



**CITY OF HILLSDALE
HILLSDALE COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2021**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan (the "City") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As stated in Note 18 to the basic financial statements, the City adopted **GASB Statement No. 84 *Fiduciary Activities*** in the fiscal year June 30, 2021, which represents a change in its policy for reporting fiduciary activities. Beginning net position of the fiduciary fund was not restated. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, required pension schedules, and budgetary comparison schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and the Dial-A-Ride transportation fund transit schedules, except for the nonfinancial information schedule, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The combining and individual fund financial statements, the Dial-A-Ride transportation fund transit schedules, except for the nonfinancial information schedule, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements, the Dial-A-Ride transportation fund transit schedules, except for the nonfinancial information schedule, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The nonfinancial information schedule, included within the Dial-A-Ride transportation fund transit schedules, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2021, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Gabridge & Company, PLC
Grand Rapids, Michigan
November 19, 2021

Management's Discussion and Analysis

City of Hillsdale
Management's Discussion and Analysis
June 30, 2021

As management of the City of Hillsdale, Michigan (The "City" or "government") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2021. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$73,441,061 (*net position*). Of this amount, \$14,946,854 represents *unrestricted net position*.
- The City's revenues were \$26,894,349 and expenses were \$23,141,398 for an increase in net position of \$3,752,951.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$6,046,279, an increase of \$1,162,233 in comparison with the prior year. Approximately 32.5% of this amount, or \$1,964,109, is available for spending at the City's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,964,109, or approximately 43.3% of total general fund expenditures and transfers out.

Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

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

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus,

revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., changes in the City's net pension liability and capital asset activity).

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

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

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

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

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

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and capital improvement funds, which are considered to be major funds. Data from the other remaining funds are presented as a separate column as they are considered nonmajor funds.

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

Proprietary Funds. The City maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprises funds to account for its electric, water, sewer, and Dial-A-Ride operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The City uses several internal service funds to account for various costs by allocating the cost to the funds that are using the resources. Because these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer, and electric operations, of which are considered to be major funds of the City. Dial-A-Ride is considered to be a nonmajor proprietary fund and is noted in a separate column of the financial statements. The internal service funds data is presented in the proprietary fund financial statements.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City reports two types of fiduciary funds, which are custodial funds and private purpose trust funds.

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

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

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

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

This report also presents other supplementary information which includes the combining and individual fund statements and the Dial-A-Ride transit schedules. The combining statements and

transit schedules are presented immediately following the required supplementary information on pensions.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows of resources by \$73,441,061 at the close of the most recent fiscal year.

City of Hillsdale's Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
ASSETS						
<i>Current Assets</i>						
Cash and investments	\$ 7,017,280	\$ 4,813,103	\$ 10,650,095	\$ 11,606,789	\$ 17,667,375	\$ 16,419,892
Receivables, net	686,031	204,937	2,115,133	1,958,762	2,801,164	2,163,699
Inventories	157,671	139,963	404,118	454,828	561,789	594,791
Prepaid Items	96,459	97,501	164,235	160,653	260,694	258,154
Total Current Assets	7,957,441	5,255,504	13,333,581	14,181,032	21,291,022	19,436,536
<i>Noncurrent Assets</i>						
Restricted cash	-	-	763,001	672,751	763,001	672,751
Long-term prepaid operating lease	-	-	170,965	182,363	170,965	182,363
Interdepartmental loan receivable	-	-	1,225,000	250,000	1,225,000	250,000
Prepaid stranded costs	-	-	32,239	32,126	32,239	32,126
Investment in M.S.C.P.A.	-	-	4,678,692	4,086,875	4,678,692	4,086,875
Capital assets, net	26,646,046	26,334,473	34,044,245	33,677,548	60,690,291	60,012,021
Total Assets	34,603,487	31,589,977	54,247,723	53,082,695	88,851,210	84,672,672
DEFERRED OUTFLOWS OF RESOURCES						
Pension-related	515,199	405,915	515,199	379,219	1,030,398	785,134
Total Deferred Outflows of Resources	515,199	405,915	515,199	379,219	1,030,398	785,134
LIABILITIES						
<i>Current Liabilities</i>						
Accounts payable	319,738	105,090	1,347,316	1,513,003	1,667,054	1,618,093
Accrued and other liabilities	96,392	70,871	225,273	262,228	321,665	333,099
Accrued interest	20,000	-	44,094	47,070	64,094	47,070
Current portion of long-term debt	-	-	360,000	428,700	360,000	428,700
Internal balances	(68,781)	(183,984)	68,781	183,984	-	-
Total Current Liabilities	367,349	(8,023)	2,045,464	2,434,985	2,412,813	2,426,962
<i>Noncurrent Liabilities</i>						
Compensated absences	249,357	234,867	173,096	174,917	422,453	409,784
Interdepartmental loan payable	800,000	-	225,000	250,000	1,025,000	250,000
Energy optimization program	-	-	(109,897)	(119,083)	(109,897)	(119,083)
Long-term debt, net	-	-	6,620,000	6,980,000	6,620,000	6,980,000
Net pension liability	2,565,912	2,851,458	2,562,367	2,661,547	5,128,279	5,513,005
Total Liabilities	3,982,618	3,078,302	11,516,030	12,382,366	15,498,648	15,460,668
DEFERRED INFLOWS OF RESOURCES						
Pension-related	470,949	159,768	470,950	149,260	941,899	309,028
Total Deferred Inflows of Resources	470,949	159,768	470,950	149,260	941,899	309,028
NET POSITION						
Net investment in capital assets	26,646,046	26,334,473	27,064,245	26,268,848	53,710,291	52,603,321
Restricted	4,020,915	3,815,342	763,001	672,751	4,783,916	4,488,093
Unrestricted	(1,842)	(1,391,993)	14,948,696	13,988,689	14,946,854	12,596,696
Total Net Position	\$ 30,665,119	\$ 28,757,822	\$ 42,775,942	\$ 40,930,288	\$ 73,441,061	\$ 69,688,110

The largest portion of the City's net position of \$53,710,291 (73.1%) reflects its investment in capital assets (e.g., construction in progress, land, buildings and improvements, furniture and fixtures, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources

used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Governmental Activities

Cash and investments increased by \$2,204,177 during the year to \$7,017,280 as of year-end. The primary reason for this was the increase in governmental funds' fund balance of \$1,162,233. Receivables increased by \$481,094 because of an increase in special assessments revenue. Due to the timing of year-end invoices related to construction projects, accounts payable increased by \$214,648. Interdepartmental loan payable increased to \$800,000 as the capital improvement fund drew additional funding from the electric fund. Pension-related deferred outflows of resources increased by \$109,284 as there was an increase in changes of assumptions while pension-related deferred inflows of resources increased by \$311,181 as the pension plan assets had a better return on investments than expected. With that, net pension liability decreased by \$285,546.

Business-type Activities

Cash and investments, including restricted cash, decreased by \$866,444 during the current year to \$11,413,096 as of year-end. The primary reason for this was the capital asset purchases of nearly \$1.7 million made during the year. Interdepartmental loan receivable increased by \$975,000, largely in part due to loaning \$800,000 to the capital improvement fund and \$200,000 to the tax increment finance authority. The City's investment in M.S.C.P.A. increased by \$591,817 as the M.S.C.P.A. itself recorded an increase in net position of \$394,487 and the City's share increased to 21.85%. Pension-related deferred outflows of resources increased by \$135,980 as there was an increase in changes of assumptions while pension-related deferred inflows of resources increased by \$321,690 as the pension plan assets had a better return on investments than expected. With that, net pension liability decreased by \$99,180.

The City's overall net position increased \$3,752,951 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

City of Hillsdale's Changes in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Revenues						
Program Revenues						
Charges for services	\$ 1,202,218	\$ 823,692	\$ 17,294,481	\$ 15,687,502	\$ 18,496,699	\$ 16,511,194
Operating grants and contributions	1,475,096	1,103,691	356,720	492,056	1,831,816	1,595,747
Capital grants and contributions	726,364	2,002,998	-	96,030	726,364	2,099,028
Total Program Revenues	3,403,678	3,930,381	17,651,201	16,275,588	21,054,879	20,205,969
General Revenues						
Taxes	2,751,496	2,662,468	-	-	2,751,496	2,662,468
Unrestricted state sources	1,232,579	1,174,528	-	-	1,232,579	1,174,528
Miscellaneous revenues	-	-	-	-	-	-
Payment in lieu of taxes	1,141,170	1,078,649	-	-	1,141,170	1,078,649
Investment income and net gain/losses	42,340	94,716	671,885	(182,372)	714,225	(87,656)
Transfers, net	115,705	132,882	(115,705)	(132,882)	-	-
Total General Revenues and Transfers	5,283,290	5,143,243	556,180	(315,254)	5,839,470	4,827,989
Total Revenues	8,686,968	9,073,624	18,207,381	15,960,334	26,894,349	25,033,958
Expenses						
General government	1,544,242	1,470,164	-	-	1,544,242	1,470,164
Public safety	2,089,426	1,992,855	-	-	2,089,426	1,992,855
Public works	2,374,316	2,125,559	-	-	2,374,316	2,125,559
Community and economic development	142,691	148,462	-	-	142,691	148,462
Recreation and culture	608,996	687,301	-	-	608,996	687,301
Interest on payables	20,000	-	-	-	20,000	-
Electric	-	-	12,695,802	12,198,429	12,695,802	12,198,429
Sewer	-	-	1,783,211	1,457,268	1,783,211	1,457,268
Water	-	-	1,530,953	1,241,333	1,530,953	1,241,333
Transportation	-	-	351,761	354,432	351,761	354,432
Total Expenses	6,779,671	6,424,341	16,361,727	15,251,462	23,141,398	21,675,803
Change in Net Position	1,907,297	2,649,283	1,845,654	708,872	3,752,951	3,358,155
<i>Net Position at the Beginning of Period (Restated)</i>	<i>28,757,822</i>	<i>26,108,539</i>	<i>40,930,288</i>	<i>40,221,416</i>	<i>69,688,110</i>	<i>66,329,955</i>
Net Position at the End of Period	\$ 30,665,119	\$ 28,757,822	\$ 42,775,942	\$ 40,930,288	\$ 73,441,061	\$ 69,688,110

Governmental Activities. Governmental activities increased the City's net position by \$1,907,297. The total increase was the result of total revenues of \$8,686,968 less total expenses of \$6,779,671. Charges for services increased by \$378,526 as there was an increase in special assessment revenue. Operating grants and contributions increased by \$371,405 as the City received restricted state and federal funding related to COVID-19. Capital grants and contributions decreased from \$2,002,998 in the prior year to \$726,364 during the current year in large part due to decreased grant revenue related to the airport runway project as there was less construction during the current year. An increase in taxable value increased overall tax revenues by \$89,028. General government expense increased by \$74,078 as there was an increase in city manager and finance department costs. An increase in police and fire costs, largely due to COVID-19, contributed to the increase of \$96,571 in public safety expenses. Increased depreciation associated with last year's capital asset additions contributed to the \$248,757 increase in public works expenses. Library costs decreased contributing to the \$78,305 decrease in recreation and culture .

Business-type Activities. Charges for services increased by \$1,606,979, primarily a result of overall increase in utility rates in the past years. The investment income and gain on investment in M.S.C.P.A consisted of \$64,105 and \$607,780, respectively, for a net gain in investment-related items of \$671,885, an increase of \$854,257 from the prior year. Overall expenses increased by \$1,110,265 as there were increases in production, distribution, collection system, treatment, administrative and general, and depreciation costs.

Financial Analysis of Governmental Funds

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

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

At June 30, 2021, the City's governmental funds reported combined fund balances of \$6,046,279, an increase of \$1,162,233 in comparison with the prior year. Approximately 32.5% of this amount, or \$1,964,109, constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable* or *restricted* to indicate that it is: 1) not in spendable form, \$62,934, or 1.0%, for prepaid items, or 2) restricted for particular purposes, \$4,019,236, or 66.5%, for major and local streets, debt service, capital improvement projects, and various permanent sources.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,964,109 while total fund balance increased to \$2,025,364. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents approximately 43.3% of total general fund expenditures and transfers out while total fund balance represents approximately 44.7% of that same amount.

The fund balance of the City's general fund increased by \$956,660 during the current fiscal year. This compares to an increase of \$134,113 in the prior year. The primary reason for the current year increase in general fund balance relates to increased property tax, payments in lieu of taxes, and intergovernmental revenues. Expenditures remained relatively consist with an increase in fire-related and police-related expenditures during the current year. Transfers out to other funds decreased significantly as well.

The capital improvement fund, a major fund, had a \$730,092 decrease in fund balance during the current fiscal year which put the overall fund balance at \$549. The change is related to decreased intergovernmental revenue received when compared to the prior year along with a decrease in transfers in from other funds.

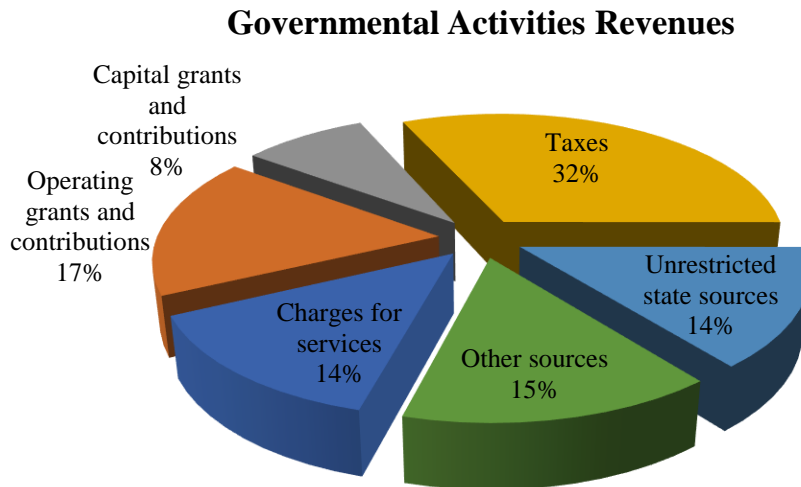
Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the electric fund was \$13,851,000. The increase in net position was \$983,033. Unrestricted net position of the sewer fund was \$672,570. The sewer fund had \$763,001 as restricted net position for debt service and bond reserves. The increase in net position was

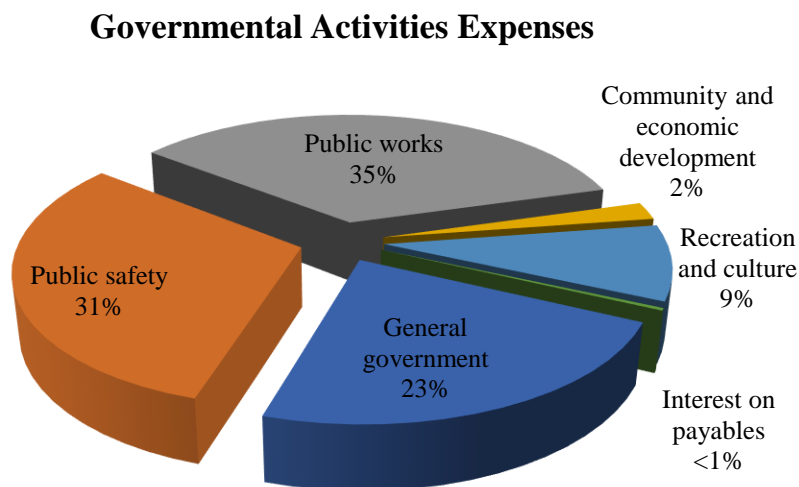
\$608,756. Unrestricted net position of the water fund was \$322,239. The increase in net position was \$187,164. Unrestricted net position of the Dial-A-Ride, a nonmajor enterprise fund, was \$102,887. The increase in net position was \$66,701. Detailed information regarding the change in net position for these funds can be found in an earlier section of this report.

Governmental Activities

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



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



General Fund Budgetary Highlights

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

Final budget compared to actual results. The City had the following expenditures in excess of the amounts appropriated during the year ended June 30, 2021:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
General Fund			
<i>General government</i>			
Administrative	\$ 195,050	\$ 202,067	\$ (7,017)
Finance department	268,121	270,491	(2,370)
Treasurer	152,695	171,059	(18,364)
Human resources	96,185	96,725	(540)
<i>Public safety</i>			
Fire	514,020	517,174	(3,154)

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2021 amounts to \$60,690,291 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, furniture, equipment, vehicles, and utility, street, and airport infrastructure.

The following construction projects were completed during the year:

- Ice-grant-related projects (sewer and water infrastructure)
- Office sidewalk and parking lot

As of June 30, 2021, the following major projects remain open at year-end:

- Water filter and media replacement
- Various street improvements
- Transfer station
- Dawn Theater reconstruction

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

Long-term Debt

As described in note 6 to the financial statements, the City had \$6,980,000, a \$428,700 decrease from the prior year, in long-term debt outstanding at the end of the fiscal year. The City is well under its legal debt limit as of year-end. More detailed information about the City's long-term debt can be found in note 5.

Economic Condition and Outlook

Management estimates that approximately \$4.75 million of revenues will be available for appropriation in the general fund in the upcoming budget. Expenditures are expected to change by small amounts compared to 2021. The City continues to review all budget line items for opportunities to reduce expenditures when possible. The budget will be monitored during the year to identify any necessary amendments. In 2022, the City plans again to use current revenues to provide essential services, to maintain the City's financial reserves at similar levels, and to complete several construction projects as indicated above. The ongoing costs of providing essential services for the citizens of the City will again need to be monitored in order to maintain the financial condition of the City. Additionally, management and the City Council are currently working to determine the significance that the COVID-19 Pandemic will have on the City's upcoming revenues.

Contacting the City

This financial report is designed to provide a general overview of the City's finances to its citizens, customers, investors, and creditors and to demonstrate the City's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

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

or by contacting the finance department, 517.437.6446 or finance@cityofhillsdale.org or City Manager, David Mackie, 517.437.6444 or dmackie@cityofhillsdale.org.

Basic Financial Statements

City of Hillsdale
Statement of Net Position
June 30, 2021

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
<i>Current Assets</i>				
Cash and investments	\$ 7,017,280	\$ 10,650,095	\$ 17,667,375	\$ 565,268
Accounts receivable, net	64,514	2,035,560	2,100,074	--
Special assessments receivable	344,379	--	344,379	--
Due from other governmental units	1,248	54,938	56,186	194,120
Loans receivable	--	--	--	265,000
Other receivables	275,890	24,635	300,525	--
Inventory	157,671	404,118	561,789	--
Prepaid items	96,459	164,235	260,694	--
Total Current Assets	7,957,441	13,333,581	21,291,022	1,024,388
<i>Noncurrent Assets</i>				
Restricted cash	--	763,001	763,001	--
Long-term prepaid operating lease	--	170,965	170,965	--
Interdepartmental loan receivable	--	1,225,000	1,225,000	--
Investment in M.S.C.P.A.	--	4,678,692	4,678,692	--
Prepaid stranded costs	--	32,239	32,239	--
Capital assets not being depreciated	8,810,318	771,399	9,581,717	1,826,002
Capital assets being depreciated, net	17,835,728	33,272,846	51,108,574	196,123
Total Assets	34,603,487	54,247,723	88,851,210	3,046,513
DEFERRED OUTFLOWS OF RESOURCES				
Pension-related	515,199	515,199	1,030,398	--
Total Deferred Outflows of Resources	515,199	515,199	1,030,398	--
LIABILITIES				
<i>Current Liabilities</i>				
Accounts payable	319,738	1,347,316	1,667,054	113,894
Accrued liabilities	96,392	88,790	185,182	--
Due to other governmental units	--	2,612	2,612	--
Accrued interest	20,000	44,094	64,094	4,737
Customer deposits	--	133,871	133,871	--
Current portion of long-term debt	--	360,000	360,000	40,000
Internal Balances	(68,781)	68,781	--	--
Total Current Liabilities	367,349	2,045,464	2,412,813	158,631
<i>Noncurrent Liabilities</i>				
Compensated absences	249,357	173,096	422,453	--
Interdepartmental loan payable	800,000	225,000	1,025,000	200,000
Energy optimization program	--	(109,897)	(109,897)	--
Long-term debt	--	6,620,000	6,620,000	340,000
Net pension liability	2,565,912	2,562,367	5,128,279	--
Total Liabilities	3,982,618	11,516,030	15,498,648	698,631
DEFERRED INFLOWS OF RESOURCES				
Pension-related	470,949	470,950	941,899	--
Total Deferred Inflows of Resources	470,949	470,950	941,899	--
NET POSITION				
Net investment in capital assets	26,646,046	27,064,245	53,710,291	1,642,125
<i>Restricted for:</i>				
Capital projects	725,832	--	725,832	--
Bond reserves and debt service	1,064,253	763,001	1,827,254	--
Permanent funds	886,431	--	886,431	--
Streets and highways	1,158,515	--	1,158,515	--
Public safety	11,951	--	11,951	--
Recreation and culture	173,933	--	173,933	--
<i>Unrestricted</i>	(1,842)	14,948,696	14,946,854	705,757
Total Net Position	\$ 30,665,119	\$ 42,775,942	\$ 73,441,061	\$ 2,347,882

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

**City of Hillsdale
Statement of Activities
For the Year Ended June 30, 2021**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government								
Governmental Activities:								
General government	\$ 1,544,242	\$ 816,373	\$ 951	\$ --	\$ (726,918)	\$ --	\$ (726,918)	\$ --
Public safety	2,089,426	9,497	254,250	--	(1,825,679)	--	(1,825,679)	--
Public works	2,374,316	218,478	1,179,200	700,933	(275,705)	--	(275,705)	--
Community and economic development	142,691	--	10,000	--	(132,691)	--	(132,691)	--
Recreation and culture	608,996	157,870	30,695	25,431	(395,000)	--	(395,000)	--
Interest on payables	20,000	--	--	--	(20,000)	--	(20,000)	--
Total Governmental Activities	6,779,671	1,202,218	1,475,096	726,364	(3,375,993)	--	(3,375,993)	--
Business-type Activities:								
Dial-A-Ride (Nonmajor)	351,761	40,105	352,172	--	--	40,516	40,516	--
Electric	12,695,802	13,077,499	3,834	--	--	385,531	385,531	--
Sewer	1,783,211	2,425,055	357	--	--	642,201	642,201	--
Water	1,530,953	1,751,822	357	--	--	221,226	221,226	--
Total Business-type Activities	16,361,727	17,294,481	356,720	--	--	1,289,474	1,289,474	--
Total Primary Government	\$ 23,141,398	\$ 18,496,699	\$ 1,831,816	\$ 726,364	(3,375,993)	1,289,474	(2,086,519)	--
Component Units								
Economic Development Corporation	\$ 31,958	\$ --	\$ --	\$ --	--	--	--	(31,958)
Tax Increment Finance Authority	54,315	--	--	1,173,354	--	--	--	1,119,039
Total Component Units	\$ 86,273	\$ --	\$ --	\$ 1,173,354	--	--	--	1,087,081
General Purpose Revenues and Transfers:								
Revenues								
Taxes					2,751,496	--	2,751,496	87,112
Interest and investment earnings					42,340	64,105	106,445	1,759
Unrestricted state sources					1,232,579	--	1,232,579	31,208
Gain on investment in M.S.C.P.A.					--	607,780	607,780	--
Payments in lieu of taxes					1,141,170	--	1,141,170	--
Transfers					<u>115,705</u>	<u>(115,705)</u>	<u>--</u>	<u>--</u>
Total General Revenues and Transfers					<u>5,283,290</u>	<u>556,180</u>	<u>5,839,470</u>	<u>120,079</u>
Change in Net Position					1,907,297	1,845,654	3,752,951	1,207,160
<i>Net Position at Beginning of Period (Restated, Note 18)</i>					28,757,822	40,930,288	69,688,110	1,140,722
Net Position at End of Period					\$ 30,665,119	\$ 42,775,942	\$ 73,441,061	\$ 2,347,882

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

**City of Hillsdale
Balance Sheet
Governmental Funds
June 30, 2021**

	<u>General</u>	<u>Capital Projects</u> <u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and investments	\$ 2,345,360	\$ 869,052	\$ 3,565,596	\$ 6,780,008
Accounts receivable, net	64,514	--	--	64,514
Special assessments receivable	344,379	--	--	344,379
Due from other governmental units	--	--	1,248	1,248
Other receivables	36,928	--	238,962	275,890
Prepaid items	61,255	--	1,679	62,934
Due from other funds	68,781	--	282,984	351,765
Total Assets	\$ 2,921,217	\$ 869,052	\$ 4,090,469	\$ 7,880,738
LIABILITIES				
Accounts payable	\$ 191,336	\$ 48,025	\$ 52,845	\$ 292,206
Accrued liabilities	77,154	478	17,258	94,890
Accrued interest	--	20,000	--	20,000
Due to other funds	282,984	--	--	282,984
Interdepartmental loan payable	--	800,000	--	800,000
Total Liabilities	551,474	868,503	70,103	1,490,080
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	344,379	--	--	344,379
Total Liabilities and Deferred Inflows of Resources	895,853	868,503	70,103	1,834,459
FUND BALANCE				
Nonspendable	61,255	--	1,679	62,934
Restricted	--	549	4,018,687	4,019,236
Unassigned	1,964,109	--	--	1,964,109
Total Fund Balance	2,025,364	549	4,020,366	6,046,279
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 2,921,217	\$ 869,052	\$ 4,090,469	\$ 7,880,738

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

City of Hillsdale
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2021

Total Fund Balance - Governmental Funds	\$	6,046,279
Net position of internal service funds that are treated as proprietary in the fund level statements are treated as governmental in the entity-wide statements.		908,220
General government capital assets of \$47,761,413, net of accumulated depreciation of \$21,662,838, are not financial resources and, accordingly, are not reported in the funds.		26,098,575
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.		(210,672)
Certain receivables are not available to pay for current period expenditures and, therefore, are unavailable in the funds.		344,379
Net pension liability and related deferred amounts are not due and payable in the current period or do not represent current financial resources and, therefore, are not reported in the funds.		(2,521,662)
Total Net Position - Governmental Activities	\$	<u>30,665,119</u>

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

City of Hillsdale
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2021

	<u>General</u>	<u>Capital Projects</u> <u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 2,094,489	\$ --	\$ 657,007	\$ 2,751,496
Payments in lieu of taxes	1,141,170	--	--	1,141,170
Intergovernmental	1,406,231	10,000	1,973,347	3,389,578
Contributions from local units	--	--	48,031	48,031
Licenses and permits	99,869	--	--	99,869
Charges for services	25,396	--	215,140	240,536
Fines and violations	1,317	--	31,615	32,932
Interest and rentals	119,013	1,244	90,441	210,698
Miscellaneous	237,488	--	80,499	317,987
Total Revenues	<u>5,124,973</u>	<u>11,244</u>	<u>3,096,080</u>	<u>8,232,297</u>
Expenditures				
General government	1,450,612	45,733	8,330	1,504,675
Public safety	2,053,840	--	19,183	2,073,023
Public works	548,740	99,601	789,409	1,437,750
Community and economic development	144,779	--	--	144,779
Recreation and culture	175,882	--	321,264	497,146
Capital outlay	--	781,002	708,000	1,489,002
Debt service, interest	--	20,000	--	20,000
Total Expenditures	<u>4,373,853</u>	<u>946,336</u>	<u>1,846,186</u>	<u>7,166,375</u>
Excess of Revenues Over (Under) Expenditures	<u>751,120</u>	<u>(935,092)</u>	<u>1,249,894</u>	<u>1,065,922</u>
Other Financing Sources (Uses)				
Transfers in	366,985	205,000	56,830	628,815
Transfers out	(161,445)	--	(371,059)	(532,504)
Net Other Financing Sources (Uses)	<u>205,540</u>	<u>205,000</u>	<u>(314,229)</u>	<u>96,311</u>
Net Change in Fund Balance	956,660	(730,092)	935,665	1,162,233
<i>Fund Balance at Beginning of Period</i>	1,068,704	730,641	3,084,701	4,884,046
Fund Balance at End of Period	<u>\$ 2,025,364</u>	<u>\$ 549</u>	<u>\$ 4,020,366</u>	<u>\$ 6,046,279</u>

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

City of Hillsdale
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended June 30, 2021

Total Net Change in Fund Balances - Governmental Funds	\$	1,162,233
Changes in net position of internal service funds that are treated as enterprise fund changes in net position in the fund level statements are treated as governmental fund changes in net position in the entity-wide statements.		(27,141)
Governmental fund report capital outlay as expenditures; however, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which capital outlay of \$1,507,567 is in excess of depreciation expense of \$1,103,959 and net disposal of capital assets of \$33,032.		370,576
The statement of activities reports changes to net pension liability and pension related deferrals as pension expense; however, the expenditures recorded on the governmental funds equals actual pension contributions.		83,649
Changes to compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.		(10,797)
Some receivables are long-term in nature and are collectible over several years. However, the current receipts are reflected as revenues on the fund statements.		328,777
Changes in Net Position - Governmental Activities	\$	<u>1,907,297</u>

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

**City of Hillsdale
Statement of Net Position
Proprietary Funds
June 30, 2021**

	Business-type Activities - Enterprise Funds					Governmental Activities
	Electric	Sewer	Water	Dial-A-Ride (Nonmajor)	Total Enterprise Funds	Internal Service Funds
ASSETS						
<i>Current Assets</i>						
Cash and investments	\$ 8,809,806	\$ 1,007,039	\$ 679,577	\$ 153,673	\$ 10,650,095	\$ 237,272
Accounts receivable, net	1,572,320	265,491	197,749	--	2,035,560	--
Due from other governmental units	--	--	--	54,938	54,938	--
Other receivables	24,635	--	--	--	24,635	--
Inventory	307,456	3,756	92,906	--	404,118	157,671
Prepaid items	105,470	27,967	28,829	1,969	164,235	33,525
Total Current Assets	10,819,687	1,304,253	999,061	210,580	13,333,581	428,468
<i>Noncurrent Assets</i>						
Restricted cash	--	763,001	--	--	763,001	--
Long-term prepaid operating lease	170,965	--	--	--	170,965	--
Interdepartmental loan receivable	1,225,000	--	--	--	1,225,000	--
Investment in M.S.C.P.A.	4,678,692	--	--	--	4,678,692	--
Prepaid stranded costs	32,239	--	--	--	32,239	--
Capital assets not being depreciated	181,108	122,902	459,970	7,419	771,399	--
Capital assets being depreciated, net	13,192,478	13,691,635	5,703,727	685,006	33,272,846	547,471
Total Assets	30,300,169	15,881,791	7,162,758	903,005	54,247,723	975,939
DEFERRED OUTFLOWS OF RESOURCES						
Pension-related	412,159	51,520	51,520	--	515,199	--
Total Deferred Outflows of Resources	412,159	51,520	51,520	--	515,199	--
LIABILITIES						
<i>Current Liabilities</i>						
Accounts payable	884,225	65,502	381,996	15,593	1,347,316	27,532
Accrued liabilities	46,906	18,843	17,968	5,073	88,790	1,502
Due to other governmental units	--	--	--	2,612	2,612	--
Accrued interest	--	44,094	--	--	44,094	--
Customer deposits	116,226	8,511	9,134	--	133,871	--
Current portion of long-term debt	--	360,000	--	--	360,000	--
Due to other funds	--	--	--	68,781	68,781	--
Total Current Liabilities	1,047,357	496,950	409,098	92,059	2,045,464	29,034
<i>Noncurrent Liabilities</i>						
Compensated absences	127,339	16,066	14,057	15,634	173,096	38,685
Interdepartmental loan payable	--	225,000	--	--	225,000	--
Energy optimization program	(109,897)	--	--	--	(109,897)	--
Long-term debt	--	6,620,000	--	--	6,620,000	--
Net pension liability	2,046,183	258,092	258,092	--	2,562,367	--
Total Liabilities	3,110,982	7,616,108	681,247	107,693	11,516,030	67,719
DEFERRED INFLOWS OF RESOURCES						
Pension-related	376,760	47,095	47,095	--	470,950	--
Total Deferred Inflows of Resources	376,760	47,095	47,095	--	470,950	--
NET POSITION						
Net investment in capital assets	13,373,586	6,834,537	6,163,697	692,425	27,064,245	547,471
<i>Restricted for:</i>						
Bond reserves and debt service	--	763,001	--	--	763,001	--
<i>Unrestricted</i>	13,851,000	672,570	322,239	102,887	14,948,696	360,749
Total Net Position	\$ 27,224,586	\$ 8,270,108	\$ 6,485,936	\$ 795,312	\$ 42,775,942	\$ 908,220

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

City of Hillsdale
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2021

	Business-type Activities - Enterprise Funds					Governmental
	Electric	Sewer	Water	Dial-A-Ride (Nonmajor)	Total Enterprise Funds	Activities Internal Service Funds
Operating Revenues						
Interdepartmental revenue	\$ 236,609	\$ 5,706	\$ 11,382	\$ --	\$ 253,697	\$ --
Charges for services	--	--	--	34,405	34,405	270,677
Miscellaneous	127,161	81,460	24,216	--	232,837	192,704
Residential	4,815,292	976,269	713,681	--	6,505,242	--
Business	1,346,806	174,098	160,431	--	1,681,335	--
Commercial	3,103,427	410,304	338,818	--	3,852,549	--
Industrial	3,335,640	399,378	232,992	--	3,968,010	--
Apartments	--	367,497	259,516	--	627,013	--
Street light sales	54,196	--	--	--	54,196	--
Penalty charges	29,476	5,517	3,842	--	38,835	--
Total Operating Revenues	13,048,607	2,420,229	1,744,878	34,405	17,248,119	463,381
Operating Expenses						
Production	9,090,779	--	55,911	--	9,146,690	--
Distribution	1,260,511	--	544,144	--	1,804,655	--
Collection system	--	259,722	--	--	259,722	--
Treatment	--	575,829	--	--	575,829	--
Purification	--	--	236,876	--	236,876	--
Administrative and general	1,593,935	459,295	447,342	--	2,500,572	--
Transportation	--	--	--	304,867	304,867	--
Operations	--	--	--	--	--	424,433
Depreciation	750,577	300,134	246,231	46,894	1,343,836	86,642
Total Operating Expenses	12,695,802	1,594,980	1,530,504	351,761	16,173,047	511,075
Operating Income (Loss)	352,805	825,249	214,374	(317,356)	1,075,072	(47,694)
Non-Operating Revenues (Expenses)						
Interest and investment earnings	60,491	1,940	1,323	351	64,105	2,370
Federal sources	--	--	--	216,248	216,248	--
State sources	3,834	357	357	135,924	140,472	--
Gain on investment in M.S.C.P.A.	607,780	--	--	--	607,780	--
Gain (loss) on disposal of property	13,325	525	525	5,700	20,075	(1,325)
Miscellaneous income	15,567	4,301	6,419	--	26,287	114
Interest expense	--	(188,231)	(449)	--	(188,680)	--
Net Non-Operating Revenues (Expenses)	700,997	(181,108)	8,175	358,223	886,287	1,159
Income Before Transfers	1,053,802	644,141	222,549	40,867	1,961,359	(46,535)
Transfers in	--	--	--	94,615	94,615	40,000
Transfers out	(70,769)	(35,385)	(35,385)	(68,781)	(210,320)	(20,606)
Change In Net Position	983,033	608,756	187,164	66,701	1,845,654	(27,141)
<i>Net Position at Beginning of Period (Restated, Note 18)</i>	26,241,553	7,661,352	6,298,772	728,611	40,930,288	935,361
Net Position at End of Period	\$ 27,224,586	\$ 8,270,108	\$ 6,485,936	\$ 795,312	\$ 42,775,942	\$ 908,220

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

City of Hillsdale
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2021

	Business-type Activities - Enterprise Funds					Governmental
	Electric	Sewer	Water	Dial-A-Ride (Nonmajor)	Total Enterprise Funds	Activities Internal Service Funds
Cash Flows from Operating Activities						
Cash received from customers, residents, and users	\$ 12,856,174	\$ 2,313,977	\$ 1,691,503	\$ 34,405	\$ 16,896,059	\$ -
Cash payments to suppliers for goods and services	(10,348,545)	(546,197)	(305,570)	(12,793)	(11,213,105)	(183,885)
Cash payments to employees for services and benefits	(1,204,064)	(573,067)	(530,730)	(283,147)	(2,591,008)	(233,745)
Cash payments in lieu of taxes (PILOT)	(761,430)	(139,695)	(102,337)	-	(1,003,462)	-
Cash received for other operating receipts	127,161	81,460	24,216	-	232,837	-
Cash received for interfund activity	-	-	-	-	-	463,381
Net Cash Provided (Used) by Operating Activities	<u>669,296</u>	<u>1,136,478</u>	<u>777,082</u>	<u>(261,535)</u>	<u>2,321,321</u>	<u>45,751</u>
Cash Flows from Non-capital Financing Activities						
Other non-operating income	15,567	4,301	6,419	-	26,287	114
State grant revenue	(26,538)	357	357	45,781	19,957	-
Federal grant revenue	-	-	-	216,248	216,248	-
Change in due to/due from other funds	(83,091)	(21,955)	(19,365)	9,208	(115,203)	-
Transfers (to)/from other funds	(70,769)	(35,385)	(35,385)	25,834	(115,705)	19,394
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(164,831)</u>	<u>(52,682)</u>	<u>(47,974)</u>	<u>297,071</u>	<u>31,584</u>	<u>19,508</u>
Cash Flows from Capital and Related Financing Activities						
Interdepartmental loans made	(1,000,000)	-	-	-	(1,000,000)	-
Interdepartmental loans paid back	25,000	(25,000)	-	-	-	-
Change in prepaid operating lease	11,398	-	-	-	11,398	-
Capital asset activity, net	(526,343)	(93,060)	(1,076,756)	5,700	(1,690,459)	(28,964)
Principal and interest payments on long-term debt	-	(579,928)	(40,428)	-	(620,356)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,489,945)</u>	<u>(697,988)</u>	<u>(1,117,184)</u>	<u>5,700</u>	<u>(3,299,417)</u>	<u>(28,964)</u>
Cash Flows from Investing Activities						
Change in investment of joint venture	15,963	-	-	-	15,963	-
Interest and investment earnings	60,491	1,940	1,323	351	64,105	2,370
Net Cash Provided by Investing Activities	<u>76,454</u>	<u>1,940</u>	<u>1,323</u>	<u>351</u>	<u>80,068</u>	<u>2,370</u>
Net Increase (Decrease) in Cash and Investments	(909,026)	387,748	(386,753)	41,587	(866,444)	38,665
<i>Cash and Investments - Beginning of Year</i>	9,718,832	1,382,292	1,066,330	112,086	12,279,540	198,607
Cash and Investments - End of Year	<u>\$ 8,809,806</u>	<u>\$ 1,770,040</u>	<u>\$ 679,577</u>	<u>\$ 153,673</u>	<u>\$ 11,413,096</u>	<u>\$ 237,272</u>

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

**City of Hillsdale
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2021**

	Business-type Activities - Enterprise Funds					Governmental Activities Internal Service Funds
	Electric	Sewer	Water	Dial-A-Ride (Nonmajor)	Total Enterprise Funds	
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities						
Operating income (loss)	\$ 352,805	\$ 825,249	\$ 214,374	\$ (317,356)	\$ 1,075,072	\$ (47,694)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities						
Depreciation expense	750,577	300,134	246,231	46,894	1,343,836	86,642
Changes in Assets, Liabilities, and Deferrals						
Accounts receivable, net	(44,288)	(34,773)	(29,108)	-	(108,169)	-
Other receivables	(18,388)	10,531	456	-	(7,401)	-
Inventory	65,735	83	(15,108)	-	50,710	(17,708)
Prepaid items	(8,108)	4,397	(25)	41	(3,695)	700
Accounts payable	(578,369)	44,402	363,169	5,111	(165,687)	19,425
Accrued liabilities	22,509	11,032	10,670	2,202	46,413	693
Energy optimization program	9,186	-	-	-	9,186	-
Customer deposits	(2,596)	(550)	(507)	-	(3,653)	-
Net pension liability and related deferrals	111,374	(12,422)	(12,422)	-	86,530	-
Compensated absences	8,859	(11,605)	(648)	1,573	(1,821)	3,693
Net Cash Provided (Used) by Operating Activities	\$ 669,296	\$ 1,136,478	\$ 777,082	\$ (261,535)	\$ 2,321,321	\$ 45,751

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

City of Hillsdale
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2021

	Custodial	Private Purpose Trust
ASSETS		
Cash and investments	\$ 762	\$ 15,005
<i>Total Assets</i>	762	15,005
LIABILITIES		
Undistributed collections	762	--
<i>Total Liabilities</i>	762	--
NET POSITION		
Held in Trust	\$ --	\$ 15,005

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

City of Hillsdale
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2021

	<u>Custodial</u>	<u>Private Purpose Trust</u>
Additions		
Taxes collected for other governments	\$ 3,967,984	\$ --
<i>Total Additions</i>	<u>3,967,984</u>	<u>--</u>
Deductions		
General government	--	4
Payment of property taxes to other governments	3,967,984	--
<i>Total Deductions</i>	<u>3,967,984</u>	<u>4</u>
<i>Change in Net Position</i>	<u>--</u>	<u>(4)</u>
<i>Net Position at Beginning of Period</i>	<u>--</u>	<u>15,009</u>
<i>Net Position at End of Period</i>	<u>\$ --</u>	<u>\$ 15,005</u>

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

City of Hillsdale
Combining Statement of Net Position
Component Units
June 30, 2021

	Economic Development Corporation	Tax Increment Finance Authority	Total Component Units
ASSETS			
<i>Current Assets</i>			
Cash and investments	\$ 96,715	\$ 468,553	\$ 565,268
Due from other governmental units	--	194,120	194,120
Loans receivable	--	265,000	265,000
Total Current Assets	96,715	927,673	1,024,388
<i>Noncurrent Assets</i>			
Capital assets not being depreciated	148,067	1,677,935	1,826,002
Capital assets being depreciated, net	--	196,123	196,123
Total Assets	244,782	2,801,731	3,046,513
LIABILITIES			
<i>Current Liabilities</i>			
Accounts payable	1,025	112,869	113,894
Accrued interest	--	4,737	4,737
Current portion of long-term debt	--	40,000	40,000
Total Current Liabilities	1,025	157,606	158,631
<i>Noncurrent Liabilities</i>			
Interdepartmental loan payable	--	200,000	200,000
Long-term debt	--	340,000	340,000
Total Liabilities	1,025	697,606	698,631
NET POSITION			
Net investment in capital assets	148,067	1,494,058	1,642,125
<i>Unrestricted</i>	95,690	610,067	705,757
Total Net Position	\$ 243,757	\$ 2,104,125	\$ 2,347,882

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

City of Hillsdale
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2021

	Economic Development Corporation	Tax Increment Finance Authority	Total Component Units
Expenses			
Community and economic development	\$ 31,958	\$ 48,718	\$ 80,676
Interest on long-term debt	--	5,597	5,597
Total Expenses	31,958	54,315	86,273
Program Revenues			
Capital grants and contributions	--	1,173,354	1,173,354
Total Program Revenues	--	1,173,354	1,173,354
Net Program Revenues (Expenses)	(31,958)	1,119,039	1,087,081
General Revenue			
Taxes	--	87,112	87,112
Unrestricted state sources	--	31,208	31,208
Interest and investment earnings	214	1,545	1,759
Total General Revenues	214	119,865	120,079
Change in Net Position	(31,744)	1,238,904	1,207,160
<i>Net Position at Beginning of Period</i>	<i>275,501</i>	<i>865,221</i>	<i>1,140,722</i>
Net Position at End of Period	\$ 243,757	\$ 2,104,125	\$ 2,347,882

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

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The financial statements of the City of Hillsdale (the “City” or “primary government”) have been prepared in conformity with generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial-reporting principles. The more significant of the City’s accounting policies are described below.

Reporting Entity

The City of Hillsdale was organized in 1847 and covers an area of approximately 5.5 square miles in Hillsdale County. In 1957, the City adopted the Home Rule Charter. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter to its more than 8,305 residents (2010 census): public safety (police and fire), highways and streets, sanitation, health, housing, recreation, public improvements, planning and zoning, and general administrative services.

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

Discretely Presented Component Units

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

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

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

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

Related Organization

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for custodial funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absences expenditures are recorded only when payment is due.

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

The City of Hillsdale reports the following major governmental funds:

The ***general fund*** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

The City reports the following major proprietary funds:

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

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

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

Additionally, the government reports the following fund types:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

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

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

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

The *custodial fund* is custodial in nature and does not present results of operations or have a measurement focus. The custodial fund is accounted for using the accrual basis of accounting. This fund is used to account for assets that the government holds for others in a custodial capacity (such as taxes collected for other governments).

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

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

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

Budgetary and Budgetary Accounting

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The general fund and special revenue funds are subject to legal budgetary accounting controls and all are budgeted annually. Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year-end. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. The Council holds public hearings, and a final budget must be prepared and adopted prior to July 1. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. The adopted budgets of the City for these budgetary funds were adopted on a functional basis for the General Fund and a fund basis for the Special Revenue Funds. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Assets, Deferred Outflows/Inflows, Liabilities, and Fund Equity

Cash, Cash Equivalents, and Investments

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

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

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

- In United States government or federal agency obligation repurchase agreements.
- Bankers' acceptances of United States banks.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through March, 1997.

Investments are stated at fair value.

Restricted Cash

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

Receivables and Payables

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

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

All trade receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The balance of the allowance for doubtful accounts at year-end within the electric fund, sewer fund, and water fund were \$48,369, \$13,423, and \$8,956, respectively.

Prepaid Items

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

Inventories

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

Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

Compensated Absences

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

Long-term Obligations

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

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

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

Deferred Outflows / Inflows of Resources

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

The City reports both deferred inflows and deferred outflows, both of which relate to the City's portion of the City's net pension liability. The net pension liability amounts are related to differences between expected and actual experience, changes of assumptions, differences between projected and actual pension plan investment earnings, and contributions made subsequent to the measurement date. These amounts are deferred and recognized as an outflow or inflow of resources in the period to which they apply.

In addition, the City reports unavailable revenue from receivables collected beyond 60 days after the end of the year, as reported only in the governmental funds balance sheet. These amounts are deferred and are recognized as an inflow of resources in the period that the amounts become available.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position Flow Assumption

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

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

Fund Balance Flow Assumptions

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

Fund Balance Policies

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

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

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

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

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

Property Tax Revenue Recognition

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

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

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the City for the 2020 levy had a taxable value of approximately \$134,150,353 (not including properties subject to industrial facilities tax exemption), representing 50% of estimated current market value.

The following millages were levied:

General operating	12.4337
Streets maintenance	2.4868
Sinking fund	2.9810
Library	0.9947
Public safety equipment	1.000

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

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Subsequent Events

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals in the United States and worldwide. In response, the United States federal government and individual state and local governments have implemented measures to combat the outbreak that have impacted business operations. During the 2020-2021 fiscal year, the City's operations were significantly impacted, as shelter-in-place orders and government mandates impacted census volumes. The City has moved to mitigate the impact by managing the workforce, actively managing cash balances, and implementing other cost reduction measures.

Note 2 - Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The City incurred the following expenditures in certain budgetary funds which were in excess of the amounts appropriated during the year ended June 30, 2021:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
General Fund			
<i>General government</i>			
Administrative	\$ 195,050	\$ 202,067	\$ (7,017)
Finance department	268,121	270,491	(2,370)
Treasurer	152,695	171,059	(18,364)
Human resources	96,185	96,725	(540)
<i>Public safety</i>			
Fire	514,020	517,174	(3,154)

Unrestricted Net Position Deficit

Governmental activities for the City had an unrestricted net position deficit of \$(1,842).

Note 3 - Cash and Cash Equivalents

Following is a reconciliation of deposit and investment balances as of June 30, 2021:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Totals</u>
Statement of Net Position			
Cash and investments	\$ 17,667,375	\$ 565,268	\$ 18,232,643
Restricted cash	763,001	-	763,001
Statement of Fiduciary Net Position			
Cash and investments	15,767	-	15,767
<i>Total Cash and Investments</i>	<u>\$ 18,446,143</u>	<u>\$ 565,268</u>	<u>\$ 19,011,411</u>
Deposits and Investments			
Checking and savings accounts			\$ 8,572,362
		Investments	10,437,250
		Cash on Hand	1,799
<i>Total Deposits and Investments</i>			<u>\$ 19,011,411</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits might not be returned. State law does not require, and the City does not have a policy for deposit custodial credit risk. As of year-end, \$9,678,085 of the City's bank balance of \$10,178,085 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the City believes it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

Following is a summary of the City's investments as of June 30, 2021:

Certificates of deposit	\$ 147,370
Commercial paper	2,449,985
Fixed rate bonds	1,678,614
U.S. government agency securities	5,562,509
Michigan CLASS	598,772
Total Investments	<u>\$ 10,437,250</u>

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

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

Standards & Poor's AAAM	\$ 6,161,281
Standards & Poor's AA+	1,362,271
Standards & Poor's A+	649,995
Not applicable	2,263,703
Total Investments	<u>\$ 10,437,250</u>

Interest Rate Risk. Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturity dates for investments held at year-end are summarized as follows:

No maturity	\$ 5,562,509
Less than 1 year	4,047,257
1-5 years	827,484
Total Investments	<u>\$ 10,437,250</u>

Concentration of Credit Risk

The City's investment policy places no limit on the amount it may invest in one issuer. At June 30, 2021, the City maintained investments in Federal Farm Credit Banks, Commercial Paper, Federated Government Obligations, and Michigan CLASS totaling approximately 13.1%, 23.5%, 53.3%, and 5.7%, respectively, of the City's total investments.

Fair Value Measurement

The City is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the City's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The City had \$9,838,478 of investments had a Level 1 fair value measurement as of June 30, 2021. The remaining \$598,772 of investments were held by Michigan CLASS with a fair value measurement of Level 2.

Restricted Cash

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

Bond and Interest Redemption Fund - At least one-half of the amount of interest due on the next ensuing interest payment plus not less than one quarter of the principal maturing on the next principal payment. At June 30, 2021, the City was required to have \$221,375 in this account.

Bond Reserve Account - The lesser of 10% of the principal balance of the bonds, an amount equal to the maximum annual principal and interest requirements on the bonds, or 125% of the average annual principal and interest requirements. A June 30, 2021, the City was required to have \$541,626 in this account.

The total restricted cash for the City's sewer fund was \$763,001.

Note 4 - Capital Assets

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

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not Being Depreciated				
Land	\$ 8,810,318	\$ -	\$ -	\$ 8,810,318
Capital Assets Being Depreciated				
Land improvements	773,631	-	-	773,631
Buildings and improvements	5,331,911	-	(90,482)	5,241,429
Books	292,020	18,565	(20,271)	290,314
Vehicles and equipment	1,762,427	-	-	1,762,427
Infrastructure	29,394,292	1,489,002	-	30,883,294
<i>Subtotal</i>	<u>37,554,281</u>	<u>1,507,567</u>	<u>(110,753)</u>	<u>38,951,095</u>
Less Accumulated Depreciation				
Land improvements	(417,105)	(25,174)	-	(442,279)
Buildings and improvements	(2,359,454)	(107,959)	57,450	(2,409,963)
Books	(88,381)	(20,190)	20,271	(88,300)
Vehicles and equipment	(801,751)	(99,584)	-	(901,335)
Infrastructure	(16,969,909)	(851,052)	-	(17,820,961)
<i>Subtotal</i>	<u>(20,636,600)</u>	<u>(1,103,959)</u>	<u>77,721</u>	<u>(21,662,838)</u>
<i>Capital Assets Being Depreciated, Net</i>	<u>16,917,681</u>	<u>403,608</u>	<u>(33,032)</u>	<u>17,288,257</u>
Internal Service Fund				
Motor Pool Assets	606,474	(51,967)	(7,036)	547,471
<i>Capital Assets, Net, Governmental Activities</i>	<u>\$ 26,334,473</u>	<u>\$ 351,641</u>	<u>\$ (40,068)</u>	<u>\$ 26,646,046</u>
Internal Service Fund	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets Being Depreciated				
Vehicles and equipment	\$ 2,497,549	\$ 34,675	\$ (217,121)	\$ 2,315,103
Less Accumulated Depreciation				
Vehicles and equipment	(1,891,075)	(86,642)	210,085	(1,767,632)
<i>Capital Assets, Net, Internal Service Fund</i>	<u>\$ 606,474</u>	<u>\$ (51,967)</u>	<u>\$ (7,036)</u>	<u>\$ 547,471</u>

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

Business-type Activities	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not Being Depreciated				
Land	\$ 361,042	\$ -	\$ -	\$ 361,042
Construction in progress	1,283,254	1,636,708	(2,509,605)	410,357
<i>Subtotal</i>	<u>1,644,296</u>	<u>1,636,708</u>	<u>(2,509,605)</u>	<u>771,399</u>
Capital Assets Being Depreciated				
Plant, systems, and equipment	76,374,937	2,583,430	(185,693)	78,772,674
Less Accumulated Depreciation				
Plant, systems, and equipment	(44,341,685)	(1,343,836)	185,693	(45,499,828)
<i>Capital Assets Being Depreciated, Net</i>	<u>32,033,252</u>	<u>1,239,594</u>	<u>-</u>	<u>33,272,846</u>
<i>Capital Assets, Net, Business-type Activities</i>	<u>\$ 33,677,548</u>	<u>\$ 2,876,302</u>	<u>\$ (2,509,605)</u>	<u>\$ 34,044,245</u>

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

Governmental Activities	
General government	\$ 48,233
Public safety	63,982
Public works	859,487
Recreation and culture	132,257
Depreciation charged to internal service funds	86,642
<i>Total Governmental Activities</i>	<u>\$ 1,190,601</u>
Business-type Activities	
Electric fund	\$ 750,577
Sewer fund	300,134
Water fund	246,231
Dial-A-Ride	46,894
<i>Total Business-type Activities</i>	<u>\$ 1,343,836</u>

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

Economic Development Corporation	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not Being Depreciated				
Land	\$ 148,067	\$ -	\$ -	\$ 148,067
Tax Increment Finance Authority (TIFA)	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not Being Depreciated				
Land	\$ 65,000	\$ -	\$ -	\$ 65,000
Construction in progress	142,415	1,470,520	-	1,612,935
<i>Subtotal</i>	<u>207,415</u>	<u>1,470,520</u>	<u>-</u>	<u>1,677,935</u>
Capital Assets Being Depreciated				
Infrastructure	381,672	-	-	381,672
Buildings	211,465	-	-	211,465
<i>Subtotal</i>	<u>593,137</u>	<u>-</u>	<u>-</u>	<u>593,137</u>
Less Accumulated Depreciation				
Infrastructure	(381,672)	-	-	(381,672)
Buildings	(11,112)	(4,230)	-	(15,342)
<i>Subtotal</i>	<u>(392,784)</u>	<u>(4,230)</u>	<u>-</u>	<u>(397,014)</u>
<i>Capital Assets Being Depreciated, Net</i>	<u>200,353</u>	<u>(4,230)</u>	<u>-</u>	<u>196,123</u>
Capital Assets, Net, TIFA	\$ 407,768	\$ 1,466,290	\$ -	\$ 1,874,058

Note 5 - Long-term Obligations

Long-term debt as of June 30, 2021 was comprised of the following (all within business-type activities):

2015 Sewage Disposal System Revenue Bonds - maturing \$250,000 to \$405,000 annually plus interest at 2.50% through 2037	\$ 5,390,000
2016 Sewage Disposal System Revenue Bonds -maturing \$75,000 to \$120,000 annually plus interest at 2.50% through 2040.	1,590,000
	<u>\$ 6,980,000</u>

The following is a summary of long-term obligations activity of the City for the year ended June 30, 2021:

Governmental Activities	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Compensated absences	\$ 234,867	\$ 14,490	\$ -	\$ 249,357	\$ -
	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Business-type Activities					
2015 Sewage Disposal System Revenue Bonds	\$ 5,660,000	\$ -	\$ (270,000)	\$ 5,390,000	\$ 280,000
2016 Sewage Disposal System Revenue Bonds	1,670,000	-	(80,000)	1,590,000	80,000
Key Government Financing, Inc.	78,700	-	(78,700)	-	-
Compensated absences	174,917	-	(1,821)	173,096	-
Total Long-term Obligations	\$ 7,583,617	\$ -	\$ (430,521)	\$ 7,153,096	\$ 360,000
	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Tax Increment Finance Authority					
2021 Installment note	\$ -	\$ 400,000	\$ (20,000)	\$ 380,000	\$ 40,000

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

Year Ending	Business-type Activities			Tax Increment Finance Authority		
	Principal	Interest	Total	Principal	Interest	Total
June 30,						
2022	\$ 360,000	\$ 174,500	\$ 534,500	\$ 40,000	\$ 1,710	\$ 534,500
2023	370,000	165,500	535,500	40,000	3,150	43,150
2024	375,000	158,052	533,052	40,000	2,790	42,790
2025	390,000	150,876	540,876	40,000	2,430	42,430
2026	395,000	137,126	532,126	40,000	2,070	42,070
2027 - 2031	2,135,000	531,882	2,666,882	180,000	4,950	184,950
2032 - 2036	2,430,000	251,004	2,681,004	-	-	-
2037	525,000	13,126	538,126	-	-	-
Totals	\$ 6,980,000	\$ 1,582,066	\$ 8,562,066	\$ 380,000	\$ 17,100	\$ 397,100

Note 6 - Interfund Balances and Interfund Transfers

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

As of June 30, 2021, the interfund balances were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Dial-A-Ride	\$ 68,781
Nonmajor governmental funds	General	282,984

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

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

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General	Electric	\$ 70,769
General	Sewer	35,385
General	Water	35,385
General	Dial-A-Ride	68,781
Dial-A-Ride	General	94,615
General	Nonmajor governmental funds	136,059
Capital improvement	Nonmajor governmental funds	205,000
Nonmajor governmental funds	Nonmajor governmental funds	30,000
Nonmajor governmental funds	General	26,830
Internal service funds	General	40,000
General	Internal service funds	20,606

Note 7 - Interdepartmental Loans

On June 17, 2019 Council approved a loan from the Electric Fund to the Sewer Fund up to \$900,000 for capital expenditures occurring in the Sewer Fund. The loan commenced on June 20, 2019 with an initial draw of \$90,000. The Sewer Fund paid back the \$90,000 of the loan and drew an additional \$250,000 during the June 30, 2020 fiscal year. Annual principal payments of \$250,000 are due annually along with interest at 2.5%. The final payment is scheduled to be paid by June 1, 2030. During the current year, the Sewer Fund paid back \$25,000. The balance as of June 30, 2021 was \$225,000.

On June 17, 2019 Council approved a loan from the Electric Fund to the Capital Improvement Fund up to \$1,300,000 for street reconstruction. The loan commenced on June 20, 2019 with an initial draw of \$500,000. The Capital Improvement Fund paid back the \$500,000 during the June 30, 2020 fiscal year. In the current year, the Capital Improvement Fund drew an additional \$800,000. Annual principal payments ranging from \$199,376 to \$200,625 are due

annually along with interest at 2.5%. The final payment is scheduled to be paid by July 1, 2024. The balance as of June 30, 2021 was \$800,000.

During the June 30, 2021 fiscal year, the Electric Fund loaned the Tax Increment Finance Authority, a discretely presented component unit of the City, \$200,000. The total amount was approved in an amount not to exceed \$400,000 and will be repaid through November 1, 2030.

Note 8 - Defined Benefit Pension Plan

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine-member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Retirement benefits for employees are calculated as follows:

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

Employees Covered by Benefit Terms

At the December 31, 2020 valuation date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	77
Inactive plan members entitled to but not yet receiving benefits	40
Active plan members	<u>56</u>
<i>Total employees covered by MERS</i>	<u>173</u>

Contributions

The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the year ended June 30, 2021, the City had the following contribution rates:

<u>Division</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>
DPS EEs - Closed	5.00%	\$0 / month
Police - Open	5.00%	31.98%
Fire - Open	5.00%	21.39%
BPU Union - Closed	9.16%	\$9,350 / month
General Nonunion - Closed	5.00%	\$6,214 / month
BPU Nonunion - Closed	5.00%	\$10,771 / month
City Manager - Open	5.00%	21.47%
City Treasurer - Open	5.00%	\$77 / month

Net Pension Liability

The net pension liability reported at June 30, 2021 was determined using a measure of the total pension liability and the pension net position as of December 31, 2020. The December 31, 2020 total pension liability was determined by an actuarial valuation performed as of December 31, 2020.

Actuarial Assumptions

The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Although no specific price inflation assumptions are needed for the valuation, the 3.75% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%. Mortality rates used were based on the RP-2019 Group Annuity Mortality Table of a 50% Male and 50% Female blend. The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2013-2018.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global Equity	60.00%	5.25%
Global Fixed Income	20.00%	1.25%
Private Investments	20.00%	7.25%
<i>Total</i>	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability in the current year and prior year was 7.60%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2019	\$ 25,247,768	\$ 19,734,763	\$ 5,513,005
Service cost	369,758	-	369,758
Interest on total pension liability	1,869,001	-	1,869,001
Difference between expected and actual experience	(188,126)	-	(188,126)
Changes in benefits	(4,615)	-	(4,615)
Changes in assumptions	738,016	-	738,016
Contributions - employer	-	569,786	(569,786)
Contributions - employee	-	201,567	(201,567)
Net investment income	-	2,436,559	(2,436,559)
Benefit payments, including refunds	(1,681,028)	(1,681,028)	-
Administrative expenses	-	(39,152)	39,152
<i>Net changes</i>	<u>1,103,006</u>	<u>1,487,732</u>	<u>(384,726)</u>
Balance at December 31, 2020	<u>\$ 26,350,774</u>	<u>\$ 21,222,495</u>	<u>\$ 5,128,279</u>
	Allocated as follows:		
		Governmental Activities	\$ 2,565,912
		Business-type Activities	2,562,367
			<u>\$ 5,128,279</u>

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

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

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
Net pension liability of the City	<u>\$ 8,019,822</u>	<u>\$ 5,128,279</u>	<u>\$ 2,680,923</u>

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

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

For the year ended June 30, 2021 the City recognized pension expense of \$625,044. The City reported deferred outflows/inflows of resources related to pensions from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Excess (deficit) investment returns	\$ -	\$ 661,969
Changes of assumptions	715,943	-
Difference between expected and actual experience	-	279,930
* Employer contributions to the plan subsequent to the measurement date	314,455	-
<i>Total</i>	\$ 1,030,398	\$ 941,899
Allocated as follows:		
Governmental Activities	\$ 515,199	\$ 470,949
Business-type Activities	515,199	470,950
	\$ 1,030,398	\$ 941,899

*The amount reported as deferred outflows/inflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction/addition in the net pension liability for the year ending June 30, 2022.

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

Years Ending June 30,	Amount
2022	\$ 123,600
2023	243,408
2024	(398,410)
2025	(194,554)

Significant Changes to the Pension Valuation

At the February 27, 2020, board meeting, the MERS Retirement Board adopted demographic assumptions effective with the December 31, 2020, annual actuarial valuation, which will impact contributions beginning in 2022. A 5-year experience study analyzing historical experience from 2013 through 2018 was completed in February 2020. In addition to changes to the economic assumptions which took effect with the fiscal year 2021 contribution rates, the experience study recommended updated demographic assumptions, including adjustments to the following actuarial assumptions: mortality, retirement, disability, and termination rates. Changes to the demographic assumptions resulting from the experience study have been approved by the MERS Retirement Board and are effective beginning with the December 31, 2020, actuarial valuation, first impacting 2022 contributions.

Statement of Fiduciary Net Position

As of June 30, 2021, the City had \$66,469 payable due to MERS for employer and employee contributions. Detailed information about the pension plan's fiduciary net position is available in the separately issued MERS financial report.

Note 9 - Promissory Note

On May 15, 2018, the City's Tax Increment Finance Authority ("TIFA") entered into an agreement to sell property known as the Keefer House Hotel for \$275,000. The agreement called for a \$10,000 deposit and the remaining \$265,000 in a promissory note from Keefer House Hotel, LLC. The note calls for the entire principal of \$265,000 including interest at 0% to be paid on or before May 25, 2021. On July 20, 2021, the City entered an addendum to the agreement in which extended the due date to on or before May 25, 2023.

Pursuant to the terms set forth in the Purchase Agreement, and subsequent addendums, if borrower completes construction and renovation of the Keefer House Hotel property on or before May 25, 2023, the borrower will be entitled to forgiveness of any remaining principal, and the note shall be considered paid in full. In the event that the borrower fails to complete construction and renovation on or before May 25, 2023, all outstanding principal shall be due and payable.

As of June 30, 2021, construction on the Keefer House Hotel is underway and is projected to be completed on or before May 25, 2023. The City has elected to include the full \$265,000 as a loan receivable on its financial statements.

Note 10 - Dial-A-Ride

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

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

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

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

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

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

Pension Plan - During the fiscal year July 1, 2020 through June 30, 2021, Dial-A-Ride paid \$76,808 in 50200 fringe benefits for retirement benefits. Of this amount, \$76,808 paid the actuarial required minimum contribution and \$0 was paid in excess of the actuarial required minimum contribution. The entire amount of \$76,808 was expensed on the books and is included in Dial-A-Ride's total eligible expenses for the fiscal year ending September 30, 2020.

Note 11 - Investment in Joint Venture

Michigan South Central Power Agency

The City is a member of the Michigan South Central Power Agency (MSCPA), which provided electric services to the residents of its member communities. The participating communities provide annual funding for its operations. During the current year, the City paid \$8,760,644 for purchased power. The City is unaware of any other circumstances that would cause any additional benefit or burden to participating governments in the near future. Complete financial statements for the Michigan South Central Power Agency can be obtained from the administrative offices at 168 Division St., Coldwater, Michigan 49036.

The City owns an approximate 21.85% interest in the Michigan South Central Power Agency (MSCPA). The City records the investment using the equity method and calculates 19.08% of the MSCPA's equity at year end. The MSCPA also holds assets of the City, which have been included in the MSCPA's equity over the years. The calculation of the investment includes 100% of the City's assets held at the MSCPA plus 21.85% of the equity net of the City's assets. At June 30, 2021, the City's investment in MSCPA was \$4,678,692, consisting of a \$4,200,626 equity share and \$478,066 of assets held at the MSCPA.

Note 12 - Prepaid Operating Lease

In 2014, the City entered a 20-year operating lease with KEPS Technologies, Inc. d/b/a ACD.net, for 48 strands of dark fiber to support its business operations. The agreement for total upfront costs of \$240,304 will be amortized over the 20-year life of the lease. As of June 30, 2021, the balance of the long-term prepaid operating lease is \$170,965.

Note 13 - Prepaid Stranded Costs

American Municipal Power – Generating Station Project

The City is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio. The City's share was 12,000 kilowatts of a total 771,281 kilowatts, giving the City a 1.56 percent share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. These costs were therefore deemed impaired and participants were obligated to pay costs already incurred. In prior years, the payment of these costs was not considered probable due to AMP's pursuit of legal action to void them. As a result of a March 31, 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The City's estimated share at March 31, 2014 of the impaired costs is \$2,076,796. The City received a credit of \$775,876 related to their participation in the AMP Fremont Energy Center (AFEC) Project, and another credit of \$542,698 related to the AMPGS costs deemed to have future benefit for the project participants, leaving a net impaired cost estimate of \$758,222. Because payment is now probable and reasonably estimable, the City is reporting a payable to AMP in its business-type activities and in its electric enterprise fund for these impaired costs. AMP financed these costs on its revolving line of credit. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact the City's liability. These amounts will be recorded as they become estimable.

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

Since March 31, 2014, the City has made payments of \$817,344 to AMP toward its net impaired cost estimate. Also since March 31, 2014, the City's allocation of additional costs incurred by the project is \$25,421 and interest expense incurred on AMP's line-of-credit of \$1,462, resulting in a net credit balance for impaired cost estimate at June 30, 2021 of \$32,239. The City does have a potential PHFU (plant held for future use costs) liability of \$613,665 resulting in a net total potential liability of \$581,426, assuming the credit balance earns zero interest and the assets making up the PHFU (principally the land comprising the Meigs County site) have no value. Stranded costs as well as PHFU costs are subject to change, including future borrowing costs on the AMP line of credit. Activities include items such negative items as property taxes as well as positive items revenue from leases or sale of all or a portion of the Meigs County site property.

The City has opted to not record the potential PHFU liability given the uncertainty regarding the outcome of the project; however, prepaid stranded costs have been recorded as \$32,239 for the year-ended June 30, 2021.

Note 14 - Purchased Power Contracts

AFEC

AMP Fremont Energy Center (86 Members). On July 28, 2011, AMP acquired from FirstEnergy Generation Corporation (“*FirstEnergy*”) the Fremont Energy Center (“*AFEC*”), a combined cycle, natural gas fueled electric generating plant, then nearing completion of construction and located in Fremont, Sandusky County, Ohio. Following completion of the commissioning and testing, AMP declared AFEC to be in commercial operation as of January 20, 2012. AFEC has a capacity of 512 MW (unfired)/675 MW (fired) and consists of two combustion turbines, two heat recovery steam generators and one steam turbine and condenser.

AMP subsequently sold a 5.16% undivided ownership interest in AFEC to Michigan Public Power Agency and entered into a power sales contract with the Central Virginia Electric Cooperative for the output associated with a 4.15% undivided ownership interest in AFEC. The output of AFEC associated with the remaining 90.69% undivided ownership interest (the “*90.69% Interest*”) is sold to AMP Members pursuant to a take-or-pay power sales contract with 86 of its Members (the “*AFEC Power Sales Contract*”).

In 2012, to provide permanent financing for the 90.69% Interest, AMP issued, in two series, \$546,085,000 of its AMP Fremont Energy Center Project Revenue Bonds (the “*2012 AFEC Bonds*”), consisting of taxable and tax-exempt obligations. The AFEC Bonds are net revenue obligations of AMP, secured by a master trust indenture and payable from amounts received by AMP under the AFEC Power Sales Contract. In 2017, AMP issued bonds (the “*AFEC Refunding Bonds*”) and, together with the 2012 AFEC Bonds, the “*AFEC Bonds*”) to refund a portion of the 2012 AFEC Bonds. As of January 1, 2021, \$478,965,000 aggregate principal amount of AFEC Bonds was outstanding.

The City has executed a take-or-pay power sales contract with AMP as a participant of the AFEC of 7,220 kW or 1.55% of capacity and associated energy from the AFEC.

Combined Hydroelectric Projects

Combined Hydroelectric Projects (79 Members). AMP owns and operates three hydroelectric projects, the Cannelton, the Smithland and the Willow Island hydroelectric generating facilities (the “*Combined Hydroelectric Projects*”), all on the Ohio River, with an aggregate generating capacity of approximately 208 MW. Each of the Combined Hydroelectric Projects is in commercial operation and consists of run-of-the-river hydroelectric generating facilities on existing Army Corps dams and includes associated transmission facilities. AMP holds the licenses from FERC for the Combined Hydroelectric Projects.

To provide financing for, or refinance certain obligations incurred in respect of, the Combined Hydroelectric Projects, AMP has issued ten series of its Combined Hydroelectric Projects Revenue Bonds (the “*Combined Hydroelectric Bonds*”), in an original aggregate principal amount of \$2,483,845,000 and consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds). The Combined Hydroelectric Bonds are secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 79 of its Members. As of January 1, 2021, \$2,140,742,059 aggregate principal amount of the Combined Hydroelectric Bonds and approximately \$23 million aggregate principal amount of subordinate obligations, consisting of notes evidencing draws on the Line of Credit, were outstanding under the indenture securing the Combined Hydroelectric Bonds.

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

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

Meldahl Hydroelectric Project

Meldahl Hydroelectric Project (48 Members). AMP owns and, together with the City of Hamilton, Ohio, an AMP Member, developed and constructed a 108.8 MW, three-unit hydroelectric generation facility on the Captain Anthony Meldahl Locks and Dam, an existing Army Corps dam on the Ohio River, and related equipment and associated transmission facilities (the “*Meldahl Project*”). The Meldahl Project is operated by the City of Hamilton.

In order to finance the construction of the Meldahl Project and related costs, AMP issued seven series of its Meldahl Hydroelectric Project Revenue Bonds (“*Meldahl Bonds*”) in an original aggregate principal amount of \$820,185,000 consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds). The Meldahl Bonds are secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 48 of its Members. As of January 1, 2021, \$665,630,000 aggregate principal amount of the Meldahl Bonds and approximately \$2.3 million aggregate principal amount of subordinate obligations, consisting of notes evidencing draws on the Line of Credit, were outstanding under the indenture securing the Meldahl Bonds.

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

Greenup Hydroelectric Project

Greenup Hydroelectric Project (47 Members). In connection with the development of the Meldahl Project, Hamilton agreed to sell and AMP agreed to purchase a 48.6% undivided ownership interest (the “AMP Interest”) in the Greenup Hydroelectric Facility. On May 11, 2016, AMP issued \$125,630,000 aggregate principal amount of its Greenup Hydroelectric Project Revenue Bonds, Series 2016A (the “2016 Greenup Bonds”) and, with a portion of the proceeds thereof, acquired the AMP Interest. The 2016 Greenup Bonds are secured by a separate power sales contract that has been executed by the same Members (with the exception of Hamilton, which retained title to a 51.4% ownership interest in the Greenup Hydroelectric Facility) that executed the Meldahl Power Sales Contract. As of January 1, 2021, \$122,350,000 aggregate principal amount of the 2016 Greenup Bonds and approximately \$553,000 aggregate principal amount of subordinate obligations, consisting of notes evidencing draws on the Line of Credit, were outstanding under the indenture securing the 2016 Greenup Bonds.

The City has executed a take-or-pay power sales contract with AMP as a participant of the Greenup Hydroelectric Facility of 479 kW or 1.40% of capacity and associated energy from the Greenup Hydroelectric Facility.

Note 15 - Tax Abatement Disclosure

Industrial property tax abatements are granted in the State of Michigan under Public Act 198, as amended, to promote economic development, creation of jobs, and new or improvement facilities. The industrial facilities tax (IFT) exemption must be approved by both the City (after a public hearing is held) and the State of Michigan. IFT exemptions can cover real and/or personal property. By State law, the exemption must be applied for no later than six months after commencement of the project, and must be accompanied by a written agreement between the taxpayer and the City. An exemption allows for taxation on IFT property at 50% of the local property tax millage rate for a period of 1 to 12 years. Accordingly, such agreements meet the criteria of "tax abatements" under GASB Statement No. 77. For the year ended June 30, 2021, the City's property taxes were reduced by \$24,613 under this program.

Neighborhood enterprise zone tax abatements are granted in the State of Michigan under Public Act 147, as amended, to encourage investment in the construction or rehabilitation of multiple types of housing for both homeownership and rental. The project must be located in a Neighborhood Enterprise Zone (NEZ) as established by the City Commission. A qualifying project involves the construction of new housing for either homeownership or rental. A rehabilitation project involves the rehabilitation of existing housing, and requires a minimum investment in the rehabilitation. A new construction project must include rental apartments, contain retail space on the first floor, and be located in a Downtown Revitalization District. For new facilities, the rate of taxation of a new facility is equal to 50% of the average rate of taxation levied on commercial, industrial, and utility property in the State in the immediately preceding calendar year. The amount of the abatement is equal to the taxable value of the qualifying property applied to the millage rate that is the difference between the NEZ millage rate and the ad valorem millage rate. For

rehabilitation facilities, the taxable value is set (“frozen”) at that value established in the year immediately preceding the effective date of the NEZ exemption for a property. The amount of the abatement is the difference between the taxes that would be levied on the current taxable value and the NEZ taxes levied on the value of the qualifying property in the year immediately preceding the effective date of the exemption certificate. Accordingly, such agreements meet the criteria of "tax abatements" under GASB Statement No. 77. For the year ended June 30, 2021, the City’s property taxes were reduced by \$12,483 under this program.

Obsolete property rehabilitation abatements are granted in the State of Michigan under Public Act 146 of 2000, as amended, to encourage investment in the significant renovation and/or rehabilitation of obsolete buildings for commercial use. The obsolete property rehabilitation (OPR) exemption must be approved by both the City (after a public hearing is held) and the State of Michigan. OPR exemptions can cover real property. Property must be functionally obsolete as determined by the City Assessor as defined in the legislation. Project must be for a project that will have a commercial or commercial housing use. The taxable value of the qualifying property is set (“frozen”) at the taxable value assigned in the year immediately preceding the effective date of the exemption certificate. New taxable value in excess of the frozen taxable value is exempted from certain millages levied on real property for a period of 1-12 years. By State law, the exemption must be applied for no later than six months after commencement of the project, and must be accompanied by a written agreement between the taxpayer and the City. The amount of the abatement is equal to the exempted mills applied to the amount of the taxable value created by investment in the project. Accordingly, such agreements meet the criteria of "tax abatements" under GASB Statement No. 77. For the year ended June 30, 2021, the City’s property taxes were reduced by \$11,989 under this program.

Note 16 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2021, 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 17 - Commitments and Contingencies

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

Note 18 - Restatement of Net Position and Adoption of New Accounting Pronouncements

In the prior year, the City overestimated unbilled receivables at year-end. To improve revenue recognition, a subsequent correction was made to decrease unbilled receivables in the electric fund, sewer fund, and water fund of \$762,216, \$76,513, and \$59,086, respectively. As a result of the correction, net position decreased by the same amount in each of the respective funds.

The following graphic illustrates the changes to net position:

	Business-type Activities			
	Electric	Sewer	Water	Total
Net Position as of June 30, 2020, as reported	\$ 27,003,769	\$ 7,737,865	\$ 6,357,858	\$ 41,828,103
Adjustment to correct unbilled receivables	(762,216)	(76,513)	(59,086)	(897,815)
Net Position as of June 30, 2021, as restated	<u>\$ 26,241,553</u>	<u>\$ 7,661,352</u>	<u>\$ 6,298,772</u>	<u>\$ 40,930,288</u>

Additionally, the City adopted the provisions of **GASB Statement No. 84, *Fiduciary Activities***, in the current year. As a result of this change, the activity of the payroll fund was moved into the general fund and the tax collection agency fund was converted into a custodial fund. In addition, the custodial fund now shows activity that occurred throughout the year.

Required Supplementary Information

City of Hillsdale
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance
	Original	Final		Positive (Negative) Final to Actual
Revenues				
Taxes	\$ 2,073,000	\$ 2,073,000	\$ 2,094,489	\$ 21,489
Payments in lieu of taxes	1,000,000	1,000,000	1,141,170	141,170
Intergovernmental	860,000	1,041,526	1,406,231	364,705
Licenses and permits	107,180	107,180	99,869	(7,311)
Charges for services	18,500	18,500	25,396	6,896
Fines and violations	2,000	2,000	1,317	(683)
Interest and rentals	129,230	129,230	119,013	(10,217)
Miscellaneous	236,860	236,860	237,488	628
Total Revenues	4,426,770	4,608,296	5,124,973	516,677
Other Financing Sources				
Transfers in	386,035	386,035	366,985	(19,050)
Total Revenues and Other Financing Sources	4,812,805	4,994,331	5,491,958	497,627
Expenditures				
General government				
Council	26,790	26,790	21,485	5,305
City manager	189,875	189,875	180,790	9,085
Human resources	96,185	96,185	96,725	(540)
Administrative	195,050	195,050	202,067	(7,017)
Elections	15,400	22,400	21,050	1,350
Assessing	190,725	190,725	159,061	31,664
Clerk	99,165	99,165	95,641	3,524
Finance department	227,075	268,121	270,491	(2,370)
Treasurer	152,695	152,695	171,059	(18,364)
Building and grounds	136,605	136,605	105,858	30,747
Parking lots	32,825	32,825	19,850	12,975
Cemeteries	110,465	110,465	106,535	3,930
Total general government	1,472,855	1,520,901	1,450,612	70,289
Public safety				
Police	1,622,005	1,639,005	1,535,151	103,854
Fire	472,020	514,020	517,174	(3,154)
Code enforcement	30,000	30,000	1,515	28,485
Total public safety	2,124,025	2,183,025	2,053,840	129,185
Public works				
Airport	148,300	148,300	142,119	6,181
Public services	311,740	311,740	311,354	386
Engineering services	125,775	52,729	38,848	13,881
Street lights	63,750	63,750	56,419	7,331
Total public works	649,565	576,519	548,740	27,779
Community and economic development				
Planning	95,055	95,055	86,603	8,452
Economic development	63,850	63,850	58,176	5,674
Total community and economic development	158,905	158,905	144,779	14,126
Recreation and culture				
Parks	184,760	184,760	175,882	8,878
Total Expenditures	4,590,110	4,624,110	4,373,853	250,257
Other Financing Uses				
Transfers out	222,695	222,695	161,445	61,250
Total Expenditures and Other Financing Uses	4,812,805	4,846,805	4,535,298	311,507
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses				
Net Change in Fund Balance	--	147,526	956,660	809,134
Fund Balance at Beginning of Period	1,068,704	1,068,704	1,068,704	--
Fund Balance at End of Period	\$ 1,068,704	\$ 1,216,230	\$ 2,025,364	\$ 809,134

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability							
Service cost	\$ 369,758	\$ 382,857	\$ 363,207	\$ 368,215	\$ 363,158	\$ 355,050	\$ 364,196
Interest on total pension liability	1,869,001	1,887,904	1,849,895	1,796,683	1,765,765	1,677,362	1,621,606
Changes in benefits	(4,615)	-	7,156	(7,990)	(9,325)	-	-
Differences between expected and actual experience	(188,126)	(317,723)	(194,427)	42,169	(249,508)	110,760	-
Changes of assumptions	738,016	671,798	-	-	-	1,013,079	-
Benefit payments, including refunds	(1,681,028)	(1,568,899)	(1,552,182)	(1,510,668)	(1,461,617)	(1,378,158)	(1,232,671)
Net Change in Pension Liability	<u>1,103,006</u>	<u>1,055,937</u>	<u>473,649</u>	<u>688,409</u>	<u>408,473</u>	<u>1,778,093</u>	<u>753,131</u>
<i>Total Pension Liability - Beginning</i>	<u>25,247,768</u>	<u>24,191,831</u>	<u>23,718,182</u>	<u>23,029,773</u>	<u>22,621,300</u>	<u>20,843,207</u>	<u>20,090,076</u>
Total Pension Liability - Ending (a)	<u>\$ 26,350,774</u>	<u>\$ 25,247,768</u>	<u>\$ 24,191,831</u>	<u>\$ 23,718,182</u>	<u>\$ 23,029,773</u>	<u>\$ 22,621,300</u>	<u>\$ 20,843,207</u>
Plan Fiduciary Net Position							
Contributions - employer	\$ 569,786	\$ 525,911	\$ 510,189	\$ 421,866	\$ 336,160	\$ 346,141	\$ 332,464
Contributions - employee	201,567	303,901	203,833	190,637	164,437	156,571	137,790
Net investment income (loss)	2,436,559	2,434,545	(751,004)	2,370,564	1,932,425	(270,721)	1,138,603
Benefit payments, including refunds	(1,681,028)	(1,568,899)	(1,552,182)	(1,510,668)	(1,461,617)	(1,378,158)	(1,232,671)
Administrative expenses	(39,152)	(41,924)	(37,665)	(37,600)	(38,185)	(39,960)	(41,683)
Net Change in Plan Fiduciary Net Position	<u>1,487,732</u>	<u>1,653,534</u>	<u>(1,626,829)</u>	<u>1,434,799</u>	<u>933,220</u>	<u>(1,186,127)</u>	<u>334,503</u>
<i>Plan Fiduciary Net Position - Beginning</i>	<u>19,734,763</u>	<u>18,081,229</u>	<u>19,708,058</u>	<u>18,273,259</u>	<u>17,340,039</u>	<u>18,526,166</u>	<u>18,191,663</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 21,222,495</u>	<u>\$ 19,734,763</u>	<u>\$ 18,081,229</u>	<u>\$ 19,708,058</u>	<u>\$ 18,273,259</u>	<u>\$ 17,340,039</u>	<u>\$ 18,526,166</u>
Net Pension Liability - Ending (a) - (b)	\$ 5,128,279	\$ 5,513,005	\$ 6,110,602	\$ 4,010,124	\$ 4,756,514	\$ 5,281,261	\$ 2,317,041
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	80.54%	78.16%	74.74%	83.09%	79.35%	76.65%	88.88%
Covered Payroll	\$ 3,387,546	\$ 3,500,819	\$ 3,769,509	\$ 3,436,078	\$ 3,440,133	\$ 3,426,822	\$ 3,531,325
Net Pension Liability as a Percentage of Covered Payroll	151.39%	157.48%	162.11%	116.71%	138.27%	154.12%	65.61%

* Built prospectively upon implementation on GASB 68

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 622,163	\$ 529,357	\$ 523,811	\$ 490,020	\$ 353,776	\$ 348,500	\$ 330,003
Contributions in Relation to the Actuarially Determined Contribution	622,163	529,357	523,811	490,020	353,776	348,500	330,003
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered Payroll	 3,460,882	 3,631,756	 3,713,486	 3,899,437	 3,714,246	 3,955,056	 3,531,325
 Contributions as a Percentage of Covered Payroll	 17.98%	 14.58%	 14.11%	 12.57%	 9.52%	 8.81%	 9.35%

Notes

Valuation Date

Actuarially determined contribution amounts are calculated as of December 31 each year, which is 18 months prior to the beginning of the fiscal year in which the contributions are required.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial cost method	Entry-age Normal
Amortization method	Level Percentage of Payroll, Open
Remaining amortization period	18 Years
Asset valuation method	5 Years; Smoothed
Inflation	2.50%
Salary increases	3.00% in the Long-Term
Investment rate of return	7.35%, Net of Investment Expense, including Inflation
Retirement age	Experience-Based Tables of Rates that are Specific to the Type of Eligibility Condition
Mortality	Rates Used were Based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female Blend

* Built prospectively upon implementation on GASB 68

Combining and Individual Fund Statements and Schedules

**City of Hillsdale
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2021**

	Special Revenue					
	Local Street	Major Street	Library	Police	Drug Forfeitures	Recreation Commission
ASSETS						
Cash and investments	\$ 375,309	\$ 635,050	\$ 138,524	\$ 5,523	\$ 6,146	\$ 29,888
Due from other governmental units	--	1,248	--	--	--	--
Other receivables	42,644	139,899	32,385	--	4,034	--
Prepaid items	--	--	162	--	--	1,517
Due from other funds	--	--	--	--	--	--
Total Assets	\$ 417,953	\$ 776,197	\$ 171,071	\$ 5,523	\$ 10,180	\$ 31,405
LIABILITIES						
Accounts payable	\$ 8,703	\$ 18,737	\$ 2,403	\$ 3,752	\$ --	\$ 17,127
Accrued liabilities	3,420	4,775	4,451	--	--	4,562
Total Liabilities	12,123	23,512	6,854	3,752	--	21,689
FUND BALANCE						
Nonspendable	--	--	162	--	--	1,517
Restricted	405,830	752,685	164,055	1,771	10,180	8,199
Unassigned	--	--	--	--	--	--
Total Fund Balance	405,830	752,685	164,217	1,771	10,180	9,716
Total Liabilities and Fund Balance	\$ 417,953	\$ 776,197	\$ 171,071	\$ 5,523	\$ 10,180	\$ 31,405

**City of Hillsdale
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2021**

	<u>Debt Service</u>		<u>Capital Projects</u>			
	<u>Debt Service</u>	<u>Field of Dreams</u>	<u>Stock Park</u>	<u>Airport Improvement</u>	<u>Three Meadows Development</u>	<u>Fire Equipment</u>
ASSETS						
Cash and investments	\$ 1,064,253	\$ 2,067	\$ 56,879	\$ 410,220	\$ --	\$ 237,290
Due from other governmental units	--	--	--	--	--	--
Other receivables	--	--	--	20,000	--	--
Prepaid items	--	--	--	--	--	--
Due from other funds	--	--	--	--	--	--
Total Assets	\$ 1,064,253	\$ 2,067	\$ 56,879	\$ 430,220	\$ --	\$ 237,290
LIABILITIES						
Accounts payable	\$ --	\$ --	\$ 629	\$ 494	\$ --	\$ --
Accrued liabilities	--	--	--	50	--	--
Total Liabilities	--	--	629	544	--	--
FUND BALANCE						
Nonspendable	--	--	--	--	--	--
Restricted	1,064,253	2,067	56,250	429,676	--	237,290
Unassigned	--	--	--	--	--	--
Total Fund Balance	1,064,253	2,067	56,250	429,676	--	237,290
Total Liabilities and Fund Balance	\$ 1,064,253	\$ 2,067	\$ 56,879	\$ 430,220	\$ --	\$ 237,290

**City of Hillsdale
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2021**

	Permanent			Total Nonmajor Governmental Funds
	R.L. Owen Memorial	Cemetery Perpetual Care	Stock Park Maintenance	
ASSETS				
Cash and investments	\$ 55,856	\$ 464,133	\$ 84,458	\$ 3,565,596
Due from other governmental units	--	--	--	1,248
Other receivables	--	--	--	238,962
Prepaid items	--	--	--	1,679
Due from other funds	--	282,984	--	282,984
<i>Total Assets</i>	\$ 55,856	\$ 747,117	\$ 84,458	\$ 4,090,469
LIABILITIES				
Accounts payable	\$ --	\$ 1,000	\$ --	\$ 52,845
Accrued liabilities	--	--	--	17,258
<i>Total Liabilities</i>	--	1,000	--	70,103
FUND BALANCE				
Nonspendable	--	--	--	1,679
Restricted	55,856	746,117	84,458	4,018,687
Unassigned	--	--	--	--
<i>Total Fund Balance</i>	55,856	746,117	84,458	4,020,366
<i>Total Liabilities and Fund Balance</i>	\$ 55,856	\$ 747,117	\$ 84,458	\$ 4,090,469

City of Hillsdale
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2021

	Special Revenue					
	Local Street	Major Street	Library	Police	Drug Forfeitures	Recreation Commission
Revenues						
Taxes	\$ --	\$ --	\$ 134,043	\$ --	\$ --	\$ --
Intergovernmental	278,686	900,514	34,188	--	--	--
Contributions from local units	--	--	22,600	--	--	--
Charges for services	--	--	4,401	--	--	30,174
Fines and violations	--	--	28,451	--	3,164	--
Interest and rentals	1,205	3,033	698	20	42	27,601
Miscellaneous	7,400	7,232	38,302	1,173	4,034	6,490
Total Revenues	287,291	910,779	262,683	1,193	7,240	64,265
Expenditures						
General government	--	--	--	--	--	--
Public safety	--	--	--	11,346	6,504	--
Public works	283,854	391,599	--	--	--	--
Recreation and culture	--	--	205,677	--	--	91,130
Capital outlay	--	--	--	--	--	--
Total Expenditures	283,854	391,599	205,677	11,346	6,504	91,130
Excess of Revenues Over (Under) Expenditures	3,437	519,180	57,006	(10,153)	736	(26,865)
Other Financing Sources (Uses)						
Transfers in	50,000	--	--	--	--	26,830
Transfers out	(26,044)	(263,015)	(2,000)	--	--	--
Net Other Financing Sources (Uses)	23,956	(263,015)	(2,000)	--	--	26,830
Net Change in Fund Balance	27,393	256,165	55,006	(10,153)	736	(35)
<i>Fund Balance at Beginning of Period</i>	378,437	496,520	109,211	11,924	9,444	9,751
Fund Balance at End of Period	\$ 405,830	\$ 752,685	\$ 164,217	\$ 1,771	\$ 10,180	\$ 9,716

City of Hillsdale
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2021

	Debt Service		Capital Projects			
	Debt Service	Field of Dreams	Stock Park	Airport Improvement	Three Meadows Development	Fire Equipment
Revenues						
Taxes	\$ 392,018	\$ --	\$ --	\$ --	\$ --	\$ 130,946
Intergovernmental	52,314	--	--	700,933	--	6,712
Contributions from local units	--	--	25,431	--	--	--
Charges for services	--	--	--	159,140	--	--
Fines and violations	--	--	--	--	--	--
Interest and rentals	3,492	9	114	38,127	--	764
Miscellaneous	--	--	--	--	250	576
Total Revenues	447,824	9	25,545	898,200	250	138,998
Expenditures						
General government	--	--	--	--	8,330	--
Public safety	--	--	--	--	--	1,333
Public works	--	--	--	113,956	--	--
Recreation and culture	--	513	23,944	--	--	--
Capital outlay	--	--	--	708,000	--	--
Total Expenditures	--	513	23,944	821,956	8,330	1,333
Excess of Revenues Over (Under) Expenditures	447,824	(504)	1,601	76,244	(8,080)	137,665
Other Financing Sources (Uses)						
Transfers in	--	--	--	--	--	--
Transfers out	(80,000)	--	--	--	--	--
Net Other Financing Sources (Uses)	(80,000)	--	--	--	--	--
Net Change in Fund Balance	367,824	(504)	1,601	76,244	(8,080)	137,665
<i>Fund Balance at Beginning of Period</i>	696,429	2,571	54,649	353,432	8,080	99,625
Fund Balance at End of Period	\$ 1,064,253	\$ 2,067	\$ 56,250	\$ 429,676	\$ --	\$ 237,290

City of Hillsdale
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2021

	Permanent			Total Nonmajor Governmental Funds
	R.L. Owen Memorial	Cemetery Perpetual Care	Stock Park Maintenance	
Revenues				
Taxes	\$ --	\$ --	\$ --	\$ 657,007
Intergovernmental	--	--	--	1,973,347
Contributions from local units	--	--	--	48,031
Charges for services	--	21,425	--	215,140
Fines and violations	--	--	--	31,615
Interest and rentals	4,985	10,168	183	90,441
Miscellaneous	--	--	15,042	80,499
<i>Total Revenues</i>	4,985	31,593	15,225	3,096,080
Expenditures				
General government	--	--	--	8,330
Public safety	--	--	--	19,183
Public works	--	--	--	789,409
Recreation and culture	--	--	--	321,264
Capital outlay	--	--	--	708,000
<i>Total Expenditures</i>	--	--	--	1,846,186
<i>Excess of Revenues Over (Under) Expenditures</i>	4,985	31,593	15,225	1,249,894
Other Financing Sources (Uses)				
Transfers in	--	(20,000)	--	56,830
Transfers out	--	--	--	(371,059)
<i>Net Other Financing Sources (Uses)</i>	--	(20,000)	--	(314,229)
<i>Net Change in Fund Balance</i>	4,985	11,593	15,225	935,665
<i>Fund Balance at Beginning of Period</i>	50,871	734,524	69,233	3,084,701
<i>Fund Balance at End of Period</i>	\$ 55,856	\$ 746,117	\$ 84,458	\$ 4,020,366

City of Hillsdale
Combining Statement of Net Position
Internal Service Funds
June 30, 2021

Internal Service

	Department of Public Service				
	Leave and Benefits	Unemployment Insurance	Revolving Mobile Equipment	Public Service Inventory	Total Internal Service Funds
ASSETS					
<i>Current Assets</i>					
Cash and investments	\$ 19,857	\$ 74,219	\$ 115,446	\$ 27,750	\$ 237,272
Inventory	--	--	--	157,671	157,671
Prepaid items	10,531	--	22,994	--	33,525
Total Current Assets	30,388	74,219	138,440	185,421	428,468
<i>Noncurrent Assets</i>					
Capital assets being depreciated, net	--	--	547,471	--	547,471
Total Assets	30,388	74,219	685,911	185,421	975,939
LIABILITIES					
<i>Current Liabilities</i>					
Accounts payable	409	--	7,735	19,388	27,532
Accrued liabilities	228	--	1,274	--	1,502
Total Current Liabilities	637	--	9,009	19,388	29,034
<i>Noncurrent Liabilities</i>					
Compensated absences	29,751	--	8,934	--	38,685
Total Liabilities	30,388	--	17,943	19,388	67,719
NET POSITION					
Net investment in capital assets	--	--	547,471	--	547,471
<i>Unrestricted</i>	--	74,219	120,497	166,033	360,749
Total Net Position	\$ --	\$ 74,219	\$ 667,968	\$ 166,033	\$ 908,220

City of Hillsdale
Combining Statement of Revenues, Expenses, and Changes in Net Position
Internal Service Funds
For the Year Ended June 30, 2021

	Internal Service				Total Internal Service Funds
	Department of Public Service Leave and Benefits	Unemployment Insurance	Revolving Mobile Equipment	Public Service Inventory	
Operating Revenues					
Charges for services	\$ --	\$ --	\$ 264,776	\$ 5,901	\$ 270,677
Miscellaneous	146,940	--	45,764	--	192,704
Total Operating Revenues	146,940	--	310,540	5,901	463,381
Operating Expenses					
Salaries	42,497	--	59,819	--	102,316
Fringe benefits	106,550	--	29,037	--	135,587
Supplies	--	--	77,656	8,553	86,209
Contracted services	--	--	18,077	1,927	20,004
Maintenance	--	--	20,537	--	20,537
Insurance	--	9,004	44,411	--	53,415
Utilities	--	--	5,363	--	5,363
Miscellaneous	--	--	1,002	--	1,002
Depreciation	--	--	86,642	--	86,642
Total Operating Expenses	149,047	9,004	342,544	10,480	511,075
Operating Income (Loss)	(2,107)	(9,004)	(32,004)	(4,579)	(47,694)
Non-Operating Revenues (Expenses)					
Interest and investment earnings	133	202	1,911	124	2,370
Loss on disposal of property	--	--	(1,325)	--	(1,325)
Miscellaneous income	--	--	--	114	114
Net Non-Operating Revenues (Expenses)	133	202	586	238	1,159
Income Before Transfers	(1,974)	(8,802)	(31,418)	(4,341)	(46,535)
Transfers in	--	--	40,000	--	40,000
Transfers out	(20,606)	--	--	--	(20,606)
Change In Net Position	(22,580)	(8,802)	8,582	(4,341)	(27,141)
<i>Net Position at Beginning of Period</i>	22,580	83,021	659,386	170,374	935,361
Net Position at End of Period	\$ --	\$ 74,219	\$ 667,968	\$ 166,033	\$ 908,220

City of Hillsdale
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2021

	Internal Service				
	Department of Public Service Leave and Benefits	Unemployment Insurance	Revolving Mobile Equipment	Public Service Inventory	Total Internal Service Funds
Cash Flows from Operating Activities					
Cash payments to employees for services and benefits	\$ (146,936)	\$ -	\$ (86,809)	\$ -	\$ (233,745)
Cash payments to suppliers for goods and services	202	(9,124)	(163,351)	(11,612)	(183,885)
Payments for interfund activity	146,940	-	310,540	5,901	463,381
Net Cash Provided (Used) by Operating Activities	206	(9,124)	60,380	(5,711)	45,751
Cash Flows from Non-Capital Financing Activities					
Transfers (to)/from other funds	(20,606)	-	40,000	-	19,394
Other non-operating income	-	-	-	114	114
Net Cash Provided (Used) by Non-Capital Financing Activities	(20,606)	-	40,000	114	19,508
Cash Flows from Capital and Related Financing Activities					
Net disposal capital assets	-	-	5,711	-	5,711
Purchase of capital assets	-	-	(34,675)	-	(34,675)
Net Cash Used by Capital and Related Financing Activities	-	-	(28,964)	-	(28,964)
Cash Flows from Investing Activities					
Interest and investment earnings	133	202	1,911	124	2,370
Net Cash Provided by Investing Activities	133	202	1,911	124	2,370
Net Increase (Decrease) in Cash and Investments	(20,267)	(8,922)	73,327	(5,473)	38,665
<i>Cash and Investments - Beginning of Year</i>	40,124	83,141	42,119	33,223	198,607
Cash and Investments - End of Year	\$ 19,857	\$ 74,219	\$ 115,446	\$ 27,750	\$ 237,272

City of Hillsdale
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2021

	Internal Service				
	Department of Public Service Leave and Benefits	Unemployment Insurance	Revolving Mobile Equipment	Public Service Inventory	Total Internal Service Funds
Reconciliation of Operating Loss to					
Net Cash Provided by (Used in) Operating Activities					
Operating Loss	\$ (2,107)	\$ (9,004)	\$ (32,004)	\$ (4,579)	\$ (47,694)
Adjustments to Reconcile Operating Loss to					
Net Cash Provided by (Used in) Operating Activities					
Depreciation expense	-	-	86,642	-	86,642
Changes in Assets and Liabilities					
Inventory	-	-	-	(17,708)	(17,708)
Prepaid items	(101)	-	801	-	700
Accounts payable	75	(120)	2,894	16,576	19,425
Accrued liabilities	228	-	465	-	693
Compensated absences	2,111	-	1,582	-	3,693
Net Cash Provided (Used) by Operating Activities	\$ 206	\$ (9,124)	\$ 60,380	\$ (5,711)	\$ 45,751

**City of Hillsdale
Dial-A-Ride Fund
Schedule 1 - Schedule of Local Revenues
For the Year Ended June 30, 2021**

	<u>Jul. 1, 2020 to Sep. 30, 2020</u>	<u>Oct. 1, 2020 to Jun. 30, 2021</u>	<u>Total</u>
Local Revenues			
Demand Response (Farebox)			
Regular Service	\$ 7,135	\$ 27,270	\$ 34,405
Transfers in from General Fund	-	94,615	94,615
Total Local Revenues	<u>\$ 7,135</u>	<u>\$ 121,885</u>	<u>\$ 129,020</u>

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

	<u>Oct. 1, 2019 to Jun. 30, 2020</u>	<u>Jul. 1, 2020 to Sep. 30, 2020</u>	<u>Total</u>
Local Revenues			
Demand Response (Farebox)			
Regular Service	\$ 29,413	\$ 7,135	\$ 36,548
Transfers in from General Fund	50,000	-	50,000
Total Local Revenues	<u>\$ 79,413</u>	<u>\$ 7,135</u>	<u>\$ 86,548</u>

City of Hillsdale
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2021

Federal Grantor / Pass Through Grantor Program Title	Federal CFDA Number	State Grantor Number	Program or Award Amount	Current Year Expenditures		
				Total	Federal	State
Michigan Department of Transportation (MDOT)						
2019 Local Bus Operating Assistance (Act 51)			(3,183)	\$ (3,183)	\$ -	\$ (3,183)
2020 Local Bus Operating Assistance (Act 51)			29,731	29,731	-	29,731
2021 Local Bus Operating Assistance (Act 51)			104,434	104,434	-	104,434
Mobility Management (FY 20) - Section 5311		2017-0063 - P9	1,750	1,750	-	1,750
Mobility Management (FY 21) - Section 5311		2017-0063 - P11	3,193	3,193	-	3,193
Total State Assistance				<u>135,924</u>	<u>-</u>	<u>135,924</u>
U.S. Department of Transportation						
Passed Through MDOT						
Mobility Management (FY 20) - Section 5311	20.516	2017-0063 - P9	7,000	7,000	7,000	-
Mobility Management (FY 21) - Section 5311	20.509	2017-0063 - P11	12,773	12,773	12,773	-
Operating Assistance (FY 20 CARES Adjustment)	20.509	2017-0063 - P10	47,245	47,245	47,245	-
Operating Assistance (FY 20)	20.509	2017-0063 - P10	25,327	25,327	25,327	-
Operating Assistance (FY 21)	20.509	2017-0063 - P12	99,787	99,787	99,787	-
Operating Assistance (FY 21) - FLEX	20.509	2017-0063 - P13	24,115	24,115	24,115	-
Total Federal Assistance				<u>216,248</u>	<u>216,248</u>	<u>-</u>
Total State and Federal Assistance				<u>\$ 352,172</u>	<u>\$ 216,248</u>	<u>\$ 135,924</u>

**City of Hillsdale
Dial-A-Ride Fund
Schedule 2A - Schedule of Federal & State Awards
For the Year Ended June 30, 2021**

	<u>Jul. 1, 2020 to Sep. 30, 2020</u>	<u>Oct. 1, 2020 to Jun. 30, 2021</u>	<u>Total</u>
Michigan Department of Transportation			
Local Bus Operating (Act 51)	\$ 29,731	\$ 104,434	\$ 134,164
Mobility Management	1,750	3,193	4,943
Prior Year Settlement	-	(3,183)	(3,183)
Federal Transit Administration			
Section 5311 - Operating	25,327	99,787	125,114
Section 5311 - Operating (FLEX)	-	24,115	24,115
Mobility Management	7,000	12,773	19,773
Prior Year Settlement	-	47,245	47,245
Total	<u>\$ 63,808</u>	<u>\$ 288,364</u>	<u>\$ 352,172</u>

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

	<u>Oct. 1, 2019 to Jun. 30, 2020</u>	<u>Jul. 1, 2020 to Sep. 30, 2020</u>	<u>Total</u>
Michigan Department of Transportation			
Local Bus Operating (Act 51)	\$ 96,948	\$ 29,731	\$ 126,679
Local Bus Operating (Act 51) Adjustment	14,504	-	14,504
Mobility Management	5,250	1,750	7,000
Capital Grants	19,206	-	19,206
Prior Year Settlement	(10,246)	-	(10,246)
Federal Transit Administration			
Section 5311 - Operating	47,245	25,327	72,572
Section 5311 Adjustment	47,924	-	47,924
Mobility Management	21,000	7,000	28,000
Capital Grants	76,824	-	76,824
Prior Year Settlement	-	-	-
Total	<u>\$ 318,655</u>	<u>\$ 63,808</u>	<u>\$ 382,463</u>

**City of Hillsdale
Dial-A-Ride Fund
Schedule 3 - Operating & Contract Expenses
For the Year Ended June 30, 2021**

		Nonurban
Expenses		
Labor	\$	194,956
Fringe Benefits		89,763
Services		38,314
Materials and Supplies		21,959
Utilities		7,339
Insurance		19,437
Operating Lease and Rentals		848
Miscellaneous		1,032
Depreciation		46,894
<i>Total Expenses</i>	\$	420,542

**City of Hillsdale
Dial-A-Ride Fund
Schedule 3A - Operating Expenses By Program
For the Year Ended June 30, 2021**

	Nonurban		Total
	July 1, 2020 to Sept. 30, 2020	Oct. 1, 2020 to June 30, 2021	
Expenses			
Labor	\$ 38,270	\$ 156,687	\$ 194,957
Fringe Benefits	23,185	66,578	89,763
Services	2,827	35,487	38,314
Materials and Supplies	3,706	18,253	21,959
Utilities	1,208	6,131	7,339
Insurance	1,309	18,128	19,437
Operating Lease and Rentals	97	750	847
Miscellaneous	100	932	1,032
Depreciation	-	46,894	46,894
Total Expenses	\$ 70,702	\$ 349,840	\$ 420,542

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

	Nonurban		Total
	Oct. 1, 2019 to June 30, 2020	July 1, 2020 to Sept. 30, 2020	
Expenses			
Labor	\$ 153,056	\$ 38,270	\$ 191,326
Fringe Benefits	53,623	23,185	76,808
Services	34,333	2,827	37,160
Materials and Supplies	18,366	3,706	22,072
Utilities	6,721	1,208	7,929
Insurance	21,872	1,309	23,181
Operating Lease and Rentals	463	97	560
Miscellaneous	1,323	100	1,423
Depreciation	46,894	-	46,894
Total Expenses	\$ 336,651	\$ 70,702	\$ 407,353

**City of Hillsdale
Dial-A-Ride Fund
Schedule 4R - Nonurban Regular Service Revenue Report
For the Year Ended September 30, 2020**

Code	Description	Amount
401	Farebox Revenue	
40100	Passenger Fares	\$ 36,548
409	Local Revenues	
40910	Local Operating Assistance	50,000
411	State Formula and Contracts	
41101	State Operating Assistance	141,183
413	Federal Contracts	
41301	Federal Section 5311 (operating funds only)	120,496
	<i>Total Regular Service Revenues</i>	<u>\$ 348,227</u>

**City of Hillsdale
Dial-A-Ride Fund
Schedule 4E - Regular Service Operating and Contract Expenses
For the Year Ended September 30, 2020**

	<u>Operations</u>	<u>Maintenance</u>	<u>General and Administrative</u>	<u>Total System</u>
Operating Expenses				
501 Labor				
50101 Operators Salaries and Wages	\$ 124,762	\$ -	\$ -	\$ 124,762
50102 Other Salaries and Wages	-	3,661	22,146	25,807
50103 Dispatchers' Salaries and Wages	40,757	-	-	40,757
502 Fringe Benefits				
50200 Fringe Benefits	61,757	1,836	13,215	76,808
503 Services				
50305 Audit Costs	-	-	1,032	1,032
50399 Other Services	6,857	-	29,271	36,128
504 Materials and Supplies				
50401 Fuel and Lubricants	13,278	-	-	13,278
50402 Tires and Tubes	2,060	-	-	2,060
50499 Other Materials and Supplies	2,142	4,592	-	6,734
505 Utilities				
50500 Utilities	7,929	-	-	7,929
506 Insurance				
50603 Liability Insurance	23,181	-	-	23,181
509 Miscellaneous Expenses				
50902 Travel, Meetings, and Training	36	-	-	36
50999 Other Miscellaneous Expenses	-	-	1,387	1,387
512 Operating Leases and Rentals				
51200 Operating Leases and Rentals	560	-	-	560
513 Depreciation				
51300 Depreciation	46,894	-	-	46,894
Total Operating Expenses	<u>330,213</u>	<u>10,089</u>	<u>67,051</u>	<u>407,353</u>
550 Ineligible Expense				
55007 Ineligible Depreciation	46,894	-	-	46,894
604 Ineligible Expense				
57604 Ineligible Mobility Management	-	-	24,716	24,716
Total Ineligible Expenses	<u>\$ 46,894</u>	<u>\$ -</u>	<u>\$ 24,716</u>	<u>71,610</u>
Total Eligible Expenses				<u>\$ 335,743</u>

**City of Hillsdale
Dial-A-Ride Fund
Schedule 5 - Operating Assistance Calculation
For the Year Ended September 30, 2020**

	Nonurban
Total Expenses	\$ 407,353
Less Ineligible Expenses	
Depreciation	46,894
Ineligible Mobility Management	24,716
Total Ineligible Expenses per R&E Manual	71,610
Total State Eligible Expenses	335,743
Eligible Expenses for State Reimbursement	335,743
Reimbursement Rate	42.0509%
State Operating Assistance	\$ 141,183
 Total Federal Eligible Expenses	
State Eligible Expense (per above)	\$ 335,743
Less: Additional Federal Ineligible Expenses - Audit Costs	1,032
Eligible Expenses for Federal Reimbursement	334,711
Reimbursement Rate	36.00%
Federal Operating Assistance	\$ 120,496

**City of Hillsdale
Dial-A-Ride Fund
Schedule 4N of Nonfinancial Information
For the Year Ended September 30, 2020**

	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
Vehicle Hours	4,531	-	-	4,531
Vehicle Miles	43,455	-	-	43,455
Passengers, Regular	6,167	-	-	6,167
Passengers, Elderly	5,104	-	-	5,104
Passengers, Persons w/Disabilities	5,055	-	-	5,055
Passengers, Elderly Persons w/Disabilities	4,078	-	-	4,078
<i>Total Demand Response</i>	20,404	-	-	20,404
Days Operated	251	-	-	251
		<u>Quantity</u>		
Total Demand Response Vehicles		4		
Demand Response Vehicles with Lifts		4		
Diesel/Gasoline Gallons Consumed		8,063		
Total Transit (full-time equivalent) Employees		4		
Total Revenue Vehicles (full-time equivalent) Operators		3		



**CITY OF HILLSDALE
HILLSDALE COUNTY, MICHIGAN
SINGLE AUDIT ACT COMPLIANCE
YEAR ENDED JUNE 30, 2021**

City of Hillsdale
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Passed-through the Michigan Strategic Fund:			
Community Development Block Grant Program - Dawn Theater Grant	14.228	MSC 218006-SBS	\$ 1,173,354
Total U.S. Department of Housing and Urban Development			<u>1,173,354</u>
U.S. Department of Treasury			
Passed-through the Michigan Department of Treasury:			
Coronavirus Relief Local Government Grants	21.019	N/A	59,613
Public Safety Public Health Payroll Reimbursement Program	21.019	N/A	157,808
First Responder Hazard Pay Premiums	21.019	N/A	34,000
Total U.S. Department of Treasury			<u>251,421</u>
U.S. Department of Justice			
Passed-through the Michigan State Police:			
COVID-19 BJA FY2020 Coronavirus Emergency Supplemental Funding Program	16.034	2020-VD-BX-0434	2,861
Total U.S. Department of Justice			<u>2,861</u>
U.S. Department of Transportation			
Passed-through the Michigan Department of Transportation			
Mobility Management (FY 20) - Section 5311	20.516	2017-0063 - P9	7,000
Mobility Management (FY 21) - Section 5311	20.509	2017-0063 - P11	12,773
COVID-19 Operating Assistance (FY 20 CARES Adjustment)	20.509	2017-0063 - P10	47,245
Operating Assistance (FY 20)	20.509	2017-0063 - P10	25,327
Operating Assistance (FY 21)	20.509	2017-0063 - P12	99,788
Operating Assistance (FY 21) - FLEX	20.509	2017-0063 - P13	24,115
COVID-19 Airport Improvement Program - CARES Act	20.106	3-26-SBGP-117-2020	20,000
Total U.S. Department of Transportation			<u>236,248</u>
Total Expenditures of Federal Awards			<u>\$ 1,663,884</u>

See notes to the schedule of expenditures of federal awards

City of Hillsdale

Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Hillsdale, Michigan (the "City") under programs of the federal government for the year ended June 30, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTE 3 - RECONCILIATION TO THE FINANCIAL STATEMENTS

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

Intergovernmental revenues reported in the governmental fund financial statements:	\$ 3,389,578
Subtract: state and local sources	(1,941,942)
Add: federal sources of non-operating revenues in the proprietary fund financial statements:	<u>216,248</u>
<i>Total expenditures of federal awards:</i>	<u>\$ 1,663,884</u>

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan (the “City”), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated November 19, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify a certain deficiency in internal control that we consider to be a material weakness, listed as finding 2021-001.

Compliance and Other Matters

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

Response to Findings

The City's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Gabridge & Company, PLC
Grand Rapids, MI
November 19, 2021

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

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

Report on Compliance for Each Major Federal Program

We have audited compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Hillsdale, Michigan's (the "City") major federal programs for the year ended June 30, 2021. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on its Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2021.

Report on Internal Control over Compliance

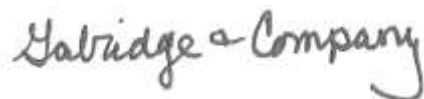
Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies; and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of federal award findings and questions costs, we did identify a certain deficiency in internal control that we consider to be a material weakness, listed as finding 2021-002.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Gabridge & Company, PLC
Grand Rapids, MI
November 19, 2021

**City of Hillsdale
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal controls over financial reporting	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes

Identification of Major Programs

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

SECTION II - FINANCIAL STATEMENT FINDINGS
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Item 2021-001.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
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Item 2021-002.

SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS

No matters were reported.

2021-001 – Material Audit Adjustments, Financial Statement Preparation, and Preparation of the Schedule of Expenditures of Federal Awards

Finding Type: Material weakness over financial reporting.

Criteria: Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the recording of all appropriate journal entries, so that the trial balances from which the audited financial statements are prepared, reflect amounts that are in conformity with U.S. generally accepted accounting principles. In addition, the City is required to prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards (the “Schedule”).

Condition/Finding: We prepared, and management approved of, significant adjustments to the City’s general ledger. Material adjustments were discovered during the audit process and because of this condition, the City is not in compliance with the required written procedures under the Uniform Guidance. During the audit we proposed entries to record:

- \$53,343 increase to grant revenues and receivables in the Dial-A-Ride fund.
- \$60,939 increase to grant revenues and receivables in the Tax Increment Finance Authority fund.

As is the case with many small and medium-sized governmental units, the City has historically relied on its independent external auditor to assist with the preparation of the financial statements, the related notes, the management’s discussion and analysis, and, when applicable, the Schedule as part of its external financial reporting process. Accordingly, the City’s ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditor, who cannot, by definition, be considered part of the City’s internal controls. Having the auditor draft the annual financial statements is allowable under current auditing standards and ethical guidelines and may be the most efficient and effective method for preparation of the City’s financial statements. However, when an entity (on its own) lacks the ability to produce financial statements that conform to GAAP, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses.

Cause: Required journal entries were not detected by the City’s internal control

over financial reporting.

Effect: The financial statements and Schedule of Expenditures of Federal Awards, were initially materially misstated until adjusting entries were proposed during the audit.

Recommendation: The City should evaluate their process currently used to identify and record accounts receivable at year-end. Additional controls or modification to the existing controls may be necessary. Correctly identifying year-end receivables will lead to management having to spend less time making modifications to the general ledger and the financial statements and will provide the City Council with more accurate financial information in a timelier manner.

**View of Responsible
Officials**

(Corrective Action): See corrective action plan.

2021-002 - Compliance Finding over Period of Performance and Reporting

Finding Type:	Material weakness
Programs:	Community Development Block Grant (CFDA #14.228)
Criteria:	Federal award grant reimbursement revenues should be recorded in the same year the expense was incurred. The reimbursement forms should also include the City's local match amount, to be properly reimbursed appropriately by the grantor within the allowable and reasonable timeframe.
Condition/Finding:	During our testing, we identified a \$60,939 grant reimbursement that the City was entitled to but was not submitted for reimbursement nor included on applicable reports. Controls over preparing and submitting the reimbursement requests / reports to the grant administrator did not detect the oversight. The period of performance expired on April 30, 2021, and the grant reporting and administrative procedures were set to expire 120 days after the grant term. The City was able to receive the full \$60,939 reimbursement in November 2021, but there was a risk that the grant could have been closed without the City receiving full reimbursement.
Cause:	The City's control activities over cash management for grants were not designed in a manner to prevent and / or detect expenses eligible for reimbursement that were omitted from the monthly reimbursement reports.
Effect:	The financial statements, and the schedule of expenditures of federal awards, were materially misstated prior to adjusting entries proposed during the audit. Further, the City could have been denied reimbursement if the correction was not completed within an allowable timeframe.
Recommendation:	The City should update its procedures over cash management over grants to ensure that: 1) all eligible expenses are properly reimbursed, 2) all receivables and revenues are recorded into the correct reporting period, and 3) all expenses are reported and submitted for reimbursement within the allowable and reasonable timeframe to minimize the amount of time that lapses between the expenditure and reimbursement of City funds.
View of Responsible Officials	
(Corrective Action):	See corrective action plan.

November 19, 2021

CORRECTIVE ACTION PLAN

Pursuant to federal regulations, Uniform Administrative Requirements Section 200.511, the following are the findings, as noted in the City of Hillsdale, Michigan's Single Audit report for the year ended June 30, 2021, and corrective actions to be completed.

Finding: 2021-001 - Material Audit Adjustments, Financial Statement Preparation, and Preparation of the Schedule of Expenditures of Federal Awards

Auditor Description of Condition and Effect: We prepared, and management approved of, significant adjustments to the City's general ledger. Material adjustments were discovered during the audit process and because of this condition, the City is not in compliance with the required written procedures under the Uniform Guidance. During the audit we proposed entries to record:

- \$53,343 increase to grant revenues and receivables in the Dial-A-Ride fund.
- \$60,939 increase to grant revenues and receivables in the Tax Increment Finance Authority fund.

As is the case with many small and medium-sized governmental units, the City has historically relied on its independent external auditor to assist with the preparation of the financial statements, the related notes, the management's discussion and analysis, and, when applicable, the schedule of expenditures of federal awards, as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP, as well as the Uniform Guidance, is based, in part, on its reliance on its external auditor, who cannot, by definition, be considered part of the City's internal controls. Having the auditor draft the annual financial statements is allowable under current auditing standards and ethical guidelines and may be the most efficient and effective method for preparation of the City's financial statements. However, when an entity (on its own) lacks the ability to produce financial statements that conform to GAAP, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses.

Auditor Recommendation: The City should evaluate their process currently used to identify and record accounts receivable at year-end. Additional controls or modification to the existing controls may be necessary. Correctly identifying year-end receivables will lead to management having to spend less time making modifications to the general ledger and the financial statements and will provide the City Council with more accurate financial information in a timelier manner.

Corrective Action: We concur with the finding and will ensure grant receivables are appropriately documented by implementing grant administration as part of the adoption of a grant policy. Federal grants will have additional review and internal controls in place that include Finance as part of the grant process.

Responsible Person: Karen Lancaster, Interim Finance Director or Finance Director, when hired
Anticipated Completion Date: June 30, 2022

Finding: 2021-002 - Compliance Finding over Period of Performance and Reporting

Auditor Description of Condition and Effect: During our testing, we identified a \$60,939 grant reimbursement that the City was entitled to but was not submitted for reimbursement nor included on applicable reports. Controls over preparing and submitting the reimbursement requests / reports to the grant administrator did not detect the oversight. The period of performance expired on April 30, 2021, and the grant reporting and administrative procedures were set to expire 120 days after the grant term. The City was able to receive the full \$60,939 reimbursement in November 2021, but there was a risk that the grant could have been closed without the City receiving full reimbursement. The financial statements, and the schedule of expenditures of federal awards, were materially misstated prior to the adjustments that occurred during the audit.

Auditor Recommendation: The City should update its procedures over cash management over grants to ensure that: 1) all eligible expenses are properly reimbursed, 2) all receivables and revenues are recorded into the correct reporting period, and 3) all expenses are reported and submitted for reimbursement within the allowable and reasonable timeframe to minimize the amount of time that lapses between the expenditure and reimbursement of City funds.

Corrective Action: We agree with the finding and will be implementing a grant policy in FY2022. The grant policy provides for internal controls over federal grants including allowability of costs, review and recording of reimbursements, and reconciliation to the general ledger. Each department will be required to work with Finance on their grant applications and administration.

Responsible Person: Karen Lancaster, Interim Finance Director or Finance Director, when hired
Anticipated Completion Date: June 30, 2022

November 19, 2021

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan (the "City") as of and for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 13, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. There were no new accounting policies adopted and, except as stated in Note 18 to the financial statements, the application of existing policies was not changed during the fiscal year ended June 30, 2021. We noted no transactions entered by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 19, 2021.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

As required by the OMB Uniform Guidance, we have also completed an audit of the federal programs administered by the City. The results of that audit are provided to the City Council in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with the OMB Uniform Guidance dated November 19, 2021.

Other Matters

We applied certain limited procedures to management's discussion and analysis, budgetary comparison schedules, and the required pension schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Restriction on Use

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

Very truly yours,



Gabridge & Company, PLC
Grand Rapids, MI