

City of Hillsdale, Michigan

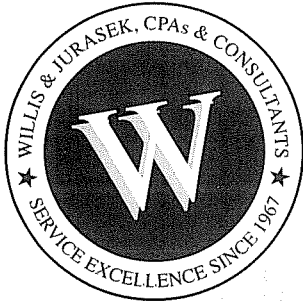
Financial Statements
And Independent Auditors' Report

Year Ended June 30, 2009

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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, 2009, 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, 2009, 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 4, 2009, 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 4, 2009

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, 2009.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$59,790,216 (*net assets*). Of this amount, \$17,110,272 (*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 \$1,600,297.
- Government wide total liabilities, long and short-term combined, decreased about eight percent (7.81%).
- As of the close of the current fiscal year, the City's Governmental funds reported combined ending fund balances of \$2,379,020. Approximately seventy-one percent (71%) of this total or \$1,679,553 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 \$773,338, or seventeen percent (17%) of total general fund expenditures. That is up two percent (2%) from the prior year.
- Total net assets for all business type activities increased \$1.3 million, down about twenty-five percent (25.6%) from the previous year.
- The City's total bonded debt decreased by \$420,000 during the current fiscal year. Overall long-term debt for the City decreased eleven and one-half percent (11.5%).

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, 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 and capital improvement funds, each of which are considered to be major funds. Data from the other fourteen 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 31-60 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 \$59,790,216 at the close of the 2009 fiscal year.

By far the largest portion of the City's net assets, over sixty-six percent (66.5%), 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
	2008	2009	2008	2009	2008	2009	Change
Current and Other Assets	\$3,449,993	\$3,427,129	\$17,202,180	\$18,459,502	\$20,652,173	\$21,886,631	5.98%
Capital Assets	\$21,756,230	\$21,515,969	\$22,389,998	\$22,038,110	\$44,146,228	\$43,554,079	-1.34%
Total Assets	\$25,206,223	\$24,943,098	\$39,592,178	\$40,497,612	\$64,798,401	\$65,440,710	0.99%
Long-term Liabilities Outstanding	\$831,978	\$861,300	\$3,354,642	\$3,369,796	\$4,186,620	\$4,231,096	1.06%
Other Liabilities	\$317,293	\$279,774	\$1,625,071	\$1,139,624	\$1,942,364	\$1,419,398	26.92%
Total Liabilities	\$1,149,271	\$1,141,074	\$4,979,713	\$4,509,420	\$6,128,984	\$5,650,494	-7.81%
Net Assets:							
Invested In Capital Assets Net of Related Debt	\$21,001,230	\$20,908,969	\$18,779,998	\$18,848,110	\$39,781,228	\$39,757,079	-0.06%
Restricted	\$1,768,600	\$1,612,258	\$1,274,960	\$1,310,607	\$3,043,560	\$2,922,865	-3.97%
Unrestricted	\$1,287,122	\$1,280,797	\$14,557,507	\$15,829,475	\$15,844,629	\$17,110,272	7.99%
Total Net Assets	\$24,056,952	\$23,802,024	\$34,612,465	\$35,988,192	\$58,669,417	\$59,790,216	1.91%

An additional portion of the City's net assets (\$2,922,865) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$17,110,272, 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.

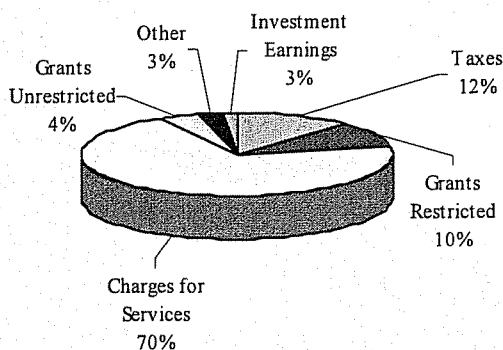
During the current fiscal year the total government's net assets increased by \$1,600,297. The increase reflects the degree to which ongoing revenues exceed ongoing expenses in both the business-type and governmental activities. Net assets decreased in the governmental activities by \$224,574 and increased by \$1,375,723 in the business-type activities.

City's Changes in Net Assets

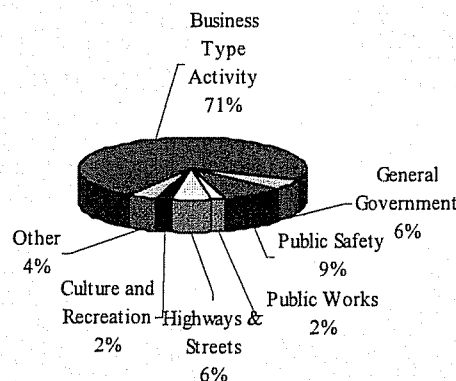
	Governmental		Business-type		Total		Total Percentage Change
	Activities 2008	2009	Activities 2008	2009	2008	2009	
Revenues:							
Program Revenues:							
Charges for Services	\$279,586	\$237,648	\$14,631,527	\$15,218,175	\$14,911,113	\$15,455,823	3.65%
Operating Grants & Contributions	1,274,969	1,216,394	189,238	252,192	\$1,464,207	\$1,468,586	0.30%
Capital Grants & Contributions	1,124,523	677,373	-	-	\$1,124,523	\$677,373	-39.76%
Total Revenues	\$2,679,078	\$2,131,415	\$14,820,765	\$15,470,367	\$17,499,843	\$17,601,782	0.58%
Expenses:							
General Government	1,239,710	1,169,814			\$1,239,710	\$1,169,814	-5.64%
Public Safety	1,850,863	1,834,744			\$1,850,863	\$1,834,744	-0.87%
Public Services	487,734	439,133			\$487,734	\$439,133	-9.96%
Highways & Streets	974,027	1,143,644			\$974,027	\$1,143,644	17.41%
Health (Building Inspect/Assessing)	160,549	157,741			\$160,549	\$157,741	-1.75%
Recreation & Culture	521,523	500,463			\$521,523	\$500,463	-4.04%
Interest on Long-term Debt	15,242	11,756			\$15,242	\$11,756	-22.87%
Other	629,910	626,504			\$629,910	\$626,504	-0.54%
Unallocated Depreciation	36,368	36,368			\$36,368	\$36,368	0.00%
Electric			10,982,282	12,094,783	\$10,982,282	\$12,094,783	10.13%
Water			993,436	1,038,177	\$993,436	\$1,038,177	4.50%
Sewer			1,029,550	1,033,247	\$1,029,550	\$1,033,247	0.36%
Transportation			458,280	436,913	\$458,280	\$436,913	-4.66%
Total Expenses	\$5,915,926	\$5,920,167	\$13,463,548	\$14,603,120	\$19,379,474	\$20,523,287	5.90%
Increase (Decrease) in							
Net assets Before Transfers	(\$3,236,848)	(\$3,788,752)	\$1,357,217	\$867,247	(\$1,879,631)	(\$2,921,505)	55.43%
General Revenues:							
Taxes	2,687,158	2,710,569			\$2,687,158	\$2,710,569	0.87%
Grants & Contributions Not Restricted							
To Specific Programs	891,550	907,176			\$891,550	\$907,176	1.75%
Unrestricted Investment Earnings	136,721	77,472	354,820	246,427	\$491,541	\$323,899	-34.11%
Other Revenues	992,563	562,358	1,208	13,768	\$993,771	\$576,126	-42.03%
Transfers - Internal Activity	-7,468	-244,249	136,260	248,281	\$128,792	\$4,032	-96.87%
Total General Revenues	4,700,524	4,013,326	492,288	508,476	5,192,812	4,521,802	-12.92%
Net Income	\$1,463,676	\$224,574	\$1,849,505	\$1,375,723	\$3,313,181	\$1,600,297	-51.70%
Net Assets - Beginning of Year	\$22,593,276	\$23,577,450	\$32,762,963	\$34,612,468	\$55,356,239	\$58,189,918	5.12%
Net Assets - End of Year	\$24,056,952	\$23,802,024	\$34,612,468	\$35,988,191	\$58,669,420	\$59,790,215	1.91%

The City's total program revenue, (including restricted/operating grants and contributions) was \$17,601,782. This is an increase of approximately six percent (5.83%) from last year. Overall the biggest share of this revenue (87%) comes from charges for services. Only about eleven percent (11.2%) of the governmental activities revenue comes from charges for services as opposed to almost ninety-nine percent (98.7%) for business-type activities (Board of Public Utilities and Dial-A-Ride). The electric fund contributes over eighty-five percent (85.2%) of all business-type charges for services. General revenues, (taxes, unrestricted contributions and grants, and all miscellaneous revenues) were down almost thirteen percent (12.9%) from last year. The biggest decrease in this category was in other revenues, down forty-two percent (42%). Tax collections represent just over twelve percent (12.3%) of all revenue received from both governmental and business-type activity. Tax revenue equate to over forty-four percent (44%) of governmental activity revenue. All grants, restricted and unrestricted, amount to almost fourteen percent (13.8%) of total revenues. Government wide all other revenues combined make up the remaining three percent (3%) of revenues.

**Source of Revenue for Fiscal Yr 2009
Governmental & Business-type Activities**



**Functional Expenses for Fiscal Yr 2009
Governmental & Business-type Activities**



Business type activities, which includes electric, water, sewer, and Dial-A-Ride, make up the largest portion of all expenditures, seventy-one percent (71%). The electric fund incurs eighty-three percent (83%) of all business type activity costs. General governmental activities account for only six percent (6%) of total costs of both business and governmental activities; public safety makes up nine percent (9%) of the overall expenditures, highways and streets amount to six percent (6%), while recreation and culture and public works are both about two percent (2%) each, and all other miscellaneous costs make up the remaining four percent (4%).

Governmental activities. Governmental activities had a net income of \$224,574. That amounts to more than eighty-four percent (84.6%) decrease from last year's net income of \$1,463,676. Key elements from operations for the year are:

- Property tax revenue increased less than one percent (.87%) or \$23,411 over last year.
- The city reduced costs for all phases of its governmental operations with the exception of highways and streets. The seventeen percent (17.4%) increase in this category was due to major street reconstruction projects (M-99 reconstruction) that have been ongoing for the past six years.

- Overall, the governmental activities total operational costs increased only slightly, \$4,240 from the prior year. This modest increase was the direct result of the city's concerted effort to hold the line on costs through staff reductions via attrition, limiting capital expenditures, contracting out building inspection, and making cost savings changes to employee health benefits.

Business-type activities. Business-type activities increased the City's net assets by \$1,375,723, accounting for eighty-six percent (85.9%) 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 \$1,047,781. This represents a 34.5% decrease in net income for this fund when compared with the previous year's \$1,599,936 net income. This decrease in can be directly linked to an 18% increase in the purchased power costs and the decision to freeze the power cost adjustment rate.
- The water fund experienced a net income of \$457,018, which is a decrease of about 17.5% from the previous year of \$554,533. Sales were lower than last year due to weather conditions. There was a slight rate increase this year, which was part of a planned rate increase over a number of years to recoup shortages experienced in earlier years.
- The sewer fund ended the year with a net loss of \$246,749. 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 change in assets of \$117,673. The major contribution to this 264% increase comes from additional transfers into this fund from the General Fund to offset construction and engineering cost for a new transit facility expected to be completed by January 2010. While the construction of the facility will be paid for with federal and state grants, there are engineering and miscellaneous costs anticipated in the coming year that these funds will be used for.

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 \$2,379,020. That is a slight decrease of \$43,573 or less than two percent (1.8%) in comparison with the prior year. Of that combined ending fund balance, \$1,679,553 is designated as unreserved, undesignated. Overall, the total governmental fund revenues declined for the year by almost thirteen percent (12.8%) from the prior year while the total expenditures decreased by fourteen percent (14%). The net affect of the decreases in both revenues and expenditures resulted in the two percent increase in fund balances described above. The decrease in expenditures is largely attributed to a forty percent (40%) reduction in capital spending. The major reason for that reduction is connected to the airport expansion project. Last year there was a flurry of activity on that project. The city spent \$1.1 million acquiring properties for that endeavor using federal and state grants. The local portion of those acquisitions was only 2.5%. In preparation for the final phase of the M-99 project only those capital projects previously committed to were done. The work on Phase III of the M-99 reconstruction began last fall. It is expected to be completed in September 2009. The local share for this phase is estimated to be about \$625,000. At fiscal year end, about forty percent of that work had been done.

The *reserved* fund balance of \$699,467 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 (\$25,774); and 2) \$586,600 is reserved to generate income to pay for the perpetual care of the two municipal cemeteries, and future maintenance of Mrs. Stocks Park.

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 \$773,338. Of that balance, \$82,776 is reserved for prepaid expenditures. The remaining \$690,562 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 \$81,900. This is primarily attributable to the city-wide reduction in capital spending.

The *Capital Improvement Fund* ended the year with a fund balance of \$469,983 which represents a 68% decrease from the prior year. This decline in fund balance was purposed and anticipated for payment of Phase III of the M-99 reconstruction project.

Other nonmajor governmental funds collectively experienced a combined net increase in fund balances for the year of \$70,116. About sixty percent (59.5%) of that increase is attributed to investment earnings received on the city's three Permanent Funds (R.L. Owens Memorial Fund, Cemetery Perpetual Care Fund, and Stocks Park Perpetual Maintenance Fund). These funds account for monies held in trust to be used for the named specified activities.

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 totaled \$15,829,475. Change in net assets of all City proprietary funds was \$1,375,723. All the proprietary funds except the sewer fund realized an increase in change in net assets for the year. The sewer fund ended the year with a negative change in net assets of \$246,749.

General Fund Budgetary Highlights

The general fund revenue budget was not amended in this fiscal year. Differences between the original and final amended general fund expenditure budgets totaled \$152,000. The adjustments made were as follows: the transfer out of General Fund (101) to the Capital Improvement Fund (401) was increased by \$100,000 to fund infrastructure improvements in subsequent years; \$50,000 was added to the transfer out to the transportation fund (Dial-A-Ride - #558) for new facility engineering and construction, and a transfer to the R.M.E.F. Fund (640) were established with \$2,000 transfer to fund the mechanic's Health Reimbursement Account (HRA).

Capital Asset and Debt Administration

Capital assets. The City's cash outlay for capital assets in both its governmental and business type activities as of June 30, 2009, amounted to \$1,418,574. 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, net of depreciation, decreased slightly (1.3%) in the current fiscal year for both types of activities combined. This happened because the depreciation expense for previously purchased assets was greater than what was spent on new purchases.

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 \$361,781.
- The final phase of the Baw Beese Bike Path was completed in this year with donations from the Rotary Club of \$73,177.
- The utility (electric, water, and sewer funds) did a variety of projects throughout the year totaling \$680,630. The electric fund capital projects included: Lights at Stock's Park; Static Wire in Industrial Park; URD and Overhead Extensions; Addition of Transformer near College for balancing load; Inlet Water Pumps for the Power Plant; Improvements to SCADA system. 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 sewer rodder.
- Primary government purchased one police patrol car, two one-ton dump trucks, a five-yard dump truck and a for a total cost of \$209,886.
- The library purchased numerous books at a cost of \$22,712.

City's Capital Assets
(Net of Depreciation)

	Governmental		Business-type		Total		Total Percent Change 2008- 09
	Activities		Activities				
	2008	2009	2008	2009	2008	2009	
Land	\$5,946,260	\$6,481,010	\$296,393	\$296,393	\$6,242,653	\$6,777,403	8.57%
Buildings and System Improvements	3,789,397	3,682,344	21,769,845	21,442,532	\$25,559,242	\$25,124,876	-1.70%
Library Books	70,756	80,301			70,756	\$80,301	13.49%
Machinery and Equipment	719,069	784,752	44,876	22,023	\$763,945	\$806,775	5.61%
Infrastructure	11,230,748	10,487,562			\$11,230,748	\$10,487,562	-6.62%
Construction in Progress	0	0	278,884	277,162	278,884	277,162	-0.62%
Total	\$21,756,230	\$21,515,969	\$22,389,998	\$22,038,110	\$44,146,228	\$43,554,079	-1.34%

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 \$3,190,000, 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 Activities		Total	
	2008	2009	2008	2009
	Revenue Bonds	\$3,610,000	\$3,190,000	\$3,610,000
Total	\$3,610,000	\$3,190,000	\$3,610,000	\$3,190,000

The City's total bonded debt decreased during the current fiscal year by \$420,000 or eleven percent (11.6%). The City's long-term general obligation debt, decreased during the current fiscal year by \$148,000, over nineteen percent (19.6%). 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 \$19,017,123, which is significantly in excess of the City's total outstanding long-term debt obligation of \$4,235,702.

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 2009-10 fiscal year:

- The unemployment rate for Hillsdale County (which includes the City) in May 2009 was 18.5%. That's up 7.9% from one year ago and 3.2% higher than the State of Michigan's unemployment rate for the same period. The national unemployment rate was 9.8%.
- The property tax inflationary rate for 2009 calendar year was 4.4%. That rate for 2010 is actually a negative number, -.30%. When added to industrial closings and mortgage foreclosures it has placed tremendous downward pressure on tax revenues.
- State shared revenues will decrease due to declining revenue streams coming into the State of Michigan, for which a portion is distributed back to municipalities based on the state constitution and salutatory regulations.

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, 2009

	Primary Government			Component Units	
	Governmental	Business-type	Total	Tax Increment	Economic
	Activities	Activities		Finance	Development
				Authority	Corporation
Assets:					
Cash and investments	\$ 2,426,179	\$ 6,941,669	\$ 9,367,848	\$ 346,052	\$ 117,468
Receivables	643,373	1,329,903	1,973,276	-	-
Internal balances	81,456	(77,122)	4,334	(2,780)	-
Prepaid items and other assets	121,996	159,936	281,932	-	-
Inventory	154,125	886,582	1,040,707	-	-
Investment in M.S.C.P.A.	-	9,218,534	9,218,534	-	-
Capital assets, net					
Assets not being depreciated	6,481,010	573,555	7,054,565	65,000	176,058
Assets being depreciated	15,034,959	21,464,555	36,499,514	383,057	-
Total assets	<u>24,943,098</u>	<u>40,497,612</u>	<u>65,440,710</u>	<u>791,329</u>	<u>293,526</u>
Liabilities:					
Accounts payable	209,322	67,763	277,085	-	-
Accrued expenses	68,352	1,035,920	1,104,272	450	-
Accrued interest	2,100	31,335	33,435	-	-
Noncurrent liabilities:					
Due within one year	178,000	430,000	608,000	-	-
Due in more than one year	683,300	2,944,402	3,627,702	-	-
Total liabilities	<u>1,141,074</u>	<u>4,509,420</u>	<u>5,650,494</u>	<u>450</u>	<u>-</u>
Net Assets:					
Invested in capital assets, net of related debt	20,908,969	18,848,110	39,757,079	448,057	176,058
Restricted for:					
Debt service	3,639	1,310,607	1,314,246	-	-
Capital projects	996,245	-	996,245	-	-
Endowment and trust principal	612,374	-	612,374	-	-
Unrestricted	<u>1,280,797</u>	<u>15,829,475</u>	<u>17,110,272</u>	<u>342,822</u>	<u>117,468</u>
Total net assets	<u>\$ 23,802,024</u>	<u>\$ 35,988,192</u>	<u>\$ 59,790,216</u>	<u>\$ 790,879</u>	<u>\$ 293,526</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Activities
Year Ended June 30, 2009

<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	\$ 1,169,814	\$ 104,654	\$ 487,376	\$ 99,623	\$ (478,161)
Public safety	1,834,744	-	15,764	-	(1,818,980)
Public works	439,133	19,015	-	577,750	157,632
Highways and streets	1,143,644	-	597,171	-	(546,473)
Health	157,741	-	-	-	(157,741)
Culture and recreation	500,463	113,979	116,083	-	(270,401)
Interest on long-term debt	11,756	-	-	-	(11,756)
Other	626,504	-	-	-	(626,504)
Unallocated depreciation	36,368	-	-	-	(36,368)
Total governmental activities	<u>5,920,167</u>	<u>237,648</u>	<u>1,216,394</u>	<u>677,373</u>	<u>(3,788,752)</u>
Business-type activities:					
Electric	12,094,783	12,968,848	-	-	874,065
Sewer	1,033,247	732,745	-	-	(300,502)
Water	1,038,177	1,462,469	-	-	424,292
Transportation	436,913	54,113	252,192	-	(130,608)
Total business-type activities	<u>14,603,120</u>	<u>15,218,175</u>	<u>252,192</u>	<u>-</u>	<u>867,247</u>
Total primary government	<u>\$ 20,523,287</u>	<u>\$ 15,455,823</u>	<u>\$ 1,468,586</u>	<u>\$ 677,373</u>	<u>\$ (2,921,505)</u>
Component Units					
Tax Increment Finance Authority	\$ 128,016	\$ -	\$ -	\$ -	\$ (128,016)
Economic Development Corporation	1,578	-	-	-	(1,578)
Total component units	<u>\$ 129,594</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (129,594)</u>

continued..

City of Hillsdale, Michigan
Statement of Activities (Continued)
Year Ended June 30, 2009

	<u>Primary Government</u>			<u>Component Units</u>	
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>	<u>Tax Increment</u>	<u>Economic</u>
	<u>Activities</u>	<u>Activities</u>		<u>Finance</u>	<u>Development</u>
				<u>Authority</u>	<u>Corporation</u>
Changes in Net Assets					
Net (expense) revenue	\$ (3,788,752)	\$ 867,247	\$ (2,921,505)	\$ (128,016)	\$ (1,578)
General revenues:					
Property taxes	2,710,569	-	2,710,569	119,968	-
Unrestricted grants and contributions	907,176	-	907,176	-	-
Interest and investment earnings	77,472	246,427	323,899	4,347	1,477
Other revenues	562,358	13,768	576,126	10,055	4,328
Transfers - internal activities	(244,249)	248,281	4,032	(4,032)	-
Total general revenues, contributions and transfers	<u>4,013,326</u>	<u>508,476</u>	<u>4,521,802</u>	<u>130,338</u>	<u>5,805</u>
Changes in Net Assets	224,574	1,375,723	1,600,297	2,322	4,227
Net Assets - Beginning of Year	<u>23,577,450</u>	<u>34,612,469</u>	<u>58,189,919</u>	<u>788,557</u>	<u>289,299</u>
Net Assets - End of Year	<u>\$ 23,802,024</u>	<u>\$ 35,988,192</u>	<u>\$ 59,790,216</u>	<u>\$ 790,879</u>	<u>\$ 293,526</u>

City of Hillsdale, Michigan
Balance Sheet
Governmental Funds
June 30, 2009

	<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	\$ 568,338	\$ 602,892	\$ 171,129	\$ 835,447	\$ 2,177,806
Receivables:					
Accounts receivable	161,862	-	4,618	139,455	305,935
Special assessments	-	337,438	-	-	337,438
Due from other funds	82,967	-	-	-	82,967
Prepaid expenditures	82,776	-	-	4,317	87,093
Total assets	\$ 895,943	\$ 940,330	\$ 175,747	\$ 979,219	\$ 2,991,239
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 64,911	\$ 132,909	-	\$ 8,998	\$ 206,818
Due to other funds	-	-	-	1,511	1,511
Salaries payable and related	57,694	-	-	8,758	66,452
Deferred revenue	-	337,438	-	-	337,438
Total liabilities	122,605	470,347	-	19,267	612,219
Fund Balances:					
Reserved:					
Reserved for prepaid expenditures	82,776	-	-	4,317	87,093
Reserved for perpetual care and endowment	-	-	-	612,374	612,374
Unreserved; undesignated	690,562	-	-	-	690,562
Unreserved; undesignated- reported in nonmajor:					
Special revenue funds	-	-	-	324,445	324,445
Debt service funds	-	-	-	5,739	5,739
Capital project funds	-	469,983	175,747	13,077	658,807
Total fund balances	773,338	469,983	175,747	959,952	2,379,020
Total liabilities and fund balances	\$ 895,943	\$ 940,330	\$ 175,747	\$ 979,219	\$ 2,991,239

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, 2009

Total Fund Balances - Governmental Funds \$ 2,379,020

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

\$ 38,746,826

Accumulated depreciation is

(17,230,857)

21,515,969

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

337,438

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

379,707

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

Contracts and loans payable

(607,000)

Accrued interest

(2,100)

Compensated absences

(201,010)

Total Net Assets - Governmental Activities

\$ 23,802,024

City of Hillsdale, Michigan
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2009

	General	Capital Improvement	Airport Improvement	Other Nonmajor Governmental Funds	Total
Revenues:					
Taxes	\$ 2,557,354	\$ -	\$ -	\$ 161,535	\$ 2,718,889
Intergovernmental - federal and State	915,357	-	577,750	613,806	2,106,913
Charges for services	-	-	-	110,811	110,811
Fines and violations	-	-	-	41,806	41,806
Miscellaneous	<u>1,146,586</u>	<u>102,669</u>	<u>10,161</u>	<u>156,769</u>	<u>1,416,185</u>
Total revenues	<u>4,619,297</u>	<u>102,669</u>	<u>587,911</u>	<u>1,084,727</u>	<u>6,394,604</u>
Expenditures:					
General government	1,172,070	-	-	-	1,172,070
Public safety	1,785,809	-	-	8,441	1,794,250
Public works	395,454	-	-	-	395,454
Highways and streets	-	-	-	781,109	781,109
Health	157,741	-	-	-	157,741
Culture and recreation	139,693	-	-	361,634	501,327
Debt service:					
Principal payments	-	-	-	148,000	148,000
Interest and fiscal charges	-	-	-	12,156	12,156
Capital outlay	<u>-</u>	<u>608,361</u>	<u>617,247</u>	<u>6,141</u>	<u>1,231,749</u>
Total expenditures	<u>3,650,767</u>	<u>608,361</u>	<u>617,247</u>	<u>1,317,481</u>	<u>6,193,856</u>
Revenues Over (Under) Expenditures	<u>968,530</u>	<u>(505,692)</u>	<u>(29,336)</u>	<u>(232,754)</u>	<u>200,748</u>
Other Financing Sources (Uses):					
Operating transfers in	22,000	289,441	50,000	431,530	792,971
Operating transfers out	<u>(908,630)</u>	<u>-</u>	<u>-</u>	<u>(128,660)</u>	<u>(1,037,290)</u>
Total other financing sources (uses)	<u>(886,630)</u>	<u>289,441</u>	<u>50,000</u>	<u>302,870</u>	<u>(244,319)</u>
Net Changes in Fund Balances	81,900	(216,251)	20,664	70,116	(43,571)
Fund Balances - Beginning of Year	<u>691,438</u>	<u>686,234</u>	<u>155,083</u>	<u>889,836</u>	<u>2,422,591</u>
Fund Balances - End of Year	<u>\$ 773,338</u>	<u>\$ 469,983</u>	<u>\$ 175,747</u>	<u>\$ 959,952</u>	<u>\$ 2,379,020</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, 2009

Net Change in Fund Balances - Total Governmental Funds \$ (43,571)

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	\$ (946,592)	
Capital outlay	<u>1,069,115</u>	122,523

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		(8,320)
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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
---------------------------	--	---------

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 income from governmental activities in the internal service fund		(3,424)
--	--	---------

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		400
Increase in the accrual for compensated absences	<u>8,966</u>	

Change in Net Assets of Governmental Activities \$ 224,574

City of Hillsdale, Michigan
Statement of Net Assets
Proprietary Funds
June 30, 2009

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Electric	Water	Sewer	Nonmajor Fund		
				Dial-A-Ride	Total	
Assets:						
Current assets:						
Cash and cash equivalents	\$ 1,325,452	\$ -	\$ 15,404	\$ 99,001	\$ 1,439,857	\$ 198,125
Investments	-	-	-	-	-	50,248
Receivables:						
Accounts (net of allowance for bad debt of \$120,000)	1,162,358	96,458	47,706	-	1,306,522	-
Accrued interest	17,472	3,509	2,400	-	23,381	-
Due from other funds	15,175	-	59,616	-	74,791	-
Inventory, at cost	408,296	82,510	4,959	-	495,765	154,125
Prepaid expenses	90,050	23,888	37,651	8,347	159,936	34,903
Total current assets	<u>3,018,803</u>	<u>206,365</u>	<u>167,736</u>	<u>107,348</u>	<u>3,500,252</u>	<u>437,401</u>
Noncurrent assets:						
Restricted investments	-	640,530	670,077	-	1,310,607	-
Designated investments	3,515,411	341,042	334,752	-	4,191,205	-
Total noncurrent assets	<u>3,515,411</u>	<u>981,572</u>	<u>1,004,829</u>	<u>-</u>	<u>5,501,812</u>	<u>-</u>
Capital assets:						
Land	123,878	49,613	122,902	-	296,393	-
Plant and equipment	30,494,593	10,119,029	13,652,151	566,463	54,832,236	1,824,772
Construction in progress	205,227	39,172	32,763	-	277,162	-
	<u>30,823,698</u>	<u>10,207,814</u>	<u>13,807,816</u>	<u>566,463</u>	<u>55,405,791</u>	<u>1,824,772</u>
Less accumulated depreciation	<u>(18,726,091)</u>	<u>(4,797,191)</u>	<u>(9,370,344)</u>	<u>(474,055)</u>	<u>(33,367,681)</u>	<u>(1,353,194)</u>
Net capital assets	<u>12,097,607</u>	<u>5,410,623</u>	<u>4,437,472</u>	<u>92,408</u>	<u>22,038,110</u>	<u>471,578</u>
Other assets:						
Long-term inventories	390,817	-	-	-	390,817	-
Investment in M S C P A	9,218,534	-	-	-	9,218,534	-
Total other assets	<u>9,609,351</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,609,351</u>	<u>-</u>
Total assets	<u>28,241,172</u>	<u>6,598,560</u>	<u>5,610,037</u>	<u>199,756</u>	<u>40,649,525</u>	<u>908,979</u>
Liabilities:						
Current liabilities (payable from current assets):						
Accounts payable	44,392	13,646	9,350	375	67,763	2,504
Accrued purchased power	912,128	-	-	-	912,128	-
Accrued expenses	47,124	3,947	12,334	4,133	67,538	1,900
Customer deposits	37,655	8,921	1,965	-	48,541	-
Due to other funds	33,887	63,015	1,859	53,152	151,913	-
Due to other governments	-	-	-	7,713	7,713	-
Total current liabilities (payable from current assets)	<u>1,075,186</u>	<u>89,529</u>	<u>25,508</u>	<u>65,373</u>	<u>1,255,596</u>	<u>4,404</u>
Current liabilities (payable from restricted assets):						
Bonds payable	-	275,000	155,000	-	430,000	-
Compensated absences	-	-	-	-	-	-
Accrued interest	-	28,160	3,175	-	31,335	-
Total current liabilities (payable from restricted assets)	<u>-</u>	<u>303,160</u>	<u>158,175</u>	<u>-</u>	<u>461,335</u>	<u>-</u>
Noncurrent liabilities:						
Accrued compensated absences	96,524	35,635	41,921	10,322	184,402	53,290
General obligation and revenue bonds payable	-	2,280,000	480,000	-	2,760,000	-
Total noncurrent liabilities	<u>96,524</u>	<u>2,315,635</u>	<u>521,921</u>	<u>10,322</u>	<u>2,944,402</u>	<u>53,290</u>
Total liabilities	<u>1,171,710</u>	<u>2,708,324</u>	<u>705,604</u>	<u>75,695</u>	<u>4,661,333</u>	<u>57,694</u>
Net Assets:						
Invested in capital assets, net of related debt	12,097,607	2,855,623	3,802,472	92,408	18,848,110	471,578
Restricted investments	-	640,530	670,077	-	1,310,607	-
Unrestricted:						
Designated	3,515,411	341,042	334,752	-	4,191,205	-
Undesignated	11,456,444	53,041	97,132	31,653	11,638,270	379,707
Total net assets	<u>\$ 27,069,462</u>	<u>\$ 3,890,236</u>	<u>\$ 4,904,433</u>	<u>\$ 124,061</u>	<u>\$ 35,988,192</u>	<u>\$ 851,285</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Revenues, Expenses
and Changes in Net Assets
Proprietary Funds
Year Ended June, 2009

	<u>Business-type Activities - Enterprise Funds</u>					<u>Governmental</u>
					<u>Internal</u>	
	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor Fund Dial-A-Ride</u>	<u>Totals</u>	<u>Service Funds</u>
Operating Revenues:						
Charges for services	\$ 12,968,848	\$ 1,462,469	\$ 732,745	\$ 53,939	\$ 15,218,001	\$ 499,864
Other	-	-	-	174	174	179,080
Total operating revenues	<u>12,968,848</u>	<u>1,462,469</u>	<u>732,745</u>	<u>54,113</u>	<u>15,218,175</u>	<u>678,944</u>
Operating Expenses:						
Purchased power	9,120,874	-	-	-	9,120,874	-
Production expense	754,634	61,402	-	-	816,036	-
Purification expense	-	249,124	-	-	249,124	-
Treatment expense	-	-	573,216	-	573,216	-
Transmission and distribution	1,289,654	370,212	-	-	1,659,866	-
Administrative	929,621	242,271	246,116	-	1,418,008	688,193
Sewer collection	-	-	198,965	-	198,965	-
Transportation	-	-	-	436,913	436,913	-
Total operating expenses	<u>12,094,783</u>	<u>923,009</u>	<u>1,018,297</u>	<u>436,913</u>	<u>14,473,002</u>	<u>688,193</u>
Operating Income (Loss)	<u>874,065</u>	<u>539,460</u>	<u>(285,552)</u>	<u>(382,800)</u>	<u>745,173</u>	<u>(9,249)</u>
Nonoperating Revenues (Expenses):						
Interest income	164,037	35,715	46,675	-	246,427	5,755
Interest expense	-	(115,168)	(14,950)	-	(130,118)	-
Other income (expense)	9,679	(2,989)	7,078	252,192	265,960	-
Transfers in from other funds	-	-	-	248,281	248,281	70
Total nonoperating revenues (expenses)	<u>173,716</u>	<u>(82,442)</u>	<u>38,803</u>	<u>500,473</u>	<u>630,550</u>	<u>5,825</u>
Changes in Net Assets	<u>1,047,781</u>	<u>457,018</u>	<u>(246,749)</u>	<u>117,673</u>	<u>1,375,723</u>	<u>(3,424)</u>
Net Assets - Beginning of Year	<u>26,021,681</u>	<u>3,433,218</u>	<u>5,151,182</u>	<u>6,388</u>	<u>34,612,469</u>	<u>854,709</u>
Net Assets - End of Year	<u>\$ 27,069,462</u>	<u>\$ 3,890,236</u>	<u>\$ 4,904,433</u>	<u>\$ 124,061</u>	<u>\$ 35,988,192</u>	<u>\$ 851,285</u>

City of Hillsdale, Michigan
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2009

	<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>Dial-A-Ride</u>	<u>Total</u>	
Cash Flows From Operating Activities:						
Cash received from customers, residents and users	\$ 11,819,341	\$ 1,464,048	\$ 725,504	\$ 53,939	\$ 14,062,832	\$ -
Other operating receipts	55,438	6,427	13,490	174	75,529	-
Receipts for interfund services provided	-	-	-	-	-	678,944
Cash paid to employees and suppliers	<u>(11,783,785)</u>	<u>(1,004,815)</u>	<u>(517,265)</u>	<u>(416,194)</u>	<u>(13,722,059)</u>	<u>(589,573)</u>
Net cash provided by (used by) operating activities	<u>90,994</u>	<u>465,660</u>	<u>221,729</u>	<u>(362,081)</u>	<u>416,302</u>	<u>89,371</u>
Cash Flows From Noncapital Financing Activities:						
Intergovernmental nonoperating revenues	-	-	-	252,192	252,192	-
Transfers from other funds	-	-	-	248,281	248,281	70
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>500,473</u>	<u>500,473</u>	<u>70</u>
Cash Flows From Capital and Related Financing Activities:						
Bond payments on capital debt	-	(270,000)	(150,000)	-	(420,000)	-
Interest on capital debt	-	(117,696)	(15,700)	-	(133,396)	-
Proceeds from the disposal of assets	-	-	-	-	-	-
Purchase of capital assets, net	<u>(496,134)</u>	<u>(71,947)</u>	<u>(110,828)</u>	<u>(70,385)</u>	<u>(749,294)</u>	<u>(204,391)</u>
Net cash used by capital and related financing activities	<u>(496,134)</u>	<u>(459,643)</u>	<u>(276,528)</u>	<u>(70,385)</u>	<u>(1,302,690)</u>	<u>(204,391)</u>
Cash Flows From Investing Activities:						
Unrealized gain on investments	(15,191)	(11,370)	(9,741)	-	(36,302)	-
Purchase of investments	(138,508)	(50,894)	(36,418)	-	(225,820)	(50,248)
Proceeds from the sale of investments	65,756	23,015	-	-	-	-
Other nonoperating income received	9,679	-	7,075	-	16,754	-
Other nonoperating expenses	-	(2,989)	-	-	(2,989)	-
Interest income received	<u>171,108</u>	<u>36,221</u>	<u>49,177</u>	<u>-</u>	<u>256,506</u>	<u>5,755</u>
Net cash provided by (used by) investing activities	<u>92,844</u>	<u>(6,017)</u>	<u>10,093</u>	<u>-</u>	<u>96,920</u>	<u>(44,493)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(312,296)	-	(44,706)	68,007	(288,995)	(159,443)
Cash and Cash Equivalents - Beginning of Year	1,637,748	-	60,111	30,994	1,728,853	357,568
Cash and Cash Equivalents - End of Year	<u>\$ 1,325,452</u>	<u>\$ -</u>	<u>\$ 15,405</u>	<u>\$ 99,001</u>	<u>\$ 1,439,858</u>	<u>\$ 198,125</u>

Continued..

City of Hillsdale, Michigan
Statement of Cash Flows (Continued)
Proprietary Funds
Year Ended June 30, 2009

	<u>Business-type Activities - Enterprise Funds</u>				<u>Total</u>	<u>Governmental Activities - Internal Service Funds</u>
	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor Fund Dial-A-Ride</u>		
Balance Sheet Classification of Cash						
Current assets - cash and cash equivalents	\$ 1,325,452	\$ -	\$ 15,405	\$ 99,001	1,439,858	\$ 198,125
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Operating income (loss)	\$ 874,065	\$ 539,460	\$ (285,552)	\$ (382,800)	745,173	\$ (9,249)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	691,861	217,355	169,115	22,853	1,101,184	87,674
Changes in:						
Receivables	231,764	10,299	4,341	-	246,404	-
Due from other funds	(13,958)	18	320,572	-	306,632	-
Inventories	20,771	(1,760)	2,236	-	21,247	2,626
Prepaid expenses	(4,483)	(2,758)	(3,242)	1,246	(9,237)	(1,251)
Investment in M.S.C.P.A.	(1,620,021)	-	-	-	(1,620,021)	-
Accounts payable	(33,078)	11,372	2,548	375	(18,783)	2,471
Accrued expenses	(84,087)	14,563	9,766	(62)	(59,820)	7,100
Due to other funds	(3,819)	(320,596)	38	(3,693)	(328,070)	-
Customer deposits	31,979	(2,293)	1,907	-	31,593	-
Net Cash Provided by (Used in) Operating Activities	<u>\$ 90,994</u>	<u>\$ 465,660</u>	<u>\$ 221,729</u>	<u>\$ (362,081)</u>	<u>\$ 416,302</u>	<u>\$ 89,371</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2009

	<u>Hospital Private Purpose Trust Fund</u>	<u>Agency Funds</u>
Assets:		
Cash and investments	\$ 15,264	\$ 15,278
Liabilities:		
Due to other funds	-	\$ 1,554
Due to other agencies	-	13,724
Total liabilities	-	\$ 15,278
Net Assets:		
Unrestricted	15,264	
Total net assets	\$ 15,264	

City of Hillsdale, Michigan
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2009

	<u>Hospital Private Purpose Trust Fund</u>
Revenue:	
Interest income	\$ 913
Expenses:	
Other	<u>649</u>
Change in Net Assets	264
Net Assets - Beginning of Year	<u>15,000</u>
Net Assets - End of Year	<u>\$ 15,264</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	\$393,199	Assets	\$1,101,357
Operating expenses	410,751	Liabilities	42,563
Excess expenses over revenues	(17,552)	Fund equity	1,058,794
Other income (net)	-		
Net loss	(17,552)		

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) is valued using the average cost method. Inventories of governmental funds are recorded as expenditures when purchased.

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

Restricted Assets – Certain proceeds of the Enterprise Funds' revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. 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
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 2009 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.

Reclassifications - Certain balances in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications do not impact changes in net assets/fund balances.

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, 2009, expenditures that exceeded appropriations in the General Fund, if any, 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	\$9,367,846	\$ 463,521
Statement of Fiduciary Net Assets:		
Hospital Private Purpose Trust Fund:		
Cash and investments	15,000	-
Agency Funds:		
Cash and investments	15,278	-
	<u>\$9,398,124</u>	<u>\$ 463,521</u>
	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts and short-term CDs)	\$ 1,711,104	\$ (3,919)
Investments in securities, mutual funds and similar vehicles	7,685,370	467,440
Cash on hand	1,650	-
	<u>\$9,398,124</u>	<u>\$ 463,521</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	\$ 300,000	\$ 327,000	\$ 0
NR	NR	Local Units of Government Investments Pool	5,266	0	0
NR	NR	Michigan CLASS Investments Pool	1,512,487	0	0
AAA	Aaa	U.S. Government Agency Bonds	0	1,725,399	506,245
AAA	Aaa	Financing Corporation Bond	0	0	1,867,533
N/A	N/A	Money Market Fund	0	0	0
N/A	N/A	Spartan U.S. Government Money Market	0	0	0
N/A	N/A	Fidelity Investment Cash	1,908,880	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, \$1,285,131 of the City's bank balance of \$1,837,981 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, 2009, consist of the following:

Other governmental units (primarily the State of Michigan)	\$236,657
Accounts receivable - other	69,278
Special assessments	<u>337,438</u>
	<u>\$643,373</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 5 - Capital Assets

Capital assets activity for the year ended June 30, 2009 was as follows:

Primary Government	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$5,881,260	\$ 599,750	\$ -	\$6,481,010
Capital assets being depreciated:				
Land improvements	349,744	-	-	349,744
Buildings and improvements	4,799,602	-	2,140	4,797,462
Books	515,375	22,712	-	538,087
Equipment and vehicles	2,624,530	209,886	20,617	2,813,799
Infrastructure	23,331,766	434,958	-	23,766,724
Total capital asset being depreciated	<u>31,621,017</u>	<u>667,556</u>	<u>22,757</u>	<u>32,265,816</u>
Accumulated depreciation:				
Land improvements	135,449	13,756	-	149,205
Buildings and improvements	1,224,500	93,297	2,140	1,315,657
Books	444,619	13,167	-	457,786
Equipment and vehicles	1,905,461	144,203	20,617	2,029,047
Infrastructure	12,509,319	769,843	-	13,279,162
Total accumulated depreciation	<u>16,219,348</u>	<u>1,034,266</u>	<u>22,757</u>	<u>17,230,857</u>
Total capital assets being depreciated - net	<u>15,401,669</u>	<u>(366,710)</u>	<u>-</u>	<u>15,034,959</u>
Governmental activities capital assets - net	<u>\$21,282,929</u>	<u>\$ 233,040</u>	<u>\$ -</u>	<u>\$21,515,969</u>
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 296,393	\$ -	\$ -	\$ 296,393
Construction in progress	278,884	71,937	(73,659)	277,162
Total capital assets not being depreciated	<u>575,277</u>	<u>71,937</u>	<u>(73,659)</u>	<u>573,555</u>
Capital assets being depreciated:				
Buildings and improvements	-	70,385	-	70,385
Equipment	496,078	-	-	496,078
Plant and systems	53,597,845	680,633	(12,705)	54,265,773
Total capital assets being depreciated	<u>54,093,923</u>	<u>751,018</u>	<u>(12,705)</u>	<u>54,832,236</u>
Accumulated depreciation:				
Buildings and improvements	-	-	-	-
Equipment	451,202	22,853	-	474,055
Plant and systems	31,828,000	1,078,331	(12,705)	32,893,626
Total accumulated depreciation	<u>32,279,202</u>	<u>1,101,184</u>	<u>(12,705)</u>	<u>33,367,681</u>
Total capital assets being depreciated - net	<u>21,814,721</u>	<u>(350,166)</u>	<u>-</u>	<u>21,464,555</u>
Business-type activities capital assets - net	<u>\$22,389,998</u>	<u>\$ (278,229)</u>	<u>\$ (73,659)</u>	<u>\$22,038,110</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	\$ 42,291
Highways and streets	724,316
Culture and recreation	99,636
Public works	43,981
Unallocated	36,368
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	<u>87,674</u>
Total depreciation expense – governmental activities	<u>\$ 1,034,266</u>
Business-Type Activities:	
Electric	\$ 691,861
Water	217,355
Sewer	169,115
Transportation	<u>22,853</u>
Total depreciation expense – business-type activities	<u>\$ 1,101,184</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	\$ 82,967	\$ -
Nonmajor Governmental Funds	-	1,511
Imprest Payroll	-	1,554
Water Fund	-	63,015
Sewer Fund	59,616	1,859
Electric Fund	15,175	33,887
Component Units	-	2,780
Nonmajor Enterprise Fund	<u>-</u>	<u>53,152</u>
	<u>\$157,758</u>	<u>\$157,758</u>
	<u>Transfers In</u>	<u>Transfers Out</u>
Transfers:		
General Fund	\$ 22,000	\$ 908,630
Capital Improvement	289,441	-
Airport Improvement	50,000	-
Nonmajor Governmental Funds	431,600	128,660
Component Units	-	4,032
Nonmajor Enterprise Fund	<u>248,281</u>	<u>-</u>
	<u>\$1,041,322</u>	<u>\$ 1,041,322</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, 2009, audited by other auditors whose report dated August 28, 2009, 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, 2009, is as follows:

	<u>Total M.S.C.P.A.</u>	<u>Hillsdale Board of Public Utilities Portion 25.5%</u>
Total assets	\$72,193,810	\$18,409,422
Total liabilities	<u>36,042,699</u>	<u>9,190,888</u>
Net Assets	<u>\$36,151,111</u>	<u>\$ 9,218,354</u>
Operating revenues	\$47,987,421	\$12,236,793
Operating expenses	<u>40,251,493</u>	<u>10,264,131</u>
Operating Income	7,735,928	1,972,662
Other income and expenses	<u>(1,382,910)</u>	<u>(352,642)</u>
Changes in Net Assets	6,353,018	1,620,020
Net Assets, Beginning of Year	<u>29,798,093</u>	<u>7,598,514</u>
Net Assets, End of Year	<u>\$36,151,111</u>	<u>\$ 9,218,534</u>

Note 8 - Long-Term Debt

Long-term liability activity for the year ended June 30, 2009, 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	\$755,000	\$ -	\$ 148,000	\$ 607,000	\$ 148,000
Compensated absences	<u>256,478</u>	<u>-</u>	<u>2,178</u>	<u>254,300</u>	<u>30,000</u>
	<u>\$1,011,478</u>	<u>\$ -</u>	<u>\$ 150,178</u>	<u>\$ 861,300</u>	<u>\$ 178,000</u>
Business-type activities:					
Revenue bonds	\$3,610,000	\$ -	\$ 420,000	\$3,190,000	\$ 430,000
Compensated absences	<u>164,642</u>	<u>19,760</u>	<u>-</u>	<u>184,402</u>	<u>-</u>
	<u>\$3,774,642</u>	<u>\$ 19,760</u>	<u>\$ 420,000</u>	<u>\$3,374,402</u>	<u>\$ 430,000</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	2014	0.00%	\$ 250,000
Municipal purchase contract - Library building improvements	2014	4.19%	245,000
Loan – Community Development Block Grant – Industrial park property acquisitions	2015	0.00%	<u>112,000</u>
			<u>\$ 607,000</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>
2011	\$ 148,000	\$ 9,532
2012	148,000	6,599
2013	148,000	3,667
2014	148,000	700
2015	<u>15,000</u>	<u>33</u>
Total	<u>\$ 607,000</u>	<u>\$ 20,531</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%	\$1,520,000
2002 Water Refunding	2015	3.00% - 4.00%	1,035,000
1992 Sewer	2013	2%	<u>635,000</u>
			<u>\$3,190,000</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 June 30,	Principal	Interest
2010	\$ 430,000	\$120,010
2011	445,000	105,732
2012	465,000	90,561
2013	480,000	74,606
2014	330,000	57,540
2015 – 2019	<u>1,040,000</u>	<u>115,333</u>
Total	<u>\$3,190,000</u>	<u>\$563,782</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, 2009, 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, 2009, 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, 2008 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, 2008, 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>
6/30/06	\$156,000	100%	\$ -
6/30/07	174,000	100%	-
6/30/08	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>
12/31/06	\$15,928,490	\$15,021,669	\$906,821	106%	\$3,710,353	-%
12/31/07	16,926,763	16,134,278	792,485	105%	3,799,429	-
12/31/08	17,395,167	16,606,847	788,320	105%	3,893,506	-

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, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>	
Revenues:			
City taxes:			
Property	\$ 2,405,000	\$ 2,405,000	\$ 2,331,096
Administrative fees	80,000	80,000	75,960
Interest and penalties	20,000	20,000	59,514
Industrial facilities tax	<u>98,000</u>	<u>98,000</u>	<u>90,784</u>
Total city taxes	2,603,000	2,603,000	2,557,354
State revenue	903,500	903,500	910,357
Federal revenue	-	-	5,000
Other revenue	<u>1,172,600</u>	<u>1,172,600</u>	<u>1,146,586</u>
Total revenues	<u>4,679,100</u>	<u>4,679,100</u>	<u>4,619,297</u>
Expenditures:			
General government:			
Council	31,530	31,530	28,601
Clerk	101,285	101,285	99,406
City manager	228,425	228,425	212,322
Assistant city manager	85,260	85,260	83,264
Economic development	100,000	100,000	78,746
Administrative	226,500	226,500	154,879
Treasurer	141,875	141,875	135,130
Street lights	63,000	63,000	60,035
Airport	89,835	89,835	76,835
Finance department	101,475	101,475	95,881
General operation	<u>163,555</u>	<u>163,555</u>	<u>146,971</u>
Total general government	<u>1,332,740</u>	<u>1,332,740</u>	<u>1,172,070</u>
Public safety:			
Police	1,394,450	1,394,450	1,345,835
Fire	<u>453,685</u>	<u>453,685</u>	<u>439,974</u>
Total public safety	<u>1,848,135</u>	<u>1,848,135</u>	<u>1,785,809</u>
Public works:			
Public services	305,520	305,520	305,932
Cemetery	<u>109,865</u>	<u>109,865</u>	<u>89,522</u>
Total public works	<u>415,385</u>	<u>415,385</u>	<u>395,454</u>

Continued..

City of Hillsdale, Michigan
 Budgetary Comparison Schedule (Continued)
 General Fund
 Year Ended June 30, 2009

	Budgeted Amounts		Actual
	Original	Final	
Expenditures (Continued):			
Health:			
Assessor	\$ 150,535	\$ 150,535	\$ 136,481
Building inspector	39,880	39,880	21,260
Total health	<u>190,415</u>	<u>190,415</u>	<u>157,741</u>
 Culture and recreation	 <u>155,865</u>	 <u>155,865</u>	 <u>139,693</u>
 Total expenditures	 <u>3,942,540</u>	 <u>3,942,540</u>	 <u>3,650,767</u>
 Revenues Over (Under) Expenditures	 <u>736,560</u>	 <u>736,560</u>	 <u>968,530</u>
 Other Financing Sources (Uses):			
Transfers in	22,000	22,000	22,000
Transfers out	<u>(758,560)</u>	<u>(910,560)</u>	<u>(908,630)</u>
Total other financing sources (uses)	<u>(736,560)</u>	<u>(888,560)</u>	<u>(886,630)</u>
 Net Changes in Fund Balances	 -	 (152,000)	 81,900
 Fund Balances - Beginning of Year	 <u>691,438</u>	 <u>691,438</u>	 <u>691,438</u>
 Fund Balances - End of Year	 <u>\$ 691,438</u>	 <u>\$ 539,438</u>	 <u>\$ 773,338</u>

Other Supplemental Information

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2009

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Permanent Funds</u>	<u>Total</u>
<u>Assets</u>					
Cash and investments	\$ 204,557	\$ 5,739	\$ 12,777	\$ 612,374	\$ 835,447
Accounts receivable	139,155	-	300	-	139,455
Prepaid expenditures	4,317	-	-	-	4,317
Total assets	<u>\$ 348,029</u>	<u>\$ 5,739</u>	<u>\$ 13,077</u>	<u>\$ 612,374</u>	<u>\$ 979,219</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 8,998	\$ -	\$ -	\$ -	8,998
Accrued payroll and related liabilities	8,758	-	-	-	8,758
Due to other funds	1,511	-	-	-	1,511
Total liabilities	<u>19,267</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,267</u>
Fund Balances:					
Reserved for prepaid items	4,317	-	-	-	4,317
Reserved for perpetual care and endowment	-	-	-	612,374	612,374
Unreserved:					
Unreserved; undesignated	324,445	5,739	13,077	-	343,261
Total fund balances	<u>328,762</u>	<u>5,739</u>	<u>13,077</u>	<u>612,374</u>	<u>959,952</u>
Total liabilities and fund balances	<u>\$ 348,029</u>	<u>\$ 5,739</u>	<u>\$ 13,077</u>	<u>\$ 612,374</u>	<u>\$ 979,219</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2009

	Special Revenue	Debt Service	Capital Project	Permanent Funds	Total
Revenues:					
Taxes	\$ 161,535	\$ -	\$ -	\$ -	\$ 161,535
Intergovernmental - federal and State	613,806	-	-	-	613,806
Charges for services	88,588	-	-	22,223	110,811
Fines and violations	41,806	-	-	-	41,806
Miscellaneous	48,029	-	69,240	39,500	156,769
Total revenues	<u>953,764</u>	<u>-</u>	<u>69,240</u>	<u>61,723</u>	<u>1,084,727</u>
Expenditures:					
Public safety	8,441	-	-	-	8,441
Highways and streets	781,109	-	-	-	781,109
Culture and recreation	361,634	-	-	-	361,634
Debt service:					
Principal payments	-	148,000	-	-	148,000
Interest and fiscal charges	-	12,156	-	-	12,156
Capital outlay	-	-	6,141	-	6,141
Total expenditures	<u>1,151,184</u>	<u>160,156</u>	<u>6,141</u>	<u>-</u>	<u>1,317,481</u>
Revenues Over (Under) Expenditures	<u>(197,420)</u>	<u>(160,156)</u>	<u>63,099</u>	<u>61,723</u>	<u>(232,754)</u>
Other Financing Sources (Uses):					
Operating transfers in	246,870	160,160	24,500	-	431,530
Operating transfers out	(26,500)	-	(82,160)	(20,000)	(128,660)
Total other financing sources (uses)	<u>(220,370)</u>	<u>160,160</u>	<u>(57,660)</u>	<u>(20,000)</u>	<u>(302,870)</u>
Changes in Fund Balances	22,950	4	5,439	41,723	70,116
Fund Balances - Beginning of Year	<u>305,812</u>	<u>5,735</u>	<u>7,638</u>	<u>570,651</u>	<u>889,836</u>
Fund Balances - End of Year	<u>\$ 328,762</u>	<u>\$ 5,739</u>	<u>\$ 13,077</u>	<u>\$ 612,374</u>	<u>\$ 959,952</u>

City of Hillsdale, Michigan
 Combining Balance Sheet
 Nonmajor Special Revenue Funds
 June 30, 2009

	Police										Total	
	Library	Recreation Commission	Drug Forfeitures	Public Relations	Major Street	Local Street	Fire Equipment	Police Public	Relations	Equipment		
Assets												
Cash and investments	\$ 81,856	\$ 2,570	\$ 1,111	\$ 6,938	\$ 5,451	\$ 53,433	\$ 53,198	\$ 204,557				
Accounts receivable	48,442	3,734	-	-	65,387	21,592	-	139,155				
Prepaid expenditures	1,567	2,750	-	-	-	-	-	4,317				
Total assets	<u>\$ 131,865</u>	<u>\$ 9,054</u>	<u>\$ 1,111</u>	<u>\$ 6,938</u>	<u>\$ 70,838</u>	<u>\$ 75,025</u>	<u>\$ 53,198</u>	<u>\$ 348,029</u>				
Liabilities and Fund Balances												
Liabilities:												
Accounts payable	\$ 214	\$ -	\$ -	\$ -	\$ 6,625	\$ 2,159	\$ -	\$ 8,998				
Accrued salaries and related liabilities	2,897	2,517	-	-	2,536	808	-	8,758				
Due to other funds	237	84	-	-	1,190	-	-	1,511				
Total liabilities	<u>3,348</u>	<u>2,601</u>	<u>-</u>	<u>-</u>	<u>10,351</u>	<u>2,967</u>	<u>-</u>	<u>19,267</u>				
Fund Balances:												
Reserved for prepaid items	1,567	2,750	-	-	-	-	-	4,317				
Unreserved; undesignated	126,950	3,703	1,111	6,938	60,487	72,058	53,198	324,445				
Total fund balances	<u>128,517</u>	<u>6,453</u>	<u>1,111</u>	<u>6,938</u>	<u>60,487</u>	<u>72,058</u>	<u>53,198</u>	<u>328,762</u>				
Total liabilities and fund balances	<u>\$ 131,865</u>	<u>\$ 9,054</u>	<u>\$ 1,111</u>	<u>\$ 6,938</u>	<u>\$ 70,838</u>	<u>\$ 75,025</u>	<u>\$ 53,198</u>	<u>\$ 348,029</u>				

City of Hillsdale, Michigan
 Combining Statement of Revenues, Expenditures and
 Changes in Fund Balances
 Nonmajor Special Revenue Funds
 Year Ended June 30, 2009

	Library	Recreation Commission	Drug Forfeitures	Police Public Relations	Major Street	Local Street	Fire Equipment	Total
Revenues:								
Property taxes	\$ 161,535	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	161,535
Intergovernmental - federal and State	16,635	-	-	-	450,257	146,914	-	613,806
Charges for services	25,146	63,442	-	-	-	-	-	88,588
Fines and violations	41,806	-	-	-	-	-	-	41,806
Miscellaneous	18,555	4,645	598	7,583	11,735	3,627	1,286	48,029
Total revenues	<u>263,677</u>	<u>68,087</u>	<u>598</u>	<u>7,583</u>	<u>461,992</u>	<u>150,541</u>	<u>1,286</u>	<u>953,764</u>
Expenditures:								
Public safety	-	-	315	8,126	-	-	-	8,441
Highways and streets	-	-	-	-	477,241	303,868	-	781,109
Culture and recreation	246,978	114,656	-	-	-	-	-	361,634
Total expenditures	<u>246,978</u>	<u>114,656</u>	<u>315</u>	<u>8,126</u>	<u>477,241</u>	<u>303,868</u>	<u>-</u>	<u>1,151,184</u>
Revenues Over (Under) Expenditures	<u>16,699</u>	<u>(46,569)</u>	<u>283</u>	<u>(543)</u>	<u>(15,249)</u>	<u>(153,327)</u>	<u>1,286</u>	<u>(197,420)</u>
Other Financing Sources (Uses):								
Transfers in	-	50,145	-	-	-	186,725	10,000	246,870
Transfers out	(26,500)	-	-	-	-	-	-	(26,500)
Total other financing sources (uses)	<u>(26,500)</u>	<u>50,145</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>186,725</u>	<u>10,000</u>	<u>220,370</u>
Changes in Fund Balances	<u>(9,801)</u>	<u>3,576</u>	<u>283</u>	<u>(543)</u>	<u>(15,249)</u>	<u>33,398</u>	<u>11,286</u>	<u>22,950</u>
Fund Balances - Beginning of Year	<u>138,318</u>	<u>2,877</u>	<u>828</u>	<u>7,481</u>	<u>75,736</u>	<u>38,660</u>	<u>41,912</u>	<u>305,812</u>
Fund Balances - End of Year	<u>\$ 128,517</u>	<u>\$ 6,453</u>	<u>\$ 1,111</u>	<u>\$ 6,938</u>	<u>\$ 60,487</u>	<u>\$ 72,058</u>	<u>\$ 53,198</u>	<u>\$ 328,762</u>

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Debt Service Fund
June 30, 2009

	<u>Assets</u>	<u>Bond and Interest</u>
Cash and cash equivalents		\$ <u>5,739</u>
	<u>Fund Balance</u>	
Unreserved; undesignated		<u>5,739</u>
Total fund balance		\$ <u>5,739</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Debt Service Fund
Year Ended June 30, 2009

	<u>Bond and Interest</u>
Revenues:	
Interest income	\$ -
Expenditures:	
Principal retirement	148,000
Interest and fiscal charges	<u>12,156</u>
Total expenditures	<u>160,156</u>
Revenues Under Expenditures	(160,156)
Other Financing Sources:	
Transfers in	<u>160,160</u>
Changes in Fund Balance	4
Fund Balance - Beginning of Year	<u>5,735</u>
Fund Balance - End of Year	<u>\$ 5,739</u>

City of Hillsdale, Michigan
 Combining Balance Sheet
 Nonmajor Capital Project Funds
 June 30, 2009

	<u>Library Improvement</u>	<u>Three Meadows</u>	<u>Field of Dreams</u>	<u>Stock Park</u>	<u>Total</u>
<u>Assets</u>					
Cash and cash equivalents	\$ 170	\$ 423	\$ 1,711	\$ 10,473	\$ 12,777
Accounts receivable	-	-	-	300	300
Total assets	<u>\$ 170</u>	<u>\$ 423</u>	<u>\$ 1,711</u>	<u>\$ 10,773</u>	<u>\$ 13,077</u>

Liabilities and Fund Balances

Fund Balances:					
Unreserved; undesignated	\$ 170	\$ 423	\$ 1,711	\$ 10,773	\$ 13,077
Total fund balances	<u>170</u>	<u>423</u>	<u>1,711</u>	<u>10,773</u>	<u>13,077</u>
 Total liabilities and fund balances	 <u>\$ 170</u>	 <u>\$ 423</u>	 <u>\$ 1,711</u>	 <u>\$ 10,773</u>	 <u>\$ 13,077</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Capital Project Funds
Year Ended June 30, 2009

	<u>Library Improvement</u>	<u>Three Meadows</u>	<u>Field of Dreams</u>	<u>Stock Park</u>	<u>Total</u>
Revenues:					
Miscellaneous	\$ 57,528	\$ -	\$ 1,686	\$ 10,026	\$ 69,240
Total revenues	<u>57,528</u>	<u>-</u>	<u>1,686</u>	<u>10,026</u>	<u>69,240</u>
Expenditures:					
Capital outlay	-	-	87	6,054	6,141
Total expenditures	<u>-</u>	<u>-</u>	<u>87</u>	<u>6,054</u>	<u>6,141</u>
Revenues Over (Under) Expenditures	<u>57,528</u>	<u>-</u>	<u>1,599</u>	<u>3,972</u>	<u>63,099</u>
Other Financing Sources (Uses):					
Transfers in	24,500	-	-	-	24,500
Transfers out	(82,160)	-	-	-	(82,160)
Total other financing sources (uses)	<u>(57,660)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(57,660)</u>
Changes in Fund Balances	(132)	-	1,599	3,972	5,439
Fund Balances - Beginning of Year	<u>302</u>	<u>423</u>	<u>112</u>	<u>6,801</u>	<u>7,638</u>
Fund Balances - End of Year	<u>\$ 170</u>	<u>\$ 423</u>	<u>\$ 1,711</u>	<u>\$ 10,773</u>	<u>\$ 13,077</u>

City of Hillsdale, Michigan
 Combining Balance Sheet
 Nonmajor Permanent Funds
 June 30, 2009

	R.L. Owen Memorial	Cemetery Perpetual Care	Stock Park Maintenance	Total
<u>Assets</u>				
Cash and cash equivalents	\$ 25,774	\$ 67,903	\$ 98	\$ 93,775
Investments, at cost	-	506,244	12,355	518,599
Total assets	<u>\$ 25,774</u>	<u>\$ 574,147</u>	<u>\$ 12,453</u>	<u>\$ 612,374</u>
 <u>Liabilities and Fund Balances</u>				
Fund Balances:				
Reserved for perpetual care and endowment principal	\$ 25,774	\$ 574,147	\$ 12,453	\$ 612,374
Total fund balances	<u>25,774</u>	<u>574,147</u>	<u>12,453</u>	<u>612,374</u>
 Total liabilities and fund balances	<u>\$ 25,774</u>	<u>\$ 574,147</u>	<u>\$ 12,453</u>	<u>\$ 612,374</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Permanent Funds
Year Ended June 30, 2009

	R.L. Owen Memorial	Cemetery Perpetual Care	Stock Park Maintenance	Total
Revenues:				
Fees	\$ -	\$ 22,223	\$ -	\$ 22,223
Investment income	5,227	32,923	350	38,500
Other revenue	-	-	1,000	1,000
Total revenues	<u>5,227</u>	<u>55,146</u>	<u>1,350</u>	<u>61,723</u>
Expenditures:				
Other Financing Sources (Uses):				
Operating transfers out	-	(20,000)	-	(20,000)
Total other financing sources (uses)	<u>-</u>	<u>(20,000)</u>	<u>-</u>	<u>(20,000)</u>
Changes in Fund Balances	5,227	35,146	1,350	41,723
Fund Balances - Beginning of Year	<u>20,547</u>	<u>539,001</u>	<u>11,103</u>	<u>570,651</u>
Fund Balances - End of Year	<u>\$ 25,774</u>	<u>\$ 574,147</u>	<u>\$ 12,453</u>	<u>\$ 612,374</u>

City of Hillsdale, Michigan
 Local Revenues
 Dial-A-Ride Enterprise Fund
 Year Ended June 30, 2009

	<u>07/01/2008 - 9/30/2008</u>	<u>10/01/2008 - 6/30/2009</u>	<u>Total</u>
Operating Revenues and Transfers:			
Demand response (farebox) - nonurban	\$ 10,462	\$ 43,477	\$ 53,939
Other	-	174	174
Transfers in from other funds	<u>-</u>	<u>196,600</u>	<u>196,600</u>
 Total local revenues	 <u>\$ 10,462</u>	 <u>\$ 240,251</u>	 <u>\$ 250,713</u>

City of Hillsdale, Michigan
 Local Revenues
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2008 Year End

	<u>10/01/2007 - 6/30/2008</u>	<u>7/01/2008 - 9/30/2008</u>	<u>Total</u>
Operating Revenues and Transfers:			
Demand response (farebox) - nonurban	\$ 49,288	\$ 10,462	\$ 59,750
Other	1,364	-	1,364
Transfers in from other funds	<u>136,260</u>	<u>-</u>	<u>136,260</u>
 Total local revenues	 <u>\$ 186,912</u>	 <u>\$ 10,462</u>	 <u>\$ 197,374</u>

City of Hillsdale, Michigan
 Federal and State Awards
 Dial-A-Ride Enterprise Fund
 Year Ended June 30, 2009

	<u>07/01/2008 - 9/30/2008</u>	<u>10/01/2008 - 6/30/2009</u>	<u>Total</u>
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	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total federal and state awards	<u>\$ 26,577</u>	<u>\$ 162,661</u>	<u>\$ 189,238</u>

City of Hillsdale, Michigan
 Federal and State Awards
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2008 Year End

	<u>10/01/2007 - 6/30/2008</u>	<u>7/01/2008 - 9/30/2008</u>	<u>Total</u>
Michigan Department of Transportation			
Local bus operating	\$ 86,344	\$ 39,141	\$ 125,485
Federal Transit Administration			
Section 5311	76,317	9,000	85,317
Section 5309	-	-	-
RTAP	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total federal and state awards	<u>\$ 162,661</u>	<u>\$ 48,141</u>	<u>\$ 210,802</u>

City of Hillsdale
 Expenditures of Federal and State Awards
 Dial-A-Ride Enterprise Fund
 Year Ended June 30, 2009

Federal and State Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Grant Number	Authorization Number	Program Award Amount	Current Year's Expenditures		Prior Year's Expenditures	Award Amount Remaining
					Total	State		
<u>U.S. Department of Transportation</u> Passed through Michigan Department of Transportation								
Operating assistance - Section 5311	20.509	2007-0223/Z3		\$ 85,416	\$ 37,504	\$ -	\$ 47,912	\$ -
Operating assistance - Section 5311	20.509	2007-0223/Z4		71,808	31,047	-	-	40,761
Rural Transit Assistance Program (RTAP)		N/A		-	-	-	-	-
<u>Michigan Department of Transportation</u> Operating Assistance - Act 51 Nonurban	N/A				164,938	164,938	-	-
				\$ 322,162	\$ 233,489	\$ 164,938	\$ 47,912	\$ 40,761

City of Hillsdale, Michigan
Operating and Contract Expenses
Dial-A-Ride Enterprise Fund
Year Ended June 30, 2009

	<u>Nonurban</u>	<u>Total</u>
Labor	\$ 189,256	\$ 189,256
Fringe benefits	90,710	90,710
Services	64,431	64,431
Materials and supplies	37,129	37,129
Insurance	15,232	15,232
Utilities	166	166
Miscellaneous	1,534	1,534
Rentals	15,600	15,600
Depreciation	<u>22,853</u>	<u>22,853</u>
 Total expenses	 <u>\$ 436,911</u>	 <u>\$ 436,911</u>

City of Hillsdale, Michigan
 Operating and Contract Expenses
 Dial-A-Ride Enterprise Fund
 Year Ended June 30, 2009

	Nonurban		Total
	07/01/2008 - 9/30/2008	10/01/2008 - 6/30/2009	
Labor	\$ 34,956	\$ 154,300	\$ 189,256
Fringe benefits	24,636	66,074	90,710
Services	508	63,923	64,431
Materials and supplies	6,952	30,177	37,129
Insurance	-	15,232	15,232
Utilities	20	146	166
Miscellaneous	60	1,474	1,534
Rentals	3,900	11,700	15,600
Depreciation	-	22,853	22,853
	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 71,032</u>	<u>\$ 365,879</u>	<u>\$ 436,911</u>

City of Hillsdale, Michigan
 Operating and Contract Expenses
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2008 Year End

	Nonurban		Total
	10/01/2007- 6/30/2008	7/01/2008- 9/30/2008	
Labor	\$ 156,134	\$ 34,956	\$ 191,090
Fringe benefits	57,094	24,636	81,730
Services	68,316	508	68,824
Materials and supplies	49,230	6,952	56,182
Insurance	7,677	-	7,677
Utilities	130	20	150
Miscellaneous	920	60	980
Rentals	11,700	3,900	15,600
Depreciation	23,266	-	23,266
Total expenses	<u>\$ 374,467</u>	<u>\$ 71,032</u>	<u>\$ 445,499</u>

City of Hillsdale, Michigan
 Nonurban Regular Service Revenue Report
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2008 Year End

Code	Description	Amount
401	Farebox Revenue	
40100	Passenger fares	\$ 59,750
409	Local Revenue	
40910	Local operating assistance	136,260
411	State Formula and Contracts	
41101	State operating assistance	152,637
413	Federal Contracts	
41301	Federal Section 5311 (operating funds only)	67,557
41398	RTAP	-
	Total revenues	<u>\$ 416,204</u>

City of Hillsdale, Michigan
 Nonurban Regular Service Expense Report
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2008 Year End

Code	Description	Operations	Maintenance	General Administration	Total
501	Labor				
50101	Operators' salaries and wages	\$ 148,958	\$ -	\$ -	\$ 148,958
50102	Other salaries and wages	-	7,860	25,669	33,529
50103	Dispatchers salaries and wages	34,071	-	-	34,071
502	Fringe Benefits				
50200	Other fringe benefits	78,077	3,653	16,685	98,415
503	Services				
50305	Audit costs	-	-	971	971
50399	Other services	9,087	-	10,086	19,173
504	Materials and Supplies				
50401	Fuel and lubricants	40,740	-	-	40,740
50402	Tires and tubes	4,052	-	-	4,052
50499	Other materials and supplies	1,961	10,004	6,372	18,337
505	Utilities				
50500	Utilities	150	-	-	150
506	Insurance				
50603	Liability insurance	6,512	-	-	6,512
50699	Other insurance	100	-	1,835	1,935
509	Miscellaneous Expenses				
50902	Travel, meetings and training	-	-	-	-
50999	Miscellaneous	-	-	-	-
512	Operating leases and rentals				
51200	Operating leases and rentals	15,600	-	-	15,600
513	Depreciation				
51300	Depreciation	-	-	-	-
550	Ineligible expenses				
55007	Ineligible depreciation	-	-	-	-
574	Ineligible expenses				
57402	Ineligible RTAP	-	-	-	-
	Total expenses				<u>\$ 422,443</u>
	Total ineligible expenses				<u>\$ -</u>
	Total eligible expenses				<u>\$ 422,443</u>

City of Hillsdale, Michigan
 Nonurban Regular Service Nonfinancial Report
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2008 Year End

<u>Code</u>	<u>Public Service Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles	<u>62,748</u>	<u>-</u>	<u>-</u>	<u>62,748</u>

City of Hillsdale, Michigan
 Operating Assistance Calculation
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2008 Year End

	Nonurban
Total expenses	\$ 422,443
Less ineligible expenses	
Depreciation	-
Total State eligible expenses	\$ 422,443
Eligible expenses for State reimbursement	\$ 422,443
Reimbursement percentage	0.361500
State Operating Assistance	\$ 152,713
Total Federal eligible expenses	\$ 422,443
Less additional Federal ineligible expenses per A-87	
Audit costs	971
Eligible expenses for Federal reimbursement	421,472
Reimbursement percentage	0.17
Section 5311 operating assistance	\$ 71,650

City of Hillsdale, Michigan
Combining Statement of Net Assets
Internal Service Funds
June 30, 2009

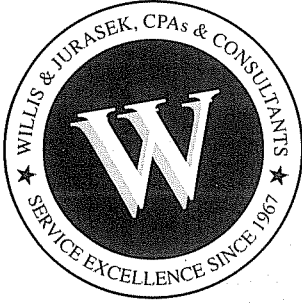
	Department of				
	Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	Total
Assets:					
Current assets:					
Cash and cash equivalents	\$ 30,572	\$ 60,530	\$ 107,023	\$ -	\$ 198,125
Investments	-	-	-	50,248	50,248
Inventory	-	154,125	-	-	154,125
Prepaid expenses	17,320	-	17,583	-	34,903
Total current assets	<u>47,892</u>	<u>214,655</u>	<u>124,606</u>	<u>50,248</u>	<u>437,401</u>
Capital assets:					
Equipment	-	-	1,824,772	-	1,824,772
Less: accumulated depreciation	-	-	(1,353,194)	-	(1,353,194)
Total capital assets, net	<u>-</u>	<u>-</u>	<u>471,578</u>	<u>-</u>	<u>471,578</u>
Total assets	<u>47,892</u>	<u>214,655</u>	<u>596,184</u>	<u>50,248</u>	<u>908,979</u>
Liabilities:					
Current liabilities:					
Accounts payable	-	2,504	-	-	2,504
Accrued payroll and related liabilities	-	170	1,730	-	1,900
Total current liabilities	<u>-</u>	<u>2,674</u>	<u>1,730</u>	<u>-</u>	<u>4,404</u>
Other liabilities:					
Compensated absences	39,906	-	13,384	-	53,290
Total liabilities	<u>39,906</u>	<u>2,674</u>	<u>15,114</u>	<u>-</u>	<u>57,694</u>
Net Assets:					
Invested in capital assets, net of related debt	-	-	471,578	-	471,578
Unrestricted	7,986	211,981	109,492	50,248	379,707
Total net assets	<u>\$ 7,986</u>	<u>\$ 211,981</u>	<u>\$ 581,070</u>	<u>\$ 50,248</u>	<u>\$ 851,285</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenses
and Changes in Net Assets
Internal Service Funds
Year Ended June 30, 2009

	Department of Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	Total
Operating Revenues:					
Charges for services	\$ -	\$ 91,763	\$ 408,101	\$ -	\$ 499,864
Other revenue	164,541	-	9,339	5,200	179,080
Total operating revenues	<u>164,541</u>	<u>91,763</u>	<u>417,440</u>	<u>5,200</u>	<u>678,944</u>
Operating Expenses:					
Salaries	56,484	2,373	68,782	-	127,639
Fringe benefits	107,640	157	36,221	-	144,018
Supplies	-	94,848	5,076	-	99,924
Services	-	307	40,896	-	41,203
Maintenance	-	-	126,560	-	126,560
Insurance	-	-	27,587	-	27,587
Miscellaneous	-	6,316	12,428	6,015	24,759
Capital outlay	-	-	8,829	-	8,829
Depreciation	-	-	87,674	-	87,674
Total operating expenses	<u>164,124</u>	<u>104,001</u>	<u>414,053</u>	<u>6,015</u>	<u>688,193</u>
Operating Income (Loss)	<u>417</u>	<u>(12,238)</u>	<u>3,387</u>	<u>(815)</u>	<u>(9,249)</u>
Nonoperating Revenues:					
Interest income	-	-	5,114	641	5,755
Transfers in from other funds	-	-	70	-	70
Total nonoperating revenues	<u>-</u>	<u>-</u>	<u>5,184</u>	<u>641</u>	<u>5,825</u>
Changes in Net Assets	417	(12,238)	8,571	(174)	(3,424)
Net Assets - Beginning of Year	<u>7,569</u>	<u>224,219</u>	<u>572,499</u>	<u>50,422</u>	<u>854,709</u>
Net Assets - End of Year	<u>\$ 7,986</u>	<u>\$ 211,981</u>	<u>\$ 581,070</u>	<u>\$ 50,248</u>	<u>\$ 851,285</u>

City of Hillsdale, Michigan
Combining Statement of Cash Flows
Internal Service Funds
Year Ended June 30, 2009

	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	\$ (161,622)	\$ (98,748)	\$ (323,188)	\$ (6,015)	\$ (589,573)
Receipts for interfund services provided	164,541	91,763	417,440	5,200	678,944
Net cash provided by (used by) operating activities	<u>2,919</u>	<u>(6,985)</u>	<u>94,252</u>	<u>(815)</u>	<u>89,371</u>
Cash Flows From Noncapital Financing Activities:					
Transfers from other funds	-	-	70	-	70
Cash Flows From Capital and Related Financing Activities:					
Purchase of capital assets	-	-	(204,391)	-	(204,391)
Cash Flows From Investing Activities:					
Purchase of investments	-	-	-	(50,248)	(50,248)
Interest income	-	-	5,114	641	5,755
Net cash provided by (used by) investing activities	-	-	5,114	(49,607)	(44,493)
Net Increase (Decrease) in Cash and Cash Equivalents	2,919	(6,985)	(104,955)	(50,422)	(159,443)
Cash and Cash Equivalents - Beginning of Year	<u>27,653</u>	<u>67,515</u>	<u>211,978</u>	<u>50,422</u>	<u>357,568</u>
Cash and Cash Equivalents - End of Year	<u>\$ 30,572</u>	<u>\$ 60,530</u>	<u>\$ 107,023</u>	<u>\$ -</u>	<u>\$ 198,125</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating income (loss)	\$ 417	\$ (12,238)	\$ 3,387	\$ (815)	\$ (9,249)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and loss on asset disposal	-	-	87,674	-	87,674
Changes in:					
Accounts receivable	-	-	-	-	-
Inventory	-	2,626	-	-	2,626
Prepaid expenses	(527)	-	(724)	-	(1,251)
Accounts payable	-	2,504	(33)	-	2,471
Accrued expenses	3,029	123	3,948	-	7,100
Net Cash Provided by (Used in) Operating Activities	<u>\$ 2,919</u>	<u>\$ (6,985)</u>	<u>\$ 94,252</u>	<u>\$ (815)</u>	<u>\$ 89,371</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, 2009, and have issued our report thereon dated November 4, 2009. 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 2009-1 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.

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 4, 2009

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

Schedule of Findings and Responses

Finding 2009-1

Currently, the City's staff prepares the interim internal and annual financial statements. The annual financial statements for the year ended June 30, 2009, 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.