long-term debt	15,242	-	-	-	(15,242)
Other	629,910	-	-	-	(629,910)
Unallocated depreciation	<u>36,368</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(36,368)</u>
Total governmental activities	<u>5,915,926</u>	<u>279,586</u>	<u>1,274,969</u>	<u>1,124,523</u>	<u>(3,236,848)</u>
Business-type activities:					
Electric	10,982,282	12,308,677	-	-	1,326,395
Sewer	1,029,550	748,014	-	-	(281,536)
Water	993,436	1,513,665	-	-	520,229
Transportation	<u>458,280</u>	<u>61,171</u>	<u>189,238</u>	<u>-</u>	<u>(207,871)</u>
Total business-type activities	<u>13,463,548</u>	<u>14,631,527</u>	<u>189,238</u>	<u>-</u>	<u>1,357,217</u>
Total primary government	<u>\$ 19,379,474</u>	<u>\$ 14,911,113</u>	<u>\$ 1,464,207</u>	<u>\$ 1,124,523</u>	<u>\$ (1,879,631)</u>
Component Units					
Tax Increment Finance Authority	\$ 16,029	\$ -	\$ -	\$ -	\$ (16,029)
Economic Development Corporation	<u>1,040</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,040)</u>
Total component units	<u>\$ 17,069</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (17,069)</u>

continued..

City of Hillsdale, Michigan
Statement of Activities (Continued)
Year Ended June 30, 2008

	Primary Government			Component Units	
	Governmental	Business-type	Total	Tax Increment	Economic
	Activities	Activities		Finance	Development
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Authority</u>	<u>Corporation</u>
Changes in Net Assets					
Net (expense) revenue	\$ (3,236,848)	\$ 1,357,217	\$ (1,879,631)	\$ (16,029)	\$ (1,040)
General revenues:					
Property taxes	2,687,158	-	2,687,158	107,750	-
Unrestricted grants and contributions	891,550	-	891,550	-	-
Interest and investment earnings	136,721	354,820	491,541	14,310	4,487
Other revenues	992,563	1,208	993,771	4,583	-
Transfers - internal activities	(7,468)	136,260	128,792	(116,346)	-
Total general revenues, contributions and transfers	<u>4,700,524</u>	<u>492,288</u>	<u>5,192,812</u>	<u>10,297</u>	<u>4,487</u>
Changes in Net Assets	1,463,676	1,849,505	3,313,181	(5,732)	3,447
Net Assets - Beginning of Year	<u>22,593,276</u>	<u>32,762,960</u>	<u>55,356,236</u>	<u>314,787</u>	<u>285,852</u>
Net Assets - End of Year	<u>\$ 24,056,952</u>	<u>\$ 34,612,465</u>	<u>\$ 58,669,417</u>	<u>\$ 309,055</u>	<u>\$ 289,299</u>

City of Hillsdale, Michigan
Balance Sheet
Governmental Funds
June 30, 2008

	<u>General</u>	<u>Capital Improvement</u>	<u>Airport Improvement</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Assets</u>					
Cash and investments	\$ 463,845	\$ 692,822	\$ 151,173	\$ 772,852	\$ 2,080,692
Receivables:					
Accounts receivable	146,811	172	3,910	46,462	197,355
Special assessments	-	345,758	-	-	345,758
Due from other governmental units	8,134	-	-	91,825	99,959
Due from other funds	101,453	-	-	-	101,453
Prepaid expenditures	71,842	-	-	5,252	77,094
	<u>792,085</u>	<u>1,038,752</u>	<u>155,083</u>	<u>916,391</u>	<u>2,902,311</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 58,227	\$ 6,475	\$ -	\$ 15,483	\$ 80,185
Due to other funds	-	-	-	289	289
Salaries payable	42,022	285	-	10,781	53,088
Deferred revenue	-	345,758	-	-	345,758
Other liabilities	398	-	-	-	398
Total liabilities	<u>100,647</u>	<u>352,518</u>	<u>-</u>	<u>26,553</u>	<u>479,718</u>
Fund Balances:					
Reserved:					
Reserved for perpetual care and endowment	-	-	-	570,652	570,652
Unreserved; undesignated	691,438	686,234	-	-	1,377,672
Unreserved; undesignated-					
reported in nonmajor:					
Special revenue funds	-	-	-	305,813	305,813
Debt service funds	-	-	-	5,735	5,735
Capital project funds	-	-	155,083	7,638	162,721
Total fund balances	<u>691,438</u>	<u>686,234</u>	<u>155,083</u>	<u>889,838</u>	<u>2,422,593</u>
Total liabilities and fund balances	<u>\$ 792,085</u>	<u>\$ 1,038,752</u>	<u>\$ 155,083</u>	<u>\$ 916,391</u>	<u>\$ 2,902,311</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, 2008

Total Fund Balances - Governmental Funds \$ 2,422,593

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

\$ 38,248,949

Accumulated depreciation is

(16,492,719)

21,756,230

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

345,758

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

499,847

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

Contracts and loans payable

(755,000)

Accrued interest

(2,500)

Compensated absences

(209,976)

Total Net Assets - Governmental Activities

\$ 24,056,952

City of Hillsdale, Michigan
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2008

	<u>General</u>	<u>Capital Improvement</u>	<u>Airport Improvement</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues:					
Taxes	\$ 2,538,733	\$ -	\$ -	\$ 161,251	\$ 2,699,984
Intergovernmental - federal and State	895,050	-	1,013,768	654,341	2,563,159
Charges for services	-	-	-	103,614	103,614
Fines and violations	-	-	-	52,638	52,638
Miscellaneous	<u>1,197,488</u>	<u>495,214</u>	<u>30,600</u>	<u>190,044</u>	<u>1,913,346</u>
Total revenues	<u>4,631,271</u>	<u>495,214</u>	<u>1,044,368</u>	<u>1,161,888</u>	<u>7,332,741</u>
Expenditures:					
General government	1,234,578	-	-	-	1,234,578
Public safety	1,796,191	-	-	11,273	1,807,464
Public works	411,317	-	-	475	411,792
Highways and streets	-	-	-	821,535	821,535
Health	160,549	-	-	-	160,549
Culture and recreation	160,145	-	-	375,970	536,115
Debt service:					
Principal payments	-	-	-	148,000	148,000
Interest and fiscal charges	-	-	-	15,398	15,398
Capital outlay	<u>-</u>	<u>901,146</u>	<u>1,096,509</u>	<u>69,374</u>	<u>2,067,029</u>
Total expenditures	<u>3,762,780</u>	<u>901,146</u>	<u>1,096,509</u>	<u>1,442,025</u>	<u>7,202,460</u>
Revenues Over (Under) Expenditures	<u>868,491</u>	<u>(405,932)</u>	<u>(52,141)</u>	<u>(280,137)</u>	<u>130,281</u>
Other Financing Sources (Uses):					
Gain (Loss) on sale of investment	-	-	-	12,446	12,446
Operating transfers in	22,475	622,139	50,000	395,838	1,090,452
Operating transfers out	<u>(880,865)</u>	<u>-</u>	<u>-</u>	<u>(229,501)</u>	<u>(1,110,366)</u>
Total other financing sources (uses)	<u>(858,390)</u>	<u>622,139</u>	<u>50,000</u>	<u>178,783</u>	<u>(7,468)</u>
Net Changes in Fund Balances	10,101	216,207	(2,141)	(101,354)	122,813
Fund Balances - Beginning of Year	<u>681,337</u>	<u>470,027</u>	<u>157,224</u>	<u>991,192</u>	<u>2,299,780</u>
Fund Balances - End of Year	<u>\$ 691,438</u>	<u>\$ 686,234</u>	<u>\$ 155,083</u>	<u>\$ 889,838</u>	<u>\$ 2,422,593</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, 2008

Net Change in Fund Balances - Total Governmental Funds \$ 122,813

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	\$ (723,791)	
Capital outlay	<u>1,869,966</u>	1,146,175

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		(12,826)
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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		68,957
--	--	--------

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		156
Increase in the accrual for compensated absences	<u>(9,599)</u>	

Change in Net Assets of Governmental Activities \$ 1,463,676

City of Hillsdale, Michigan
Statement of Net Assets
Proprietary Funds
June 30, 2008

	Business-type Activities - Enterprise Funds					Governmental
	Electric	Water	Sewer	Nonmajor	Total	Activities -
				Fund		Internal
				Dial-A-Ride		Service Funds
Assets:						
Current assets:						
Cash and cash equivalents	\$ 1,637,748	\$ -	\$ 60,111	\$ 30,994	\$ 1,728,853	\$ 357,568
Receivables:						
Accounts (net of allowance for bad debt of \$120,000)	1,394,122	106,757	52,047	-	1,552,926	-
Accrued interest	24,543	4,015	4,902	-	33,460	-
Due from other funds	1,217	18	380,188	-	381,423	-
Inventory, at cost	422,051	80,750	7,195	-	509,996	156,751
Prepaid expenses	85,567	21,130	34,408	9,593	150,698	33,652
Total current assets	<u>3,565,248</u>	<u>212,670</u>	<u>538,851</u>	<u>40,587</u>	<u>4,357,356</u>	<u>547,971</u>
Noncurrent assets:						
Restricted investments	-	637,562	637,398	-	1,274,960	-
Designated investments	3,427,468	304,761	321,272	-	4,053,501	-
Total noncurrent assets	<u>3,427,468</u>	<u>942,323</u>	<u>958,670</u>	<u>-</u>	<u>5,328,461</u>	<u>-</u>
Capital assets:						
Land	123,878	49,613	122,902	-	296,393	-
Plant and equipment	29,924,804	10,086,253	13,586,788	496,078	54,093,923	1,640,998
Construction in progress	278,884	-	-	-	278,884	-
	<u>30,327,566</u>	<u>10,135,866</u>	<u>13,709,690</u>	<u>496,078</u>	<u>54,669,200</u>	<u>1,640,998</u>
Less accumulated depreciation	(18,034,235)	(4,579,836)	(9,213,929)	(451,202)	(32,279,202)	(1,286,137)
Net capital assets	<u>12,293,331</u>	<u>5,556,030</u>	<u>4,495,761</u>	<u>44,876</u>	<u>22,389,998</u>	<u>354,861</u>
Other assets:						
Long-term inventories	397,833	-	-	-	397,833	-
Investment in M.S.C.P.A.	7,598,513	-	-	-	7,598,513	-
Total other assets	<u>7,996,346</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,996,346</u>	<u>-</u>
Total assets	<u>27,282,393</u>	<u>6,711,023</u>	<u>5,993,282</u>	<u>85,463</u>	<u>40,072,161</u>	<u>902,832</u>
Liabilities:						
Current liabilities (payable from current assets):						
Accounts payable	77,470	2,274	6,802	-	86,546	33
Accrued purchased power	997,286	-	-	-	997,286	-
Accrued expenses	45,971	413	11,947	8,608	66,939	1,589
Customer deposits	5,676	6,240	58	-	11,974	-
Due to other funds	37,706	383,611	1,821	56,845	479,983	-
Due to other governments	-	-	-	7,713	7,713	-
Total current liabilities (payable from current assets)	<u>1,164,109</u>	<u>392,538</u>	<u>20,628</u>	<u>73,166</u>	<u>1,650,441</u>	<u>1,622</u>
Current liabilities (payable from restricted assets):						
Bonds payable	-	270,000	150,000	-	420,000	-
Compensated absences	-	-	-	-	-	-
Accrued interest	-	30,688	3,925	-	34,613	-
Total current liabilities (payable from restricted assets)	<u>-</u>	<u>300,688</u>	<u>153,925</u>	<u>-</u>	<u>454,613</u>	<u>-</u>
Noncurrent liabilities:						
Accrued compensated absences	96,610	29,580	32,544	5,908	164,642	46,502
General obligation and revenue bonds payable	-	2,555,000	635,000	-	3,190,000	-
Total noncurrent liabilities	<u>96,610</u>	<u>2,584,580</u>	<u>667,544</u>	<u>5,908</u>	<u>3,354,642</u>	<u>46,502</u>
Total liabilities	<u>1,260,719</u>	<u>3,277,806</u>	<u>842,097</u>	<u>79,074</u>	<u>5,459,696</u>	<u>48,124</u>
Net Assets:						
Invested in capital assets, net of related debt	12,293,331	2,731,030	3,710,761	44,876	18,779,998	354,861
Restricted investments	-	637,562	637,398	-	1,274,960	-
Unrestricted (deficit)	13,728,343	64,625	803,026	(38,487)	14,557,507	499,847
Total net assets	<u>\$ 26,021,674</u>	<u>\$ 3,433,217</u>	<u>\$ 5,151,185</u>	<u>\$ 6,389</u>	<u>\$ 34,612,465</u>	<u>\$ 854,708</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, 2008

	<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>Activities</u>
				<u>Fund</u>		<u>Internal</u>
			<u>Dial-A-Ride</u>		<u>Service</u>	<u>Funds</u>
Operating Revenues:						
Charges for services	\$ 12,308,677	\$ 1,513,665	\$ 748,014	\$ 59,413	\$ 14,629,769	\$ 611,877
Other	-	-	-	1,758	1,758	179,553
Total operating revenues	<u>12,308,677</u>	<u>1,513,665</u>	<u>748,014</u>	<u>61,171</u>	<u>14,631,527</u>	<u>791,430</u>
Operating Expenses:						
Purchased power	8,085,564	-	-	-	8,085,564	-
Production expense	823,638	57,464	-	-	881,102	-
Purification expense	-	204,060	-	-	204,060	-
Treatment expense	-	-	550,042	-	550,042	-
Transmission and distribution	1,121,268	340,392	-	-	1,461,660	-
Administrative	951,812	266,336	267,758	-	1,485,906	736,971
Sewer collection	-	-	193,800	-	193,800	-
Transportation	-	-	-	458,280	458,280	-
Total operating expenses	<u>10,982,282</u>	<u>868,252</u>	<u>1,011,600</u>	<u>458,280</u>	<u>13,320,414</u>	<u>736,971</u>
Operating Income (Loss)	<u>1,326,395</u>	<u>645,413</u>	<u>(263,586)</u>	<u>(397,109)</u>	<u>1,311,113</u>	<u>54,459</u>
Nonoperating Revenues (Expenses):						
Interest income	257,302	39,324	58,194	-	354,820	14,498
Interest expense	-	(125,184)	(17,950)	-	(143,134)	-
Other income (expense)	16,239	(5,020)	(10,011)	189,238	190,446	-
Total nonoperating revenues (expenses)	<u>273,541</u>	<u>(90,880)</u>	<u>30,233</u>	<u>189,238</u>	<u>402,132</u>	<u>14,498</u>
Net Income (Loss) Before Transfers	1,599,936	554,533	(233,353)	(207,871)	1,713,245	68,957
Transfers in from Other Funds	-	-	-	136,260	136,260	-
Net Income (Loss)	1,599,936	554,533	(233,353)	(71,611)	1,849,505	68,957
Net Assets - Beginning of Year	<u>24,421,738</u>	<u>2,878,684</u>	<u>5,384,538</u>	<u>78,000</u>	<u>32,762,960</u>	<u>785,751</u>
Net Assets - End of Year	<u>\$ 26,021,674</u>	<u>\$ 3,433,217</u>	<u>\$ 5,151,185</u>	<u>\$ 6,389</u>	<u>\$ 34,612,465</u>	<u>\$ 854,708</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2008

	<u>Business-type Activities - Enterprise Funds</u>					<u>Governmental Activities - Internal Service Funds</u>
	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor Fund</u>	<u>Total</u>	
				<u>Dial-A-Ride</u>		
Cash Flows From Operating Activities:						
Cash received from customers, residents and users	\$ 12,400,390	\$ 1,496,794	\$ 734,327	\$ 59,413	\$ 14,690,924	\$ -
Other operating receipts	56,175	7,267	8,688	1,759	73,889	-
Receipts for interfund services provided	-	-	-	-	-	791,430
Cash paid to employees and suppliers	<u>(12,480,627)</u>	<u>(986,986)</u>	<u>(548,444)</u>	<u>(435,805)</u>	<u>(14,451,862)</u>	<u>(698,803)</u>
Net cash provided by (used in) operating activities	<u>(24,062)</u>	<u>517,075</u>	<u>194,571</u>	<u>(374,633)</u>	<u>312,951</u>	<u>92,627</u>
Cash Flows From Noncapital Financing Activities:						
Intergovernmental nonoperating revenues	-	-	-	189,238	189,238	-
Transfers from other funds	-	-	-	136,260	136,260	-
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>325,498</u>	<u>325,498</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities:						
Bond payments on capital debt	-	(260,000)	(150,000)	-	(410,000)	-
Interest on capital debt	-	(127,615)	(18,700)	-	(146,315)	-
Proceeds from the disposal of assets	1,700	-	-	-	-	-
Purchase of capital assets, net	<u>(652,509)</u>	<u>(126,130)</u>	<u>(450,244)</u>	<u>-</u>	<u>(1,228,883)</u>	<u>(49,149)</u>
Net cash used by capital and related financing activities	<u>(650,809)</u>	<u>(513,745)</u>	<u>(618,944)</u>	<u>-</u>	<u>(1,783,498)</u>	<u>(49,149)</u>
Cash Flows From Investing Activities:						
Unrealized gain on investments	(7,753)	(2,786)	(3,315)	-	(13,854)	-
Purchase of investments	(150,870)	(37,834)	(33,375)	-	(222,079)	-
Proceeds from the sale of investments	-	200	-	-	-	-
Other nonoperating income received	-	-	-	-	-	-
Other nonoperating expenses	-	(2,234)	(6,696)	-	(8,930)	-
Interest income received	<u>257,302</u>	<u>39,324</u>	<u>58,194</u>	<u>-</u>	<u>354,820</u>	<u>14,498</u>
Net cash provided by investing activities	<u>98,679</u>	<u>(3,330)</u>	<u>14,808</u>	<u>-</u>	<u>110,157</u>	<u>14,498</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(576,192)	-	(409,565)	(49,135)	(1,034,892)	57,976
Cash and Cash Equivalents - Beginning of Year	2,213,940	-	469,676	80,129	2,763,745	299,592
Cash and Cash Equivalents - End of Year	<u>\$ 1,637,748</u>	<u>\$ -</u>	<u>\$ 60,111</u>	<u>\$ 30,994</u>	<u>\$ 1,728,853</u>	<u>\$ 357,568</u>

Continued..

City of Hillsdale, Michigan
Statement of Cash Flows (Continued)
Proprietary Funds
Year Ended June 30, 2008

	<u>Business-type Activities - Enterprise Funds</u>					<u>Governmental Activities - Internal Service Funds</u>
	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor Fund</u>	<u>Total</u>	
				<u>Dial-A-Ride</u>		
Balance Sheet Classification of Cash						
Current assets - cash and cash equivalents	\$ 1,637,748	\$ -	\$ 60,111	\$ 30,994	1,728,853	\$ 357,568
Reconciliation of Operating Income (Loss)						
to Net Cash Provided by Operating Activities:						
Operating income (loss)	\$ 1,326,395	\$ 645,413	\$ (263,586)	\$ (397,109)	1,311,113	\$ 54,459
Adjustments to reconcile operating income (loss)						
to net cash provided by (used in) operating activities:						
Depreciation	636,474	210,543	157,904	31,021	1,035,942	94,606
Changes in:						
Receivables	(405,872)	(9,932)	(4,999)	-	(420,803)	-
Due from other funds	2,211	(18)	299,539	-	301,732	-
Inventories	(158,802)	(3,430)	2,286	-	(159,946)	(38,367)
Prepaid expenses	(1,109)	214	1,107	(5,619)	(5,407)	(1,078)
Investment in M.S.C.P.A.	(1,601,876)	-	-	-	(1,601,876)	-
Accounts payable	40,196	(27,914)	(4,200)	(2,599)	5,483	(17,407)
Accrued expenses	141,963	1,410	6,597	3,695	153,665	414
Due to other funds	(3,042)	(299,539)	(77)	(4,022)	(306,680)	-
Customer deposits	(600)	328	-	-	(272)	-
Net Cash Provided by (Used in) Operating Activities	<u>\$ (24,062)</u>	<u>\$ 517,075</u>	<u>\$ 194,571</u>	<u>\$ (374,633)</u>	<u>\$ 312,951</u>	<u>\$ 92,627</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	<u>Hospital Private Purpose Trust Fund</u>	<u>Agency Funds</u>
Assets:		
Cash and investments	\$ 15,000	\$ 87,072
Liabilities:		
Due to other funds	-	\$ 1,659
Due to other agencies	-	85,413
Total liabilities	-	\$ 87,072
Net Assets:		
Unrestricted	15,000	
Total net assets	\$ 15,000	

City of Hillsdale, Michigan
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2008

	<u>Hospital Private Purpose Trust Fund</u>
Revenue:	
Interest income	\$ 801
Expenses:	
Other	<u>692</u>
Change in Net Assets	109
Net Assets - Beginning of Year	<u>14,891</u>
Net Assets - End of Year	<u>\$ 15,000</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, 2007, the date of their most recently prepared audited financial statements, are as follows:

Operating revenue	\$317,204	Assets	\$1,117,944
Operating expenses	274,259	Liabilities	41,598
Excess expenses over revenues	42,945	Fund equity	1,076,346
Other income (net)	(125,037)		
Net loss	(82,092)		

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 2007 had a taxable value of approximately \$160,760,000 (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 2007-08 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, 2008, 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	\$9,495,574	\$ 418,804
Statement of Fiduciary Net Assets:		
Hospital Private Purpose Trust Fund:		
Cash and investments	15,000	-
Agency Funds:		
Cash and investments	87,072	-
	<u>\$9,597,646</u>	<u>\$ 418,804</u>
	Primary Government	Component Unit(s)
Bank deposits (checking accounts, savings accounts and short-term CDs)	\$ 2,093,361	\$ (989)
Investments in securities, mutual funds and similar vehicles	7,501,835	419,793
Cash on hand	2,450	-
	<u>\$9,597,646</u>	<u>\$ 418,804</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	\$ 605,000	\$ 7,000	\$ 0
NR	NR	Local Units of Government Investments Pool	5,740	0	0
NR	NR	Michigan CLASS Investments Pool	1,492,941	0	0
AAA	Aaa	U.S. Government Agency Bonds	0	3,489,167	373,232
AAA	Aaa	Financing Corporation Bond	0	0	28,838
N/A	N/A	Money Market Fund	79,932	0	0
N/A	N/A	Spartan U.S. Government Money Market	942,618	0	0
N/A	N/A	Fidelity Investment Cash	897,160	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, \$2,048,285 of the City's bank balance of \$2,390,655 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. As of year-end, City investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the City to buy the securities - Federal agency securities in the reported amount of \$3,862,399.

Note 4 – Receivables

Receivables of the governmental activities of the primary government at June 30, 2008, consist of the following:

Other governmental units (primarily the State of Michigan)	\$266,436
Accounts receivable	30,878
Special assessments	<u>345,758</u>
	<u>\$643,072</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 5 - Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

Primary Government	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$4,855,083	\$1,091,177	\$ -	\$5,946,260
Capital assets being depreciated:				
Land improvements	272,110	77,634	-	349,744
Buildings and improvements	4,744,235	55,367	-	4,799,602
Books	491,419	23,956	-	515,375
Equipment and vehicles	2,591,877	49,149	16,496	2,624,530
Infrastructure	25,905,591	621,832	2,513,985	24,013,438
Total capital assets being depreciated	<u>34,005,232</u>	<u>827,938</u>	<u>2,530,481</u>	<u>32,302,689</u>
Accumulated depreciation:				
Land improvements	122,913	12,536	-	135,449
Buildings and improvements	1,131,241	93,259	-	1,224,500
Books	428,030	16,589	-	444,619
Equipment and vehicles	1,770,300	151,657	16,496	1,905,461
Infrastructure	14,752,319	544,356	2,513,985	12,782,690
Total accumulated depreciation	<u>18,204,803</u>	<u>818,397</u>	<u>2,530,481</u>	<u>16,492,719</u>
Total capital assets being depreciated - net Governmental activities capital assets - net	<u>15,800,429</u>	<u>9,541</u>	<u>-</u>	<u>15,809,970</u>
	<u>\$20,655,512</u>	<u>\$1,100,718</u>	<u>\$ -</u>	<u>\$21,756,230</u>
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 189,982	\$ 106,411	\$ -	\$ 296,393
Construction in progress	<u>738,356</u>	<u>-</u>	<u>459,472</u>	<u>278,884</u>
Total capital assets not being depreciated	<u>928,338</u>	<u>106,411</u>	<u>459,472</u>	<u>575,277</u>
Capital assets being depreciated:				
Equipment	562,126	-	66,048	496,078
Plant and systems	<u>52,115,211</u>	<u>1,581,938</u>	<u>99,304</u>	<u>53,597,845</u>
Total capital assets being depreciated	<u>52,677,337</u>	<u>1,581,938</u>	<u>165,352</u>	<u>54,093,923</u>
Accumulated depreciation:				
Equipment	486,229	31,021	66,048	451,202
Plant and systems	<u>30,920,430</u>	<u>1,004,921</u>	<u>97,351</u>	<u>31,828,000</u>
Total accumulated depreciation	<u>31,406,659</u>	<u>1,035,942</u>	<u>163,399</u>	<u>32,279,202</u>
Total capital assets being depreciated - net	<u>21,270,678</u>	<u>545,996</u>	<u>1,953</u>	<u>21,814,721</u>
Business-type activities capital assets - net	<u>\$22,199,016</u>	<u>\$ 652,407</u>	<u>\$ (461,425)</u>	<u>\$22,389,998</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 5 - Capital Assets (Continued)

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

Governmental Activities:	
Public safety	\$ 42,812
Highways and streets	468,409
Culture and recreation	101,147
Public works	75,055
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>94,606</u>
Total depreciation expense – governmental activities	<u>\$ 818,397</u>
Business-Type Activities:	
Electric	\$ 636,474
Water	210,543
Sewer	157,904
Transportation	<u>31,021</u>
Total depreciation expense – business-type activities	<u>\$ 1,035,942</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	\$101,453	\$ 945
Nonmajor Governmental Funds	-	289
Imprest Payroll		1,659
Water Fund	18	383,611
Sewer Fund	380,188	1,821
Electric Fund	1,217	37,706
Nonmajor Enterprise Fund	-	<u>56,845</u>
	<u>\$482,876</u>	<u>\$ 482,876</u>
	<u>Transfers In</u>	<u>Transfers Out</u>
Transfers:		
General Fund	\$ 22,475	\$ 880,865
Capital Improvement	622,139	-
Airport Improvement	50,000	-
Nonmajor Governmental Funds	395,838	229,501
Component Units	-	116,346
Nonmajor Enterprise Fund	<u>136,260</u>	-
	<u>\$1,226,712</u>	<u>\$ 1,226,712</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, 2008, audited by other auditors whose report dated August 28, 2008, 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, 2008, is as follows:

	<u>Total M.S.C.P.A.</u>	<u>Hillsdale Board of Public Utilities Portion 25.5%</u>
Total assets	\$74,726,006	\$19,055,131
Total liabilities	<u>44,927,913</u>	<u>11,456,618</u>
Net Assets	<u>\$29,798,093</u>	<u>\$ 7,598,513</u>
Operating revenues	\$45,869,712	\$11,696,777
Operating expenses	<u>38,599,740</u>	<u>9,842,934</u>
Operating Income	7,269,972	1,853,842
Other income and expenses	<u>(988,104)</u>	<u>(251,966)</u>
Changes in Net Assets	6,281,868	1,601,876
Net Assets, Beginning of Year	<u>23,516,225</u>	<u>5,996,637</u>
Net Assets, End of Year	<u>\$29,798,093</u>	<u>\$ 7,598,513</u>

Note 8 - Long-Term Debt

Long-term liability activity for the year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental activities:					
Contract and loans payable	\$903,000	\$ -	\$ 148,000	\$ 755,000	\$ 148,000
Compensated absences	<u>246,995</u>	<u>9,483</u>	<u>-</u>	<u>256,478</u>	<u>31,500</u>
	<u>\$1,149,995</u>	<u>\$ 9,483</u>	<u>\$ 148,000</u>	<u>\$1,011,478</u>	<u>\$ 179,500</u>
Business-type activities:					
Revenue bonds	\$4,020,000	\$ -	\$ 410,000	\$3,610,000	\$ 420,000
Compensated absences	<u>213,916</u>	<u>-</u>	<u>49,274</u>	<u>164,642</u>	<u>-</u>
	<u>\$4,233,916</u>	<u>\$ -</u>	<u>\$ 459,274</u>	<u>\$3,774,642</u>	<u>\$ 420,000</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%	\$ 300,000
Municipal purchase contract - Library building improvements	2013	4.19%	315,000
Loan – Community Development Block Grant – Industrial park property acquisitions	2013	0.00%	<u>140,000</u>
			<u>\$ 755,000</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>
2009	\$ 148,000	\$ 12,465
2010	148,000	9,532
2011	148,000	6,599
2012	148,000	3,667
2013	148,000	700
2014	<u>15,000</u>	<u>33</u>
Total	<u>\$ 755,000</u>	<u>\$ 32,996</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%	\$1,635,000
2002 Water Refunding	2015	3.00% - 4.00%	1,190,000
1992 Sewer	2013	2%	<u>785,000</u>
			<u>\$3,610,000</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:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 420,000	\$133,396
2010	430,000	120,010
2011	445,000	105,732
2012	465,000	90,561
2013	480,000	74,606
2014 – 2018	1,185,000	168,155
2019	<u>185,000</u>	<u>4,718</u>
Total	<u>\$3,610,000</u>	<u>\$697,178</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, 2008, 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, 2008, the City's pension cost of \$208,913 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2007 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 8.4% 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, 2007, 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>
6/30/05	\$156,000	100%	\$ -
6/30/06	174,000	100%	-
6/30/07	209,000	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Liability (AAL) – Entry Age</u>	<u>Assets in Excess of AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/05	\$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	-
12/31/07	16,926,763	16,134,278	906,821	105%	3,799,429	-

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, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>	
Revenues:			
City taxes:			
Property	\$ 2,363,000	\$ 2,363,000	\$ 2,320,023
Administrative fees	75,000	75,000	80,491
Interest and penalties	20,000	20,000	39,473
Industrial facilities tax	<u>90,000</u>	<u>90,000</u>	<u>98,746</u>
Total city taxes	2,548,000	2,548,000	2,538,733
State revenue	903,500	903,500	895,050
Other revenue	<u>1,212,100</u>	<u>1,210,100</u>	<u>1,197,488</u>
Total revenues	<u>4,663,600</u>	<u>4,661,600</u>	<u>4,631,271</u>
Expenditures:			
General government:			
Council	31,520	28,770	26,348
Clerk	135,925	91,925	87,903
City manager	200,790	200,790	197,613
Assistant city manager	82,975	82,975	86,521
Economic development	100,000	100,000	87,080
Administrative	182,200	222,200	223,768
Treasurer	141,015	141,015	133,008
Street lights	63,000	58,000	55,408
Airport	91,385	97,385	83,941
Finance department	98,995	98,995	97,584
General operation	<u>159,705</u>	<u>174,805</u>	<u>155,404</u>
Total general government	<u>1,287,510</u>	<u>1,296,860</u>	<u>1,234,578</u>
Public safety:			
Police	1,368,390	1,368,390	1,337,710
Fire	<u>457,400</u>	<u>469,400</u>	<u>458,481</u>
Total public safety	<u>1,825,790</u>	<u>1,837,790</u>	<u>1,796,191</u>
Public works:			
Public services	335,270	315,770	297,112
Cemetery	<u>91,555</u>	<u>116,555</u>	<u>114,205</u>
Total public works	<u>426,825</u>	<u>432,325</u>	<u>411,317</u>

Continued..

City of Hillsdale, Michigan
 Budgetary Comparison Schedule (Continued)
 General Fund
 Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>	
Expenditures (Continued):			
Health:			
Assessor	\$ 143,535	\$ 136,535	\$ 132,293
Building inspector	<u>38,265</u>	<u>29,765</u>	<u>28,256</u>
Total health	<u>181,800</u>	<u>166,300</u>	<u>160,549</u>
 Culture and recreation	 <u>143,285</u>	 <u>193,785</u>	 <u>160,145</u>
 Total expenditures	 <u>3,865,210</u>	 <u>3,927,060</u>	 <u>3,762,780</u>
 Revenues Over (Under) Expenditures	 <u>798,390</u>	 <u>734,540</u>	 <u>868,491</u>
 Other Financing Sources (Uses):			
Transfers in	22,000	22,000	22,475
Transfers out	<u>(820,390)</u>	<u>(958,390)</u>	<u>(880,865)</u>
Total other financing sources (uses)	<u>(798,390)</u>	<u>(936,390)</u>	<u>(858,390)</u>
 Net Changes in Fund Balances	 -	 (201,850)	 10,101
 Fund Balances - Beginning of Year	 <u>681,337</u>	 <u>681,337</u>	 <u>681,337</u>
 Fund Balances - End of Year	 <u>\$ 681,337</u>	 <u>\$ 479,487</u>	 <u>\$ 691,438</u>

Other Supplemental Information

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

	Special Revenue	Debt Service	Capital Project	Permanent Funds	Total
<u>Assets</u>					
Cash and investments	\$ 188,917	\$ 5,735	\$ 7,617	\$ 570,583	\$ 772,852
Accounts receivable	46,372	-	21	69	46,462
Due from other governmental agencies	91,825	-	-	-	91,825
Prepaid expenditures	<u>5,252</u>	-	-	-	<u>5,252</u>
Total assets	<u>\$ 332,366</u>	<u>\$ 5,735</u>	<u>\$ 7,638</u>	<u>\$ 570,652</u>	<u>\$ 916,391</u>
 <u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 15,483	\$ -	\$ -	\$ -	15,483
Accrued payroll and related liabilities	10,781	-	-	-	10,781
Due to other funds	<u>289</u>	-	-	-	<u>289</u>
Total liabilities	<u>26,553</u>	-	-	-	<u>26,553</u>
 Fund Balances:					
Reserved for perpetual care and endowment	-	-	-	570,652	570,652
Unreserved:					
Unreserved; undesignated	<u>305,813</u>	<u>5,735</u>	<u>7,638</u>	-	<u>319,186</u>
Total fund balances	<u>305,813</u>	<u>5,735</u>	<u>7,638</u>	<u>570,652</u>	<u>889,838</u>
 Total liabilities and fund balances	 <u>\$ 332,366</u>	 <u>\$ 5,735</u>	 <u>\$ 7,638</u>	 <u>\$ 570,652</u>	 <u>\$ 916,391</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2008

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Permanent Funds</u>	<u>Total</u>
Revenues:					
Taxes	\$ 161,251	\$ -	\$ -	\$ -	\$ 161,251
Intergovernmental - federal and State	654,341	-	-	-	654,341
Charges for services	99,061	-	-	4,553	103,614
Fines and violations	52,638	-	-	-	52,638
Miscellaneous	<u>54,518</u>	<u>-</u>	<u>97,283</u>	<u>38,243</u>	<u>190,044</u>
Total revenues	<u>1,021,809</u>	<u>-</u>	<u>97,283</u>	<u>42,796</u>	<u>1,161,888</u>
Expenditures:					
Public safety	11,273	-	-	-	11,273
Public works	-	-	-	475	475
Highways and streets	821,535	-	-	-	821,535
Culture and recreation	375,970	-	-	-	375,970
Debt service:					
Principal payments	-	148,000	-	-	148,000
Interest and fiscal charges	-	15,398	-	-	15,398
Capital outlay	<u>-</u>	<u>-</u>	<u>69,374</u>	<u>-</u>	<u>69,374</u>
Total expenditures	<u>1,208,778</u>	<u>163,398</u>	<u>69,374</u>	<u>475</u>	<u>1,442,025</u>
Revenues Over (Under) Expenditures	<u>(186,969)</u>	<u>(163,398)</u>	<u>27,909</u>	<u>42,321</u>	<u>(280,137)</u>
Other Financing Sources (Uses):					
Gain (Loss) on sale of investment	-	-	-	12,446	12,446
Operating transfers in	190,685	163,398	41,755	-	395,838
Operating transfers out	<u>(93,755)</u>	<u>-</u>	<u>(85,873)</u>	<u>(49,873)</u>	<u>(229,501)</u>
Total other financing sources (uses)	<u>96,930</u>	<u>163,398</u>	<u>(44,118)</u>	<u>(37,427)</u>	<u>178,783</u>
Changes in Fund Balances	(90,039)	-	(16,209)	4,894	(101,354)
Fund Balances - Beginning of Year	<u>395,852</u>	<u>5,735</u>	<u>23,847</u>	<u>565,758</u>	<u>991,192</u>
Fund Balances - End of Year	<u>\$ 305,813</u>	<u>\$ 5,735</u>	<u>\$ 7,638</u>	<u>\$ 570,652</u>	<u>\$ 889,838</u>

City of Hillsdale, Michigan
 Combining Balance Sheet
 Nonmajor Special Revenue Funds
 June 30, 2008

	Library	Recreation Commission	Drug Forfeitures	Police			Local Street	Fire Equipment	Total
				Public Relations	Major Street				
Cash and cash equivalents	\$ 9,433	\$ 4,989	\$ 828	\$ 7,481	\$ 15,890	\$ 21,111	\$ -	\$ 59,732	
Investments	87,273	-	-	-	-	-	41,912	129,185	
Accounts receivable	46,372	-	-	-	-	-	-	46,372	
Due from other governmental agencies	-	-	-	-	69,081	22,744	-	91,825	
Prepaid expenditures	1,262	3,196	-	-	586	208	-	5,252	
Total assets	\$ 144,340	\$ 8,185	\$ 828	\$ 7,481	\$ 85,557	\$ 44,063	\$ 41,912	\$ 332,366	

Assets

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

Liabilities and Fund Balances

Liabilities:	\$ 2,255	\$ 2,252	\$ -	\$ -	\$ 7,564	\$ 3,412	\$ -	\$ 15,483
Accounts payable	3,477	3,055	-	-	2,256	1,993	-	10,781
Accrued salaries and related liabilities	289	-	-	-	-	-	-	289
Due to other funds	6,021	5,307	-	-	9,820	5,405	-	26,553
Total liabilities								

Liabilities:

Accounts payable
 Accrued salaries and related liabilities
 Due to other funds
 Total liabilities

Fund Balances:	138,319	2,878	828	7,481	75,737	38,658	41,912	305,813
Unreserved; undesignated	138,319	2,878	828	7,481	75,737	38,658	41,912	305,813
Total fund balances								

Fund Balances:

Unreserved; undesignated
 Total fund balances
 Total liabilities and fund balances

Total liabilities and fund balances	\$ 144,340	\$ 8,185	\$ 828	\$ 7,481	\$ 85,557	\$ 44,063	\$ 41,912	\$ 332,366
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City of Hillsdale, Michigan
 Combining Statement of Revenues, Expenditures and
 Changes in Fund Balances
 Nonmajor Special Revenue Funds
 Year Ended June 30, 2008

	Library	Recreation Commission	Drug Forfeitures	Police Public Relations	Major Street	Local Street	Fire Equipment	Total
Revenues:								
Property taxes	\$ 161,251	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	161,251
Intergovernmental - federal and State	15,356	-	-	-	487,004	151,981	-	654,341
Charges for services	24,563	74,498	-	-	-	-	-	99,061
Fines and violations	52,638	-	-	-	-	-	-	52,638
Miscellaneous	19,550	4,980	724	9,627	13,236	2,905	3,496	54,518
Total revenues	<u>273,358</u>	<u>79,478</u>	<u>724</u>	<u>9,627</u>	<u>500,240</u>	<u>154,886</u>	<u>3,496</u>	<u>1,021,809</u>
Expenditures:								
Public safety	-	-	-	11,273	-	-	-	11,273
Highways and streets	-	-	-	-	492,566	328,969	-	821,535
Culture and recreation	240,828	135,142	-	-	-	-	-	375,970
Total expenditures	<u>240,828</u>	<u>135,142</u>	<u>-</u>	<u>11,273</u>	<u>492,566</u>	<u>328,969</u>	<u>-</u>	<u>1,208,778</u>
Revenues Over (Under) Expenditures	<u>32,530</u>	<u>(55,664)</u>	<u>724</u>	<u>(1,646)</u>	<u>7,674</u>	<u>(174,083)</u>	<u>3,496</u>	<u>(186,969)</u>
Other Financing Sources (Uses):								
Transfers in	-	53,135	-	-	-	127,550	10,000	190,685
Transfers out	(43,755)	-	-	-	(50,000)	-	-	(93,755)
Total other financing sources (uses)	<u>(43,755)</u>	<u>53,135</u>	<u>-</u>	<u>-</u>	<u>(50,000)</u>	<u>127,550</u>	<u>10,000</u>	<u>96,930</u>
Changes in Fund Balances	<u>(11,225)</u>	<u>(2,529)</u>	<u>724</u>	<u>(1,646)</u>	<u>(42,326)</u>	<u>(46,533)</u>	<u>13,496</u>	<u>(90,039)</u>
Fund Balances - Beginning of Year	<u>149,544</u>	<u>5,407</u>	<u>104</u>	<u>9,127</u>	<u>118,063</u>	<u>85,191</u>	<u>28,416</u>	<u>395,852</u>
Fund Balances - End of Year	<u>\$ 138,319</u>	<u>\$ 2,878</u>	<u>\$ 828</u>	<u>\$ 7,481</u>	<u>\$ 75,737</u>	<u>\$ 38,658</u>	<u>\$ 41,912</u>	<u>\$ 305,813</u>

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Debt Service Fund
June 30, 2008

	<u>Assets</u>	<u>Bond and Interest</u>
Cash and cash equivalents		\$ <u>5,735</u>
	<u>Fund Balance</u>	
Unreserved; undesignated		<u>5,735</u>
Total fund balance		\$ <u>5,735</u>

City of Hillsdale, Michigan
 Combining Statement of Revenues, Expenditures, and
 Changes in Fund Balances
 Nonmajor Debt Service Fund
 Year Ended June 30, 2008

	<u>Bond and Interest</u>
Revenues:	
Interest income	\$ _____ -
Expenditures:	
Principal retirement	148,000
Interest and fiscal charges	<u>15,398</u>
Total expenditures	<u>163,398</u>
Revenues Under Expenditures	(163,398)
Other Financing Sources:	
Transfers in	<u>163,398</u>
Changes in Fund Balance	_____ -
Fund Balance - Beginning of Year	<u>5,735</u>
Fund Balance - End of Year	<u>\$ 5,735</u>

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2008

	<u>Library</u>	<u>Three</u>	<u>Field of</u>	<u>Stock</u>	
	<u>Improvement</u>	<u>Meadows</u>	<u>Dreams</u>	<u>Park</u>	<u>Total</u>
<u>Assets</u>					
Cash and cash equivalents	\$ 281	\$ 423	\$ 112	\$ 6,801	\$ 7,617
Accounts receivable	21	-	-	-	21
Total assets	<u>\$ 302</u>	<u>\$ 423</u>	<u>\$ 112</u>	<u>\$ 6,801</u>	<u>\$ 7,638</u>
 <u>Liabilities and Fund Balances</u>					
Fund Balances:					
Unreserved; undesignated	\$ 302	\$ 423	\$ 112	\$ 6,801	\$ 7,638
Total fund balances	<u>302</u>	<u>423</u>	<u>112</u>	<u>6,801</u>	<u>7,638</u>
 Total liabilities and fund balances	 <u>\$ 302</u>	 <u>\$ 423</u>	 <u>\$ 112</u>	 <u>\$ 6,801</u>	 <u>\$ 7,638</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Capital Project Funds
Year Ended June 30, 2008

	Library Improvement	Three Meadows	Field of Dreams	Stock Park	Total
Revenues:					
Miscellaneous	\$ 43,007	\$ -	\$ 58	\$ 54,218	\$ 97,283
Total revenues	<u>43,007</u>	<u>-</u>	<u>58</u>	<u>54,218</u>	<u>97,283</u>
Expenditures:					
Capital outlay	-	-	-	69,374	69,374
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,374</u>	<u>69,374</u>
Revenues Over (Under) Expenditures	<u>43,007</u>	<u>-</u>	<u>58</u>	<u>(15,156)</u>	<u>27,909</u>
Other Financing Sources (Uses):					
Transfers in	41,755	-	-	-	41,755
Transfers out	(85,398)	-	-	(475)	(85,873)
Total other financing sources (uses)	<u>(43,643)</u>	<u>-</u>	<u>-</u>	<u>(475)</u>	<u>(44,118)</u>
Changes in Fund Balances	(636)	-	58	(15,631)	(16,209)
Fund Balances - Beginning of Year	<u>938</u>	<u>423</u>	<u>54</u>	<u>22,432</u>	<u>23,847</u>
Fund Balances - End of Year	<u>\$ 302</u>	<u>\$ 423</u>	<u>\$ 112</u>	<u>\$ 6,801</u>	<u>\$ 7,638</u>

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Permanent Funds
June 30, 2008

	R.L. Owen Memorial	Cemetery Perpetual Care	Stock Park Maintenance	Total
<u>Assets</u>				
Cash and cash equivalents	\$ 20,547	\$ 132,655	\$ (475)	\$ 152,727
Investments, at cost	-	406,347	11,509	417,856
Accounts receivable			69	69
Inventory	-	-	-	-
Prepaid expenditures	-	-	-	-
Total assets	\$ 20,547	\$ 539,002	\$ 11,103	\$ 570,652
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Due to other agencies	\$ -	\$ -	\$ -	\$ -
Fund Balances:				
Reserved for perpetual care and endowment principal	20,547	539,002	11,103	570,652
Total fund balances	20,547	539,002	11,103	570,652
Total liabilities and fund balances	\$ 20,547	\$ 539,002	\$ 11,103	\$ 570,652

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Permanent Funds
Year Ended June 30, 2008

	R.L. Owen Memorial	Cemetery Perpetual Care	Stock Park Maintenance	Total
Revenues:				
Fees	\$ -	\$ 4,553	\$ -	\$ 4,553
Investment income	6,171	30,740	388	37,299
Other revenue	-	-	944	944
Total revenues	<u>6,171</u>	<u>35,293</u>	<u>1,332</u>	<u>42,796</u>
Expenditures:				
Services			475	475
Total expenditures	-	-	<u>475</u>	<u>475</u>
Other Financing Sources (Uses):				
Gain (loss) on sale of investment		12,446		12,446
Operating transfers out	(5,873)	(44,000)	-	(49,873)
Total other financing sources (uses)	<u>(5,873)</u>	<u>(31,554)</u>	<u>-</u>	<u>(37,427)</u>
Changes in Fund Balances	298	3,739	857	4,894
Fund Balances - Beginning of Year	<u>20,249</u>	<u>535,263</u>	<u>10,246</u>	<u>565,758</u>
Fund Balances - End of Year	<u>\$ 20,547</u>	<u>\$ 539,002</u>	<u>\$ 11,103</u>	<u>\$ 570,652</u>

City of Hillsdale, Michigan

Local Revenues

Dial-A-Ride Enterprise Fund

Year Ended June 30, 2008

	<u>07/01/2007 -</u> <u>9/30/2007</u>	<u>10/01/2007 -</u> <u>6/30/2008</u>	<u>Total</u>
Operating Revenues and Transfers:			
Demand response (farebox) - nonurban	\$ 10,125	\$ 49,288	\$ 59,413
Other	394	1,364	1,758
Transfer in	<u>-</u>	<u>136,260</u>	<u>136,260</u>
 Total local revenues	<u>\$ 10,519</u>	<u>\$ 186,912</u>	<u>\$ 197,431</u>

City of Hillsdale, Michigan

Local Revenues

Dial-A-Ride Enterprise Fund

Year Ended June 30, 2007

	<u>07/01/2006 -</u> <u>9/30/2006</u>	<u>10/01/2006 -</u> <u>6/30/2007</u>	<u>Total</u>
Operating Revenues and Transfers:			
Demand response (farebox) - nonurban	\$ 10,006	\$ 49,006	\$ 59,012
Other	-	148	148
Transfer in	<u>-</u>	<u>102,050</u>	<u>102,050</u>
 Total local revenues	<u>\$ 10,006</u>	<u>\$ 151,204</u>	<u>\$ 161,210</u>

City of Hillsdale, Michigan
 Federal and State Awards
 Dial-A-Ride Enterprise Fund
 Year Ended June 30, 2008

	07/01/2007 - 9/30/2007	10/01/2007 - 6/30/2008	Total
Michigan Department of Transportation			
Local bus operating	\$ 20,393	\$ 86,344	\$ 106,737
Federal Transit Administration			
Section 5311	6,184	76,317	82,501
Section 5309	-	-	-
RTAP	-	-	-
Total federal and state awards	\$ 26,577	\$ 162,661	\$ 189,238

City of Hillsdale, Michigan

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

	<u>07/01/2006 -</u> <u>9/30/2006</u>	<u>10/01/2006 -</u> <u>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> </u>	<u> </u>	<u> </u>
Total federal and state awards	<u>\$ 39,148</u>	<u>\$ 195,595</u>	<u>\$ 234,743</u>

City of Hillsdale
 Expenditures of Federal and State Awards
 Dial-A-Ride Enterprise Fund
 Year Ended June 30, 2008

Federal CFDA Number	Grant Number Authorization	Program Award Amount	Current Year's Expenditures		Prior Year's Expenditures	Award Amount Remaining
			Total	State		
20.509	2007-223/Z1	\$ 74,725	\$ 27,643	\$ -	\$ 47,082	\$ -
20.509	2007-223/Z3	72,000	54,858	-	-	17,142
	N/A	-	-	-	-	-
N/A	N/A	106,737	106,737	106,737	-	-
		\$ 253,462	\$ 189,238	\$ 82,501	\$ 47,082	\$ 17,142

**Federal and State Grantor/Pass Through
 Grantor/Program Title**
U.S. Department of Transportation
 Passed through Michigan Department of
 Transportation
 Operating assistance - Section 5311
 Operating assistance - Section 5311
 Rural Transit Assistance Program (RTAP)

Michigan Department of Transportation
 Operating Assistance - Act 51
 Nonurban

City of Hillsdale, Michigan
 Operating and Contract Expenses
 Dial-A-Ride Enterprise Fund
 Year Ended June 30, 2008

	<u>Nonurban</u>	<u>Total</u>
Labor	\$ 218,897	\$ 218,897
Fringe benefits	97,250	97,250
Services	23,306	23,306
Materials and supplies	56,955	56,955
Insurance	8,447	8,447
Utilities	433	433
Miscellaneous	6,372	6,372
Rentals	15,600	15,600
Depreciation	<u>31,021</u>	<u>31,021</u>
 Total expenses	 <u>\$ 458,281</u>	 <u>\$ 458,281</u>

City of Hillsdale, Michigan
 Operating and Contract Expenses
 Dial-A-Ride Enterprise Fund
 Year Ended June 30, 2008

	Nonurban		Total
	07/01/2007 - 9/30/2007	10/01/2007 - 6/30/2008	
Labor	\$ 37,294	\$ 181,603	\$ 218,897
Fringe benefits	23,471	73,779	97,250
Services	3,731	19,575	23,306
Materials and supplies	7,360	49,595	56,955
Insurance	-	8,447	8,447
Utilities	303	130	433
Miscellaneous	-	6,372	6,372
Rentals	3,900	11,700	15,600
Depreciation	<u>7,755</u>	<u>23,266</u>	<u>31,021</u>
 Total expenses	 <u>\$ 83,814</u>	 <u>\$ 374,467</u>	 <u>\$ 458,281</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
	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 64,909</u>	<u>\$ 381,167</u>	<u>\$ 446,076</u>

City of Hillsdale, Michigan
 Nonurban Regular Service Revenue Report
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2007 Year End

Code	Description	Amount
401	Farebox Revenue	
40100	Passenger fares	\$ 59,131
409	Local Revenue	
40910	Local operating assistance	102,050
411	State Formula and Contracts	
41101	State operating assistance	163,617
413	Federal Contracts	
41301	Federal Section 5311 (operating funds only)	69,474
41398	RTAP	<u>717</u>
	Total revenues	<u>\$ 394,989</u>

City of Hillsdale, Michigan
 Nonurban Regular Service Expense Report
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2007 Year End

Code	Description	Operations	Maintenance	General Administration	Total
501	Labor				
50101	Operators' salaries and wages	\$ 145,517	\$ -	\$ -	\$ 145,517
50102	Other salaries and wages	-	6,139	32,423	38,562
50103	Dispatchers salaries and wages	31,945	-	-	31,945
502	Fringe Benefits				
50200	Other fringe benefits	78,671	3,647	15,887	98,205
503	Services				
50305	Audit costs	-	-	971	971
50399	Other services	11,194	4,673	-	15,867
504	Materials and Supplies				
50401	Fuel and lubricants	28,484	-	-	28,484
50402	Tires and tubes	4,063	-	-	4,063
50499	Other materials and supplies	5,974	5,005	-	10,979
505	Utilities				
50500	Utilities	1,691	-	4,173	5,864
506	Insurance				
50603	Liability insurance	10,043	-	2,740	12,783
50699	Other insurance	-	-	-	-
509	Miscellaneous Expenses				
50902	Travel, meetings and training	-	-	547	547
50999	Miscellaneous				
512	Operating leases and rentals				
51200	Operating leases and rentals	15,600	-	-	15,600
513	Depreciation				
51300	Depreciation	-	-	31,021	31,021
550	Ineligible expenses				
55007	Ineligible depreciation	-	-	31,021	31,021
574	Ineligible expenses				
57402	Ineligible RTAP	-	-	717	717
	Total expenses				<u>\$ 440,408</u>
	Total ineligible expenses				<u>\$ 31,738</u>
	Total eligible expenses				<u>\$ 408,670</u>

City of Hillsdale, Michigan
 Nonurban Regular Service Nonfinancial Report
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2007 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>71,140</u>	<u>-</u>	<u>-</u>	<u>71,140</u>

City of Hillsdale, Michigan
 Operating Assistance Calculation
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2007 Year End

	Nonurban
Total expenses	\$ 440,408
Less ineligible expenses	
Depreciation	31,021
Total State eligible expenses	\$ 409,387
Eligible expenses for State reimbursement	\$ 409,387
Reimbursement percentage	0.361500
State Operating Assistance	\$ 147,993
Total Federal eligible expenses	\$ 409,387
Less additional Federal ineligible expenses per A-87	
Audit costs	971
Eligible expenses for Federal reimbursement	408,416
Reimbursement percentage	0.17
Section 5311 operating assistance	\$ 69,431

City of Hillsdale, Michigan
Combining Statement of Net Assets
Internal Service Funds
June 30, 2008

	Department of				Total
	Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	
Assets:					
Current assets:					
Cash and cash equivalents	\$ 27,653	\$ 67,515	\$ 211,978	\$ 50,422	\$ 357,568
Inventory	-	156,751	-	-	156,751
Prepaid expenses	16,793	-	16,859	-	33,652
Total current assets	<u>44,446</u>	<u>224,266</u>	<u>228,837</u>	<u>50,422</u>	<u>547,971</u>
Capital assets:					
Equipment	-	-	1,640,998	-	1,640,998
Less: accumulated depreciation	-	-	(1,286,137)	-	(1,286,137)
Total capital assets, net	<u>-</u>	<u>-</u>	<u>354,861</u>	<u>-</u>	<u>354,861</u>
Total assets	<u>44,446</u>	<u>224,266</u>	<u>583,698</u>	<u>50,422</u>	<u>902,832</u>
Liabilities:					
Current liabilities:					
Accounts payable	-	-	33	-	33
Accrued payroll and related liabilities	-	47	1,542	-	1,589
Total current liabilities	<u>-</u>	<u>47</u>	<u>1,575</u>	<u>-</u>	<u>1,622</u>
Other liabilities:					
Compensated absences	36,877	-	9,625	-	46,502
Total liabilities	<u>36,877</u>	<u>47</u>	<u>11,200</u>	<u>-</u>	<u>48,124</u>
Net Assets:					
Invested in capital assets, net of related debt	-	-	354,861	-	354,861
Unrestricted	7,569	224,219	217,637	50,422	499,847
Total net assets	<u>\$ 7,569</u>	<u>\$ 224,219</u>	<u>\$ 572,498</u>	<u>\$ 50,422</u>	<u>\$ 854,708</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenses
and Changes in Net Assets
Internal Service Funds
Year Ended June 30, 2008

	Department of				
	Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	Total
Operating Revenues:					
Charges for services	\$ -	\$ 180,611	\$ 431,266	\$ -	\$ 611,877
Other revenue	166,103	-	8,250	5,200	179,553
Total operating revenues	<u>166,103</u>	<u>180,611</u>	<u>439,516</u>	<u>5,200</u>	<u>791,430</u>
Operating Expenses:					
Salaries	47,237	4,043	67,156	-	118,436
Fringe benefits	118,865	293	29,398	-	148,556
Supplies	-	76,574	5,306	-	81,880
Services	-	23,115	40,421	-	63,536
Maintenance	-	-	168,830	-	168,830
Insurance	-	-	27,958	-	27,958
Miscellaneous	-	2,250	12,189	13,335	27,774
Capital outlay	-	-	5,395	-	5,395
Depreciation	-	-	94,606	-	94,606
Total operating expenses	<u>166,102</u>	<u>106,275</u>	<u>451,259</u>	<u>13,335</u>	<u>736,971</u>
Operating Income (Loss)	1	74,336	(11,743)	(8,135)	54,459
Nonoperating Revenues:					
Interest income	-	-	12,432	2,066	14,498
Changes in Net Assets	1	74,336	689	(6,069)	68,957
Net Assets - Beginning of Year	<u>7,568</u>	<u>149,883</u>	<u>571,809</u>	<u>56,491</u>	<u>785,751</u>
Net Assets - End of Year	<u>\$ 7,569</u>	<u>\$ 224,219</u>	<u>\$ 572,498</u>	<u>\$ 50,422</u>	<u>\$ 854,708</u>

City of Hillsdale, Michigan
Combining Statement of Cash Flows
Internal Service Funds
Year Ended June 30, 2008

	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	\$ (165,202)	\$ (147,145)	\$ (373,121)	\$ (13,335)	\$ (698,803)
Receipts for interfund services provided	166,103	180,611	439,516	5,200	791,430
Net cash provided by (used in) operating activities	<u>901</u>	<u>33,466</u>	<u>66,395</u>	<u>(8,135)</u>	<u>92,627</u>
Cash Flows From Capital and Related Financing Activities:					
Purchase of capital assets	-	-	(49,149)	-	(49,149)
Cash Flows From Investing Activities:					
Interest income	-	-	12,432	2,066	14,498
Net Increase (Decrease) in Cash and Cash Equivalents	<u>901</u>	<u>33,466</u>	<u>29,678</u>	<u>(6,069)</u>	<u>57,976</u>
Cash and Cash Equivalents - Beginning of Year	<u>26,752</u>	<u>34,049</u>	<u>182,300</u>	<u>56,491</u>	<u>299,592</u>
Cash and Cash Equivalents - End of Year	<u>\$ 27,653</u>	<u>\$ 67,515</u>	<u>\$ 211,978</u>	<u>\$ 50,422</u>	<u>\$ 357,568</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating income (loss)	\$ 1	\$ 74,336	\$ (11,743)	\$ (8,135)	\$ 54,459
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and loss on asset disposal	-	-	94,606	-	94,606
Changes in:					
Accounts receivable	-	-	-	-	-
Inventory	-	(38,367)	-	-	(38,367)
Prepaid expenses	780	-	(1,858)	-	(1,078)
Accounts payable	-	(2,550)	(14,857)	-	(17,407)
Accrued expenses	120	47	247	-	414
Net Cash Provided by (Used in) Operating Activities	<u>\$ 901</u>	<u>\$ 33,466</u>	<u>\$ 66,395</u>	<u>\$ (8,135)</u>	<u>\$ 92,627</u>

City of Hillsdale, Michigan
 Comparative Balance Sheets
 Tax Increment Finance Authority - Component Unit
 June 30, 2008 and 2007

	2008	2007
<u>Assets</u>		
Cash and cash equivalents	\$ 309,505	\$ 314,787
Total assets	\$ 309,505	\$ 314,787
<u>Liabilities and Fund Balances</u>		
Liabilities:		
Accrued expenses	\$ 450	\$ -
Fund Balances:		
Unreserved; undesignated	309,055	314,787
Total liabilities and fund balances	\$ 309,055	\$ 314,787

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, 2008
(With Comparative Amounts for the Year Ended June 30, 2007)

	<u>2008</u>		Variance -	<u>2007</u>
	<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)	
Revenues:				
Local sources:				
Property taxes	\$ 95,000	\$ 107,750	\$ 12,750	\$ 100,310
Earnings on investments	10,000	14,310	4,310	14,133
Other revenue	-	4,583	4,583	-
Total revenues	<u>105,000</u>	<u>126,643</u>	<u>17,060</u>	<u>114,443</u>
Expenditures:				
Capital outlay	<u>41,100</u>	<u>16,029</u>	<u>25,071</u>	<u>8,592</u>
Revenues Over (Under) Expenditures	<u>63,900</u>	<u>110,614</u>	<u>42,131</u>	<u>105,851</u>
Other Financing Sources (Uses):				
Operating transfers out	<u>(200,000)</u>	<u>(116,346)</u>	<u>83,654</u>	<u>(5,989)</u>
Total other financing sources (uses)	<u>(200,000)</u>	<u>(116,346)</u>	<u>83,654</u>	<u>(5,989)</u>
Net Changes in Fund Balances	(136,100)	(5,732)	130,368	99,862
Fund Balances - Beginning of Year	<u>314,787</u>	<u>314,787</u>	<u>-</u>	<u>214,925</u>
Fund Balances - End of Year	<u>\$ 178,687</u>	<u>\$ 309,055</u>	<u>\$ 130,368</u>	<u>\$ 314,787</u>

City of Hillsdale, Michigan
Comparative Balance Sheets
Economic Development Corporation - Component Unit
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
	<u>Assets</u>	
Cash and cash equivalents	\$ <u>109,299</u>	\$ <u>105,852</u>
	<u>Fund Balances</u>	
Unreserved; undesignated	\$ <u>109,299</u>	\$ <u>105,852</u>

City of Hillsdale, Michigan
Statement of Révenues, Expenditures and Changes
in Fund Balances - Budget to Actual
Economic Development Corporation - Component Unit
Year Ended June 30, 2008
(With Comparative Amounts for the Year Ended June 30, 2007)

	<u>2008</u>		Variance -	<u>2007</u>
	<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)	
Revenues:				
Local sources:				
Other revenue	\$ 200,000	\$ -	\$ (200,000)	\$ -
Earnings on investments	5,300	4,487	(813)	5,326
Total revenues	<u>205,300</u>	<u>4,487</u>	<u>(200,813)</u>	<u>5,326</u>
Expenditures:				
Contractual and other expenses	56,100	1,040	55,060	1,601
Capital outlay	77,000	-	77,000	-
Total expenditures	<u>133,100</u>	<u>1,040</u>	<u>132,060</u>	<u>1,601</u>
Revenues Over (Under) Expenditures	<u>72,200</u>	<u>3,447</u>	<u>(68,753)</u>	<u>3,725</u>
Net Changes in Fund Balances	72,200	3,447	(68,753)	3,725
Fund Balances - Beginning of Year	<u>105,852</u>	<u>105,852</u>	<u>-</u>	<u>102,127</u>
Fund Balances - End of Year	<u>\$ 178,052</u>	<u>\$ 109,299</u>	<u>\$ (68,753)</u>	<u>\$ 105,852</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, 2008, and have issued our report thereon dated November 12, 2008. 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 deficiency described as 2008-1 in the accompanying schedule of findings and responses to be a significant deficiency 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 2008-1, 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 12, 2008

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

Schedule of Findings and Responses

Finding 2008-1

Currently, the City's staff prepares the interim internal and annual financial statements. The annual financial statements for the year ended June 30, 2008, required relatively few audit adjustments, most of which the staff were aware needed to be recorded. 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.