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**CITY OF HILLSDALE, MICHIGAN**

**YEAR ENDED JUNE 30, 2016**

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**CITY OF HILLSDALE, MICHIGAN**  
**FINANCIAL STATEMENTS**  
**AND INDEPENDENT AUDITOR'S REPORT**  
**(with required supplementary information)**  
**YEAR ENDED JUNE 30, 2016**

CITY OF HILLSDALE, MICHIGAN

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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Hillsdale, Michigan  
Hillsdale, Michigan

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, as of and for the year ended June 30, 2016, 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. 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 of Hillsdale, Michigan, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii – xiii, as well as the budgetary comparison information and retirement system information on pages 36-41, 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 of Hillsdale's basic financial statements. The combining and individual nonmajor fund financial statements, the Dial-A-Ride Enterprise Fund information, as well as the combining statements for the internal service and agency funds, are presented for purposes of additional analysis and are not a part of the required basic financial statements.

This supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 other supplementary information as described above and listed in the table of contents is fairly stated in all material respects in relation to the basic financial statements as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016 on our consideration the City of Hillsdale, Michigan'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 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 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 of Hillsdale's internal control over financial reporting and compliance.

***Condon, Hecht, Bisher, Wade & Co., P.C.***

Certified Public Accountants

Hillsdale, Michigan  
December 19, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS



**City of Hillsdale**  
Management's Discussion and Analysis  
June 30, 2016

As management of the *City of Hillsdale, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016

**Financial Highlights**

- The amount that the City assets and deferred outflows of resources exceeded its liabilities at the close of the most recent fiscal year was \$56,995,313 (*net position*). Of this amount, \$10,022,376 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Governmental activities net change in position increased \$828,220, while business-type activities changes in net position decreased \$4,021,774. The combined net change in position decreased more than five percent (5.31%) or \$3,193,554.
- The Government Accounting Standards Board (GASB) Statement No. 68 last year required that the Net Pension Liability be calculated and reported on the Government Wide Statements. The net pension liability is determined by an annual actuarial valuation as of December 31, 2015 combined with the City's pension contributions for January – June 2016. The City's net pension liability for both governmental and business type activities for the fiscal year ending June 30, 2016 was \$5,281,264. This is a 127% increase from fiscal year 2015.
- As of the close of the current fiscal year, the City's Governmental funds reported combined ending fund balances of \$3,119,084. That is up \$56,461 or two percent (2.0%) from the prior year.
- Investment in Michigan South Central Power Agency declined \$5,115,604. The substantial loss is due to the closing of their coal-fired generation plant in Litchfield.
- Council established the policy of maintaining a minimum General Fund fund balance reserve of fifteen percent (15%) back in 1992. At the end of the current fiscal year, total fund balance for the general fund was \$913,097. That represents more than eighteen percent (18.66%) of total budgeted general fund expenditures for fiscal year 2016-17.
- The City issued \$7.5M in sewer revenue bonds through the State Revolving Fund Loan Program to fund sewage disposal system improvements.

**Overview of the Financial Statements**

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

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

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two 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 government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this

**City of Hillsdale**  
Management's Discussion and Analysis  
June 30, 2016

statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

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

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

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

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

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

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

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

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

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

**Proprietary funds.** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its electric, sanitary sewer, water distribution, and public transportation

**City of Hillsdale**  
Management's Discussion and Analysis  
June 30, 2016

operations. *Internal service funds* account for operations that provide services (such as leave and benefits, inventory purchasing, equipment rental and unemployment insurance) and accumulate and allocate costs internally among the City's various functions. Because this service predominantly benefits governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

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

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

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

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

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-35 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain other information. This includes combining and individual fund financial statements and schedules, which can be found on pages 42-64 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Hillsdale, assets exceeded liabilities by \$56,995,313 at the close of the 2016 fiscal year.

The total governmental and business-type activities *total liabilities* increased \$3,459,984, or sixty percent (60%) from the prior year. This increase is directly related to the Government Accounting Standard Board's (GASB) Statement No. 68 pension reporting requirements. This statement changed the way the City must now report pension liabilities. Previously only the yearly pension contributions were reported on the government-wide of fund financial statements. The long-term costs of retirement plans were included in the notes section only. The new requirement provides a better picture of all post-employment costs and the government's long-term financial obligations. Over eighty-five percent (85%) of the increased pension liability is pension related.

By far the largest portion of the City's assets, more than seventy-eight percent (78.2%), reflects its investment in land, buildings, vehicles, equipment and infrastructure less any outstanding related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it is important to note that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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Management's Discussion and Analysis  
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City's Net Position	Governmental		Business-type		Total		Total Percent Change
	Activities		Activities		Total		
	2015	2016	2015	2016	2015	2016	
Current and Other Assets	\$3,873,585	\$3,966,364	\$16,973,942	\$13,223,282	\$20,847,527	\$17,189,646	-17.55%
Capital Assets	\$21,903,244	\$22,654,710	\$22,759,136	\$23,689,155	\$44,662,380	\$46,343,865	3.76%
<b>Total Assets</b>	<b>\$25,776,829</b>	<b>\$26,621,074</b>	<b>\$39,733,078</b>	<b>\$36,912,437</b>	<b>\$65,509,907</b>	<b>\$63,533,511</b>	<b>-3.02%</b>
Deferred Outflows of Resources	\$234,658	\$1,688,953	\$185,454	\$993,985	\$420,112	\$2,662,938	533.86%
Long-term Liabilities Outstanding	\$216,818	\$205,127	\$1,236,173	\$1,908,403	\$1,452,991	\$2,113,530	45.46%
Net Pension Liability	\$1,294,209	\$2,783,193	\$1,022,832	\$2,498,071	\$2,317,041	\$5,281,264	127.93%
Other Liabilities	\$248,126	\$221,153	\$1,722,994	\$1,585,189	\$1,971,120	\$1,806,342	-8.36%
<b>Total Liabilities</b>	<b>\$1,759,153</b>	<b>\$3,209,473</b>	<b>\$3,981,999</b>	<b>\$5,991,663</b>	<b>\$5,741,152</b>	<b>\$9,201,136</b>	<b>60.27%</b>
Net Position:							
Invested In Capital Assets Net of Related Debt	\$21,903,244	\$22,654,710	\$21,198,569	\$21,930,057	\$43,101,813	\$44,584,767	3.44%
Restricted	\$2,116,943	\$2,202,791	\$376,974	\$185,379	\$2,493,917	\$2,388,170	-4.24%
Unrestricted	\$232,147	\$223,053	\$14,360,990	\$9,799,323	\$14,593,137	\$10,022,376	-31.32%
<b>Net Position</b>	<b>\$24,252,334</b>	<b>\$25,080,554</b>	<b>\$35,936,533</b>	<b>\$31,914,759</b>	<b>\$60,188,867</b>	<b>\$56,995,313</b>	<b>-5.31%</b>

A portion of the City's assets (\$2,388,170) represents resources that are subject to internal and external restrictions on how they may be used. The remaining balance of \$10,022,376 is *unrestricted assets* that may be used to meet the government's ongoing obligations to citizens and creditors. That amount decreased \$4,570,761, or thirty-one percent (31.3%) from the prior year. That decrease is the net effect of the increased pension liability for both the government and the business-type activities coupled with the loss on the Michigan South Central Power Agency (MSCPA) investment.

**City of Hillsdale**  
**Management's Discussion and Analysis**  
**June 30, 2016**

**City's Changes in Net Position**

	Governmental		Business-type		Total		Total Percentage Change
	Activities		Activities		Total		
	2015	2016	2015	2016	2015	2016	
<b>Revenues:</b>							
<b>Program Revenues:</b>							
Charges for Services	\$303,524	\$457,179	\$15,825,012	\$15,909,345	\$16,128,536	\$16,366,524	1.48%
Operating Grants & Contributions	\$948,895	\$1,691,304	\$286,881	\$193,870	\$1,235,776	\$1,885,174	52.55%
Capital Grants & Contributions	\$157,529	\$1,348,254	\$0	\$1,072,182	\$157,529	\$2,420,436	1436.50%
<b>Total Revenues</b>	<b>\$1,409,948</b>	<b>\$3,496,737</b>	<b>\$16,111,893</b>	<b>\$17,175,397</b>	<b>\$17,521,841</b>	<b>\$20,672,134</b>	<b>17.98%</b>
<b>Expenses:</b>							
General Government	\$1,158,500	\$1,261,178			\$1,158,500	\$1,261,178	8.86%
Public Safety	\$1,810,531	\$1,856,375			\$1,810,531	\$1,856,375	2.53%
Public Services	\$372,085	\$374,153			\$372,085	\$374,153	0.56%
Highways & Streets	\$1,928,080	\$1,854,900			\$1,928,080	\$1,854,900	-3.80%
Community & economic development	\$147,231	\$902,797			\$147,231	\$902,797	513.18%
Recreation & Culture	\$661,318	\$630,087			\$661,318	\$630,087	-4.72%
Capital Outlay	\$70,811	\$56,369			\$70,811	\$56,369	-20.40%
Unallocated Depreciation	\$35,500	\$35,500			\$35,500	\$35,500	0.00%
Electric			\$12,178,862	\$13,234,326	\$12,178,862	\$13,234,326	8.67%
Water			\$1,164,383	\$1,222,091	\$1,164,383	\$1,222,091	4.96%
Sewer			\$1,280,740	\$1,533,608	\$1,280,740	\$1,533,608	19.74%
Transportation			\$339,222	\$332,391	\$339,222	\$332,391	-2.01%
<b>Total Expenses</b>	<b>\$6,184,056</b>	<b>\$6,971,359</b>	<b>\$14,963,207</b>	<b>\$16,322,416</b>	<b>\$21,147,263</b>	<b>\$23,293,775</b>	<b>10.15%</b>
<b>Increase (Decrease) in Net Position Before Transfers</b>	<b>(\$4,774,108)</b>	<b>(\$3,474,622)</b>	<b>\$1,148,686</b>	<b>\$852,981</b>	<b>(\$3,625,422)</b>	<b>(\$2,621,641)</b>	<b>-27.69%</b>
<b>General Revenues:</b>							
Taxes	\$2,752,652	\$2,738,916			\$2,752,652	\$2,738,916	-0.50%
Grants/Contributions Not Restricted	\$828,856	\$821,926			\$828,856	\$821,926	-0.84%
Unrestricted Investment Earnings	\$25,096	\$28,760	(\$35,714)	\$20,968	(\$10,618)	\$49,728	-568.34%
Other Revenues	\$701,529	\$753,492	\$34,270	\$179,629	\$735,799	\$933,121	26.82%
Transfers - Internal Activity	\$11,125	(\$40,252)	(\$11,125)	\$40,252	\$0	\$0	0.00%
<b>Total General Revenues</b>	<b>\$4,319,258</b>	<b>\$4,302,842</b>	<b>(\$12,569)</b>	<b>\$240,849</b>	<b>4,306,689</b>	<b>4,543,691</b>	<b>5.50%</b>
Extroinary item - loss on investment				(\$5,115,604)		(\$5,115,604)	
<b>Changes in Net Position</b>	<b>(\$454,850)</b>	<b>\$828,220</b>	<b>\$1,136,117</b>	<b>(\$4,021,774)</b>	<b>\$681,267</b>	<b>(\$3,193,554)</b>	<b>-568.77%</b>
<b>Net Position - Beginning of Year</b>	<b>\$24,707,184</b>	<b>\$24,252,334</b>	<b>\$34,800,416</b>	<b>\$35,936,533</b>	<b>\$59,507,600</b>	<b>\$60,188,867</b>	<b>1.14%</b>
<b>Net Position - End of Year</b>	<b>\$24,252,334</b>	<b>\$25,080,554</b>	<b>\$35,936,533</b>	<b>\$31,914,759</b>	<b>\$60,188,867</b>	<b>\$56,995,313</b>	<b>-5.31%</b>

**City of Hillsdale**  
 Management's Discussion and Analysis  
 June 30, 2016

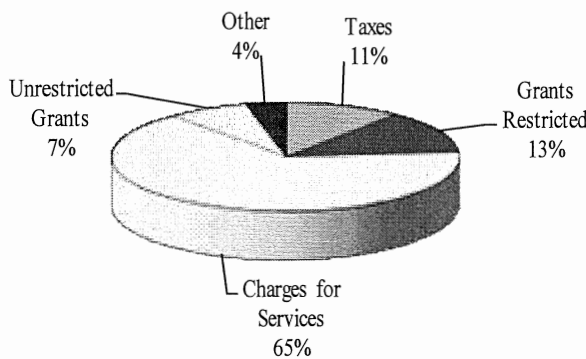
The City's total program revenue for 2016, (including restricted and operating grants and contributions) was \$20,672,134. This represents about an eighteen percent (17.98%) increase from the prior year. The largest increase was in capital grants and contributions and operating grants and contributions which are project specific, one-time sources of revenue.

Government wide, charges for services revenue remained relatively stable, moving upward by about one and one-half percent (1.48%). More than ninety-seven percent (97.2%) of the total charges for services revenue comes from the business-type activities (electric, water, sewer and transportation funds). Of those activities, the electric fund generated about than eighty-three percent (82.7%) of those charges.

The chart above shows that the general revenues, for both the governmental and business-type activities, increased around five and one-half percent (5.50%). These revenues consist of taxes, investment earnings, internal transfers between funds, and various other miscellaneous revenues. The tax revenue declined 0.3 percent (0.3%) from the prior year. Governmental and business-type activities other revenues increase almost twenty-seven percent (26.82%) or \$197,322. These revenues are from various sources and often include one-time revenues.

The pie graph to the below reveals the major sources of revenues collected by the municipality's governmental and business-type activities combined. Charges for services make up sixty-five (65%) of revenues. Eighty-three percent (83%) of those monies come from the electric utility and are not used for general governmental operations. Taxes are used primarily to fund general governmental activities, make up eleven percent (11%) of overall revenues. Grants, restricted and unrestricted combined, account for twenty percent (20%) of total revenues. Investment earnings and other miscellaneous revenue sources make up the remaining four percent (4%).

**Source of Revenue for Fiscal Yr 2016  
 Governmental & Business-type Activities**



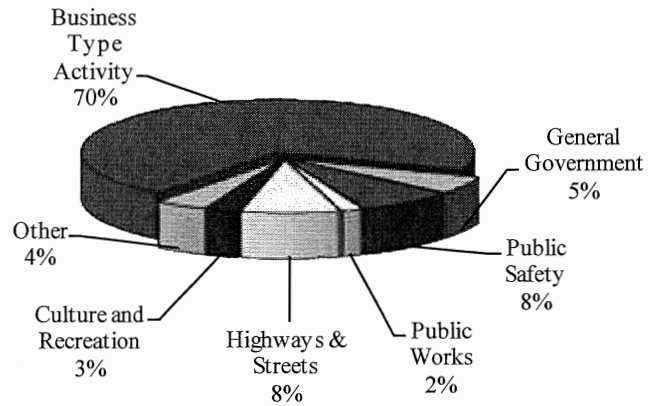
Total expenditures increased overall by more than ten percent (10.15%) from fiscal year 2014-15. Seven (7) of the government's functions/programs experienced a modest increase, while four (4) functions/programs decreased and one experienced no change. The unallocated depreciation was the only function that remained unchanged. The two functions with the greatest variances were the community and economic development governmental activity and the sewer department. Economic development expenditures increase over 500% as the City took advantage of Community Development Block Grants for three projects to renovate and purchase

blighted property for redevelopment. The 20% increase in the sewer department is related to the wastewater treatment plant improvements that got underway in this fiscal year.

**City of Hillsdale**  
Management's Discussion and Analysis  
June 30, 2016

As the functions graph on the below depicts, business type activities (electric, water, sewer, and transportation operations) make up seventy percent (70%) of all the municipality's expenditures. The largest portions of overall expenditures, fifty-six percent (56.5%), are incurred by the electric fund. General governmental activities account for only five percent (5%) of total expenditures; public safety and highways and streets each account for eight percent (8%) each, recreation and culture account for three percent (3%), public works two percent (2%) and other miscellaneous activities make up the remaining four percent (4%).

**Functional Expenses for Fiscal Yr 2016  
Governmental & Business-type Activities**



**Governmental activities.** Governmental activities had a change in net position of \$828,220. Key elements from operations for the year are:

- The City received various federal and state grant awards for a variety of activities: rental rehabilitation (\$94,400) for rehabilitation of a downtown second-story apartment); for construction of a parallel taxiway and an entrance road at the airport (\$1,350,000); Community Development Block Grants totaling \$865,700 to assist property owners in acquisition and renovation of blighted buildings (42 Union Street and the old Stock's Mill facility purchase). The CDBG grants are a pass through for the City but represent a substantial investment in the community that will expand the future tax base.
- As a result of the grant awards, program revenues increased over \$2M from the prior year. It should be noted that these revenues sources are volatile because they are project specific, one time revenues.
- General Revenues for all governmental activities remained relative flat, decreasing less than one percent (0.38%) or \$16,416.
- Overall governmental activities expenditures increased by almost thirteen percent (12.73%). The pass – through economic development expenditures for the CDBG grants account for the increase.
- Another major factor in the City's Net Position change is related to the Government Accounting Standards Board (GASB) Statement No. 68 requirements. Last year was the first year these changes were instituted. This GASB Statement requires that each municipality calculate a net pension liability. This is done through a series of complex calculations. It appears on the government wide statements only. Prior to last year, the pension liability was reported in the notes section of the financial statements. The governmental activities net pension liability for fiscal year 2016 is \$2,783,193. That is a 115% increase from 2015. The increase is a combination of many very complicated and inter-related circumstances surrounding the City's defined benefit retirement program. The City administration is taking the necessary steps to reduce this liability as quickly as possible.

**Business-type activities.** Business-type activities experienced a net loss for the year of \$4,021,774. Key elements of the business-type activities decrease are as follows:

- This year the electric fund experienced a \$4,811,640 loss in net position. This is directly linked to the MSCPA investment loss of \$5,115,604.
- A net loss of \$22,389 in the water fund is the result of decaling sales and increased operational costs.
- Net pension liability for the business-type activities increased \$1.4M. This increase is related to the Government Accounting Standards Board (GASB) Statement No. 68 requirements. Last year was the first year these changes were instituted. This GASB Statement requires that each municipality calculate a net pension liability. This is done through a series of complex calculations. It appears on the government

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wide statements only. Prior to last year, the pension liability was reported in the notes section of the financial statements. The business-type activities net pension liability for fiscal year 2016 is \$2,498,071. That is a 144% increase from 2015. The increase is a combination of many very complicated and inter-related circumstances surrounding the City's defined benefit retirement program. The City administration is taking the necessary steps to reduce this liability as quickly as possible.

**Financial Analysis of the Government's Funds**

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

*Governmental funds.* The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. As of June 30, 2016 the City's governmental funds reported combined ending fund balances of \$3,119,084. That is a \$3,448 increase from the prior year.

Governmental fund balance is broken into three categories: non-spendable, restricted, and unassigned. Non-spendable fund balance is that portion of fund balance reflecting assets not in spendable form. Prepaid expenditures are the most common type of these expenditures. These are expenses paid in advance for things like health and liability insurances paid in one fiscal year for coverage that extends into the next. The governmental funds prepaid expenditures totaled \$75,711. The restricted portion of fund balance refers to resources subject to externally imposed and legally enforceable constraints put in place by the resource providers, e.g. grantors or creditors, or by law through constitutional provisions or enabling legislation. The governmental funds restricted fund balance is \$2,202,791. This constitutes an increase of just over four percent (4.1%) from the prior year.

*Unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. That portion of the governmental funds fund balance is \$840,582 and available for spending at the government's discretion.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance of the general fund was \$913,097. Of that balance, \$72,515 is classified as non-spendable for prepaid expenditures. The remaining \$840,582 is unassigned and therefore available for spending at the government's discretion.

Public Act 51 of 1951 channels state restricted transportation revenue into special revenue funds, and directs how those funds are spent. The resources that the City of Hillsdale receives from the State through this act are recorded in the Major and Local Street Funds. The fund balances in these two funds, \$297,014 in Major and \$124,795 in Local, are thus designated to be spent only on the streets. These fund balances are classified as restricted.

*Other nonmajor governmental funds* collectively experienced a combined net increase in fund balances for the year of \$99,527. None of these fund balances are considered unassigned. Of the \$1,784,178 balance, \$3,196 is classified as non-spendable, prepaid expenditures. The remaining nonmajor governmental fund balances are considered restricted for various reasons. There are three permanent endowments (Cemetery Perpetual Care Fund, Stocks Park Perpetual Maintenance Fund, and the R.L. Owen Memorial Trust Fund). Combined they have a total restricted fund balance of \$747,257. The restricted nonmajor special revenue fund balances total \$642,257. These include the fund balances from the Library, Recreation, and Drug Forfeitures Funds. The combined restricted fund balances of the Capital Improvement, Library Improvement, Airport Improvement, Mrs. Stocks Park, Fire Equipment, and Fields of Dreams Funds is \$813,277.



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**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail. Investment in capital assets net of related debt for all proprietary funds increased over three percent (3.45%). This represents the amount of net position that is invested in capital and therefore not available for future spending. Total restricted investments decreased almost fifty-one percent (50.8%). There were no designated net position funds in this fiscal year. Undesignated net position of the water, sewer, electric, and transportation funds at the end of the year declined by more than nineteen percent (19.5%). The proprietary funds had a total net position at fiscal year-end of \$31,914,759. That is a total overall decrease of more than eleven percent or \$4,021,774. All the loss was realized in undesignated net position.

All but one of the proprietary funds realized a net loss in net position for the year. The sewer fund ended the year with an increase in net position of \$857,660, as the wastewater treatment plant improvement project got underway. The electric fund loss is the result of the MSCPA investment loss. The sewer and transportation funds revenues were down while operational expenditures went up.

**General Fund Budgetary Highlights**

The general fund revenue budget for fiscal year 2016 was originally \$4,461,060. It was amended up to \$4,976,580. These amendments were made because of CDBG grant funding timing. The grants through the Michigan State Housing Authority for rental rehabilitation and blight elimination were expected in during 2015 but did not actually materialize until after the 2016 budget was adopted. The federal revenues were increased by \$562,520. Other miscellaneous revenues were reduced by \$47,000.

Differences between the original and final amended General Fund expenditure budgets totaled \$454,550. Various adjustments, both positive and negative, in the General Government activities, totaled a net decrease of \$5,000. These adjustments were due to a variety of issues such as: unexpected legal fees, staffing changes and changes in utility costs. Public safety (Police, Fire, and Code Enforcement) budget amendments netted out at a reduction of \$28,000. The Police Department budget was reduced by \$27,000 due to staffing changes. The Fire Department budget was increased by \$55,000 due to the timing on capital grant purchases and unexpected part-paid firefight overtime. There was no change in the Code Enforcement budget. The Public Works classification net budgets increased by \$14,000. Public Services increased \$23,000 due to staffing changes. Street lighting utility costs were not as high as projected so the budget was reduces \$9,000. The Economic Development Department's budget was increased \$409,550 due to the time the MSHDA rental rehab and the CDBG grant funds were actually received. They were initially projected to be recorded in fiscal year 2015. A \$2,000 amount was taken out of the Planning budget to offset the other budgetary increases. The Transfers in and (out) adjustments were made to ensure all funds remained in a positive position at fiscal year-end.

**Capital Asset and Debt Administration**

**Capital assets.** The City's cash outlay for capital assets in both its governmental and business type activities as of June 30, 2016, amounted to more than \$1.8M. This investment in capital assets includes land, buildings and system improvements, machinery and equipment, library books, recreational land improvements, roads, and water mains. The combined total capital assets, net of depreciation, increased almost four percent (3.8%).

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**City's Capital Assets**  
(Net of Depreciation)

	Governmental		Business-type		Total		Total
	Activities		Activities				Percent
	2015	2016	2015	2016	2013	2016	Change 2015- 16
Land	\$8,618,707	\$8,613,943	\$361,042	\$361,042	\$8,979,749	\$8,974,985	-0.05%
Buildings and System Improvements	3,545,405	3,422,649	19,766,836	20,896,254	\$23,312,241	\$24,318,903	4.32%
Library Books	222,188	223,811			\$222,188	\$223,811	0.73%
Machinery and Equipment	332,798	296,594	210,213	158,329	\$543,011	\$454,923	16.22%
Infrastructure	9,184,146	10,097,713			\$9,184,146	\$10,097,713	9.95%
Construction in Progress	0	0	2,421,047	2,273,530	2,421,047	2,273,530	-6.09%
<b>Total</b>	<b>\$21,903,244</b>	<b>\$22,654,710</b>	<b>\$22,759,138</b>	<b>\$23,689,155</b>	<b>\$44,662,382</b>	<b>\$46,343,865</b>	<b>3.76%</b>

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

- The governmental activities invested \$756,230 in various capital assets including: books, building and grounds improvements, equipment and vehicles, streets and infrastructure investments.
- The business-type activities invested over \$2.7M in various capital assets such as: overhead and underground electric line construction; replacement of transducers with pad mount transformers; repairs to engines 5 & 6 at the power plant; electric line extensions, electric distribution automation; computer upgrades; rebuild high served pump 2 in the water department; AMIK water meter project; clean and overhaul on well; wastewater treatment plant improvements; sewer main replacement; manhole rehabilitation and replaced ferrous pumps.

Additional information on the City's capital assets can be found in note No. 4 on pages 22-23 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$739,471, which consisted of water and sewer revenue bonds. These bonds pledged the City utility's income to be received from the constructed assets to pay the debt service of the bond issue. The City has no general obligation bonds outstanding. The City of Hillsdale, for bonding purposes, has a credit assessment with Standard & Poor's of "Low Investment Grade" and is currently "non-rated" with Moody's and Fitch.

**City's Outstanding Debt**

Revenue Bonds

	Business-type		Total	
	2015	2016	2015	2016
Revenue Bonds	\$358,000	\$739,471	\$358,000	\$739,471
<b>Total</b>	<b>\$358,000</b>	<b>\$739,471</b>	<b>\$358,000</b>	<b>\$739,471</b>

State statutes limit the amount of general obligation debt a governmental entity may issue to ten percent (10%) of its total State Equalized Value (SEV). The City's state equalized valuation as of December 31, 2015 was \$137,109,300. That translates into a debt limit of \$13,710,930. The City's revenue bond debt is exempt from that limit, so as of June 30, 2016 there is no debt applicable to the limit.

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The City's bonded debt increased during the current fiscal year more than 106 percent (106.56%) or \$381,471. The City's total outstanding long-term debt obligation, including the bond debt, as of June 30, 2016 was \$2,113,530, which includes compensated absence liabilities as well as all other outstanding loan obligations, including the revenue bonds. The City's other debt obligations consist of \$354,432 in compensated absences for the governmental and business-type activities combined and the Board of Public Utilities capital lease debt obligation of \$1,019,627.

In the July of 2015 the Board of Public Utilities issued revenue bonds for the construction of improvements to the City's sewage disposal system at the Waste Water Treatment Plant. The project is estimated to cost \$7,616,000. The City took advantage of the State of Michigan Clean Water Revolving Loan Program (the State Revolving Fund Loan Program) to pay the cost of the project comprised of a long-term low-interest loan to be evidenced by revenue bonds issued under Act 94 of the Public Acts of Michigan of 1933 as amended, in a not to exceed amount of \$7,616,000. Through this program the BPU also qualified for a \$1M SRF Loan Program grant.

Additional information on the City's long-term debt can be found in note No. 8 on pages 25-26 of this report.

**Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City's budget for the 2016-17 fiscal year:

- State shared revenues were projected at the constitutional level plus the Economic Vitality Incentive Program revenues as projected by the State of Michigan.
- The City projected a balanced budget in its General Fund.
- The projection for gas and weight taxes, used to maintain the road systems throughout the state was projected to increase about three and one-half percent (3.5%) based on historical trends. These taxes are collected by the state and disbursed to the local governmental agencies (cities, townships, road commissions, and counties) based on population and miles of roads maintained in each classification (major or local).
- Health insurance costs increases were projections at twenty-five percent (25%).
- A 2% wage increases were projected across the board for all employees.

**Requests for Information**

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

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF HILLSDALE, MICHIGAN**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

	<b>PRIMARY GOVERNMENT</b>			<b>COMPONENT UNITS</b>	
	<b>GOVERNMENTAL</b>	<b>BUSINESS-TYPE</b>	<b>TOTAL</b>	<b>TAX INCREMENT</b>	<b>ECONOMIC</b>
	<b>ACTIVITIES</b>	<b>ACTIVITIES</b>		<b>FINANCE</b>	<b>DEVELOPMENT</b>
				<b>AUTHORITY</b>	<b>CORPORATION</b>
<b>ASSETS</b>					
Cash and investments	\$ 3,047,709	\$ 4,521,754	\$ 7,569,463	\$ 680,140	\$ 148,919
Restricted investments	-	185,379	185,379	-	-
Receivables	262,883	1,577,411	1,840,294	-	-
Internal balances	295,650	(295,650)	-	-	-
Prepaid items and other assets	184,664	349,129	533,793	-	-
Inventory	175,458	868,119	1,043,577	-	-
Investment in M.S.C.P.A.	-	6,017,140	6,017,140	-	-
Capital assets, net:					
Assets not being depreciated	8,613,943	2,634,572	11,248,515	65,000	172,721
Assets being depreciated	14,040,767	21,054,583	35,095,350	-	-
<b>TOTAL ASSETS</b>	<b>26,621,074</b>	<b>36,912,437</b>	<b>63,533,511</b>	<b>745,140</b>	<b>321,640</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pension related	1,668,953	993,985	2,662,938	-	-
<b>LIABILITIES</b>					
Accounts payable	180,411	574,505	754,916	1,046	-
Accrued expenses	39,797	1,000,322	1,040,119	-	-
Accrued interest	-	2,379	2,379	-	-
Due to other governments	945	7,983	8,928	-	-
Net pension liability	2,783,193	2,498,071	5,281,264	-	-
Non-current liabilities:					
Due within one year	-	373,070	373,070	-	-
Due in more than one year	205,127	1,535,333	1,740,460	-	-
<b>TOTAL LIABILITIES</b>	<b>3,209,473</b>	<b>5,991,663</b>	<b>9,201,136</b>	<b>1,046</b>	<b>-</b>
<b>NET POSITION</b>					
Net investment in capital assets	22,654,710	21,930,057	44,584,767	65,000	172,721
Restricted for:					
Special revenues	642,257	-	642,257	-	-
Debt service	-	185,379	185,379	-	-
Capital projects	813,277	-	813,277	-	-
Endowment and trust principal	747,257	-	747,257	-	-
Unrestricted	223,053	9,799,323	10,022,376	679,094	148,919
<b>TOTAL NET POSITION</b>	<b>\$ 25,080,554</b>	<b>\$ 31,914,759</b>	<b>\$ 56,995,313</b>	<b>\$ 744,094</b>	<b>\$ 321,640</b>

See accompanying notes to the basic financial statements.

**CITY OF HILLSDALE, MICHIGAN**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2016**

<b>FUNCTIONS / PROGRAMS</b>	<b>PROGRAM REVENUES</b>				
	<b>EXPENSES</b>	<b>CHARGES FOR SERVICES</b>	<b>OPERATING GRANTS AND CONTRIBUTIONS</b>	<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>	<b>NET (EXPENSE) REVENUE</b>
<b>PRIMARY GOVERNMENT</b>					
Governmental Activities:					
General government	\$ 1,261,178	\$ 234,515	\$ 18,356	\$ -	\$ (1,008,307)
Public safety	1,856,375	-	52,194	-	(1,804,181)
Public works	374,153	-	-	-	(374,153)
Highways and streets	1,854,900	-	693,506	-	(1,161,394)
Community and economic development	902,797	64,821	766,704	-	(71,272)
Culture and recreation	630,087	87,988	114,977	-	(427,122)
Capital outlay	56,369	69,855	45,567	1,348,254	1,407,307
Unallocated depreciation, excluding direct portion	35,500	-	-	-	(35,500)
<b>Total Governmental Activities</b>	<b>6,971,359</b>	<b>457,179</b>	<b>1,691,304</b>	<b>1,348,254</b>	<b>(3,474,622)</b>
Business-type Activities:					
Electric	13,234,326	13,359,068	-	49,858	174,600
Water	1,222,091	1,149,464	-	11,155	(61,472)
Sewer	1,533,608	1,351,477	-	1,011,169	829,038
Transportation	332,391	49,336	193,870	-	(89,185)
<b>Total Business-type Activities</b>	<b>16,322,416</b>	<b>15,909,345</b>	<b>193,870</b>	<b>1,072,182</b>	<b>852,981</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 23,293,775</b>	<b>\$ 16,366,524</b>	<b>\$ 1,885,174</b>	<b>\$ 2,420,436</b>	<b>\$ (2,621,641)</b>
<b>COMPONENT UNITS</b>					
Tax Increment Finance Authority	\$ 76,046	\$ -	\$ -	\$ -	\$ (76,046)
Economic Development Corporation	2,091	-	-	-	(2,091)
<b>TOTAL COMPONENT UNITS</b>	<b>\$ 78,137</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (78,137)</b>

continued...

See accompanying notes to the basic financial statements.

**CITY OF HILLSDALE, MICHIGAN**  
**STATEMENT OF ACTIVITIES (CONCLUDED)**  
**YEAR ENDED JUNE 30, 2016**

	<u>PRIMARY GOVERNMENT</u>			<u>COMPONENT UNITS</u>	
	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS - TYPE ACTIVITIES</u>	<u>TOTAL</u>	<u>TAX INCREMENT FINANCE AUTHORITY</u>	<u>ECONOMIC DEVELOPMENT CORPORATION</u>
<b>CHANGES IN NET POSITION</b>					
Net (expense) revenue	\$ (3,474,622)	\$ 852,981	\$ (2,621,641)	\$ (76,046)	\$ (2,091)
General Revenues:					
Property taxes	2,738,916	-	2,738,916	127,793	-
Unrestricted grants and contributions	821,926	-	821,926	-	-
Interest and investment gains	28,760	20,968	49,728	2,085	460
Other revenues (expenses)	753,492	179,629	933,121	-	27,817
Transfers - internal activities	(40,252)	40,252	-	-	-
Total general revenues, contributions and transfers	<u>4,302,842</u>	<u>240,849</u>	<u>4,543,691</u>	<u>129,878</u>	<u>28,277</u>
Extraordinary item - loss on investment	-	(5,115,604)	(5,115,604)	-	-
<b>CHANGES IN NET POSITION</b>	828,220	(4,021,774)	(3,193,554)	53,832	26,186
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>24,252,334</u>	<u>35,936,533</u>	<u>60,188,867</u>	<u>690,262</u>	<u>295,454</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 25,080,554</u>	<u>\$ 31,914,759</u>	<u>\$ 56,995,313</u>	<u>\$ 744,094</u>	<u>\$ 321,640</u>

See accompanying notes to the basic financial statements.

FUND FINANCIAL STATEMENTS



**CITY OF HILLSDALE, MICHIGAN**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2016**

	<u>GENERAL</u>	<u>MAJOR STREET</u>	<u>LOCAL STREET</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL</u>
<b>ASSETS</b>					
Cash and investments	\$ 587,026	\$ 214,346	\$ 94,092	\$ 1,800,743	\$ 2,696,207
Receivables:					
Accounts receivable	37,046	94,475	41,770	89,592	262,883
Special assessments	73,834	-	-	-	73,834
Due from other funds	297,097	-	-	-	297,097
Other	2,261	-	-	-	2,261
Prepaid expenditures	72,515	-	-	3,196	75,711
<b>TOTAL ASSETS</b>	<u>1,069,779</u>	<u>308,821</u>	<u>135,862</u>	<u>1,893,531</u>	<u>3,407,993</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	49,262	9,159	10,048	105,810	174,279
Due to other funds	-	1,113	39	295	1,447
Salaries payable	33,586	1,535	980	3,248	39,349
Unearned revenue	73,834	-	-	-	73,834
<b>TOTAL LIABILITIES</b>	<u>156,682</u>	<u>11,807</u>	<u>11,067</u>	<u>109,353</u>	<u>288,909</u>
Fund Balances:					
Non-spendable:					
Prepaid expenditures	72,515	-	-	3,196	75,711
Restricted:					
Special revenue funds	-	297,014	124,795	220,448	642,257
Capital project funds	-	-	-	813,277	813,277
Permanent funds	-	-	-	747,257	747,257
Unassigned	840,582	-	-	-	840,582
<b>TOTAL FUND BALANCES</b>	<u>913,097</u>	<u>297,014</u>	<u>124,795</u>	<u>1,784,178</u>	<u>3,119,084</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 1,069,779</u>	<u>\$ 308,821</u>	<u>\$ 135,862</u>	<u>\$ 1,893,531</u>	<u>\$ 3,407,993</u>

See accompanying notes to the basic financial statements.

**CITY OF HILLSDALE, MICHIGAN**  
 RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO  
 NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION  
 JUNE 30, 2016

**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** **\$ 3,119,084**

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

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

The cost of capital assets is	\$ 43,460,940	
Accumulated depreciation is	<u>(20,806,230)</u>	22,654,710

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

Deferred special assessments revenue		73,834
--------------------------------------	--	--------

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

Net position of governmental activities accounted for in the Internal Service Fund	691,145	
Less portion included in capital assets	<u>(153,059)</u>	538,086

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

Compensated absences	190,920	
Net pension liability	<u>2,783,193</u>	(2,974,113)

Governmental funds report actual pension expenditures for the fiscal year, whereas the governmental activities will recognize the net pension liability as of the measurement date. Pension contributions subsequent to the measurement date along with differences between projected and actual pension plan investment earnings are deferred over time in the government-wide financial statements. These amounts consist of:

Deferred outflows of resources related to pensions		<u>1,668,953</u>
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**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES** **\$ 25,080,554**

See accompanying notes to the basic financial statements.

**CITY OF HILLSDALE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2016**

	<b>GENERAL</b>	<b>MAJOR STREET</b>	<b>LOCAL STREET</b>	<b>OTHER NONMAJOR GOVERNMENTAL FUNDS</b>	<b>TOTAL</b>
<b>REVENUES</b>					
Taxes	\$ 2,033,734	\$ -	\$ -	\$ 128,403	\$ 2,162,137
Federal revenues	629,805	-	-	-	629,805
State revenues	824,470	520,028	173,478	1,351,012	2,868,988
Licenses and permits	109,463	-	-	-	109,463
Contributions from local units	-	-	-	13,800	13,800
Charges for services	20,732	-	-	95,600	116,332
Fines and violations	6,638	-	-	65,604	72,242
Interest and rentals	81,680	892	-	70,082	152,654
Miscellaneous	987,558	5,470	7,553	139,059	1,139,640
<b>TOTAL REVENUES</b>	<b>4,694,080</b>	<b>526,390</b>	<b>181,031</b>	<b>1,863,560</b>	<b>7,265,061</b>
<b>EXPENDITURES</b>					
General government	1,264,934	-	-	-	1,264,934
Public safety	1,797,750	-	-	7,875	1,805,625
Public works	334,425	-	-	-	334,425
Highways and streets	-	369,341	301,960	-	671,301
Community and economic development	902,797	-	-	-	902,797
Culture and recreation	152,675	-	-	320,915	473,590
Capital outlay	-	-	-	1,684,232	1,684,232
Other	-	-	-	41,474	41,474
<b>TOTAL EXPENDITURES</b>	<b>4,452,581</b>	<b>369,341</b>	<b>301,960</b>	<b>2,054,496</b>	<b>7,178,378</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>241,499</b>	<b>157,049</b>	<b>(120,929)</b>	<b>(190,936)</b>	<b>86,683</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Contribution from TIFA	10,000	-	-	-	10,000
Operating transfers in	137,161	-	150,000	222,095	509,256
Operating transfers out	(417,070)	(100,418)	(15,788)	(16,232)	(549,508)
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	<b>(269,909)</b>	<b>(100,418)</b>	<b>134,212</b>	<b>205,863</b>	<b>(30,252)</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>(28,410)</b>	<b>56,631</b>	<b>13,283</b>	<b>14,927</b>	<b>56,431</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>941,507</b>	<b>240,383</b>	<b>111,512</b>	<b>1,769,251</b>	<b>3,062,653</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 913,097</b>	<b>\$ 297,014</b>	<b>\$ 124,795</b>	<b>\$ 1,784,178</b>	<b>\$ 3,119,084</b>

See accompanying notes to the basic financial statements.

**CITY OF HILLSDALE, MICHIGAN**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2016**

<b>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ 56,431</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which capital outlay expenditures of \$1,669,340 is in excess of depreciation expense of \$825,618.	843,722
Proceeds from the sale of assets are reported as revenue in the fund statements, but are reported as net capital gain or loss on the governmental activities changes in net position.	(4,764)
Disposal of assets have no effect on the fund statements, but are an adjustment on the governmental activities changes in net position.	(27,166)
Revenues for special assessments are reported in the governmental funds as they are paid off, and the balance is reported as a deferred revenue. The net effect of the current year payments is to decrease net position in the entity-wide statements.	(31,424)
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.	36,488
Change to compensated absences are not shown in the fund financial statements. The net effect of the current year decrease is to increase net position	9,622
The change in net pension liability amounts does not require the use of current resources and is not recorded in the governmental funds.	(1,488,984)
The change in deferred outflows of resources related to pensions does not require the use of current resources and is not recorded in the governmental funds.	1,434,295
<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ 828,220</b>

See accompanying notes to the basic financial statements.

**CITY OF HILLSDALE, MICHIGAN**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2016**

	<b>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</b>					<b>GOVERNMENTAL</b>
	<b>ELECTRIC</b>	<b>WATER</b>	<b>SEWER</b>	<b>NONMAJOR</b>	<b>TOTAL</b>	<b>ACTIVITIES</b>
				<b>FUND</b>		<b>INTERNAL</b>
			<b>DIAL-A-RIDE</b>			<b>SERVICE</b>
						<b>FUNDS</b>
<b>ASSETS</b>						
Current assets:						
Cash and investments	\$ 2,221,211	\$ 977,724	\$ 1,183,156	\$ 139,663	\$ 4,521,754	\$ 351,502
Receivables:						
Accounts (net of allowance for bad debts of \$180,000)	849,612	55,791	69,711	-	975,114	-
Due from State	-	-	488,201	-	488,201	-
Other receivables	46,258	-	67,838	-	114,096	-
Due from other funds	1,509,479	1,177	1,177	-	1,511,833	-
Inventory, at cost	782,610	79,801	5,708	-	868,119	175,458
Prepaid expenses	92,387	51,006	43,783	4,056	191,232	35,119
<b>TOTAL CURRENT ASSETS</b>	<b>5,501,557</b>	<b>1,165,499</b>	<b>1,859,574</b>	<b>143,719</b>	<b>8,670,349</b>	<b>562,079</b>
Noncurrent assets:						
Restricted investments	-	185,379	-	-	185,379	-
Capital assets:						
Land	181,108	49,613	122,902	7,419	361,042	-
Plant and equipment	34,756,718	11,026,664	14,224,001	1,060,591	61,067,974	1,923,645
Construction in progress	775,591	4,296	1,493,643	-	2,273,530	-
	35,713,417	11,080,573	15,840,546	1,068,010	63,702,546	1,923,645
Less accumulated depreciation	(22,959,217)	(6,367,881)	(10,387,371)	(298,922)	(40,013,391)	(1,770,586)
<b>NET CAPITAL ASSETS</b>	<b>12,754,200</b>	<b>4,712,692</b>	<b>5,453,175</b>	<b>769,088</b>	<b>23,689,155</b>	<b>153,059</b>
Other assets:						
Prepaid operating lease (net of \$8,310 amortization)	157,897	-	-	-	157,897	-
Investment in M.S.C.P.A.	6,017,140	-	-	-	6,017,140	-
<b>TOTAL OTHER ASSETS</b>	<b>6,175,037</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,175,037</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>24,430,794</b>	<b>6,063,570</b>	<b>7,312,749</b>	<b>912,807</b>	<b>38,719,920</b>	<b>715,138</b>
<b>DEFERRED OUTFLOWS OF RESOURCES - Pension</b>	<b>496,993</b>	<b>248,496</b>	<b>248,496</b>	<b>-</b>	<b>993,985</b>	<b>-</b>
<b>LIABILITIES</b>						
Current liabilities:						
Capital lease payable	190,070	-	-	-	190,070	-
Accounts payable	68,262	9,451	495,530	1,262	574,505	6,132
Accrued purchased power	791,597	-	-	-	791,597	-
Accrued expenses	68,842	3,171	4,007	1,822	77,842	445
Customer deposits	113,218	9,720	7,945	-	130,883	-
Due to other funds	205,743	452,419	1,094,573	54,748	1,807,483	-
Due to other governments	-	-	-	7,983	7,983	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,437,732</b>	<b>474,761</b>	<b>1,602,055</b>	<b>65,815</b>	<b>3,580,363</b>	<b>6,577</b>
Current liabilities (payable from restricted assets):						
Bonds payable	-	183,000	-	-	183,000	-
Accrued interest	-	2,379	-	-	2,379	-
<b>TOTAL CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS)</b>	<b>-</b>	<b>185,379</b>	<b>-</b>	<b>-</b>	<b>185,379</b>	<b>-</b>
Noncurrent liabilities:						
Accrued compensated absences	94,745	14,571	28,813	11,176	149,305	17,416
Bonds and capital lease payable	829,557	-	556,471	-	1,386,028	-
Net pension liability	1,249,036	624,518	624,517	-	2,498,071	-
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>2,173,338</b>	<b>639,089</b>	<b>1,209,801</b>	<b>11,176</b>	<b>4,033,404</b>	<b>17,416</b>
<b>TOTAL LIABILITIES</b>	<b>3,611,070</b>	<b>1,299,229</b>	<b>2,811,856</b>	<b>76,991</b>	<b>7,799,146</b>	<b>23,993</b>
<b>NET POSITION</b>						
Net investment in capital assets	11,734,573	4,529,692	4,896,704	769,088	21,930,057	153,059
Restricted investments	-	185,379	-	-	185,379	-
Unrestricted	9,582,144	297,766	(147,315)	66,728	9,799,323	538,086
<b>TOTAL NET POSITION</b>	<b>\$ 21,316,717</b>	<b>\$ 5,012,837</b>	<b>\$ 4,749,389</b>	<b>\$ 835,816</b>	<b>\$ 31,914,759</b>	<b>\$ 691,145</b>

See accompanying notes to the basic financial statements.

**CITY OF HILLSDALE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2016**

	<b>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</b>					<b>GOVERNMENTAL</b>
	<b>ELECTRIC</b>	<b>WATER</b>	<b>SEWER</b>	<b>NONMAJOR FUND DIAL-A-</b>	<b>TOTAL</b>	<b>INTERNAL SERVICE FUNDS</b>
<b>OPERATING REVENUES</b>						
Charges for services	\$ 13,324,074	\$ 1,145,210	\$ 1,346,060	\$ 49,336	\$ 15,864,680	\$ 439,944
Federal grants	-	-	-	59,532	59,532	-
State grants	-	-	-	134,338	134,338	-
Miscellaneous	34,994	4,254	5,417	-	44,665	164,007
<b>TOTAL OPERATING REVENUES</b>	<b>13,359,068</b>	<b>1,149,464</b>	<b>1,351,477</b>	<b>243,206</b>	<b>16,103,215</b>	<b>603,951</b>
<b>OPERATING EXPENSES</b>						
Purchased power	9,755,976	-	-	-	9,755,976	-
Production expense	479,328	128,823	-	-	608,151	-
Purification expense	-	270,014	-	-	270,014	-
Treatment expense	-	-	707,256	-	707,256	-
Transmission and distribution	1,496,048	495,529	-	-	1,991,577	-
Administrative and general	1,426,911	310,775	514,463	-	2,252,149	-
Sewer collection	-	-	304,634	-	304,634	-
Highways and streets	-	-	-	-	-	567,682
Transportation	-	-	-	332,391	332,391	-
<b>TOTAL OPERATING EXPENSES</b>	<b>13,158,263</b>	<b>1,205,141</b>	<b>1,526,353</b>	<b>332,391</b>	<b>16,222,148</b>	<b>567,682</b>
<b>OPERATING INCOME (LOSS)</b>	<b>200,805</b>	<b>(55,677)</b>	<b>(174,876)</b>	<b>(89,185)</b>	<b>(118,933)</b>	<b>36,269</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Federal grants	49,858	11,155	667,452	-	728,465	-
State grants	-	-	343,717	-	343,717	-
Interest income	19,349	1,619	-	-	20,968	219
Interest expense	(72,825)	(16,950)	(7,255)	-	(97,030)	-
Other income (expense)	110,015	37,464	28,622	-	176,101	-
Other (loss)	(3,238)	-	-	-	(3,238)	-
Gain (loss) on disposal of assets	-	-	-	3,528	3,528	-
Transfers in from other funds	-	-	-	95,000	95,000	-
Transfers out to other funds	-	-	-	(54,748)	(54,748)	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>103,159</b>	<b>33,288</b>	<b>1,032,536</b>	<b>43,780</b>	<b>1,212,763</b>	<b>219</b>
<b>EXTRAORDINARY ITEM - loss on investment</b>	<b>(5,115,604)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,353,344</b>	<b>-</b>
<b>CHANGES IN NET POSITION</b>	<b>(4,811,640)</b>	<b>(22,389)</b>	<b>857,660</b>	<b>(45,405)</b>	<b>(4,021,774)</b>	<b>36,488</b>
<b>NET POSITION - BEGINNING OF YEAR</b>	<b>26,128,357</b>	<b>5,035,226</b>	<b>3,891,729</b>	<b>881,221</b>	<b>35,936,533</b>	<b>654,657</b>
<b>NET POSITION - END OF YEAR</b>	<b>\$ 21,316,717</b>	<b>\$ 5,012,837</b>	<b>\$ 4,749,389</b>	<b>\$ 835,816</b>	<b>\$ 31,914,759</b>	<b>\$ 691,145</b>

See accompanying notes to the basic financial statements.

**CITY OF HILLSDALE, MICHIGAN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2016**

	<b>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</b>					<b>GOVERNMENTAL</b>
	<b>ELECTRIC</b>	<b>WATER</b>	<b>SEWER</b>	<b>NONMAJOR</b>	<b>TOTAL</b>	<b>INTERNAL</b>
				<b>FUND</b>		<b>SERVICE</b>
			<b>DIAL-A-RIDE</b>			<b>FUNDS</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Cash received from customers, residents and users	\$ 12,434,581	\$ 1,150,507	\$ 1,317,960	\$ 49,336	\$ 14,952,384	\$ -
Other operating receipts	34,994	4,253	5,417	282,032	326,696	-
Receipts for interfund services provided	(996,407)	460,786	535,621	-	-	600,320
Cash paid to suppliers of goods and services	(9,766,827)	(638,919)	(1,029,079)	(38,605)	(11,473,430)	(254,995)
Cash paid to employees for services	(1,113,601)	(304,541)	(334,487)	(228,611)	(1,981,240)	(233,350)
<b>Net Cash Provided By (Used In)</b>						
Operating Activities	592,740	672,086	495,432	64,152	1,824,410	111,975
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Net transfers from other funds	-	-	-	40,252	40,252	-
Other nonoperating income	53,853	19,531	25,539	-	98,923	-
<b>Net Cash Provided By (Used In)</b>						
Noncapital Financing Activities	53,853	19,531	25,539	40,252	139,175	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Payments on capital debt	(182,940)	(175,000)	-	-	(357,940)	-
Interest on capital debt	(43,797)	(10,461)	-	-	(54,258)	-
Capital grants	20,000	11,155	1,011,169	-	1,042,324	-
Proceeds from the disposal of assets	-	-	-	3,528	3,528	-
Purchase of capital assets, net	(987,012)	(124,019)	(348,984)	-	(1,460,015)	(32,059)
<b>Net Cash Provided By (Used In)</b>						
Capital and Related Financing Activities	(1,193,749)	(298,325)	662,185	3,528	(826,361)	(32,059)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchase of investments	-	(189,088)	-	-	(189,088)	-
Proceeds from the sale of investments	-	181,894	-	-	181,894	-
Interest income received	-	13	-	-	13	-
<b>Net Cash Provided By (Used In)</b>						
Investing Activities	-	(7,181)	-	-	(7,181)	-
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(547,156)	386,111	1,183,156	107,932	1,130,043	79,916
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	914,056	6,894	-	31,731	952,681	200,267
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 366,900</u>	<u>\$ 393,005</u>	<u>\$ 1,183,156</u>	<u>\$ 139,663</u>	<u>\$ 2,082,724</u>	<u>\$ 280,183</u>

continued...

See accompanying notes to the basic financial statements.

**CITY OF HILLSDALE, MICHIGAN**  
**STATEMENT OF CASH FLOWS (CONCLUDED)**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2016**

	<b>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</b>					<b>GOVERNMENTAL</b>
	<b>ELECTRIC</b>	<b>WATER</b>	<b>SEWER</b>	<b>NONMAJOR</b>		<b>INTERNAL</b>
				<b>FUND</b>	<b>TOTAL</b>	<b>SERVICE</b>
<b>BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS</b>				<b>DIAL-A-RIDE</b>		<b>FUNDS</b>
Cash and investments	\$ 2,221,211	\$ 977,724	\$ 1,183,156	\$ 139,663	\$ 4,521,754	\$ 351,502
Less amounts classified as investments	(1,854,311)	(584,719)	-	-	(2,439,030)	(71,319)
Total cash and cash equivalents	<u>\$ 366,900</u>	<u>\$ 393,005</u>	<u>\$ 1,183,156</u>	<u>\$ 139,663</u>	<u>\$ 2,082,724</u>	<u>\$ 280,183</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>						
Operating income (loss)	\$ 200,805	\$ (55,677)	\$ (174,876)	\$ (89,185)	\$ (118,933)	\$ 32,646
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization	708,642	250,654	184,316	65,596	1,209,208	95,595
(Increase)/decrease in:						
Receivables	(16,735)	5,297	(28,100)	88,162	48,624	614
Due from other funds	(766,429)	(1,177)	(1,177)	-	(768,783)	-
Inventory	35,909	(1,801)	(641)	-	33,467	(21,435)
Prepaid expenses	(64,476)	(10,867)	13,469	4,485	(57,389)	14,174
Deferred outflows	(410,574)	(198,597)	(199,360)	-	(808,531)	-
Increase/(decrease) in:						
Accounts payable	14,183	(10,279)	(78,088)	(254)	(74,438)	(5,289)
Accrued expenses	(37,667)	(18,554)	(12,861)	3,655	(65,427)	(4,330)
Due to other funds	156,673	363,777	439,230	(8,307)	951,373	-
Net pension liability	772,409	349,310	353,520	-	1,475,239	-
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 592,740</u>	<u>\$ 672,086</u>	<u>\$ 495,432</u>	<u>\$ 64,152</u>	<u>\$ 1,824,410</u>	<u>\$ 111,975</u>

See accompanying notes to the basic financial statements.



**CITY OF HILLSDALE, MICHIGAN**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2016**

	<u>HOSPITAL PRIVATE PURPOSE TRUST FUND</u>	<u>AGENCY FUNDS</u>
<b>ASSETS</b>		
Cash and investments	<u>\$ 15,042</u>	<u>\$ 6,106</u>
<b>LIABILITIES</b>		
Due to other agencies	<u>-</u>	<u>\$ 6,106</u>
<b>NET POSITION</b>		
Unrestricted	<u>15,042</u>	
TOTAL NET POSITION	<u>\$ 15,042</u>	

See accompanying notes to the basic financial statements.

**CITY OF HILLSDALE, MICHIGAN**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**YEAR ENDED JUNE 30, 2015**

	<b>HOSPITAL PRIVATE PURPOSE TRUST FUND</b>
<b>ADDITIONS:</b>	
Investment income	\$ <u>142</u>
<b>DEDUCTIONS:</b>	
Other	<u>149</u>
<b>CHANGES IN NET POSITION</b>	(7)
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>15,049</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 15,042</u></u>

See accompanying notes to the basic financial statements.

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NOTES TO FINANCIAL STATEMENTS

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

**Note 1: Summary of Significant Accounting Policies**

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

**Reporting Entity**

The City of Hillsdale, Michigan (the "City") 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 accompanying financial statements of the City have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. The criteria established by the GASB for determining which of the governmental organizations are a part of the City's reporting entity includes oversight responsibility, fiscal dependency, scope of public service, and whether the financial statements would be misleading if data were not included. The component units discussed below are included in the City's reporting entity because the City is considered to be financially accountable for them.

**Discretely Presented Component Units** - The City maintains three component units, one which is inactive and thus has no financial data to report. The other two component units are reported in the component unit columns in the combined financial statements. These units are reported in separate columns to emphasize that they are legally separate from the City. The City's component units are the following:

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

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

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

**Related Organization** - The Hillsdale Housing Commission was established by the City of Hillsdale to provide qualifying senior and low income family housing. The financial statements of the Housing Commission are excluded from the accompanying financial statements since the Housing Commission's operating and capital expenditures, including debt service, are financed entirely from federal grants and rentals; the City has no involvement in the determination of the Housing Commission's outstanding debt. The Hillsdale Housing Commission financial statements can be obtained at 45 North West Avenue, Hillsdale, Michigan 49242.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

**Note 1: Summary of Significant Accounting Policies (Continued)**

**Government-Wide and Fund Financial Statements**

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

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

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

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

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

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

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

**Note 1: Summary of Significant Accounting Policies (Continued)**

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

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

The government reports the following major governmental funds:

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

**Major Street Fund** – This fund is a special revenue fund. It accounts for revenues received primarily from the State of Michigan Department of Transportation and accounts for street activity relating to the major street functions of the City.

**Local Street Fund** – This fund is a special revenue fund. It accounts for revenues received primarily from the State of Michigan Department of Transportation and accounts for street activity relating to the local street functions of the City.

The government reports the following major proprietary funds:

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

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

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

Additionally, the government reports the following fund types:

**Special Revenue Funds** – These funds account for 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.

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

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

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

Note 1: **Summary of Significant Accounting Policies (Continued)**

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

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

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

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

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

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

Reclassifications of prior year's data, if any, have been made in the accompanying financial statements where appropriate to conform to the current presentation. These reclassifications, if any, have no effect on overall changes in fund balance/net position.

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

**Cash, Cash Equivalents and Investments** – 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. Investments are stated at fair value.

State statutes authorize the City to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The City is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

**Note 1: Summary of Significant Accounting Policies (Continued)**

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

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

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

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

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

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

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

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

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

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



CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

**Note 1: Summary of Significant Accounting Policies (Concluded)**

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

**Long-Term Obligations** – In the government-wide financial statements (Statement of Net Position) and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund types. Bond premiums and discounts are reported as a deferred inflow or outflow of resources, separate from assets or liabilities, over the life of the bonds using the effective interest method. Bond issuance costs are expensed as 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.

**Fund Equity** – Governmental funds are categorized according to five defined categories of fund balance. These categories consist of nonspendable amounts which are legally or contractually required to be maintained intact, restricted amounts that are constrained for specific purposes set by external parties or law, committed amounts that are constraints set by the highest decision-making authority (City Council) and may only be removed by those individuals, assigned amounts that have an intended but no formal specific purpose, and unassigned amounts which are the residual of the other categories and have no specific purpose.

It is the City’s policy to generally use fund balance in order according to the hierarchy of fund balance categories, from restricted down to unassigned.

**Property Taxes** – The government’s property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 14; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Hillsdale County.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the City for 2015 had a taxable value of approximately \$133,910,488 (not including properties subject to Industrial Facilities Tax exemption), representing 50% of estimated current market value. The government’s general operating tax rate for fiscal year 2015-16 was 14.9205 mills, with an additional .9947 mills levied for operations of the Mitchell Public Library.

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

**Subsequent Events** – Management has evaluated subsequent events through the auditor’s report date, the date the financial statements were available to be issued. No such significant events or transactions were identified.

**CITY OF HILLSDALE, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

**Note 2: Stewardship, Compliance and Accountability**

**Budgetary Information** – Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. The Council holds public hearings and a final budget must be prepared and adopted prior to July 1.

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

**Excess of Expenditures over Appropriations** – For the year ended June 30, 2016, expenditures that exceeded appropriations in the General Fund or major special revenue funds, if any, are disclosed in the Required Supplementary Information on pages 36 – 39.

**Note 3: Cash and Investments**

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

	Primary	Component	Totals
<b>Statement of Net Position:</b>			
Cash and investments	\$ 7,569,463	\$ 829,059	\$ 8,398,522
Restricted investments	185,379	-	185,379
<b>Statement of Fiduciary Net Position:</b>			
Cash and investments	21,148	-	21,148
<b>Total</b>	\$ 7,775,990	\$ 829,059	\$ 8,605,049

**Deposits and Investments**

Bank deposits (checking, savings, certificates of deposit and money market)	\$ 6,172,193
Investments	2,430,206
Cash on hand	2,650
<b>Total</b>	\$ 8,605,049

The City's investments are summarized as follows:

Investment	Maturity	Fair Value	Rating	FV Level
MBIA Investment Fund	N/A	\$ 1,427,745	S&P – AAAm	Level 2
U.S. Governmental Agency Bonds	1 – 2 yrs.	250,271	N/A	Level 1
GNMA – Mortgage-backed Securities	-	348,097	N/A	Level 1
Municipal Bonds	1 – 3 yrs.	404,093	S&P – A+ – AA-	Level 2
		\$ 2,430,206		

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

Note 3: **Cash and Investments (Continued)**

**Interest Rate Risk**

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

**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented above is the actual rating as of year-end for each investment type. The City's investment policy does not have specific limits in excess of State law on investment credit risk.

The MBIA investment pool is a Michigan CLASS public sector investment program invested under an interlocal trust agreement according to provisions of the Urban Cooperation Act of 1967. This investment pool is held by a bank serving as custodian for Michigan CLASS and the pool is regulated by the SEC. Financial statements may be obtained via the Michigan CLASS website, michiganclass.org, or through Michigan CLASS, 3135 South State Street, Ann Arbor, Michigan 48108.

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the name of the local unit. The City has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, \$1,439,425 of the City's bank balance of \$6,020,535 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. There is no custodial risk to the City as all investments are held in the City's name.

**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:

**CITY OF HILLSDALE, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

**Note 3: Cash and Investments (Concluded)**

**Fair Value Measurement (Concluded)**

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.

**Supplemental Disclosure of Cash Flow Information**

For the year ended June 30, 2016, the City purchased \$115,961 of equipment with a capital lease financing arrangement.

**Note 4: Capital Assets**

Capital assets activity for the year ended June 30, 2016 was as follows:

Primary Government	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 8,618,707	\$ -	\$ (4,764)	\$ 8,613,943
Capital assets being depreciated:				
Land improvements	720,507	-	-	720,507
Buildings and improvements	4,992,738	-	-	4,992,738
Books	312,207	24,167	(23,956)	312,418
Equipment and vehicles	2,924,900	116,050	(105,204)	2,935,746
Infrastructure	26,552,001	1,583,362	(2,249,776)	25,885,587
Total capital assets being depreciated	35,502,353	1,723,579	(2,378,936)	34,846,996
Accumulated depreciation:				
Land improvements	279,736	26,355	-	306,091
Buildings and improvements	1,888,104	96,401	-	1,984,505
Books	90,019	22,544	(23,956)	88,607
Equipment and vehicles	2,592,102	152,254	(105,204)	2,639,152
Infrastructure	17,367,855	669,795	(2,249,776)	15,787,874
Total accumulated depreciation	22,217,816	967,349	(2,378,936)	20,806,229
Total capital assets being depreciated - net	13,284,537	756,230	-	14,040,767
Governmental activities capital assets - net	\$ 21,903,244	\$ 756,230	\$ (4,764)	\$ 22,654,710

**CITY OF HILLSDALE, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

**Note 4: Capital Assets (Concluded)**

<b>Business-Type Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals and Adjustments</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 361,042	\$ -	\$ -	\$ 361,042
Construction in progress	2,421,047	1,685,840	(1,833,357)	2,273,530
Total capital assets not being depreciated	2,782,089	1,685,840	(1,833,357)	2,634,572
Capital assets being depreciated:				
Equipment	448,388	-	(73,410)	374,978
Plant and systems	58,413,032	2,279,964	-	60,692,996
Total capital assets being depreciated	58,861,420	2,279,964	(73,410)	61,067,974
Accumulated depreciation:				
Equipment	238,175	51,884	(73,410)	216,649
Plant and systems	38,646,198	1,149,014	1,530	39,796,742
Total accumulated depreciation	38,884,373	1,200,898	(71,880)	40,013,391
Total capital assets being depreciated - net	19,977,047	1,079,066	(1,530)	21,054,583
Business-type activities capital assets - net	\$ 22,759,136	\$ 2,764,906	\$ (1,834,887)	\$ 23,689,155

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

<b>Governmental Activities:</b>	
Public safety	\$ 3,790
Highways and streets	615,962
Culture and recreation	131,617
Public works	38,748
Unallocated	35,500
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	95,595
<b>Total depreciation expense – governmental activities</b>	<b>\$ 921,212</b>
<b>Business-Type Activities:</b>	
Electric	\$ 700,332
Water	250,654
Sewer	184,316
Transportation	65,596
<b>Total depreciation expense – business-type activities</b>	<b>\$ 1,200,898</b>

**Note 5: Interfund Receivables, Payables and Transfers**

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

**CITY OF HILLSDALE, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

**Note 5: Interfund Receivables, Payables and Transfers (Concluded)**

	<u>Receivable</u>	<u>Payable</u>
<b>Due from/to other funds:</b>		
General Fund	\$ 297,097	\$ -
Major Street Fund	-	1,113
Local Street Fund	-	39
Nonmajor Governmental Funds	-	295
Water Fund	1,177	452,419
Sewer Fund	1,177	1,094,573
Electric Fund	1,509,479	205,743
Nonmajor Enterprise Fund	-	54,748
	<u>\$ 1,808,930</u>	<u>\$ 1,808,930</u>
	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Transfers:</b>		
General Fund	\$ 137,161	\$ 417,070
Major Street Fund	-	100,418
Local Street	150,000	15,788
Nonmajor Governmental Funds	222,095	16,232
Nonmajor Enterprise Fund	95,000	54,748
	<u>\$ 604,256</u>	<u>\$ 604,256</u>

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; and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Note 6: Prepaid Operating Lease**

The City entered into 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 was for total upfront costs of \$166,208, and is amortized over the 20-year life of the lease.

**Note 7: Investment in Michigan South Central Power Agency**

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

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

**CITY OF HILLSDALE, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

**Note 7: Investment in Michigan South Central Power Agency (Concluded)**

The City is accounting for its investment in MSCPA as a joint venture in accordance with GASB Statement No. 14. Information presented below is taken from financial statements of the MSCPA for the year ended June 30, 2016, audited by other auditors whose report dated August 26, 2016 expressed an unmodified opinion for those statements.

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

Currently, the MSCPA has decommissioned its power generation operation, resulting in a significant decrease in net position. The City's share of changes in net position \$(5,115,604) is reported as an extraordinary item in the Statement of Activities.

Summary information of the City's investment in the MSCPA as of and for the year ended June 30, 2016, is as follows:

	<b>Total MSCPA</b>	<b>Hillsdale Board of Public Utilities' Portion</b>
Total assets and deferred outflows of resources	\$ 52,025,728	\$ 9,396,242
Total liabilities and deferred inflows of resources	28,269,024	3,379,102
<b>Net Position</b>	<b>\$ 23,756,704</b>	<b>\$ 6,017,140</b>

**Note 8: Debt**

Long-term liability activity for the year ended June 30, 2016 was as follows:

<b>Primary Government</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>Governmental activities:</b>					
Compensated absences	\$ 216,818	\$ -	\$ 11,691	\$ 205,127	\$ -
<b>Business-type activities:</b>					
Revenue bonds	\$ 358,000	\$ 556,471	\$ 175,000	\$ 739,471	\$ 183,000
Capital lease	1,202,567	-	182,940	1,019,627	190,070
Compensated absences	162,427	-	13,122	149,305	-
	<b>\$ 1,722,994</b>	<b>\$ 556,471</b>	<b>\$ 371,062</b>	<b>\$ 1,908,403</b>	<b>\$ 373,070</b>

**CITY OF HILLSDALE, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

**Note 8: Debt (Concluded)**

**Business-Type Activities**

<b>2009 Water Supply and Sewage Disposal Revenue Bonds</b> – interest rates varying from 3.30% to 3.90%, annual principal payments ranging from \$151,000 to \$183,000 through October 1, 2016.	\$ 183,000
<b>2015 Sewage Disposal System Revenue Bonds</b> – interest rate of 2.50%, annual principal payments ranging from \$250,000 to \$405,000 through 2037. Payments are estimated to begin in April 2018 after completion of project.	556,471
<b>Capital lease</b> – Government Capital Corporation annual lease payments of \$226,737 including interest at 3.60% through September 16, 2020.	<u>1,019,627</u>
<b>Total bonds and capital lease</b>	<u>\$ 1,759,098</u>

Annual debt service requirements to maturity are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 373,070	\$ 40,702	\$ 413,305
2018	446,041	59,647	506,155
2019	453,665	35,561	489,226
2020	267,552	15,655	283,208
2021	218,770	7,968	226,738
Thereafter	0	0	0
<b>Total</b>	<b>\$ 1,759,098</b>	<b>\$ 159,533</b>	<b>\$ 1,918,632</b>

**Note 9: 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, 2016, 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 10: 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 a agent multiple-employer, statewide public employee pension plan established by the Michigan's Legislature under Public Act 135 of 1945 and administered by a nine (9) member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing MERS' website at [www.mersofmich.com](http://www.mersofmich.com).



CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

**Note 10: Defined Benefit Pension Plan (Continued)**

Summary of Significant Accounting Policies

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.

Benefits Provided

Benefits provided include plans with multipliers ranging from 2.00% to 2.50%.  
Vesting period of 10 years.

Normal retirement age is 60 with early retirement at 50/55 with 25/15 years of service.

Final average compensation is calculated based on 3 years. Member contributions range from 3.00% to 9.16%.

At the December 31, 2015 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefits	73
Inactive employees entitled to but not yet receiving benefits	14
Active employees	<u>66</u>
	<u>153</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. Employer contributions range from 0.00% to 24.49% based on annual payroll for open divisions.

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2015, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial assumptions – The total pension liability in the December 31, 2015 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation: 2.5%
- Salary Increases: 3.75% in the long-term
- Investment rate of return: 7.75%, net of investment expense including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%.

Mortality rates used were based on the RP-2014 Group Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009 - 2013.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

**Note 10: Defined Benefit Pension Plan (Continued)**

*Actuarial assumptions (Concluded)*

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009 - 2013.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.50%	5.02%
Global Fixed Income	20.00%	2.18%
Real Assets	12.50%	4.23%
Diversifying Strategies	10.00%	6.56%

*Discount Rate* – The discount rate used to measure the total pension liability is 8.25% for 2015. 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 Net Pension Liability - The following table provides the calculation of the change in net pension liability:

	Changes in Net Pension Liability		
		Increase (Decrease)	
	Liability	Fiduciary Net Position	Liability
	(a)	(b)	(a) - (b)
<b>Balances at 12/31/14</b>	\$ 20,843,207	\$ 18,526,166	\$ 2,317,041
<b>Changes for the Year</b>			
Service Cost	355,050	-	355,050
Interest on Total Pension Liability	1,677,361	-	1,677,361
Difference between expected and actual experience	110,760	-	110,760
Changes in assumptions	1,013,079	-	1,013,079
Employer Contributions	-	346,141	(346,141)
Employee Contributions	-	156,571	(156,571)
Net investment income	-	(270,721)	270,721
Benefit payments, including employee refunds	(1,378,158)	(1,378,158)	-
Administrative expense	-	(39,960)	39,960
Other changes	4	-	4
<b>Net changes</b>	1,778,096	(1,186,127)	2,964,223
<b>Balances as of 12/31/15</b>	<u>\$ 22,621,303</u>	<u>\$ 17,340,039</u>	<u>\$ 5,281,264</u>

**CITY OF HILLSDALE, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

**Note 10: Defined Benefit Pension Plan (Concluded)**

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* – The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.25%, as well as what the employer’s Net Pension Liability would be using a discount rate that is 1-percentage point lower (7.25%) or 1% higher (9.25%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Net Pension Liability	\$ 7,686,552	\$ 5,281,264	\$ 3,235,183

*Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions* – For the year ended June 30, 2016 the City recognized pension expense of \$1,135,702. The City reported deferred outflows and inflows of resources related to the pension at June 30, 2016 from the following sources:

	Deferred Outflows of Resources
Differences in experience	\$ 83,070
Differences in assumptions	759,809
Excess (Deficit) investment returns	1,660,819
Pension contributions subsequent to measurement date	159,240
	\$ 2,662,938

The amount reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources will be recognized in pension expense as follows:

Year Ended June 30		
2017	\$	696,165
2018		696,165
2019		696,165
2020		415,203
	\$	2,503,698

**Note 11: Commitments and Contingencies**

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

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

**Note 12: Dial-A-Ride Enterprise Fund**

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 OMB Circular A-87. The Hillsdale Dial-A-Ride Enterprise Fund does not have any local revenues with associated expenses that would be required to be subtracted out as ineligible.

**Pension Plan** – During the fiscal year July 1, 2015 through June 30, 2016, Dial-A-Ride paid \$1,372 in 50201 Pension. Of this amount, \$1,372 paid the actuarial required minimum contribution and \$-0- was paid in excess of the actuarial required minimum contribution. The entire amount of \$1,372 was expensed on the books and is included in Dial-A-Ride's total eligible expenses for the fiscal year ending September 30, 2016.

**Other Post-Employment Benefits** – The transit agency did not incur, nor pay, any 50202 Other Post-Employment Benefits (OPEB).

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

**Note 13: Purchased Power Contracts**

**American Municipal Power (AMP)**

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 1.55 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. Since March 31, 2014, AMPGS has incurred additional costs and interest expense. The City's share of those costs is \$17,850 and additional interest expense of \$3,716. The City has made payments to AMP totaling \$758,222 leaving a net impaired cost estimate at June 30, 2016 of \$21,566.

The impaired costs have been included in the business-type activities and the electric enterprise fund as a 2016 purchased power expense.

**AMP Fremont Energy Center (AFEC) (87 Members)**

In February 3, 2011 American Municipal Power, Inc. (AMP) entered into a non-binding memorandum of understanding (MOU) with FirstEnergy Corp. regarding the Fremont Energy Center ("AFEC"). AFEC is a 707 MW natural gas fired combined cycle generation plant with a Base Capacity of 512 MW, located near the city of Fremont, Ohio. The closing date to purchase was July 28, 2011. AMP's acquisition of the plant was financed with draws on an additional line of credit for \$600,000,000 secured solely for the purpose of purchasing the plant.

To provide permanent financing for the AFEC Project on June 29, 2012 AMP issued in two series \$546,085,000 of its AMP Fremont Center Project Revenue Bonds consisting of taxable and tax-exempt obligations to (i) with other available funds, to repay the \$600,000,000 principal amount of an interim loan that financed the acquisition of the AMP Fremont Energy Center ("AFEC") and development costs and completion of construction and commissioning of AFEC; (ii) to make deposits to the Construction Accounts under the Indenture to finance additional capital expenditures allocable to AMP's 90.69% undivided ownership interest in AFEC; (iii) to fund deposits to certain reserve accounts; and (iv) to pay the costs of issuance of the Series 2012 Bonds.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

**Note 13: Purchased Power Contracts (Continued)**

**AMP Fremont Energy Center (AFEC) (87 Members) (Concluded)**

On January 21, 2012 the AMP Fremont Energy Center ("AFEC") began commercial operation. The total cost of construction of the AFEC at the date it was placed in service was \$582,200,642. This amount included a development fee of \$35,535,448 paid by AFEC participants for the account of AMP Generating Station participants who are also AFEC participants. The amount was previously recorded as a noncurrent regulatory asset at December 31, 2011. In June 2012, AMP sold 26.419 MW or 5.16% undivided ownership interest in AFEC to Michigan Public Power Agency ("MPPA") and entered into a power sales contract with Central Virginia Electric Cooperative ("CVEC") for the output of a 21.248 MW or 4.15% interest in AFEC. AMP has sold the output of the remaining 464.355 MW or 90.69% interest to the AFEC participants, which consist of the 87 members, pursuant to a take-or-pay power sales contract. As of August 31, 2016 the outstanding obligation on the Fremont Energy Center ("AFEC") on AMP's books is \$520,620,000. The City of Hillsdale has executed a take-or-pay power sales contract with AMP for a Project Share of 7,220 kW or 1.55% of capacity and associated energy from the AFEC facility. The City's share of debt as of June 30, 2016 is approximately \$8,069,000.

**Combined Hydroelectric Projects (79 Members)**

AMP is currently developing 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 entails the installation of run-of-the-river hydroelectric generating facilities on existing United States Army Corps of Engineers' dams and includes associated transmission facilities. The Combined Hydroelectric Projects, including associated transmission facilities, will be constructed and operated by AMP. AMP holds the licenses from FERC for the Combined Hydroelectric Projects. AMP received the last of the material permits needed to begin construction on the Cannelton hydroelectric facility and Smithland hydroelectric facility, respectively in 2009. Ground breaking ceremonies were held for Cannelton on August 25, 2009 and for Smithland on September 1, 2010. AMP received the last of the material permits for the Willow Island hydroelectric facility in the last quarter of 2010 and ground breaking ceremonies took place on July 21, 2011.

The Cannelton Hydro Project (88MW), now in operation as of 2016, is located on the Kentucky shore of the Cannelton Locks and Dam on federal land. AMP has a FERC license for the project that expires May 31, 2041. The hydro project diverts water from the locks and dam through bulb turbines, which have a horizontal shaft and Kaplan-type turbines. The site includes an intake channel, a reinforced concrete powerhouse (to house turbine and 3 generator units), and a tailrace or downstream channel.

The Willow Island Hydro Project, 44MW, now in operation, diverts water from the existing Willow Island Locks and Dam through bulb turbines. The FERC license for the Willow Project expires August 31, 2030. Average gross annual output is 279 million kWh. The powerhouse houses two horizontal 29.3 MW bulb type turbines and generating units.

The Smithland Hydro Project (76MW) is located 62.5 miles upstream of the confluence of the Ohio and Mississippi Rivers. The Smithland project has a FERC license that expires May 31, 2038. The powerhouse houses three horizontal 29.3 MW bulb type turbines and generating units. Average gross annual output is 379 million kWh. AMP expects the three unit Smithland Hydro Project (76MW) to be in commercial operation by first quarter of 2017.

Please note that these projected commercial operation dates set forth above are, and the other information herein is, subject to change and are dependent on a number of factors affecting the Project's overall remaining construction schedule, including weather. As a result, the commercial operation dates may occur earlier or later than the time frames set forth above.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

**Note 13: Purchased Power Contracts (Continued)**

**Combined Hydroelectric Projects (79 Members) (Concluded)**

On February 12, 2015, AMP reached agreement with Barnard Construction Company, Inc. (“Barnard”) to serve as the replacement powerhouse contractor on AMP’s Smithland Hydroelectric Project (“Smithland Project”), which is one of the three projects constituting the Combined Hydroelectric Projects replacing C.J. Mahan whose contract was terminated by mutual agreement between AMP and C.J. Mahan. Barnard is a highly experienced hydropower construction contractor. AMP and Barnard are working together to achieve an orderly transition of the Smithland Project from the prior powerhouse contractor. Nearly all of the subcontractors currently working on the Smithland Project have been retained. The Project Engineer, MWH Americas, Inc., all owner furnished equipment suppliers and all other prime contractors remain in place.

To provide financing for the Combined Hydroelectric Projects, in 2009 and 2010 AMP has issued in seven series \$2,045,425,000 of its Combined Hydroelectric Projects Revenue Bonds (the “Combined Hydroelectric Bonds”), consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds). As of August 31, 2016 the total outstanding Hydro Project debt on AMP’s books is approximately \$1,995,529,118. The Combined Hydroelectric Bonds are net revenue obligations of AMP, 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.

AMP will issue the Combined Hydro Project Revenue Bonds, Series 2016A (Green Bonds) (the “Series 2016A Bonds”) for \$194,500,000 on October 6, 2016. The bonds will finance final completion costs and also reimbursement to the AMP credit line, which provided interim financing for costs related to the construction of the three run-of-the-river hydroelectric facilities (8 units) along the Ohio River, fund a deposit to the Parity Common Reserve Account, deposit to Escrow Account and pay the cost of issuance of the Series 2016A. The purpose of the “Green bonds” label is to allow investors to invest in an environmentally beneficial project.

The City of Hillsdale has executed a take-or-pay power sales contract with AMP for a Project Share of 3,398 kW or 1.63% of capacity and associated energy from the Combined Hydro Project facility. The City’s share of debt as of June 30, 2016 is approximately \$32,527,000.

**Meldahl Hydroelectric Project (48 Members)**

AMP constructed a three unit hydroelectric generation facility on the Captain Anthony Meldahl Locks and Dam, an existing dam, on the Ohio River, constructed by the United States Army Corps of Engineers and of related equipment and associated transmission facilities (the “Meldahl Project”). Now that the Meldahl Project has entered commercial operation, it has a generating capacity of approximately 105 MW. The City of Hamilton, Ohio, a Member of AMP and a participant in the Meldahl Project, and AMP hold, as co-licensees, the Federal Energy Regulatory Commission license to operate the Meldahl Project.

In June 2008, Hamilton received a FERC license to operate a hydroelectric generation facility to be constructed on the Captain Anthony Meldahl Locks Dam, an existing dam on the Ohio River (“Meldahl Project”). In March 2009, AMP and Hamilton executed a series of agreements (the “AMP-Hamilton Agreements”) pursuant to which AMP committed to finance the development and the construction of Meldahl Project and to acquire within 60 days of the date on which Meldahl Project entered commercial operation, a 48.6% undivided ownership interest in the Greenup Facility (the “AMP Interest”).

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

**Note 13: Purchased Power Contracts (Continued)**

**Meldahl Hydroelectric Project (48 Members) (Concluded)**

Pursuant to the various agreements between Hamilton and AMP, the Meldahl Project is owned by Meldahl, LLC, a single member, Delaware not-for-profit limited liability company ("Meldahl, LLC"). AMP is the sole member of Meldahl, LLC and appoints three members of its Board of Directors (the Meldahl Board). AMP, acting as agent of Meldahl LLC, has financed the development, acquisition, construction and equipping of the Meldahl Project. In order to finance the construction of the Meldahl Project and related costs, in 2010 and 2011 AMP issued six series of its Meldahl Hydroelectric Project Revenue Bonds (the "Meldahl Bonds") in the amount of \$685,100,000 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. The Meldahl Project entered commercial operation on April 12, 2016. The Meldahl Project entered commercial operation on April 12, 2016.

By resolution adopted on June 23, 2016 the AMP Board of Trustees authorized the issuance and sale of the Series 2016A Bonds. AMP issued Meldahl Hydro Project Revenue Bonds, Series 2016A (Green Bonds) (the "Series 2016A Bonds") in the amount of \$80,050,000 on July 27, 2016. The proceeds of which were utilized to make a deposit to the Construction Account to retire balances held for the costs and expenses associated with the Project on AMP's line of credit, fund a deposit to the Parity Common Reserve Account and pay the cost of issuance of the Series 2016A. As of August 31, 2016, the outstanding debt for the Meldahl Hydroelectric Projects facility on AMP's books was approximately \$702,370,000. The City of Hillsdale has executed a take-or-pay power sales contract with AMP for a Project Share of 731 kW or 0.70% of capacity and associated energy from the Meldahl Hydroelectric Projects facility. The City's share of debt as of June 30, 2016 is approximately \$4,916,000.

**Greenup Hydroelectric Project (47 Members)**

The Greenup Hydroelectric Facility (the "Greenup Facility") is a 70.2 MW run-of-the river hydroelectric generating facility located on the Greenup Locks and Dam on the Ohio River. The Greenup Facility entered commercial operation in 1982 and owned and operated by the City of Hamilton, Ohio ("Hamilton") since 1988. In June 2008, Hamilton received a FERC license to operate a hydroelectric generation facility to be constructed on the Captain Anthony Meldahl Locks Dam, an existing dam on the Ohio River ("Meldahl Project"). In March 2009, AMP and Hamilton executed a series of agreements (the "AMP-Hamilton Agreements") pursuant to which AMP committed to finance the development and the construction of Meldahl Project and to acquire, within 60 days of the date on which Meldahl Project entered commercial operation, a 48.6% undivided ownership interest in the Greenup Facility (the "AMP Interest"). The Meldahl Project entered commercial operation on April 12, 2016.

On May 11, 2016, in order to finance the acquisition of AMP's Interest as well as AMP's share of certain capital expenditures at the Greenup Facility and related costs, AMP issued its Greenup Hydroelectric Project Revenue Bonds, Series 2016A (the "Greenup Bonds") in the principal amount of \$125,630,000. The Greenup Bonds are secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 47 of its Members.

AMP and Hamilton are responsible for an aliquot share, equal to their respective undivided ownership interest in the Greenup Facility (51.4% for Hamilton and 48.6% for AMP), of the operating and maintenance expenses of the Greenup Facility. In accordance with, and subject to the provisions of, the AMP-Hamilton Agreements, Hamilton continues to operate the Greenup Facility.



CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONCLUDED)

JUNE 30, 2016

**Note 13: Purchased Power Contracts (Concluded)**

**Greenup Hydroelectric Project (47 Members) (Concluded)**

The City of Hillsdale has executed a take-or-pay power sales contract with AMP for a Project Share of 479 kW or 1.40% of capacity and associated energy from the Greenup Hydroelectric Facility. The City's share of debt as of June 30, 2016 is approximately \$1,758,000.

**Note 14: Upcoming Accounting Pronouncements**

In June 2015, the GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The statement follows the framework for financial reporting of defined benefit OPEB plans in Statement No. 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2017-2018 fiscal year.

In June 2015, the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The statement replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The statement requires governments providing other postemployment benefits (OPEB) to recognize their unfunded OPEB obligations as a liability for the first time, and to more comprehensibly and comparably measure the annual costs of OPEB benefits. The statement also enhances accountability and transparency through revised note disclosures and requires supplementary information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2018-2019 fiscal year.

In June 2015, the GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified with a source of authoritative GAAP. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2016-2017 fiscal year.

In August 2015, the GASB issued Statement No. 77, Tax abatement disclosures. The statement improves financial reporting through the disclosure of information about the nature and magnitude of tax abatements that are not consistently or comprehensively reported to the public at present. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2016-2017 fiscal year.

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF HILLSDALE, MICHIGAN**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**YEAR ENDED JUNE 30, 2016**

	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	
<b>REVENUES</b>			
City Taxes:			
Property	\$ 1,922,500	\$ 1,922,500	\$ 1,892,866
Administrative fees	60,000	60,000	60,479
Interest and penalties	25,000	25,000	28,279
Industrial facilities tax	50,250	50,250	52,110
Total City taxes	<u>2,057,750</u>	<u>2,057,750</u>	<u>2,033,734</u>
State revenue	857,500	857,500	824,470
Federal revenue	292,680	855,200	629,805
Licenses and permits	108,100	108,100	109,463
Charges for services	19,600	19,600	20,732
Fines and violations	4,500	4,500	6,638
Interest and rentals	87,430	87,430	81,680
Miscellaneous	1,033,500	986,500	987,558
TOTAL REVENUES	<u>4,461,060</u>	<u>4,976,580</u>	<u>4,694,080</u>
<b>EXPENDITURES</b>			
General government:			
Council	28,650	25,650	24,750
City manager	241,650	231,650	224,493
Administrative	172,000	177,000	168,992
Elections	15,100	12,100	11,684
Assessor	95,000	95,000	95,317
Clerk	106,140	125,640	117,931
Finance department	99,070	99,070	94,947
Treasurer	136,730	156,730	145,520
Building and grounds	130,940	117,440	112,989
Parking lots	30,240	20,240	18,183
Cemetery	117,200	117,200	119,651
Airport	147,640	147,640	130,477
Total general government	<u>1,320,360</u>	<u>1,325,360</u>	<u>1,264,934</u>
Public safety:			
Police	1,325,990	1,298,990	1,270,498
Fire	454,700	509,700	485,680
Code enforcement	44,000	44,000	41,572
Total public safety	<u>1,824,690</u>	<u>1,852,690</u>	<u>1,797,750</u>
Public works:			
Public services	263,680	286,680	273,772
Street lights	71,600	62,600	60,653
Total public works	<u>335,280</u>	<u>349,280</u>	<u>334,425</u>

continued...

**CITY OF HILLSDALE, MICHIGAN**  
**BUDGETARY COMPARISON SCHEDULE (CONCLUDED)**  
**GENERAL FUND**  
**YEAR ENDED JUNE 30, 2016**

	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	
<b>EXPENDITURES (CONTINUED)</b>			
Community and economic development:			
Planning	\$ 74,750	\$ 72,750	\$ 70,670
Economic development	660,900	1,070,450	832,127
Total community and economic development	735,650	1,143,200	902,797
Culture and recreation	156,010	156,010	152,675
TOTAL EXPENDITURES	4,371,990	4,826,540	4,452,581
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	89,070	150,040	241,499
<b>OTHER FINANCING SOURCES (USES)</b>			
Contribution from TIFA	10,000	10,000	10,000
Operating transfers in	134,700	138,900	137,161
Operating transfers (out)	(360,490)	(445,490)	(417,070)
TOTAL OTHER FINANCING SOURCES (USES)	(215,790)	(296,590)	(269,909)
<b>NET CHANGE IN FUND BALANCE</b>	(126,720)	(146,550)	(28,410)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	941,507	941,507	941,507
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 814,787</u>	<u>\$ 794,957</u>	<u>\$ 913,097</u>

**CITY OF HILLSDALE, MICHIGAN**  
**BUDGETARY COMPARISON SCHEDULE**  
**MAJOR STREET FUND**  
**YEAR ENDED JUNE 30, 2016**

	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	
<b>REVENUES</b>			
State revenue	\$ 493,500	\$ 513,500	\$ 520,028
Interest and rentals	750	750	892
Miscellaneous	2,500	2,500	5,470
<b>TOTAL REVENUES</b>	<u>496,750</u>	<u>516,750</u>	<u>526,390</u>
<b>EXPENDITURES</b>			
Highways and streets:			
Street surface	98,110	98,110	54,780
Trunkline street surface	14,200	14,200	7,085
R.O.W. maintenance	72,040	72,040	95,313
Trunkline R.O.W. maintenance	8,850	8,850	3,759
Trees	44,990	44,990	38,566
Trunkline trees	710	710	348
Drainage	39,020	39,020	41,399
Trunkline R.O.W. drainage	5,120	5,120	2,586
Traffic	48,450	48,450	44,877
Trunkline traffic	7,530	7,530	5,298
Winter maintenance	98,860	98,860	59,888
Trunkline winter maintenance	26,020	26,020	15,442
<b>TOTAL EXPENDITURES</b>	<u>463,900</u>	<u>463,900</u>	<u>369,341</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>32,850</u>	<u>52,850</u>	<u>157,049</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	(98,000)	(101,000)	(100,418)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(98,000)</u>	<u>(101,000)</u>	<u>(100,418)</u>
<b>NET CHANGES IN FUND BALANCES</b>	(65,150)	(48,150)	56,631
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>240,383</u>	<u>240,383</u>	<u>240,383</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 175,233</u>	<u>\$ 192,233</u>	<u>\$ 297,014</u>

**CITY OF HILLSDALE, MICHIGAN**  
**BUDGETARY COMPARISON SCHEDULE**  
**LOCAL STREET FUND**  
**YEAR ENDED JUNE 30, 2016**

	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	
<b>REVENUES</b>			
State revenue	\$ 160,500	\$ 172,500	\$ 173,478
Miscellaneous	-	-	7,553
<b>TOTAL REVENUES</b>	<u>160,500</u>	<u>172,500</u>	<u>181,031</u>
<b>EXPENDITURES</b>			
Highways and streets:			
Street surface	80,510	80,510	83,868
R.O.W. maintenance	68,800	105,300	92,675
Trees	52,130	52,130	45,978
Drainage	22,270	22,270	31,245
Traffic	11,740	11,740	13,844
Winter maintenance	60,350	60,350	34,350
<b>TOTAL EXPENDITURES</b>	<u>295,800</u>	<u>332,300</u>	<u>301,960</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(135,300)</u>	<u>(159,800)</u>	<u>(120,929)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	150,000	150,000	150,000
Transfers out	(14,700)	(15,900)	(15,788)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>135,300</u>	<u>134,100</u>	<u>134,212</u>
<b>NET CHANGES IN FUND BALANCES</b>	-	(25,700)	13,283
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>111,512</u>	<u>111,512</u>	<u>111,512</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 111,512</u>	<u>\$ 85,812</u>	<u>\$ 124,795</u>

**CITY OF HILLSDALE, MICHIGAN**  
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS  
DEFINED BENEFIT PENSION PLAN  
CALENDAR YEAR DECEMBER 31  
Last 10 Years\*

	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability</b>		
Service cost	\$ 355,050	\$ 364,196
Interest	1,677,361	1,621,607
Changes of benefit terms	-	-
Difference between expected and actual experience	110,760	-
Changes of assumptions	1,013,079	-
Benefit payments including employee refunds	(1,378,158)	(1,232,671)
Other	1	(1)
<b>Net Change in Total Pension Liability</b>	<u>1,778,093</u>	<u>753,131</u>
<b>Total Pension Liability - beginning</b>	<u>20,843,207</u>	<u>20,090,076</u>
<b>Total Pension Liability - ending</b>	<u>\$ 22,621,300</u>	<u>\$ 20,843,207</u>
<b>Plan Fiduciary Net Position</b>		
Contributions-employer	\$ 346,141	\$ 332,464
Contributions-employee	156,571	137,790
Net investment income	(270,721)	1,138,603
Benefit payments including employee refunds	(1,378,158)	(1,232,671)
Administrative expense	(39,960)	(41,685)
Other	-	2
<b>Net Change in Plan Fiduciary Net Position</b>	<u>(1,186,127)</u>	<u>334,503</u>
<b>Plan Fiduciary Net Position - beginning</b>	<u>18,526,166</u>	<u>18,191,663</u>
<b>Plan Fiduciary Net Position - ending</b>	<u>\$ 17,340,039</u>	<u>\$ 18,526,166</u>
<b>Employer Net Pension Liability - ending</b>	<u>\$ 5,281,261</u>	<u>\$ 2,317,041</u>
<b>Plan Fiduciary Net Position as a percentage of the Total Pension Liability</b>	76.65%	88.88%
<b>Covered Employee Payroll</b>	\$ 3,426,822	\$ 3,531,325
<b>Employer's Net Pension Liability as a percentage of covered employee payroll</b>	154.12%	65.61%

**Notes to schedule:**

*Benefit changes: There were no changes made to benefits in the December 31, 2015 valuation.*

*Changes in assumptions: There were no changes in actuarial assumptions or methods affecting the December 31, 2015 valuation, with the exception of:*

*Assumed rate of investment return was lowered from 8% to 7.75%*

*Inflation decreased from 4.5% to 2.5%*

*Salary increase was lowered from 4.5% to 3.75%*

*The mortality table was adjusted to reflect longer lifetimes*

*The asset smoothing was changed from 10 to 5 years*

*Above dates are based on measurement date, which may not necessarily tie to the fiscal year end June 30, 2016*

\* - Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

**CITY OF HILLSDALE, MICHIGAN**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**YEAR ENDED JUNE 30, 2016**  
**Last 10 Years\***

	<b>2016</b>	<b>2015</b>
Actuarial Determined Contributions	\$ 348,500	\$ 330,003
Contributions in relation to the actuarially determined contribution	348,500	330,003
Contribution deficiency (excess)	-	-
 Covered Employee Payroll	 3,955,056	 3,531,325
 Contributions as a percentage of covered employee payroll	 8.81%	 9.35%

\* - Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.



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OTHER SUPPLEMENTARY INFORMATION

CITY OF HILLSDALE, MICHIGAN  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2016

	SPECIAL REVENUE	CAPITAL PROJECT	PERMANENT FUNDS	TOTAL
<b>ASSETS</b>				
Cash and investments	\$ 161,804	\$ 891,702	\$ 747,237	\$ 1,800,743
Accounts receivable	65,597	23,975	20	89,592
Due from other funds	-	-	-	-
Prepaid expenditures	3,196	-	-	3,196
	230,597	915,677	747,257	1,893,531
TOTAL ASSETS	230,597	915,677	747,257	1,893,531
 <b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	3,410	102,400	-	105,810
Accrued payroll and related liabilities	3,248	-	-	3,248
Due to other funds	295	-	-	295
	6,953	102,400	-	109,353
TOTAL LIABILITIES	6,953	102,400	-	109,353
Fund Balances:				
Non-spendable				
Prepaid expenditures	3,196	-	-	3,196
Restricted	220,448	813,277	747,257	1,780,982
	223,644	813,277	747,257	1,784,178
TOTAL FUND BALANCES	223,644	813,277	747,257	1,784,178
TOTAL LIABILITIES AND FUND BALANCES	\$ 230,597	\$ 915,677	\$ 747,257	\$ 1,893,531

**CITY OF HILLSDALE, MICHIGAN**  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2016

	<b>SPECIAL REVENUE</b>	<b>CAPITAL PROJECT</b>	<b>PERMANENT FUNDS</b>	<b>TOTAL</b>
<b>REVENUES</b>				
Taxes	\$ 128,403	\$ -	\$ -	\$ 128,403
State revenues	15,491	1,335,521	-	1,351,012
Contributions from local units	13,800	-	-	13,800
Charges for services	68,597	-	27,003	95,600
Fines and violations	65,604	-	-	65,604
Interest and rentals	17,552	32,261	20,269	70,082
Miscellaneous	49,431	78,632	10,996	139,059
<b>TOTAL REVENUES</b>	<b>358,878</b>	<b>1,446,414</b>	<b>58,268</b>	<b>1,863,560</b>
<b>EXPENDITURES</b>				
General government	-	-	-	-
Public safety	7,875	-	-	7,875
Culture and recreation	320,915	-	-	320,915
Capital outlay	8,957	1,675,275	-	1,684,232
Other	-	41,474	-	41,474
<b>TOTAL EXPENDITURES</b>	<b>337,747</b>	<b>1,716,749</b>	<b>-</b>	<b>2,054,496</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>21,131</b>	<b>(270,335)</b>	<b>58,268</b>	<b>(190,936)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	42,070	180,000	25	222,095
Transfers out	(2,000)	-	(14,232)	(16,232)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>40,070</b>	<b>180,000</b>	<b>(14,207)</b>	<b>205,863</b>
<b>CHANGES IN FUND BALANCES</b>	<b>61,201</b>	<b>(90,335)</b>	<b>44,061</b>	<b>14,927</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>162,443</b>	<b>903,612</b>	<b>703,196</b>	<b>1,769,251</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 223,644</b>	<b>\$ 813,277</b>	<b>\$ 747,257</b>	<b>\$ 1,784,178</b>

CITY OF HILLSDALE, MICHIGAN  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 JUNE 30, 2016

	<u>LIBRARY</u>	<u>RECREATION COMMISSION</u>	<u>DRUG FORFEITURES</u>	<u>POLICE</u>	<u>TOTAL</u>
<b>ASSETS</b>					
Cash and investments	\$ 137,795	\$ 10,569	\$ 3,399	\$ 10,041	\$ 161,804
Accounts receivable	65,000	372	-	225	65,597
Prepaid expenditures	308	2,888	-	-	3,196
<b>TOTAL ASSETS</b>	<u>203,103</u>	<u>13,829</u>	<u>3,399</u>	<u>10,266</u>	<u>230,597</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	977	2,433	-	-	3,410
Accrued payroll and related liabilities	1,465	1,783	-	-	3,248
Due to other funds	246	49	-	-	295
<b>TOTAL LIABILITIES</b>	<u>2,688</u>	<u>4,265</u>	<u>-</u>	<u>-</u>	<u>6,953</u>
Fund Balances:					
Non-spendable					
Prepaid expenditures	308	2,888	-	-	3,196
Restricted	200,107	6,676	3,399	10,266	220,448
<b>TOTAL FUND BALANCES</b>	<u>200,415</u>	<u>9,564</u>	<u>3,399</u>	<u>10,266</u>	<u>223,644</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 203,103</u>	<u>\$ 13,829</u>	<u>\$ 3,399</u>	<u>\$ 10,266</u>	<u>\$ 230,597</u>

**CITY OF HILLSDALE, MICHIGAN**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**YEAR ENDED JUNE 30, 2016**

	<u>LIBRARY</u>	<u>RECREATION COMMISSION</u>	<u>DRUG FORFEITURES</u>	<u>POLICE</u>	<u>TOTAL</u>
<b>REVENUES</b>					
Taxes	\$ 128,403	\$ -	\$ -	\$ -	\$ 128,403
State revenue	15,491	-	-	-	15,491
Contributions from local units	13,800	-	-	-	13,800
Charges for services	9,801	58,796	-	-	68,597
Fines and violations	63,192	-	2,412	-	65,604
Interest and rentals	1,452	16,100	-	-	17,552
Miscellaneous	24,868	8,476	-	16,087	49,431
<b>TOTAL REVENUES</b>	<u>257,007</u>	<u>83,372</u>	<u>2,412</u>	<u>16,087</u>	<u>358,878</u>
<b>EXPENDITURES</b>					
Public safety	-	-	2,054	5,821	7,875
Culture and recreation	198,261	122,654	-	-	320,915
Capital outlay	8,957	-	-	-	8,957
<b>TOTAL EXPENDITURES</b>	<u>207,218</u>	<u>122,654</u>	<u>2,054</u>	<u>5,821</u>	<u>337,747</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>49,789</u>	<u>(39,282)</u>	<u>358</u>	<u>10,266</u>	<u>21,131</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	42,070	-	-	42,070
Transfers out	(2,000)	-	-	-	(2,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(2,000)</u>	<u>42,070</u>	<u>-</u>	<u>-</u>	<u>40,070</u>
<b>CHANGES IN FUND BALANCES</b>	47,789	2,788	358	10,266	61,201
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>152,626</u>	<u>6,776</u>	<u>3,041</u>	<u>-</u>	<u>162,443</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 200,415</u>	<u>\$ 9,564</u>	<u>\$ 3,399</u>	<u>\$ 10,266</u>	<u>\$ 223,644</u>

**CITY OF HILLSDALE, MICHIGAN**  
**COMBINING BALANCE SHEET**  
**NONMAJOR CAPITAL PROJECT FUNDS**  
**JUNE 30, 2016**

	<b>LIBRARY IMPROVEMENT</b>	<b>FIELDS OF DREAMS</b>	<b>STOCK PARK</b>	<b>CAPITAL IMPROVEMENT</b>	<b>AIRPORT IMPROVEMENT</b>	<b>FIRE EQUIPMENT</b>	<b>TOTAL</b>
<b>ASSETS</b>							
Cash and investments	\$ 8,526	\$ 13,643	\$ 32,190	\$ 641,625	\$ 158,256	\$ 37,462	\$ 891,702
Accounts receivable	-	-	-	23,830	145	-	23,975
Due from other funds	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>8,526</b>	<b>13,643</b>	<b>32,190</b>	<b>665,455</b>	<b>158,401</b>	<b>37,462</b>	<b>915,677</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts payable	-	-	-	2,400	100,000	-	102,400
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,400</b>	<b>100,000</b>	<b>-</b>	<b>102,400</b>
<b>Fund Balances:</b>							
Restricted	8,526	13,643	32,190	663,055	58,401	37,462	813,277
<b>TOTAL FUND BALANCES</b>	<b>8,526</b>	<b>13,643</b>	<b>32,190</b>	<b>663,055</b>	<b>58,401</b>	<b>37,462</b>	<b>813,277</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 8,526</b>	<b>\$ 13,643</b>	<b>\$ 32,190</b>	<b>\$ 665,455</b>	<b>\$ 158,401</b>	<b>\$ 37,462</b>	<b>\$ 915,677</b>

**CITY OF HILLSDALE, MICHIGAN**  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NONMAJOR CAPITAL PROJECT FUNDS  
 YEAR ENDED JUNE 30, 2016

	<b>LIBRARY IMPROVEMENT</b>	<b>FIELD OF DREAMS</b>	<b>STOCK PARK</b>	<b>CAPITAL IMPROVEMENT</b>	<b>AIRPORT IMPROVEMENT</b>	<b>FIRE EQUIPMENT</b>	<b>TOTAL</b>
<b>REVENUES</b>							
State revenue	\$ -	\$ -	\$ -	\$ 95,319	\$ 1,240,202	\$ -	\$ 1,335,521
Interest and rentals	-	35	88	-	31,965	173	32,261
Miscellaneous	-	15,301	12,733	7,557	38,041	5,000	78,632
<b>TOTAL REVENUES</b>	<b>-</b>	<b>15,336</b>	<b>12,821</b>	<b>102,876</b>	<b>1,310,208</b>	<b>5,173</b>	<b>1,446,414</b>
<b>EXPENDITURES</b>							
Capital outlay	4,500	7,630	4,535	117,608	1,481,845	59,157	1,675,275
Other	-	-	-	-	41,474	-	41,474
<b>TOTAL EXPENDITURES</b>	<b>4,500</b>	<b>7,630</b>	<b>4,535</b>	<b>117,608</b>	<b>1,523,319</b>	<b>59,157</b>	<b>1,716,749</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(4,500)</b>	<b>7,706</b>	<b>8,286</b>	<b>(14,732)</b>	<b>(213,111)</b>	<b>(53,984)</b>	<b>(270,335)</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in (out)	-	-	-	180,000	-	-	180,000
<b>CHANGES IN FUND BALANCES</b>	<b>(4,500)</b>	<b>7,706</b>	<b>8,286</b>	<b>165,268</b>	<b>(213,111)</b>	<b>(53,984)</b>	<b>(90,335)</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>13,026</b>	<b>5,937</b>	<b>23,904</b>	<b>497,787</b>	<b>271,512</b>	<b>91,446</b>	<b>903,612</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 8,526</b>	<b>\$ 13,643</b>	<b>\$ 32,190</b>	<b>\$ 663,055</b>	<b>\$ 58,401</b>	<b>\$ 37,462</b>	<b>\$ 813,277</b>

CITY OF HILLSDALE, MICHIGAN  
 COMBINING BALANCE SHEET  
 NONMAJOR PERMANENT FUNDS  
 JUNE 30, 2016

	<b>R.L. OWEN MEMORIAL</b>	<b>CEMETERY PERPETUAL CARE</b>	<b>STOCK PARK MAINTENANCE</b>	<b>TOTAL</b>
<b>ASSETS</b>				
Cash and investments	\$ 46,919	\$ 655,374	\$ 44,944	\$ 747,237
Due from other funds	-	-	-	-
Accounts receivable	-	-	20	20
	-	-	20	20
TOTAL ASSETS	\$ 46,919	\$ 655,374	\$ 44,964	\$ 747,257
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Due to other funds	-	-	-	-
Fund Balances:				
Restricted	46,919	655,374	44,964	747,257
TOTAL FUND BALANCES	46,919	655,374	44,964	747,257
TOTAL LIABILITIES AND FUND BALANCES	\$ 46,919	\$ 655,374	\$ 44,964	\$ 747,257



**CITY OF HILLSDALE, MICHIGAN**  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NONMAJOR PERMANENT FUNDS  
 YEAR ENDED JUNE 30, 2016

	<u>R.L. OWEN MEMORIAL</u>	<u>CEMETERY PERPETUAL CARE</u>	<u>STOCK PARK MAINTENANCE</u>	<u>TOTAL</u>
<b>REVENUES</b>				
Charges for services	\$ -	\$ 27,003	\$ -	\$ 27,003
Interest and rentals	5,883	14,232	154	20,269
Miscellaneous	-	2,640	8,356	10,996
<b>TOTAL REVENUES</b>	<u>5,883</u>	<u>43,875</u>	<u>8,510</u>	<u>58,268</u>
<b>EXPENDITURES</b>				
General government	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>5,883</u>	<u>43,875</u>	<u>8,510</u>	<u>58,268</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in (out)	-	(14,232)	25	(14,207)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>(14,232)</u>	<u>25</u>	<u>(14,207)</u>
<b>CHANGES IN FUND BALANCES</b>	5,883	29,643	8,535	44,061
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>41,036</u>	<u>625,731</u>	<u>36,429</u>	<u>703,196</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 46,919</u>	<u>\$ 655,374</u>	<u>\$ 44,964</u>	<u>\$ 747,257</u>

**CITY OF HILLSDALE, MICHIGAN**  
 LOCAL REVENUES  
 DIAL-A-RIDE ENTERPRISE FUND  
 YEAR ENDED JUNE 30, 2016

	<u>7/1/2015 - 9/30/2015</u>	<u>10/1/2015 - 6/30/2016</u>	<u>7/1/2015 - 6/30/2016</u>
<b>OPERATING REVENUES AND TRANSFERS</b>			
Demand response (farebox) - nonurban	\$ 10,417	\$ 38,919	\$ 49,336
Transfer in from general fund	-	95,000	95,000
TOTAL LOCAL REVENUES	<u>\$ 10,417</u>	<u>\$ 133,919</u>	<u>\$ 144,336</u>

**CITY OF HILLSDALE, MICHIGAN**  
 LOCAL REVENUES  
 DIAL-A-RIDE ENTERPRISE FUND  
 BASED ON A SEPTEMBER 30, 2015 YEAR END

	<u>10/1/2014 - 6/30/2015</u>	<u>7/1/2015 - 9/30/2015</u>	<u>10/1/2014 - 9/30/2015</u>
<b>OPERATING REVENUES AND TRANSFERS</b>			
Demand response (farebox) - nonurban	\$ 43,925	\$ 10,417	\$ 54,342
Transfer in from general fund	109,260	-	109,260
 TOTAL LOCAL REVENUES	 <u>\$ 153,185</u>	 <u>\$ 10,417</u>	 <u>\$ 163,602</u>

**CITY OF HILLSDALE, MICHIGAN**  
 FEDERAL AND STATE AWARDS  
 DIAL-A-RIDE ENTERPRISE FUND  
 YEAR END JUNE 30, 2016

	7/1/2015 - 9/30/2015	10/1/2015 - 6/30/2016	7/1/2015 - 6/30/2016
Michigan Department of Transportation			
Local bus operating	\$ 31,144	\$ 98,955	\$ 130,099
Preliminary reconciliation payback - FY 2014	4,239	-	4,239
Federal Transit Administration			
Section 5311	15,852	43,680	59,532
 TOTAL FEDERAL AND STATE AWARDS	\$ 51,235	\$ 142,635	\$ 193,870

**CITY OF HILLSDALE, MICHIGAN**  
**FEDERAL AND STATE AWARDS**  
**DIAL-A-RIDE ENTERPRISE FUND**  
**BASED ON A SEPTEMBER 30, 2015 YEAR END**

	<u>10/1/2014 - 6/30/2015</u>	<u>7/1/2015 - 9/30/2015</u>	<u>TOTAL</u>
Michigan Department of Transportation			
Local bus operating	\$ 93,420	\$ 31,144	\$ 124,564
Preliminary reconciliation - FY 2014	-	4,239	4,239
Final audit - FY 2011	1,504	-	1,504
Final audit - FY 2012	2,093	-	2,093
Federal Transit Administration			
Section 5311	42,134	15,852	57,986
Capital grant - bus replacement	87,404	-	87,404
 TOTAL FEDERAL AND STATE AWARDS	 <u>\$ 226,555</u>	 <u>\$ 51,235</u>	 <u>\$ 277,790</u>

CITY OF HILLSDALE, MICHIGAN  
EXPENDITURES OF FEDERAL AND STATE AWARDS  
DIAL-A-RIDE ENTERPRISE FUND  
YEAR ENDED JUNE 30, 2016

FEDERAL CFDA NUMBER	GRANT NUMBER AUTHORIZATION NUMBER	PROGRAM AWARD AMOUNT	CURRENT YEAR'S EXPENDITURES			PRIOR YEARS' EXPENDITURES	AWARD AMOUNT REMAINING
			TOTAL	FEDERAL	STATE		
<b>FEDERAL AND STATE GRANTOR / PASS THROUGH</b>							
<b>GRANTOR / PROGRAM TITLE</b>							
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>							
Passed through Michigan Department of Transportation							
Operating assistance - Section 5311	20.509	2012-0097/P6/R1 \$ 63,409	\$ 34,013	\$ 34,013	\$ -	\$ 26,633	\$ 2,763
Operating assistance - Section 5311	20.509	2012-0097/P7/R1 68,265	25,519	25,519	-	-	42,746
RTAP Training reimbursement	WK0050/0055						-
<b>MICHIGAN DEPARTMENT OF TRANSPORTATION</b>							
Operating Assistance - Act 51							
Nonurban 2014 Reconciled	N/A	N/A 136,326	-	-	-	136,326	-
Nonurban 2015 Budgeted	N/A	N/A 124,564	31,144	-	31,144	93,420	-
Nonurban - 2016 Budgeted	N/A	N/A 131,940	98,955	-	98,955	-	32,985
		<u>\$ 524,504</u>	<u>\$ 189,631</u>	<u>\$ 59,532</u>	<u>\$ 130,099</u>	<u>\$ 256,379</u>	<u>\$ 78,494</u>

**CITY OF HILLSDALE, MICHIGAN**  
**OPERATING AND CONTRACT EXPENSES**  
**DIAL-A-RIDE ENTERPRISE FUND**  
**YEAR ENDING JUNE 30, 2016**

	<u>NONURBAN</u>	<u>TOTAL</u>
Labor	\$ 176,549	\$ 176,549
Fringe benefits	77,280	77,280
Services	18,186	18,186
Materials & supplies	21,421	21,421
Insurance	15,724	15,724
Utilities	10,618	10,618
Miscellaneous	1,765	1,765
Depreciation	<u>65,596</u>	<u>65,596</u>
 TOTAL EXPENSES	 <u>\$ 387,139</u>	 <u>\$ 387,139</u>

**CITY OF HILLSDALE, MICHIGAN**  
 OPERATING AND CONTRACT EXPENSES  
 DIAL-A-RIDE ENTERPRISE FUND  
 YEAR ENDING JUNE 30, 2016

	NONURBAN		TOTAL
	07/01/2015 - 9/30/2015	10/01/2015 - 6/30/2016	
Labor	\$ 41,491	\$ 135,058	\$ 176,549
Fringe benefits	24,306	52,974	77,280
Services	1,644	16,542	18,186
Materials & supplies	3,886	17,535	21,421
Insurance	-	15,724	15,724
Utilities	1,118	9,500	10,618
Miscellaneous	-	1,765	1,765
Depreciation	-	65,596	65,596
<b>TOTAL EXPENSES</b>	<b>\$ 72,445</b>	<b>\$ 314,694</b>	<b>\$ 387,139</b>



**CITY OF HILLSDALE, MICHIGAN**  
**OPERATING AND CONTRACT EXPENSES**  
**DIAL-A-RIDE ENTERPRISE FUND**  
**BASED ON A SEPTEMBER 30, 2015 YEAR END**

	<b>NONURBAN</b>		<b>TOTAL</b>
	<b>10/1/2014 - 6/30/2015</b>	<b>7/1/2015 - 9/30/2015</b>	
Labor	\$ 140,848	\$ 41,491	\$ 182,339
Fringe benefits	55,654	24,306	79,960
Services	22,182	1,645	23,827
Materials & supplies	13,476	3,885	17,361
Insurance	12,446	-	12,446
Utilities	9,719	1,118	10,837
Miscellaneous	1,052	-	1,052
Depreciation	53,139	-	53,139
<b>TOTAL EXPENSES</b>	<b>\$ 308,516</b>	<b>\$ 72,445</b>	<b>\$ 380,961</b>

**CITY OF HILLSDALE, MICHIGAN**  
 NONURBAN REGULAR SERVICE REVENUE REPORT  
 DIAL-A-RIDE ENTERPRISE FUND  
 BASED ON A SEPTEMBER 30, 2015 YEAR END

<u>CODE</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
<b>401</b>	<b>Farebox Revenue</b>	
40100	Passenger Fares	\$ 54,342
<b>409</b>	<b>Local Revenues</b>	
40910	Local operating assistance	109,260
<b>411</b>	<b>State Formula and Contracts</b>	
41101	State operating assistance	119,131
<b>413</b>	<b>Federal Contracts</b>	
41301	Federal Section 5311 (operating funds only)	<u>52,244</u>
	<b>TOTAL REVENUES</b>	<u><u>\$ 334,977</u></u>

CITY OF HILLSDALE, MICHIGAN  
NONURBAN REGULAR SERVICE EXPENSE REPORT  
DIAL-A-RIDE ENTERPRISE FUND  
BASED ON A SEPTEMBER 30, 2015 YEAR END

CODE	DESCRIPTION	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL
<b>501</b>	<b>Labor</b>				
50101	Operators' salaries and wages	\$ 106,886	\$ -	\$ -	\$ 106,886
50102	Other salaries and wages	-	3,789	18,769	22,558
50103	Dispatchers' salaries and wages	52,895	-	-	52,895
<b>502</b>	<b>Fringe Benefits</b>				
50200	Other fringe benefits	67,444	2,370	10,146	79,960
<b>503</b>	<b>Services</b>				
50399	Other	6,045	512	8,398	14,955
<b>504</b>	<b>Materials and Supplies</b>				
50401	Fuel and lubricants	19,798	-	-	19,798
50402	Tires and tubes	2,084	-	-	2,084
50499	Other materials and supplies	2,068	2,182	-	4,250
<b>505</b>	<b>Utilities</b>				
50500	Utilities	6,235	-	-	6,235
<b>506</b>	<b>Insurance</b>				
50603	Liability insurance	8,187	-	-	8,187
50699	Other insurance	-	-	4,259	4,259
<b>509</b>	<b>Miscellaneous Expenses</b>				
50902	Travel, meetings and training	4,868	-	-	4,868
50999	Miscellaneous	-	-	-	-
<b>512</b>	<b>Operating Leases and Rentals</b>				
51200	Operating leases and rentals	887	-	-	887
<b>513</b>	<b>Depreciation</b>				
51300	Depreciation	53,139	-	-	53,139
<b>540</b>	<b>Ineligible refunds &amp; credits</b>				
54000	Ineligible refunds & credits (insurance)	-	-	-	-
<b>550</b>	<b>Ineligible Expenses</b>				
55007	Ineligible depreciation	53,139	-	-	53,139
<b>574</b>	<b>Ineligible Expenses</b>				
57402	Ineligible RTAP	-	-	-	-
	Total expenses				<u>\$ 380,961</u>
	Total ineligible expenses				<u>\$ 53,139</u>
	Total eligible expenses				<u>\$ 327,822</u>

**CITY OF HILLSDALE, MICHIGAN**  
NONURBAN REGULAR SERVICE NON-FINANCIAL INFORMATION  
DIAL-A-RIDE ENTERPRISE FUND  
BASED ON A SEPTEMBER 30, 2015 YEAR END

	<u>WEEKDAY</u>	<u>SATURDAY</u>	<u>SUNDAY</u>	<u>TOTAL</u>
Non-Financial Information				
Annual Reconciliation				
10/1/2014 - 9/30/2015				
Vehicle Hours	5,201	-	-	5,201
Vehicle Miles	<u>52,072</u>	<u>-</u>	<u>-</u>	<u>52,072</u>
Passengers Reg.	16,704	-	-	16,704
Passengers - Sr.	3,072	-	-	3,072
Passengers - Per. Disb.	8,005	-	-	8,005
Passengers - Sr. Disb.	<u>3,813</u>	<u>-</u>	<u>-</u>	<u>3,813</u>
Total Demand - Response	<u>31,594</u>	<u>-</u>	<u>-</u>	<u>31,594</u>
Days Operated	<u>250</u>	<u>-</u>	<u>-</u>	<u>250</u>
	<u>Quantity</u>			
Total Demand - Response Vehicles	4			
Demand-Response Vehicles w/Lifts	4			
Diesel/Gasoline Gallons Consumed	8,414			
Total Transit (full-time equivalent) Employees	4			
Total Revenue Vehicles (full-time equivalent) Operators	4			

**CITY OF HILLSDALE, MICHIGAN**  
**OPERATING ASSISTANCE CALCULATION**  
**DIAL-A-RIDE ENTERPRISE FUND**  
**BASED ON A SEPTEMBER 30, 2015 YEAR END**

	<u>NONURBAN</u>
Total expenses	\$ 380,961
Less ineligible expenses:	
Depreciation	53,139
RTAP	-
Insurance refund	-
Total State eligible expenses	<u>327,822</u>
Eligible expenses for State reimbursement	327,822
Reimbursement percentage	<u>0.3634</u>
State operating assistance	<u>119,131</u>
Total federal eligible expenses	327,822
Less additional federal ineligible expenses per A-87:	
Audit costs	1,296
Eligible expenses for federal reimbursement	<u>326,526</u>
Reimbursement percentage	<u>0.1600</u>
Section 5311 operating assistance	<u>\$ 52,244</u>

**CITY OF HILLSDALE, MICHIGAN**  
**COMBINING STATEMENT OF NET POSITION**  
**INTERNAL SERVICE FUNDS**  
**JUNE 30, 2016**

	<b>DEPARTMENT OF PUBLIC SERVICE LEAVE &amp; BENEFITS</b>	<b>PUBLIC SERVICE INVENTORY</b>	<b>REVOLVING MOBILE EQUIPMENT</b>	<b>UNEMPLOYMENT INSURANCE</b>	<b>TOTAL</b>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 18,570	\$ 57,325	\$ 204,288	\$ -	\$ 280,183
Investments	-	-	-	71,319	71,319
Inventory	-	175,458	-	-	175,458
Prepaid expenses	15,439	-	19,680	-	35,119
TOTAL CURRENT ASSETS	<u>34,009</u>	<u>232,783</u>	<u>223,968</u>	<u>71,319</u>	<u>562,079</u>
Capital assets:					
Equipment	-	-	1,923,645	-	1,923,645
Less: accumulated depreciation	-	-	(1,770,586)	-	(1,770,586)
TOTAL CAPITAL ASSETS, NET	<u>-</u>	<u>-</u>	<u>153,059</u>	<u>-</u>	<u>153,059</u>
TOTAL ASSETS	<u>34,009</u>	<u>232,783</u>	<u>377,027</u>	<u>71,319</u>	<u>715,138</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	139	1,886	4,107	-	6,132
Accrued payroll and related liabilities	-	23	422	-	445
TOTAL CURRENT LIABILITIES	<u>139</u>	<u>1,909</u>	<u>4,529</u>	<u>-</u>	<u>6,577</u>
Other liabilities:					
Compensated absences	11,291	-	6,125	-	17,416
TOTAL LIABILITIES	<u>11,430</u>	<u>1,909</u>	<u>10,654</u>	<u>-</u>	<u>23,993</u>
<b>NET POSITION</b>					
Net investment in capital assets	-	-	153,059	-	153,059
Unrestricted	22,579	230,874	213,314	71,319	538,086
TOTAL NET POSITION	<u>\$ 22,579</u>	<u>\$ 230,874</u>	<u>\$ 366,373</u>	<u>\$ 71,319</u>	<u>\$ 691,145</u>

**CITY OF HILLSDALE, MICHIGAN**  
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 INTERNAL SERVICE FUNDS  
 YEAR ENDED JUNE 30, 2016

	<b>DEPARTMENT OF PUBLIC SERVICE LEAVE &amp; BENEFITS</b>	<b>PUBLIC SERVICE INVENTORY</b>	<b>REVOLVING MOBILE EQUIPMENT</b>	<b>INSURANCE</b>	<b>TOTAL</b>
<b>OPERATING REVENUES</b>					
Charges for services	\$ -	\$ 79,796	\$ 360,148	\$ -	\$ 439,944
Miscellaneous	135,258	-	24,349	4,400	164,007
<b>TOTAL OPERATING REVENUES</b>	<b>135,258</b>	<b>79,796</b>	<b>384,497</b>	<b>4,400</b>	<b>603,951</b>
<b>OPERATING EXPENSES</b>					
Salaries	34,872	2,169	59,660	-	96,701
Fringe benefits	100,386	1,565	39,191	-	141,142
Supplies	-	64,955	85,128	-	150,083
Contracted services	-	3,860	17,195	-	21,055
Maintenance	-	-	12,756	-	12,756
Insurance	-	-	38,665	-	38,665
Miscellaneous	-	-	5,918	777	6,695
Capital outlay	-	-	4,990	-	4,990
Depreciation	-	-	95,595	-	95,595
<b>TOTAL OPERATING EXPENSES</b>	<b>135,258</b>	<b>72,549</b>	<b>359,098</b>	<b>777</b>	<b>567,682</b>
<b>OPERATING INCOME (LOSS)</b>	<b>-</b>	<b>7,247</b>	<b>25,399</b>	<b>3,623</b>	<b>36,269</b>
<b>NONOPERATING REVENUES</b>					
Gain (loss) on disposal of assets	-	-	-	-	-
Interest income	-	-	-	219	219
	-	-	-	219	219
<b>CHANGES IN NET POSITION</b>	<b>-</b>	<b>7,247</b>	<b>25,399</b>	<b>3,842</b>	<b>36,488</b>
<b>NET POSITION - BEGINNING OF YEAR</b>	<b>22,579</b>	<b>223,627</b>	<b>340,974</b>	<b>67,477</b>	<b>654,657</b>
<b>NET POSITION - END OF YEAR</b>	<b>\$ 22,579</b>	<b>\$ 230,874</b>	<b>\$ 366,373</b>	<b>\$ 71,319</b>	<b>\$ 691,145</b>

CITY OF HILLSDALE, MICHIGAN  
 COMBINING STATEMENT OF CASH FLOWS  
 INTERNAL SERVICE FUNDS  
 YEAR ENDED JUNE 30, 2016

	DEPARTMENT OF PUBLIC SERVICE LEAVE & BENEFITS	PUBLIC SERVICE INVENTORY	REVOLVING MOBILE EQUIPMENT	INSURANCE	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash paid to suppliers	\$ -	\$ (92,628)	\$ (162,367)	\$ -	\$ (254,995)
Cash paid to employees	(128,864)	(4,295)	(100,191)	-	(233,350)
Receipts for interfund services provided	135,258	80,565	384,497	-	600,320
	<u>6,394</u>	<u>(16,358)</u>	<u>121,939</u>	<u>-</u>	<u>111,975</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>					
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Purchase of capital assets	-	-	(32,059)	-	(32,059)
	<u>-</u>	<u>-</u>	<u>(32,059)</u>	<u>-</u>	<u>(32,059)</u>
<b>NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>					
	6,394	(16,358)	89,880	-	79,916
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>					
	12,176	73,683	114,408	-	200,267
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>					
	<u>\$ 18,570</u>	<u>\$ 57,325</u>	<u>\$ 204,288</u>	<u>\$ -</u>	<u>\$ 280,183</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>					
Operating income (loss)	\$ -	\$ 7,247	\$ 25,399	\$ -	\$ 32,646
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	-	-	95,595	-	95,595
(Increase)/decrease in:					
Accounts receivable	-	614	-	-	614
Due from other funds	-	-	-	-	-
Inventory	-	(21,435)	-	-	(21,435)
Prepaid expenses	8,684	-	5,490	-	14,174
Increase/(decrease) in:					
Accounts payable	139	(2,223)	(3,205)	-	(5,289)
Accrued expenses	(2,429)	(561)	(1,340)	-	(4,330)
	<u>6,394</u>	<u>(16,358)</u>	<u>121,939</u>	<u>-</u>	<u>111,975</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>					



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**CITY OF HILLSDALE, MICHIGAN**  
**ADDITIONAL REPORTS REQUIRED BY**  
**THE UNIFORM GUIDANCE**  
**YEAR ENDED JUNE 30, 2016**

**CITY OF HILLSDALE, MICHIGAN**

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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*

To the Honorable Mayor and  
Members of City Council  
City of Hillsdale  
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, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Hillsdale, Michigan's basic financial statements and have issued our report thereon dated December 19, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in the accompanying schedule of findings and questioned costs to be material weaknesses - Findings 2016-2, 2016-3 and 2016-4.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency - Finding 2016-1.

Compliance and Other Matters

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

City of Hillsdale, Michigan's Response to Findings

City of Hillsdale, Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Hillsdale, Michigan's response was not subjected to the auditing procedures applied in the audit of the financial statements 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.

*Condon, Hecht, Bisher, Wade & Co., P.C.*

Certified Public Accountants

Hillsdale, Michigan  
December 19, 2016

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

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

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

We have audited the City of Hillsdale's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Hillsdale's major federal programs for the year ended June 30, 2016. The City of Hillsdale'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of City of Hillsdale'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* (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 City of Hillsdale'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 City of Hillsdale's compliance.

***Opinion on Each Major Federal Program***

In our opinion, City of Hillsdale complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

## Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, however, material weaknesses may exist that were not identified.

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Hillsdale, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Hillsdale basic financial statements. We issued our report thereon dated December 19, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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.

*Condon, Hecht, Bisher, Wade & Co., P.C.*

Certified Public Accountants

**CITY OF HILLSDALE, MICHIGAN  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Federal CFDA Number</u>	<u>Federal or Pass-Through Grant Number</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>
<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>				
Passed-through the Michigan Strategic Fund				
CDBG Blight Elimination	14.228	MSC-215008-ESB	\$ 785,500	\$ 457,754
CDBG Acquisition	14.228	MSC-214066-CSP	80,200	80,150
Passed-through Michigan State Housing Development Authority				
CDBG Rental Rehab	14.228	MSC-2013-5994-HO	94,400	89,400
<b>Total U.S. Department of Housing and Urban Development</b>			<u>960,100</u>	<u>627,304</u>
<b><u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u></b>				
Passed-through the Michigan Department of Environmental Quality				
Wellhead Protection	66.468	WSSN-3170	15,700	11,155
Capitalization Grants for Clean Water State Revolving Loan Funds	66.468	5610-01	7,435,000	667,452
<b>Total U.S. Environmental Protection Agency</b>			<u>7,450,700</u>	<u>678,607</u>
<b><u>U.S. DEPARTMENT OF TRANSPORTATION</u></b>				
Passed-through Michigan Department of Transportation				
Operating assistance - Section 5311	20.509	2012-0097/P6/R1	63,409	34,013
Operating assistance - Section 5311	20.509	2012-0097/P7/R1	68,265	25,519
<b>Total U.S. Department of Transportation</b>			<u>131,674</u>	<u>59,532</u>
<b><u>U.S. DEPARTMENT OF ENERGY</u></b>				
Passed-through Michigan Energy Office				
LED Street Lighting Grant Program	81.041	MEO-15-007	20,000	20,000
LED Street Lighting Grant Program	81.041	MEO-16-004	30,000	29,858
<b>Total U.S. Department of Energy</b>			<u>50,000</u>	<u>49,858</u>
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>				
Bullet Proof Vest Program 2015	16.607	2015		2,501
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 8,592,474</u>	<u>\$ 1,417,802</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

**CITY OF HILLSDALE, MICHIGAN**  
**NOTES TO SCHEDULE OF EXPENDITURES**  
**OF FEDERAL AWARDS**  
**JUNE 30, 2016**

**Note 1:** Basis of presentation – The schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Hillsdale under programs of the federal government for the year ended June 30, 2016. 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) and reconciles with the amounts presented in the preparation of the financial statements.

**Note 2:** The following was audited as a major program:

Formula School Improvement – CFDA #66.458

**Note 3:** The threshold for distinguishing Type A and Type B programs was \$750,000.

**Note 4:** Federal expenditures are reported as revenue in the following funds in the financial statements:

Governmental funds	\$ 629,805
Proprietary funds	<u>787,997</u>
	<u>\$ 1,417,802</u>

**Note 5:** Outstanding loans – the City has an outstanding loan commitment under the Clean Water State Revolving Loan Fund from the Michigan Department of Environmental Quality, as a pass through agency for the Environmental Protection Agency (CFDA #66.458. As of June 30, 2016 the outstanding loan payable was \$556,471.



**CITY OF HILLSDALE, MICHIGAN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2016**

Section I - Summary of Auditor's Results

**Financial Statements**

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	<u>  X  </u> Yes	<u>    </u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u>    </u> Yes	<u>  X  </u> No
Noncompliance material to financial statements noted?	<u>    </u> Yes	<u>  X  </u> No

**Federal Awards**

Internal control over major programs:		
Material weakness(es) identified?	<u>    </u> Yes	<u>  X  </u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u>    </u> Yes	<u>  X  </u> No
Type of auditors' report issued:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with §200.516 of the Uniform Guidance?	<u>    </u> Yes	<u>  X  </u> No

**Major Programs**

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.377	Formula School Improvement
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$750,000</u>
Auditee qualified as low-risk auditee?	<u>    </u> Yes <u>  X  </u> No

**CITY OF HILLSDALE, MICHIGAN**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2016

Section II - Financial Statement Findings

**Finding 2016-1 Financial Statement Preparation (Repeat finding)**

Internal Control Finding considered a significant deficiency

*Requirement:* The preparation of GAAP financial statements requires internal controls over (1) recording, processing, and summarizing accounting data, and (2) reporting the fund financial statements, including the related footnotes.

*Condition:* The City has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the City's internal controls.

*Cause:* This condition is caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the added time and expense of outsourcing to another accounting firm, or obtaining the necessary training for its Treasurer to perform this task.

*Effect:* The result of this condition is that the City lacks internal controls over the preparation of financial statements and notes, and instead relies, in part, on its external auditors for assistance with this task.

*View of responsible officials:* The City will continue to evaluate the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP. In addition, the City will carefully review the draft financial statements and notes prior to approving them and accept responsibility for their content and presentation.

**Finding 2016-2 Utility Funds - Bank Reconciliations**

Internal Control Finding considered a material weakness

*Requirement:* The accounting records should be reconciled to the bank statements on a timely basis, usually between 15-30 days following the end of each month.

*Condition:* During the year, bank reconciliations were prepared between six to nine months subsequent to month end.

*Cause:* The condition was caused by 1) turnover in accounting personnel; 2) New personnel were not familiar with the various complexities surrounding the bank reconciliation process.

*Effect:* The result of these conditions is that management did not have internal controls in place to prevent and/or detect unreconciled balances.

*View of responsible officials:* The City Board of Public Utilities is in the process of implementing BS&A software and plans to use the bank reconciliation feature within on a timely basis.

**CITY OF HILLSDALE, MICHIGAN**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)  
YEAR ENDED JUNE 30, 2016

**Finding 2016-3 Utility Funds - Year End Close and Audit Adjustments (repeat finding)**

Internal Control Finding considered a material weakness

*Requirement:* The business office is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

*Condition:* During the course of the audit, there were many adjusting journal entries posted to the original trial balance we received. Specific and significant material items that required correction included cash, accounts receivable, accounts payable, bonds payable, and prior year audit adjustments not recorded in the accounting records.

*Cause:* This condition was caused by accounting personnel turnover.

*Effect:* At the time of audit, the financial statements were materially misstated.

*View of responsible officials:* The City Board of Public Utilities is currently seeking to place a qualified person in the business office whose duty will be to maintain an accurate set of accounting records.

**Finding 2016-4 Utility Funds - Internal Journal Entries**

Internal Control Finding considered a material weakness

*Requirement:* Controls over the journal entry process should include a standardized journal entry form, the reason for the entry and supporting documentation.

*Condition:* During our audit, when reviewing the detail of an account balance, there were journal entries made to the account without documentation or explanation.

*Cause:* The condition was caused by lack of policies and procedures to ensure the propriety or completeness of journal entries. Also, the business office did not have proper segregation of duties related to the preparation and posting of journal entries.

*Effect:* Financial statement amounts may be misstated and/or not properly supported. Failure to implement effective processes and procedures could increase the risks of fraud and mismanagement of funds.

*View of responsible officials:* The City Board of Public Utilities, while seeking to place a qualified person in the business office, intends to review all internal control processes.

Section III – Federal Award Findings and Questioned Costs

None

**CITY OF HILLSDALE, MICHIGAN**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED JUNE 30, 2016**

**Finding 2015-1 Financial Statement Preparation**

Finding considered a significant deficiency

*Requirement:* The preparation of GAAP financial statements requires internal controls over (1) recording, processing, and summarizing accounting data, and (2) reporting the fund financial statements, including the related footnotes.

*Condition:* The City has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the City's internal controls.

*Cause:* This condition is caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the added time and expense of outsourcing to another accounting firm, or obtaining the necessary training for its Treasurer to perform this task.

*Effect:* The result of this condition is that the City lacks internal controls over the preparation of financial statements and notes, and instead relies, in part, on its external auditors for assistance with this task.

*Status:* No Change

**Finding 2015-2 Inventory Reporting**

Finding considered a material weakness

*Criteria:* The amount of ending inventory recorded within the HBPU's general ledger must be supported by detailed subsidiary ledgers.

*Condition:* At the time of our audit, management was unable to provide a detailed inventory listing that agreed to the general ledger, and the internal controls over periodic reconciliation to the general ledger was lacking.

*Cause:* This condition was caused by the following circumstances – 1) the reports from the inventory module of the software were not reconciled to the general ledger on a monthly basis; 2) inventory average costs were not being accumulated correctly in the software due to a technical flaw within the system.

*Effect:* The result of these conditions is that management did not have internal controls in place to prevent and/or detect unreconciled balances.

*Status:* Resolved

**CITY OF HILLSDALE, MICHIGAN**  
**SCHEDULE OF PRIOR AUDIT FINDINGS (CONCLUDED)**  
**YEAR ENDED JUNE 30, 2016**

**Finding 2015-3 Utility Funds - Year End Financial Close and Reporting Process**

Finding considered a material weakness

*Criteria:* The business office should maintain a process of both manual and automated procedures to close the books and prepare the financial statements and related disclosures.

*Condition:* At the time of our audit, the following balance sheet accounts were not adjusted to agree to supporting documentation. They were subsequently adjusted as follows:

- Payroll cash - \$55,245
- Investment in MSCPA - \$68,874
- Accrued purchased power - \$225,369

In addition, through our audit procedures, we discovered unrecorded payables in the amount of \$69,291

*Cause:* The condition was caused by accounting personnel not fully developing and implementing financial close processes and procedures.

*Effect:* At the time of audit, the financial statements were materially misstated

*Status:* No change.

**Finding 2015-4 Uniform Budget Act as it relates to Budgeted Revenues**

(Compliance finding)

*Criteria:* Michigan Public Act 621 of 1978 defines procedures for the preparation, adoption and maintenance of the budgets of local units of government. Section 16 (and others) of the Act specify the elements required in the adoption of the budget. The general appropriations budget must include not only local mills to be levied, but also all other estimated revenues by source.

*Condition:* The general appropriations budget adopted by the City does not include estimated revenues by source for its General Fund.

*Cause:* This condition was caused by not reviewing the Michigan Department of Treasury *uniform Budget Manual* and the related requirements therein.

*Effect:* The general appropriations budget for the General Fund includes estimated expenditures for the current year, however it does not provide an estimate of the means to finance them.

*Status:* Resolved