

CITY OF HILLSDALE, MICHIGAN

YEAR ENDED JUNE 30, 2017

CITY OF HILLSDALE, MICHIGAN
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
(with required supplementary information)
YEAR ENDED JUNE 30, 2017

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, 2017, 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, 2017, 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 35 - 40, 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 November 16, 2017 on our consideration of 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.

CHBW & Co., P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Hillsdale
Management's Discussion and Analysis
June 30, 2017

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, 2017

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 \$57,128,421 (*net position*). Of this amount, \$8,906,855 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Governmental activities net change in position decreased \$338,910, while business-type activities changes in net position increased \$472,018. The combined net change in position increased by less than one-half percent (0.23%) or \$133,108.
- 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, 2016 combined with the City's pension contributions for January – June 2017. The City's net pension liability for both governmental and business type activities for the fiscal year ending June 30, 2017 was \$4,756,514. This is a 10% decrease from fiscal year 2016.
- As of the close of the current fiscal year, the City's Governmental funds reported combined ending fund balances of \$3,879,307. That is up \$760,223 or twenty-four percent (24%) from the prior year.
- Investment in Michigan South Central Power Agency declined \$1,098,715. This loss is attributed to the closing of their coal-fired generation plant in Litchfield last year and the selling of various assets.
- Council established the policy of maintaining a minimum General 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 \$1,097,388. That represents about twenty-five percent (24.74%) of total budgeted general fund expenditures for fiscal year 2017-18.
- The City issued \$1.9M in sewer revenue bonds through the State Revolving Fund Loan Program to fund additional 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.

City of Hillsdale
Management's Discussion and Analysis
June 30, 2017

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

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

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

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

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

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

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

The City maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general 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.

City of Hillsdale
Management's Discussion and Analysis
June 30, 2017

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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14 - 34 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 41 - 63 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, net assets were \$57,128,421 at the close of the 2017 fiscal year.

The total governmental and business-type activities *total liabilities* increased \$1,955,016, or three percent (2.12%) from the prior year. This increase is directly related to wastewater treatment plant upgrades revenue bond issues.

By far the largest portion of the City's assets, more than seventy-nine percent (79.4%), 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.

City of Hillsdale
Management's Discussion and Analysis
June 30, 2017

City's Net Position	Governmental		Business-type		Total		Total Percent Change
	Activities		Activities				
	2016	2017	2016	2017	2016	2017	
Current and Other Assets	\$3,966,364	\$4,490,516	\$13,223,282	\$12,942,780	\$17,189,646	\$17,433,296	1.42%
Capital Assets	\$22,654,710	\$22,530,440	\$23,689,155	\$27,057,540	\$46,343,865	\$49,587,980	7.00%
Total Assets	\$26,621,074	\$27,020,956	\$36,912,437	\$40,000,320	\$63,533,511	\$67,021,276	5.49%
Deferred Outflows	1,688,953	764,367	993,985	686,062	2,662,938	1,450,429	-45.53%
Long-term Liabilities Outstanding	\$205,127	\$288,560	\$1,908,403	\$3,707,631	\$2,113,530	\$3,996,191	89.08%
Net Pension Liability	\$2,783,193	\$2,506,673	\$2,498,071	\$2,249,841	\$5,281,264	4,756,514	-9.93%
Other Liabilities	\$221,153	\$158,183	\$1,585,189	\$2,253,618	\$1,806,342	\$2,411,801	33.52%
Total Liabilities	\$3,209,473	\$2,945,062	\$5,991,663	\$8,211,090	\$9,201,136	\$11,156,152	21.25%
Deferred Inflows	-	\$98,617	-	\$88,515	-	\$187,132	0.00%
Net Position:							
Invested in Capital Assets Net of Related Debt	\$22,654,710	\$22,530,440	\$21,930,057	\$22,916,878	\$44,584,767	\$45,447,318	1.93%
Restricted	\$2,202,791	\$2,774,248	\$185,379	\$0	\$2,388,170	\$2,774,248	16.17%
Unrestricted	\$223,053	(\$563,044)	\$9,799,323	\$9,469,899	\$10,022,376	\$8,906,855	-11.13%
Net Position	\$25,080,554	\$24,741,644	\$31,914,759	\$32,386,777	\$56,995,313	\$57,128,421	0.23%

A portion of the City's assets (\$2,774,248) represents resources that are subject to internal and external restrictions on how they may be used. The remaining balance of \$8,906,855 is *unrestricted assets* that may be used to meet the government's ongoing obligations to citizens and creditors. That amount decreased \$1,115,521, or more than ten percent (11.13%) from the prior year. That decrease is the net effect of the decrease in pension liability and increase in capital investments and restricted assets.

City of Hillsdale
Management's Discussion and Analysis
June 30, 2017

City's Changes in Net Position

	Governmental		Business-type		Total		Total Percentage Change
	Activities		Activities		Total		
Revenues:	2016	2017	2016	2017	2016	2017	
Program Revenues:							
Charges for Services	\$457,179	\$346,692	\$15,909,345	\$16,826,568	\$16,366,524	\$17,173,260	4.93%
Operating Grants & Contributions	\$1,691,304	\$1,270,527	\$193,870	\$211,500	\$1,885,174	\$1,482,027	-21.39%
Capital Grants & Contributions	\$1,348,254	\$218,437	\$1,072,182	\$676,154	\$2,420,436	\$894,591	-63.04%
Total Revenues	\$3,496,737	\$1,835,656	\$17,175,397	\$17,714,222	\$20,672,134	\$19,549,878	-5.43%
Expenses:							
General Government	\$1,261,178	\$1,432,624			\$1,261,178	\$1,432,624	13.59%
Public Safety	\$1,856,375	\$2,322,162			\$1,856,375	\$2,322,162	25.09%
Public Services	\$374,153	\$415,786			\$374,153	\$415,786	11.13%
Highways & Streets	\$1,854,900	\$1,740,713			\$1,854,900	\$1,740,713	-6.16%
Community & economic development	\$902,797	\$327,956			\$902,797	\$327,956	-63.67%
Recreation & Culture	\$630,087	\$659,332			\$630,087	\$659,332	4.64%
Capital Outlay & Other	\$56,369	\$36,717			\$56,369	\$36,717	-34.86%
Unallocated Depreciation	\$35,500	\$35,500			\$35,500	\$35,500	0.00%
Electric			\$13,234,326	\$ 12,963,810	\$13,234,326	\$12,963,810	-2.04%
Water			\$ 1,222,091	\$ 1,257,425	\$1,222,091	\$1,257,425	2.89%
Sewer			\$ 1,533,608	\$ 1,395,034	\$1,533,608	\$1,395,034	-9.04%
Transportation			\$ 332,391	\$ 347,446	\$332,391	\$347,446	4.53%
Total Expenses	\$6,971,359	\$6,970,790	\$16,322,416	\$15,963,715	\$23,293,775	\$22,934,505	-1.54%
Increase (Decrease) in							
Net Position Before Transfers	(\$3,474,622)	(\$5,135,154)	\$852,981	\$1,750,507	(\$2,621,641)	(\$3,384,647)	29.10%
General Revenues:							
Taxes	\$2,738,916	\$3,104,954			\$2,738,916	\$3,104,954	13.36%
To Specific Programs	\$821,926	\$1,061,458			\$821,926	\$1,061,458	29.14%
Unrestricted Investment Earnings	\$28,760	\$23,432	\$20,968	\$14,923	\$49,728	\$38,355	-22.87%
Other Revenues	\$753,492	\$658,309	\$179,629	\$93,696	\$933,121	\$752,005	-19.41%
Transfers - Internal Activity	(\$40,252)	(\$51,929)	\$40,252	\$51,929	\$0	\$0	0.00%
Total General Revenues	\$4,302,842	\$4,796,224	\$240,849	\$160,548	4,543,691	4,956,772	9.09%
Extraordinary item - loss on investment			(\$5,115,604)	(\$1,439,037)	(5,115,604)	(\$1,439,037)	
Changes in Net Position	\$828,220	(\$338,910)	(\$4,021,774)	\$472,018	(\$3,193,554)	\$133,108	-104.17%
Net Position - Beginning of Year	\$24,252,334	\$25,080,554	\$35,936,533	\$31,914,759	\$60,188,867	\$56,995,313	-5.31%
Net Position - End of Year	\$25,080,554	\$24,741,644	\$31,914,759	\$32,386,777	\$56,995,313	\$57,128,421	0.23%

City of Hillsdale
 Management's Discussion and Analysis
 June 30, 2017

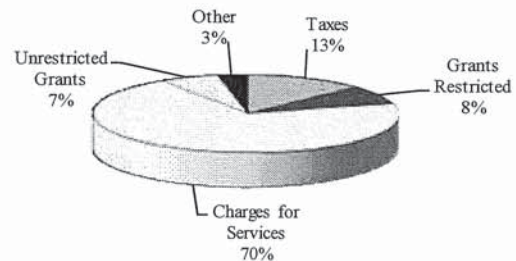
The City's total program revenue for 2017, (including restricted and operating grants and contributions) was \$19,549,878. This represents more than a five percent (5.43%) decrease from the prior year. The largest decrease was in capital grants and contributions and operating grants and contributions which are project specific, one-time, project specific sources of revenue.

Government wide, charges for services revenue declined by over twenty-four percent (24.16%), while business-type charges for services revenue increased \$917,223 or almost six percent (5.77%). Almost ninety-eight percent (97.77%) 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 eighty percent (79.4%) of those charges.

The chart above shows that the general revenues, for both the governmental and business-type activities, increased around nine percent (9.09%). These revenues consist of taxes, investment earnings, internal transfers between funds, and various other miscellaneous revenues. The tax revenue increased more than thirteen percent (13.36%) from the prior year. Governmental and business-type activities specific program revenues increased more than twenty-nine percent (29.14%). Unrestricted investment earnings and other revenues both declined twenty-three percent (22.87%) and nineteen percent (19.41%) respectfully. These income streams are from various sources and often include one-time revenues.

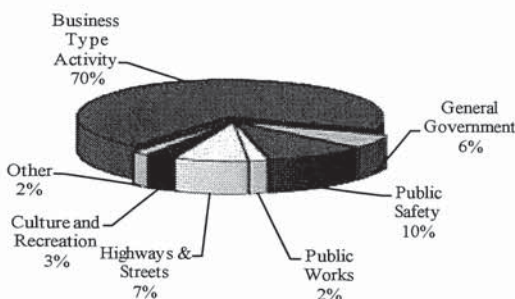
The pie graph to the right reveals the major sources of revenues collected by the municipality's governmental and business-type activities combined. Charges for services make up seventy (70%) of revenues. Eighty percent (80%) of those monies come from the electric utility and are not used for general governmental operations. Taxes are used primarily to fund general governmental activities, make up thirteen percent (13%) of overall revenues. Grants, restricted and unrestricted combined, account for fifteen percent (15%) of total revenues. Investment earnings and other miscellaneous revenue sources make up the remaining three percent (3%).

**Source of Revenue for Fiscal Yr 2017
 Governmental & Business-type Activities**



Total expenditures decreased overall by about two percent (1.84%) from fiscal year 2015-16. Six (6) of the government's functions/programs experienced increases, while Five (5) 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 capital outlay and other. Economic development expenditures decreased by 64% as the City closed out two Community Development Block Grants use to renovate and purchase blighted property for redevelopment. The 35% decrease in capital outlay and other is related to the completion of partial parallel taxiway-entrance road and apron projects that got underway last fiscal year.

**Functional Expenses for Fiscal Yr 2017
 Governmental & Business-type Activities**



As the functions graph on the left 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 (56.6%), are incurred by the electric fund. General governmental activities account for only six percent (6%) of total expenditures; public safety makes up ten percent (10%), highways and streets account for seven percent (7%), recreation and culture account for three percent (3%), and public works and other miscellaneous activities each make up the remaining four percent (4%).

City of Hillsdale
Management's Discussion and Analysis
June 30, 2017

Governmental activities. Governmental activities had a change in net position of (\$338,910). Key elements from operations for the year are:

- The City received various federal grant awards for a variety of activities: a state aviation grant for the construction of a new apron at the airport (\$800,000); Community Development Block Grant carryover from the prior year of \$197,191 to assist property owner in renovation of the blighted building located at 42 Union Street. CDBG grants are a pass through for the City but represent a substantial investment in the community that will expand the future tax base.
- Public Safety received a \$28,500 grant from the United States Department of Agriculture (USDA) Community Facilities Grant to assist with the purchase of a patrol vehicle, in car video system and body cameras.
- Federal grant awards, operating, capital grants and contributions declined over \$420,000 from the prior year as several grants awarded in prior years were completed. It should be noted that these revenues sources are volatile because they are project specific, one time revenues.
- Overall governmental activities expenditures decreased by approximately one percent (0.99%).
- Net pension liability for the government-activities decreased by approximately ten percent (9.90%). The Government Accounting Standards Board (GASB) Statement No. 68 requirements instituted last year requires each municipality to 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. Changes to the City's fringe benefit structure have been made that will help limit the City's pension liability exposure into the future.

Business-type activities. Business-type activities experienced a net gain for the year of \$472,018. Key elements of the business-type activities increase are as follows:

- This year the electric fund experienced an \$111,192 loss in net position. This is directly linked to the MSCPA investment loss of \$1,098,715 and the write-off of \$340,322 in obsolete inventory at the power plant.
- The water fund had a net loss of \$7,490 as the result of increased operational costs.
- The sewer fund realized a net position increase of \$627,005 resulting from the waste water treatment plant improvements that began in 2016. Rate increase were also instituted at the beginning of the fiscal year in preparation for the first payment on the 2015 bonds.
- Dial-A-Ride experienced a net loss of \$36,305 as operating expenditures exceeded incoming revenues.
- Net pension liability for the business-type activities decreased by ten percent (9.94%). The Government Accounting Standards Board (GASB) Statement No. 68 requirements instituted last year requires each municipality calculate a net pension liability. This is done through a series of complex calculations. Changes to the City's fringe benefit structure have been made that will help limit the City's pension liability exposure into the future.

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, 2017 the City's governmental funds reported combined ending fund balances of \$3,879,307. That is a \$760,223 increase from the prior year.

City of Hillsdale
Management's Discussion and Analysis
June 30, 2017

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 \$103,474. 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 \$2,774,248. This constitutes an increase of twenty-six percent (25.9%) 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 \$1,001,585 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 \$1,097,388. Of that balance, \$95,803 is classified as non-spendable for prepaid expenditures. The remaining \$1,001,585 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, \$495,319 in Major and \$142,525 in Local, are thus designated to be spent only on the streets. These fund balances are classified as restricted.

Other non-major governmental funds collectively experienced a combined net increase in fund balances for the year of \$259,897. None of these fund balances are considered unassigned. Of the \$2,144,075 balance, \$7,671 is classified as non-spendable, prepaid expenditures. The remaining non-major governmental fund balances totaling \$1,357,924 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 \$778,480. The restricted non-major special revenue fund balances of \$281,673 are for the Library, Recreation, Police OWUI 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 \$1,076,251.

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 four percent (4.49%). This represents the amount of net position that is invested in capital and therefore not available for future spending. Undesignated net position of the water, sewer, electric, and transportation funds at the end of the year decreased more than three percent (3.36%). The proprietary funds had a total net position at fiscal year-end of \$32,386,777. That is a total overall increase of almost fifteen percent (14.79%) or \$472,018. All the increase was realized in investments in capital assets.

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 \$627,005, as the wastewater treatment plant improvement project progressed. The electric fund loss is the result of the MSCPA investment loss. The sewer and transportation funds revenues could not keep up with operational expenditures which resulted in each of these funds experiencing a loss in net position.

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General Fund Budgetary Highlights

The general fund revenue budget for fiscal year 2017 was originally \$4,893,000. It was amended up to \$4,985,000. These amendments were made because of federal, state and local grant awards for public safety equipment not anticipated when this budget was prepared.

Differences between the original and final amended General Fund expenditure budgets totaled \$105,000. Various adjustments, both positive and negative, in the General Government activities, netted an increase of \$15,000 in these expenditures. These adjustments were due to a variety of issues such as: lower than anticipated legal fees for tax cases, overall lower operating costs and staffing changes. No changes were made to the Public Safety (Police, Fire, and Code Enforcement) budgets. Public Services activities decreased \$10,000 due to reduced operational costs. The street lighting budget was not amended. The Economic Development Department's budget was decreased \$100,000 due to the timing with the CDBG blight elimination grant expenditures. The Transfers-in and (out) adjustments were made to ensure all funds remained in a positive position at fiscal year-end. An increase in the transfer to the Capital Improvement Fund was added to prepare for future capital projects.

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, 2017, amounted to more than \$3.2M. 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 seven percent (7.0%).

City's Capital Assets
 (Net of Depreciation)

	Governmental		Business-type		Total		Total
	Activities		Activities				Percent
	2016	2017	2016	2017	2016	2017	Change 2016- 17
Land	\$8,613,943	\$8,613,943	\$361,042	\$361,042	\$8,974,985	\$8,974,985	0.00%
Buildings and System Improvements	3,422,649	3,349,385	20,896,254	22,616,868	\$24,318,903	\$25,966,253	6.77%
Library Books	223,811	220,735			\$223,811	\$220,735	-1.37%
Machinery and Equipment	296,594	482,454	158,329	0	\$454,923	\$482,454	6.05%
Infrastructure	10,097,713	9,863,923			\$10,097,713	\$9,863,923	-2.32%
Construction in Progress	0	0	2,273,530	4,079,629	2,273,530	4,079,629	79.44%
Total	\$22,654,710	\$22,530,440	\$23,689,155	\$27,057,539	\$46,343,865	\$49,587,979	7.00%

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

- The governmental activities invested \$1,048,873 in various capital assets including: books, building and grounds improvements, equipment and vehicles, streets and infrastructure investments.
- The business-type activities invested over \$4.1M in various capital assets such as: overhead and underground electric line construction; replacement of meters; repairs to engines 5 & 6 at the power plant; electric line extensions, electric distribution automation; computer upgrades; KVA Pad mount transformer; meters for the City Center project; bucket truck; warehouse generator; 277 Upgrade Phase 1; repair water mains; vector truck purchase; AMI water meter project; and wastewater treatment plant improvements.

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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 \$3,009,210 which consisted of 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	
	Activities			
	2016	2017	2016	2017
Revenue Bonds	\$739,471	\$3,008,210	\$739,471	\$3,008,210
Total	\$739,471	\$3,008,210	\$739,471	\$3,008,210

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, 2016 was \$123,105,530. That translates into a debt limit of \$12,310,553. 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.

The City's bonded debt increased during the current fiscal year more than 306 percent (306.81%) or \$2,268,740. The City's total outstanding long-term debt obligation, including the bond debt, as of June 30, 2017 was \$4,590,674, 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 \$358,048 in compensated absences for the governmental and business-type activities combined and the Board of Public Utilities capital lease debt obligation of \$1,132,450.

In addition to the July of 2015 revenue bonds for the construction of improvements to the City's sewage disposal system at the Waste Water Treatment Plant, the Board of Public Utilities issued another revenue bond for \$2M in 2016. This project is for additional work to be done at the Waste Water Treatment Plant not included in the initial scope of work. 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 \$1,900,000. Through this program the BPU also qualified for a \$100,000 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.

City of Hillsdale
Management's Discussion and Analysis
June 30, 2017

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2017-18 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 based on new Act 51 road funding legislation that took effect in January 2017. 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 increase was 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.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF NET POSITION
JUNE 30, 2017

	PRIMARY GOVERNMENT			COMPONENT UNITS	
	GOVERNMENTAL	BUSINESS-TYPE	TOTAL	TAX INCREMENT	ECONOMIC
	ACTIVITIES	ACTIVITIES		FINANCE	DEVELOPMENT
				AUTHORITY	CORPORATION
ASSETS					
Cash and investments	\$ 3,842,584	\$ 5,265,623	\$ 9,108,207	\$ 155,147	\$ 139,159
Receivables	220,363	1,981,839	2,202,202	39,699	-
Internal balances	75,938	(75,938)	-	-	-
Prepaid items and other assets	198,916	431,388	630,304	-	-
Inventory	152,715	421,443	574,158	-	-
Investment in M.S.C.P.A.	-	4,918,425	4,918,425	-	-
Capital assets, net:					
Assets not being depreciated	8,613,943	4,440,671	13,054,614	65,000	172,721
Assets being depreciated	13,916,497	22,616,869	36,533,366	394,491	-
TOTAL ASSETS	27,020,956	40,000,320	67,021,276	654,337	311,880
DEFERRED OUTFLOWS OF RESOURCES					
Pension related	764,367	686,062	1,450,429	-	-
LIABILITIES					
Accounts payable	86,274	603,998	690,272	20,114	-
Accrued expenses	45,498	1,055,137	1,100,635	-	-
Due to other governments	18,057	-	18,057	-	-
Net pension liability	2,506,673	2,249,841	4,756,514	-	-
Non-current liabilities:					
Due within one year	8,354	594,483	602,837	-	-
Due in more than one year	280,206	3,707,631	3,987,837	-	-
TOTAL LIABILITIES	2,945,062	8,211,090	11,156,152	20,114	-
DEFERRED INFLOWS OF RESOURCES					
Pension related	98,617	88,515	187,132	-	-
NET POSITION					
Net investment in capital assets	22,530,440	22,916,878	45,447,318	459,491	172,721
Restricted for:					
Special revenues	919,517	-	919,517	-	-
Capital projects	1,076,251	-	1,076,251	-	-
Endowment and trust principal	778,480	-	778,480	-	-
Unrestricted	(563,044)	9,469,899	8,906,855	174,732	139,159
TOTAL NET POSITION	\$ 24,741,644	\$ 32,386,777	\$ 57,128,421	\$ 634,223	\$ 311,880

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

<u>FUNCTIONS / PROGRAMS</u>	<u>PROGRAM REVENUES</u>				
	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>NET (EXPENSE) REVENUE</u>
PRIMARY GOVERNMENT					
Governmental Activities:					
General government	\$ 1,432,624	\$ 218,934	\$ 16,708	\$ -	\$ (1,196,982)
Public safety	2,322,162	-	73,124	-	(2,249,038)
Public works	415,786	-	-	-	(415,786)
Highways and streets	1,740,713	-	797,327	-	(943,386)
Community and economic development	327,956	-	199,294	-	(128,662)
Culture and recreation	659,332	81,688	155,260	-	(422,384)
Capital outlay and other	33,087	46,070	28,814	218,437	260,234
Interest and other	3,630	-	-	-	(3,630)
Unallocated depreciation, excluding direct portion	35,500	-	-	-	(35,500)
Total Governmental Activities	6,970,790	346,692	1,270,527	218,437	(5,135,134)
Business-type Activities:					
Electric	12,963,810	13,635,183	-	576,154	1,247,527
Water	1,257,425	1,213,809	-	-	(43,616)
Sewer	1,395,034	1,929,864	-	100,000	634,830
Transportation	347,446	47,712	211,500	-	(88,234)
Total Business-type Activities	15,963,715	16,826,568	211,500	676,154	1,750,507
TOTAL PRIMARY GOVERNMENT	\$ 22,934,505	\$ 17,173,260	\$ 1,482,027	\$ 894,591	\$ (3,384,627)
COMPONENT UNITS					
Tax Increment Finance Authority	\$ 200,755	\$ -	\$ -	\$ -	\$ (200,755)
Economic Development Corporation	18,017	-	-	-	(18,017)
TOTAL COMPONENT UNITS	\$ 218,772	\$ -	\$ -	\$ -	\$ (218,772)

continued...

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF ACTIVITIES (CONCLUDED)
YEAR ENDED JUNE 30, 2017

	PRIMARY GOVERNMENT			COMPONENT UNITS	
	GOVERNMENTAL ACTIVITIES	BUSINESS - TYPE ACTIVITIES	TOTAL	TAX INCREMENT FINANCE AUTHORITY	ECONOMIC DEVELOPMENT CORPORATION
CHANGES IN NET POSITION					
Net (expense) revenue	\$ (5,135,134)	\$ 1,750,507	\$ (3,384,627)	\$ (200,755)	\$ (18,017)
General Revenues:					
Property taxes	3,104,954	-	3,104,954	65,390	-
Unrestricted grants and contributions	1,061,458	-	1,061,458	-	-
Interest and investment gains	23,432	14,923	38,355	2,991	1,257
Other revenues (expenses)	658,309	93,696	752,005	22,503	7,000
Transfers - internal activities	(51,929)	51,929	-	-	-
Total general revenues, contributions and transfers	4,796,224	160,548	4,956,772	90,884	8,257
Extraordinary items:					
Write off obsolete inventory	-	(340,322)	(340,322)	-	-
Loss on investment	-	(1,098,715)	(1,098,715)	-	-
CHANGES IN NET POSITION	(338,910)	472,018	133,108	(109,871)	(9,760)
NET POSITION - BEGINNING OF YEAR	25,080,554	31,914,759	56,995,313	744,094	321,640
NET POSITION - END OF YEAR	\$ 24,741,644	\$ 32,386,777	\$ 57,128,421	\$ 634,223	\$ 311,880

See accompanying notes to the basic financial statements.

FUND FINANCIAL STATEMENTS

CITY OF HILLSDALE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Other Nonmajor Governmental Funds</u>	<u>TOTAL</u>
ASSETS					
Cash and investments	\$ 1,594,694	\$ 402,590	\$ 11,956	\$ 1,611,351	\$ 3,620,591
Receivables:					
Accounts receivable	38,647	106,349	35,173	40,194	220,363
Special assessments	51,764	-	-	-	51,764
Due from other funds	227,168	-	100,000	500,000	827,168
Other	-	-	-	-	-
Prepaid expenditures	95,803	-	-	7,671	103,474
TOTAL ASSETS	<u>2,008,076</u>	<u>508,939</u>	<u>147,129</u>	<u>2,159,216</u>	<u>4,823,360</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	52,908	11,432	3,940	10,718	78,998
Due to other governments	18,057	-	-	-	18,057
Due to other funds	751,017	-	-	213	751,230
Salaries payable	36,942	2,188	664	4,210	44,004
Unearned revenue	51,764	-	-	-	51,764
TOTAL LIABILITIES	<u>910,688</u>	<u>13,620</u>	<u>4,604</u>	<u>15,141</u>	<u>944,053</u>
Fund Balances:					
Non-spendable:					
Prepaid expenditures	95,803	-	-	7,671	103,474
Restricted:					
Special revenue funds	-	495,319	142,525	281,673	919,517
Capital project funds	-	-	-	1,076,251	1,076,251
Permanent funds	-	-	-	778,480	778,480
Unassigned	1,001,585	-	-	-	1,001,585
TOTAL FUND BALANCES	<u>1,097,388</u>	<u>495,319</u>	<u>142,525</u>	<u>2,144,075</u>	<u>3,879,307</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,008,076</u>	<u>\$ 508,939</u>	<u>\$ 147,129</u>	<u>\$ 2,159,216</u>	<u>\$ 4,823,360</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, 2017

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 3,879,307**

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	\$ 44,339,734	
Accumulated depreciation is	<u>(21,809,294)</u>	22,530,440

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	51,764
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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	684,415	
Add portion included in long-term debt	19,646	
Less portion included in capital assets	<u>(294,445)</u>	409,616

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

Notes payable	91,965	
Compensated absences	196,595	
Net pension liability	<u>2,506,673</u>	(2,795,233)

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 inflows of resources related to pension	(98,617)	
Deferred outflows of resources related to pensions	<u>764,367</u>	

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ 24,741,644**

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, 2017

	General	Major Street	Local Street	Other Nonmajor Governmental Funds	TOTAL
REVENUES					
Taxes	\$ 1,898,343	\$ -	\$ -	\$ 121,500	\$ 2,019,843
Federal revenues	229,238	-	-	-	229,238
State revenues	1,063,896	598,056	199,271	16,903	1,878,126
Licenses and permits	109,737	-	-	-	109,737
Contributions from local units	-	-	-	45,018	45,018
Charges for services	19,350	-	-	76,961	96,311
Fines and violations	6,093	-	-	47,100	53,193
Interest and rentals	83,390	1,922	-	62,844	148,156
Contributions in lieu of taxes	1,085,110	-	-	-	1,085,110
Miscellaneous	204,863	11,368	1,124	250,730	468,085
TOTAL REVENUES	4,700,020	611,346	200,395	621,056	6,132,817
EXPENDITURES					
General government	1,272,414	-	-	-	1,272,414
Public safety	1,802,771	-	-	2,282	1,805,053
Public works	309,951	-	-	-	309,951
Highways and streets	-	354,782	264,535	-	619,317
Community and economic development	327,956	-	-	-	327,956
Culture and recreation	180,297	-	-	352,748	533,045
Capital outlay	-	-	-	543,068	543,068
Debt service	-	-	-	11,665	11,665
Other	-	-	-	-	-
TOTAL EXPENDITURES	3,893,389	354,782	264,535	909,763	5,422,469
REVENUES OVER (UNDER) EXPENDITURES	806,631	256,564	(64,140)	(288,707)	710,348
OTHER FINANCING SOURCES (USES)					
Contribution from TIFA	10,000	-	-	-	10,000
Loss on sale of investments	-	-	-	(8,196)	(8,196)
Operating transfers in	132,065	-	100,000	559,650	791,715
Operating transfers out	(764,405)	(58,259)	(18,130)	(2,850)	(843,644)
TOTAL OTHER FINANCING SOURCES (USES):	(622,340)	(58,259)	81,870	548,604	(50,125)
NET CHANGES IN FUND BALANCES	184,291	198,305	17,730	259,897	660,223
FUND BALANCES - BEGINNING OF YEAR	913,097	297,014	124,795	1,884,178	3,219,084
FUND BALANCES - END OF YEAR	\$ 1,097,388	\$ 495,319	\$ 142,525	\$ 2,144,075	\$ 3,879,307

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, 2017

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 660,223**

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.

Purchase of capital assets	598,043
Depreciation expense	(863,699)

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. (18,860)

Repayment of long-term debt is reported as an expenditure in governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. 8,035

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. (6,730)

Some items reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported in the Governmental Funds. These activities consist of:

Decrease in accrued compensated absences	10,761
Changes in net pension liability/expense	(726,683)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ (338,910)**

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL
	Electric	Water	Sewer	Nonmajor Fund Dial-A-Ride	TOTAL	Internal Service Funds
ASSETS						
Current assets:						
Cash and investments	\$ 3,539,484	\$ 945,014	\$ 711,801	\$ 69,324	\$ 5,265,623	\$ 221,992
Receivables:						
Accounts (net of allowance for bad debts of \$13,533)	1,140,828	73,151	115,797	-	1,329,776	-
Due from State	-	-	558,153	-	558,153	-
Other receivables	58,363	1,606	33,941	-	93,910	-
Due from other funds	275,299	-	-	104,755	380,054	-
Inventory, at cost	343,342	74,278	3,823	-	421,443	152,715
Prepaid expenses	93,769	45,006	36,461	6,803	182,039	43,678
TOTAL CURRENT ASSETS	<u>5,451,085</u>	<u>1,139,055</u>	<u>1,459,976</u>	<u>180,882</u>	<u>8,230,998</u>	<u>418,385</u>
Capital assets:						
Land	181,108	49,613	122,902	7,419	361,042	-
Plant, systems and equipment	36,978,822	11,241,940	14,227,561	1,060,591	63,508,914	2,204,396
Construction in progress	54,802	44,413	3,980,414	-	4,079,629	-
	37,214,732	11,335,966	18,330,877	1,068,010	67,949,585	2,204,396
Less accumulated depreciation	(23,548,660)	(6,597,744)	(10,382,988)	(362,653)	(40,892,045)	(1,909,951)
NET CAPITAL ASSETS	<u>13,666,072</u>	<u>4,738,222</u>	<u>7,947,889</u>	<u>705,357</u>	<u>27,057,540</u>	<u>294,445</u>
Other assets:						
Prepaid operating lease (net of \$23,095 amortization)	217,208	-	-	-	217,208	-
Other investment	32,141	-	-	-	32,141	-
Investment in M.S.C.P.A.	4,918,425	-	-	-	4,918,425	-
TOTAL OTHER ASSETS	<u>5,167,774</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,167,774</u>	<u>-</u>
TOTAL ASSETS	<u>24,284,931</u>	<u>5,877,277</u>	<u>9,407,865</u>	<u>886,239</u>	<u>40,456,312</u>	<u>712,830</u>
DEFERRED OUTFLOWS OF RESOURCES - Pension	<u>343,031</u>	<u>171,516</u>	<u>171,515</u>	<u>-</u>	<u>686,062</u>	<u>-</u>
LIABILITIES						
Current liabilities:						
Accounts payable	189,128	30,255	374,388	10,227	603,998	7,276
Accrued purchased power	847,665	-	-	-	847,665	-
Accrued expenses	35,741	7,793	28,433	11,018	82,985	1,494
Customer deposits	108,811	7,899	7,777	-	124,487	-
Due to other funds	136,477	244,559	22,130	52,826	455,992	-
Current portion of long-term debt	196,913	36,285	361,285	-	594,483	-
TOTAL CURRENT LIABILITIES	<u>1,514,735</u>	<u>326,791</u>	<u>794,013</u>	<u>74,071</u>	<u>2,709,610</u>	<u>8,770</u>
Noncurrent liabilities:						
Accrued compensated absences	105,403	17,142	26,251	12,657	161,453	19,645
Bonds and capital lease payable	633,111	114,929	2,798,138	-	3,546,178	-
Net pension liability	1,124,931	562,455	562,455	-	2,249,841	-
TOTAL NONCURRENT LIABILITIES	<u>1,863,445</u>	<u>694,526</u>	<u>3,386,844</u>	<u>12,657</u>	<u>5,957,472</u>	<u>19,645</u>
TOTAL LIABILITIES	<u>3,378,180</u>	<u>1,021,317</u>	<u>4,180,857</u>	<u>86,728</u>	<u>8,667,082</u>	<u>28,415</u>
DEFERRED INFLOWS OF RESOURCES - Pension	<u>44,257</u>	<u>22,129</u>	<u>22,129</u>	<u>-</u>	<u>88,515</u>	<u>-</u>
NET POSITION						
Net investment in capital assets	12,836,048	4,587,008	4,788,465	705,357	22,916,878	294,445
Unrestricted	8,369,477	418,339	587,929	94,154	9,469,899	389,970
TOTAL NET POSITION	<u>\$ 21,205,525</u>	<u>\$ 5,005,347</u>	<u>\$ 5,376,394</u>	<u>\$ 799,511</u>	<u>\$ 32,386,777</u>	<u>\$ 684,415</u>

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, 2017

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL
	Electric	Water	Sewer	Nonmajor	TOTAL	Internal
				Fund		Service
			Dial-A-Ride		Funds	
OPERATING REVENUES						
Charges for services	\$ 13,520,933	\$ 1,209,788	\$ 1,896,238	\$ 47,712	\$ 16,674,671	\$ 452,552
Federal grants	-	-	-	66,118	66,118	-
State grants	-	-	-	145,382	145,382	-
Miscellaneous	114,250	4,021	33,626	-	151,897	10,803
TOTAL OPERATING REVENUES	13,635,183	1,213,809	1,929,864	259,212	17,038,068	463,355
OPERATING EXPENSES						
Production expense	9,602,092	143,530	-	-	9,745,622	-
Distribution	1,415,628	391,135	-	-	1,806,763	-
Collection system	-	-	158,179	-	158,179	-
Treatment	-	-	651,676	-	651,676	-
Purification	-	247,482	-	-	247,482	-
Administrative and general	1,897,836	469,126	546,409	-	2,913,371	-
Highways and streets	-	-	-	-	-	506,405
Transportation	-	-	-	347,446	347,446	-
TOTAL OPERATING EXPENSES	12,915,556	1,251,273	1,356,264	347,446	15,870,539	506,405
OPERATING INCOME (LOSS)	719,627	(37,464)	573,600	(88,234)	1,167,529	(43,050)
NONOPERATING REVENUES (EXPENSES)						
Federal grants	-	-	100,000	-	100,000	-
Interest income	10,417	4,506	-	-	14,923	1,712
Interest and other	(48,254)	(6,152)	(38,770)	-	(93,176)	-
Other income (expense)	69,901	31,620	(7,825)	-	93,696	-
Donated capital	576,154	-	-	-	576,154	-
Gain (loss) on disposal of assets	-	-	-	-	-	34,608
Transfers in from other funds	-	-	-	104,755	104,755	-
Transfers out to other funds	-	-	-	(52,826)	(52,826)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	608,218	29,974	53,405	51,929	743,526	36,320
EXTRAORDINARY ITEMS						
Write off obsolete inventory	(340,322)	-	-	-	(340,322)	-
Loss on investment	(1,098,715)	-	-	-	(1,098,715)	-
	(1,439,037)	-	-	-	(1,439,037)	-
CHANGES IN NET POSITION	(111,192)	(7,490)	627,005	(36,305)	472,018	(6,730)
NET POSITION - BEGINNING OF YEAR	21,316,717	5,012,837	4,749,389	835,816	31,914,759	691,145
NET POSITION - END OF YEAR	\$ 21,205,525	\$ 5,005,347	\$ 5,376,394	\$ 799,511	\$ 32,386,777	\$ 684,415

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL
	Electric	Water	Sewer	Nonmajor	TOTAL	Internal
				Fund		Service
			Dial-A-Ride		Funds	
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers, residents and users	\$ 13,229,720	\$ 1,192,428	\$ 1,908,427	\$ 47,712	\$ 16,378,287	\$ -
Other operating receipts	114,250	4,021	33,626	211,500	363,397	-
Operating cash to/from other funds	1,278,341	(206,099)	(1,072,242)	-	-	-
Receipts for interfund services provided	-	-	-	-	-	461,155
Cash paid to suppliers of goods and services	(11,170,665)	(520,109)	(729,815)	(62,455)	(12,483,044)	(152,948)
Cash paid to employees for services	(1,005,076)	(392,871)	(524,251)	(212,349)	(2,134,547)	(269,288)
Net Cash Provided By (Used In)						
Operating Activities	2,446,570	77,370	(384,255)	(15,592)	2,124,093	38,919
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Net transfers to other funds	-	-	-	(54,747)	-	-
Other nonoperating income	10,060	17,365	-	-	27,425	-
Net Cash Provided By (Used In)						
Noncapital Financing Activities	10,060	17,365	-	(54,747)	27,425	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Payments on capital debt	(189,603)	(223,428)	(40,428)	-	(453,459)	-
Interest on capital debt	(37,134)	(3,568)	(18,415)	-	(59,117)	-
Capital grants	-	-	100,000	-	100,000	-
Proceeds from the disposal of assets	-	-	-	-	-	34,608
Purchase of capital assets, net	(925,161)	(63,752)	(128,257)	-	(1,117,170)	(206,527)
Net Cash Provided By (Used In)						
Capital and Related Financing Activities	(1,151,898)	(290,748)	(87,100)	-	(1,529,746)	(171,919)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investments	-	(203,467)	-	-	(203,467)	-
Proceeds from the sale of investments	-	-	-	-	-	-
Interest income received	10,417	4,506	-	-	14,923	1,110
Net Cash Provided By (Used In)						
Investing Activities	10,417	(198,961)	-	-	(188,544)	1,110
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,315,149	(394,974)	(471,355)	(70,339)	433,228	(131,890)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	366,900	393,005	1,183,156	139,663	2,082,724	280,183
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,682,049</u>	<u>\$ (1,969)</u>	<u>\$ 711,801</u>	<u>\$ 69,324</u>	<u>\$ 2,461,205</u>	<u>\$ 148,293</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, 2017

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL
	Electric	Water	Sewer	Nonmajor	TOTAL	Internal
				Fund		Service
				Dial-A-Ride		Funds
BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS						
Cash and investments	\$ 3,539,484	\$ 945,014	\$ 711,801	\$ 69,324	\$ 5,265,623	\$ 221,992
Less amounts classified as investments	(1,857,435)	(946,983)	-	-	(2,804,418)	(73,699)
Total cash and cash equivalents	<u>\$ 1,682,049</u>	<u>\$ (1,969)</u>	<u>\$ 711,801</u>	<u>\$ 69,324</u>	<u>\$ 2,461,205</u>	<u>\$ 148,293</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating income (loss)	\$ 719,627	\$ (37,464)	\$ 573,600	\$ (88,234)	\$ 1,167,529	\$ (44,828)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization	637,647	268,299	196,406	63,730	1,166,082	65,140
(Increase)/decrease in:						
Receivables	(296,560)	(18,966)	(12,189)	-	(327,715)	-
Due from other funds	1,234,180	1,177	1,177	-	1,236,534	-
Inventory	98,946	5,523	1,885	-	106,354	22,743
Prepaid expenses	(107,619)	6,000	7,322	(2,747)	(97,044)	(8,559)
Deferred outflows	153,962	76,980	76,981	-	307,923	-
Increase/(decrease) in:						
Accounts payable	120,866	20,804	(121,142)	8,965	29,493	881
Accrued expenses	34,635	2,801	4,071	2,694	44,201	3,542
Due to other funds	(69,266)	(207,860)	(1,072,443)	-	(1,349,569)	-
Deferred inflows	44,257	22,139	22,139	-	88,535	-
Net pension liability	(124,105)	(62,063)	(62,062)	-	(248,230)	-
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 2,446,570</u>	<u>\$ 77,370</u>	<u>\$ (384,255)</u>	<u>\$ (15,592)</u>	<u>\$ 2,124,093</u>	<u>\$ 38,919</u>

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	<u>HOSPITAL PRIVATE PURPOSE TRUST FUND</u>	<u>AGENCY FUNDS</u>
ASSETS		
Cash and investments	\$ 15,042	<u>\$ -</u>
LIABILITIES		
Due to other agencies	<u>-</u>	<u>\$ -</u>
NET POSITION		
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, 2017

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

See accompanying notes to the basic financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017

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 revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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, 2017

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, 2017

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, 2017

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, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

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.

Pensions – 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. *See Note No. 10 for information on the defined benefit pension plan.*

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 2016 had a taxable value of approximately \$121,335,562 (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 2016-17 was 14.9205 mills, with an additional .9947 mills levied for operations of the Mitchell Public Library.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

Note 1: Summary of Significant Accounting Policies (Concluded)

Property Taxes (Concluded)

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

Note 2: Stewardship, Compliance and Accountability

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

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

Excess of Expenditures over Appropriations – For the year ended June 30, 2017, expenditures that exceeded appropriations in the General Fund or major special revenue funds, if any, are disclosed in the Required Supplementary Information on pages 35 – 38.

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
Statement of Net Position:			
Cash and investments	\$ 9,108,207	\$ 294,306	\$ 9,402,513
Statement of Fiduciary Net Position:			
Cash and investments	15,042	-	15,042
Total	\$ 9,123,249	\$ 294,306	\$ 9,417,555
 Deposits and Investments			
Bank deposits (checking, savings, certificates of deposit and money market)			\$ 7,479,295
Investments			1,935,310
Cash on hand			2,950
Total			\$ 9,417,555

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

Note 3: Cash and Investments (Continued)

The City's investments are summarized as follows:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>	<u>FV Level</u>
MBIA Investment Fund	N/A	\$ 1,230,078	S&P – AAAM	Level 2
U.S. Governmental Agency Bonds	1 – 2 yrs.	249,307	N/A	Level 1
Municipal Bonds	1 – 3 yrs.	455,925	S&P – A+ – AA-	Level 2
		<u>\$ 1,935,310</u>		

Interest Rate Risk

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

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, \$1,824,089 of the City's bank balance of \$6,926,768 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.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

Note 3: Cash and Investments (Concluded)

Fair Value Measurement

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

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

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

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

Supplemental Disclosure of Cash Flow Information

For the year ended June 30, 2017, the City purchased \$383,282 of equipment with a capital lease financing arrangement.

Note 4: Capital Assets

Capital assets activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions and Transfers	Disposals and Adjustments	Ending Balance
Primary Government				
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 8,613,943	\$ -	\$ -	\$ 8,613,943
Capital assets being depreciated:				
Land improvements	720,507	31,218	-	751,725
Buildings and improvements	4,992,738	15,640	-	5,008,378
Books	312,418	19,680	-	332,098
Equipment and vehicles	2,935,746	462,912	(122,406)	3,276,252
Infrastructure	25,885,587	519,423	(47,671)	26,357,339
Total capital assets being depreciated	<u>34,846,996</u>	<u>1,048,873</u>	<u>(170,077)</u>	<u>35,725,792</u>
Accumulated depreciation:				
Land improvements	306,091	26,336	-	332,447
Buildings and improvements	1,984,505	93,766	-	2,078,271
Books	88,607	22,756	-	111,363
Equipment and vehicles	2,639,152	277,052	(122,406)	2,793,798
Infrastructure	15,787,874	705,542	-	16,493,416
Total accumulated depreciation	<u>20,806,229</u>	<u>1,125,452</u>	<u>(122,406)</u>	<u>21,809,295</u>
Total capital assets being depreciated - net	<u>14,040,767</u>	<u>(76,579)</u>	<u>(47,671)</u>	<u>13,916,497</u>
Governmental activities capital assets - net	<u>\$ 22,654,710</u>	<u>\$ (76,579)</u>	<u>\$ (47,671)</u>	<u>\$ 22,530,440</u>

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

Note 4: Capital Assets (Concluded)

Business-Type Activities	Beginning Balance	Additions and Transfers	Disposals and Adjustments	Ending Balance
Capital assets not being depreciated:				
Land	\$ 361,042	\$ -	\$ -	\$ 361,042
Construction in progress	2,273,530	2,585,986	(779,887)	4,079,629
Total capital assets not being depreciated	2,634,572	2,585,986	(779,887)	4,440,671
Capital assets being depreciated:				
Plant, systems and equipment	61,067,974	2,637,572	(196,632)	63,508,914
Accumulated depreciation:				
Plant, systems and equipment	40,013,391	1,075,286	(196,632)	40,892,045
Total capital assets being depreciated - net	21,054,583	1,562,286	-	22,616,869
Business-type activities capital assets - net	\$ 23,689,155	\$ 4,148,272	\$ (779,887)	\$ 27,057,540

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

Governmental Activities:

Public safety	\$ 2,169
Highways and streets	603,903
Culture and recreation	131,794
Public works	90,333
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	65,140

Total depreciation expense – governmental activities \$ 928,839

Business-Type Activities:

Electric	\$ 637,647
Water	268,299
Sewer	196,406
Transportation	63,731

Total depreciation expense – business-type activities \$ 1,166,083

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, 2017

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

	<u>Receivable</u>	<u>Payable</u>
Due from/to other funds:		
General Fund	\$ 227,168	\$ 751,017
Major Street Fund	-	-
Local Street Fund	100,000	-
Nonmajor Governmental Funds	500,000	213
Water Fund	-	244,559
Sewer Fund	-	22,130
Electric Fund	275,299	136,477
Nonmajor Enterprise Fund	104,755	52,826
	<u>\$ 1,207,222</u>	<u>\$ 1,207,222</u>
	<u>Transfers In</u>	<u>Transfers Out</u>
Transfers:		
General Fund	\$ 132,065	\$ 764,405
Major Street Fund	-	58,259
Local Street	100,000	18,130
Nonmajor Governmental Funds	559,650	2,850
Nonmajor Enterprise Fund	104,755	52,826
	<u>\$ 896,470</u>	<u>\$ 896,470</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. As additional \$74,096 was prepaid on this project during the year.

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	45.98%
City of Hillsdale	22.96
City of Marshall	21.61
Village of Clinton	5.85
Village of Union City	3.60
	<u>100.0%</u>

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

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, 2017, audited by other auditors whose report dated August 21, 2017 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 \$(1,098,715) 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, 2017, is as follows:

	<u>Total MSCPA</u>	<u>Hillsdale Board of Public Utilities' Portion</u>
Total assets and deferred outflows of resources	\$ 58,304,621	\$ 10,530,499
Total liabilities and deferred inflows of resources	<u>36,881,009</u>	<u>5,612,074</u>
Net Position	<u>\$ 21,423,612</u>	<u>\$ 4,918,425</u>

Note 8: Debt

Long-term liability activity for the year ended June 30, 2017 was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Loan payable	\$ 100,000	\$ -	\$ 8,035	\$ 91,965	\$ 8,354
Compensated absences	<u>205,127</u>	<u>-</u>	<u>8,532</u>	<u>196,595</u>	<u>-</u>
	<u>\$ 305,127</u>	<u>\$ -</u>	<u>\$ 16,567</u>	<u>\$ 288,560</u>	<u>\$ 8,354</u>
Business-type activities:					
Revenue bonds	\$ 739,471	\$ 2,451,740	\$ 183,000	\$ 3,008,211	\$ 325,000
Capital lease	1,019,627	383,282	270,459	1,132,450	269,483
Compensated absences	<u>149,305</u>	<u>12,148</u>	<u>-</u>	<u>161,453</u>	<u>-</u>
	<u>\$ 1,908,403</u>	<u>\$ 2,847,170</u>	<u>\$ 453,459</u>	<u>\$ 4,302,114</u>	<u>\$ 594,483</u>

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

Note 8: Debt (Concluded)

Governmental Activities

Loan payable, Michigan Aeronautics Commission – annual payments of \$11,665 including interest at 3.60% through November 7, 2025. \$ 91,965

Business-Type Activities

2015 Sewage Disposal System Revenue Bonds – 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. \$ 2,889,747

2016 Sewage Disposal System Revenue Bonds – maturing \$75,000 to \$120,000 annually plus interest at 2.50% through 2040. Payments are estimated to begin in April 2018 after completion of sewer project. 118,463

Capital Lease – Government Capital Corporation annual lease payments of \$226,737 including interest at 3.60% through September 16, 2020. 830,024

Capital Lease Agreement – Key Government Finance, Inc., annual lease payments of \$80,855 including interest at 2.74% through September 30, 2020. 302,427

4,140,661

Total \$ 4,232,626

Annual debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 602,836	\$ 107,501	\$ 710,337
2019	589,935	94,306	684,241
2020	561,649	77,234	638,883
2021	576,753	60,506	637,259
2022	289,624	43,291	332,915
2023 - 2027	1,611,829	98,381	1,710,210
Total	<u>\$ 4,232,626</u>	<u>\$ 481,220</u>	<u>\$ 4,713,846</u>

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, 2017, 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 an agent multiple-employer, statewide public employee pension plan established by 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.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

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, 2016 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	66
	<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, 2016, 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, 2016 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.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

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 completed in 2015.

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 8.00% for 2016. 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		
	Liability	Increase (Decrease)	
		Fiduciary Net Position	Liability
	(a)	(b)	(a) - (b)
Balances at 12/31/15	\$ 22,621,300	\$ 17,340,036	\$ 5,281,264
Changes for the Year			
Service Cost	363,158	-	363,158
Interest on Total Pension Liability	1,765,765	-	1,765,765
Difference between expected and actual experience	(249,508)	-	(249,508)
Changes in assumptions	-	-	-
Benefit changes	(9,325)	-	(9,325)
Employer Contributions	-	336,160	(336,160)
Employee Contributions	-	164,437	(164,437)
Net investment income	-	1,932,425	(1,932,425)
Benefit payments, including employee refunds	(1,461,617)	(1,461,617)	-
Administrative expense	-	(38,182)	38,182
Other changes	-	-	-
Net changes	408,473	933,223	(524,750)
Balances as of 12/31/16	<u>\$ 23,029,773</u>	<u>\$ 18,273,259</u>	<u>\$ 4,756,514</u>

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

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 8.00%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1-percentage point lower (7.00%) or 1% higher (9.00%) than the current rate.

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Discount Rate</u>	<u>1%</u> <u>Increase</u>
Net Pension Liability	<u>\$ 7,181,239</u>	<u>\$ 4,756,514</u>	<u>\$ 2,691,080</u>

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions – For the year ended June 30, 2017 the City recognized pension expense of \$1,162,858. The City reported deferred outflows and inflows of resources related to the pension at June 30, 2017 from the following sources:

	<u>Deferred Outflows</u> <u>of Resources</u>	<u>Deferred (Inflows)</u> <u>of Resources</u>
Differences in experience	\$ 55,380	\$ (187,132)
Differences in assumptions	506,540	-
Net difference between projected and actual investment returns	<u>711,654</u>	<u>-</u>
	1,273,574	(187,132)
Pension contributions subsequent to measurement date	<u>176,855</u>	<u>-</u>
Total	<u>\$ 1,450,429</u>	<u>\$ 187,132</u>

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, 2018. Other amounts reported as deferred outflows of resources will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	
2018	\$ 516,750
2019	516,750
2020	169,982
2021	<u>(117,039)</u>
	<u>\$ 1,086,443</u>

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, 2017

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, 2016 through June 30, 2017, Dial-A-Ride paid \$1,994 in 50201 Pension. Of this amount, \$1,994 paid the actuarial required minimum contribution and \$-0- was paid in excess of the actuarial required minimum contribution. The entire amount of \$1,994 was expensed on the books and is included in Dial-A-Ride's total eligible expenses for the fiscal year ending September 30, 2017.

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

Note 13: Tax Abatements

The City entered into property tax abatement agreements with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended. The IFT on a new plant and non-industrial property, such as some high-tech personal property, is computed at 50% of the property tax bill for new property. For rehabilitation purposes, the taxable values can be frozen.

For the year ended June 30, 2017, the City's property tax revenue for general operations and library services were reduced by \$12,168 and \$973, respectively, under this program. There are no provisions to recapture taxes; however, the abatement may be eliminated if taxes are not paid timely.

There have been no significant abatements made by other governmental units that reduce the City's tax revenues.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

Note 14: 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.

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

Since March 31, 2014 the City has made payments of \$817,344 to AMP toward its net impaired cost estimate. Also since March 31, 2014, the City's allocation of additional costs incurred by the project is \$22,879 and interest expense incurred on AMP's line-of-credit of \$4,102, resulting in a net credit balance for impaired cost estimate at June 30, 2017 of \$32,141. The City does have a potential PHFU Liability of \$563,173 resulting in a net total potential liability of \$531,032, assuming the credit balance earns zero interest and the assets making up the PHFU (principally the land comprising the Meigs County site) have no value. Stranded costs as well as PHRU costs are subject to change, including future borrowing costs on the AMP line of credit. Activities include items such as negative items as property taxes as well as positive items revenue from leases or sale of all or a portion of the Meigs County site property.

The net credit balance for the impaired cost estimate has been included in the business-type activities and the electric fund as a contra 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.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

Note 14: Purchased Power Contracts (Continued)

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

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.

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 June 30, 2017 the outstanding obligation on the Fremont Energy Center ("AFEC") on AMP's books is \$511,710,000. 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, 2017 is approximately \$7,931,505.

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.

The Cannelton Hydro Project (88MW), now in operation as of June 7, 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, in operation as of February 4, 2016 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), in operation as of September 1, 2017 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.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

Note 14: Purchased Power Contracts (Continued)

Combined Hydroelectric Projects (79 Members) (Concluded)

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 June 30, 2017 the total outstanding Hydro Project debt on AMP's books is approximately \$2,151,954,706. 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.

In addition, AMP issued 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, 2017 is approximately \$35,076,862.

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 City of Hamilton's Greenup Hydroelectric Facility.

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.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017

Note 14: Purchased Power Contracts (Continued)

Meldahl Hydroelectric Project (48 Members) (Concluded)

Additionally, 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 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 June 30, 2017, the outstanding debt for the Meldahl Hydroelectric Projects facility on AMP's books was approximately \$694,280,000. 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, 2017 is approximately \$4,859,960.

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 has been owned and operated by the City of Hamilton, Ohio ("Hamilton") since 1988. AMP and Hamilton executed a series of agreements (the "AMP-Hamilton Agreements") pursuant to which AMP acquired a 48.6% undivided ownership interest in the Greenup Facility (the "AMP Interest") on May 11, 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.

As of June 30, 2017, the total outstanding Greenup Facility debt on AMP's books is approximately \$125,630,000.

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, 2017 is approximately \$1,758,820.

Note 15: 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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HILLSDALE, MICHIGAN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2017

	BUDGETED AMOUNTS		ACTUAL
	ORIGINAL	FINAL	
REVENUES			
City Taxes:			
Property	\$ 1,881,000	\$ 1,881,000	\$ 1,777,142
Administrative fees	56,000	56,000	55,950
Interest and penalties	15,000	15,000	18,942
Industrial facilities tax	35,500	35,500	46,309
Total City taxes	<u>1,987,500</u>	<u>1,987,500</u>	<u>1,898,343</u>
State revenue	916,000	938,500	1,063,896
Federal revenue	425,000	455,000	229,238
Licenses and permits	109,200	109,200	109,737
Charges for services	20,600	20,600	19,350
Fines and violations	6,000	6,000	6,093
Interest and rentals	77,700	77,700	83,390
Contributions in lieu of tax	1,060,000	1,060,000	1,085,110
Miscellaneous	133,500	171,500	204,863
	<u>4,735,500</u>	<u>4,826,000</u>	<u>4,700,020</u>
EXPENDITURES			
General government:			
Council	27,425	27,425	25,704
City manager	237,735	237,735	227,476
Administrative	179,600	161,600	153,666
Elections	15,600	10,600	8,193
Assessor	98,135	98,135	92,771
Clerk	154,115	144,115	138,815
Finance department	103,560	93,560	81,085
Treasurer	138,200	138,200	130,081
Building and grounds	125,835	120,835	116,457
Parking lots	34,955	25,955	15,763
Cemetery	122,220	122,220	116,121
Airport	110,155	182,155	166,282
Total general government	<u>1,347,535</u>	<u>1,362,535</u>	<u>1,272,414</u>
Public safety:			
Police	1,363,400	1,363,400	1,339,502
Fire	456,765	456,765	419,328
Code enforcement	44,990	44,990	43,941
Total public safety	<u>1,865,155</u>	<u>1,865,155</u>	<u>1,802,771</u>
Public works:			
Public services	283,030	273,030	248,895
Street lights	68,500	68,500	61,056
Total public works	<u>351,530</u>	<u>341,530</u>	<u>309,951</u>

continued...

CITY OF HILLSDALE, MICHIGAN
BUDGETARY COMPARISON SCHEDULE (CONCLUDED)
GENERAL FUND
YEAR ENDED JUNE 30, 2017

	BUDGETED AMOUNTS		ACTUAL
	ORIGINAL	FINAL	
EXPENDITURES (CONTINUED)			
Community and economic development:			
Planning	\$ 78,880	\$ 78,880	\$ 71,252
Economic development	490,000	390,000	256,704
Total community and economic development	568,880	468,880	327,956
Culture and recreation	195,495	195,495	180,297
TOTAL EXPENDITURES	4,328,595	4,233,595	3,893,389
REVENUES OVER (UNDER) EXPENDITURES	406,905	592,405	806,631
OTHER FINANCING SOURCES (USES)			
Contribution from TIFA	10,000	10,000	10,000
Operating transfers in	147,500	149,000	132,065
Operating transfers (out)	(564,405)	(764,405)	(764,405)
TOTAL OTHER FINANCING SOURCES (USES)	(406,905)	(605,405)	(622,340)
NET CHANGE IN FUND BALANCE	-	(13,000)	184,291
FUND BALANCE - BEGINNING OF YEAR	913,097	913,097	913,097
FUND BALANCE - END OF YEAR	\$ 913,097	\$ 900,097	\$ 1,097,388

CITY OF HILLSDALE, MICHIGAN
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND
YEAR ENDED JUNE 30, 2017

	BUDGETED AMOUNTS		ACTUAL
	ORIGINAL	FINAL	
REVENUES			
State revenue	\$ 517,000	\$ 517,000	\$ 598,056
Interest and rentals	850	850	1,922
Miscellaneous	2,500	2,500	11,368
TOTAL REVENUES	520,350	520,350	611,346
EXPENDITURES			
Highways and streets:			
Street surface	71,115	71,115	59,326
Trunkline street surface	13,955	13,955	13,778
R.O.W. maintenance	92,160	92,160	84,028
Trunkline R.O.W. maintenance	10,050	10,050	5,288
Trees	38,280	38,280	37,216
Trunkline trees	905	905	5,059
Drainage	44,425	44,425	26,988
Trunkline R.O.W. drainage	1,735	1,735	2,175
Traffic	59,090	59,090	52,257
Trunkline traffic	7,380	7,380	5,996
Winter maintenance	97,070	97,070	53,052
Trunkline winter maintenance	22,905	22,905	9,619
TOTAL EXPENDITURES	459,070	459,070	354,782
REVENUES OVER (UNDER) EXPENDITURES	61,280	61,280	256,564
OTHER FINANCING SOURCES (USES)			
Transfers out	(150,500)	(150,500)	(58,259)
TOTAL OTHER FINANCING SOURCES (USES)	(150,500)	(150,500)	(58,259)
NET CHANGES IN FUND BALANCES	(89,220)	(89,220)	198,305
FUND BALANCES - BEGINNING OF YEAR	297,014	297,014	297,014
FUND BALANCES - END OF YEAR	\$ 207,794	\$ 207,794	\$ 495,319

CITY OF HILLSDALE, MICHIGAN
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET FUND
YEAR ENDED JUNE 30, 2017

	BUDGETED AMOUNTS		ACTUAL
	ORIGINAL	FINAL	
REVENUES			
State revenue	\$ 162,000	\$ 162,000	\$ 199,271
Miscellaneous	-	-	1,124
TOTAL REVENUES	<u>162,000</u>	<u>162,000</u>	<u>200,395</u>
EXPENDITURES			
Highways and streets:			
Street surface	100,920	100,920	59,212
R.O.W. maintenance	79,690	79,690	74,019
Trees	57,420	57,420	51,418
Drainage	37,090	37,090	37,274
Traffic	18,330	18,330	11,672
Winter maintenance	53,550	53,550	30,940
TOTAL EXPENDITURES	<u>347,000</u>	<u>347,000</u>	<u>264,535</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(185,000)</u>	<u>(185,000)</u>	<u>(64,140)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	200,000	200,000	100,000
Transfers out	15,000	15,000	(18,130)
TOTAL OTHER FINANCING SOURCES (USES)	<u>215,000</u>	<u>215,000</u>	<u>81,870</u>
NET CHANGES IN FUND BALANCES	30,000	30,000	17,730
FUND BALANCES - BEGINNING OF YEAR	<u>124,795</u>	<u>124,795</u>	<u>124,795</u>
FUND BALANCES - END OF YEAR	<u>\$ 154,795</u>	<u>\$ 154,795</u>	<u>\$ 142,525</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>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability			
Service cost	\$ 363,158	\$ 355,050	\$ 364,196
Interest	1,765,765	1,677,361	1,621,607
Changes of benefit terms	(9,325)	-	-
Difference between expected and actual experience	(249,508)	110,760	-
Changes of assumptions	-	1,013,079	-
Benefit payments including employee refunds	(1,461,617)	(1,378,158)	(1,232,671)
Other	-	1	(1)
Net Change in Total Pension Liability	<u>408,473</u>	<u>1,778,093</u>	<u>753,131</u>
Total Pension Liability - beginning	<u>22,621,300</u>	<u>20,843,207</u>	<u>20,090,076</u>
Total Pension Liability - ending	<u>\$ 23,029,773</u>	<u>\$ 22,621,300</u>	<u>\$ 20,843,207</u>
Plan Fiduciary Net Position			
Contributions-employer	\$ 336,160	\$ 346,141	\$ 332,464
Contributions-employee	164,437	156,571	137,790
Net investment income	1,932,425	(270,721)	1,138,603
Benefit payments including employee refunds	(1,461,617)	(1,378,158)	(1,232,671)
Administrative expense	(38,182)	(39,960)	(41,685)
Other	-	-	2
Net Change in Plan Fiduciary Net Position	<u>933,223</u>	<u>(1,186,127)</u>	<u>334,503</u>
Plan Fiduciary Net Position - beginning	<u>17,340,036</u>	<u>18,526,166</u>	<u>18,191,663</u>
Plan Fiduciary Net Position - ending	<u>\$ 18,273,259</u>	<u>\$ 17,340,039</u>	<u>\$ 18,526,166</u>
Employer Net Pension Liability - ending	<u>\$ 4,756,514</u>	<u>\$ 5,281,261</u>	<u>\$ 2,317,041</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	79.35%	76.65%	88.88%
Covered Employee Payroll	\$ 3,440,133	\$ 3,426,822	\$ 3,531,325
Employer's Net Pension Liability as a percentage of covered employee payroll	138.27%	154.12%	65.61%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF HILLSDALE, MICHIGAN
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 YEAR ENDED JUNE 30, 2017
 Last 10 Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarial Determined Contributions	\$ 353,776	\$ 348,500	\$ 330,003
Contributions in relation to the actuarially determined contribution	<u>353,776</u>	<u>348,500</u>	<u>330,003</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
Covered Employee Payroll	3,714,246	3,955,056	3,531,325
Contributions as a percentage of covered employee payroll	9.52%	8.81%	9.35%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HILLSDALE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>Special Revenue</u>	<u>Capital Project</u>	<u>Permanent Funds</u>	<u>TOTAL</u>
ASSETS				
Cash and investments	\$ 255,620	\$ 577,251	\$ 778,480	\$ 1,611,351
Accounts receivable	40,194	-	-	40,194
Due from other funds	-	500,000	-	500,000
Prepaid expenditures	7,671	-	-	7,671
 TOTAL ASSETS	 <u>303,485</u>	 <u>1,077,251</u>	 <u>778,480</u>	 <u>2,159,216</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	9,718	1,000	-	10,718
Accrued payroll and related liabilities	4,210	-	-	4,210
Due to other funds	213	-	-	213
 TOTAL LIABILITIES	 <u>14,141</u>	 <u>1,000</u>	 <u>-</u>	 <u>15,141</u>
Fund Balances:				
Non-spendable				
Prepaid expenditures	7,671	-	-	7,671
Restricted	281,673	1,076,251	778,480	2,136,404
 TOTAL FUND BALANCES	 <u>289,344</u>	 <u>1,076,251</u>	 <u>778,480</u>	 <u>2,144,075</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 303,485</u>	 <u>\$ 1,077,251</u>	 <u>\$ 778,480</u>	 <u>\$ 2,159,216</u>

CITY OF HILLSDALE, MICHIGAN
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2017

	Special Revenue	Capital Project	Permanent Funds	TOTAL
REVENUES				
Taxes	\$ 121,500	\$ -	\$ -	\$ 121,500
State revenues	15,878	1,025	-	16,903
Contributions	13,800	31,218	-	45,018
Charges for services	58,410	-	18,551	76,961
Fines and violations	47,100	-	-	47,100
Interest and rentals	18,927	28,907	15,010	62,844
Miscellaneous	87,465	156,557	6,708	250,730
TOTAL REVENUES	<u>363,080</u>	<u>217,707</u>	<u>40,269</u>	<u>621,056</u>
EXPENDITURES				
General government	-	-	-	-
Public safety	2,282	-	-	2,282
Culture and recreation	352,748	-	-	352,748
Capital outlay	-	543,068	-	543,068
Debt service	-	11,665	-	11,665
Other	-	-	-	-
TOTAL EXPENDITURES	<u>355,030</u>	<u>554,733</u>	<u>-</u>	<u>909,763</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>8,050</u>	<u>(337,026)</u>	<u>40,269</u>	<u>(288,707)</u>
OTHER FINANCING SOURCES (USES)				
Loss on sale of investments	-	-	(8,196)	(8,196)
Transfers in	59,650	500,000	-	559,650
Transfers out	(2,000)	-	(850)	(2,850)
TOTAL OTHER FINANCING SOURCES (USES)	<u>57,650</u>	<u>500,000</u>	<u>(9,046)</u>	<u>548,604</u>
CHANGES IN FUND BALANCES	65,700	162,974	31,223	259,897
FUND BALANCES - BEGINNING OF YEAR	<u>223,644</u>	<u>913,277</u>	<u>747,257</u>	<u>1,884,178</u>
FUND BALANCES - END OF YEAR	<u>\$ 289,344</u>	<u>\$ 1,076,251</u>	<u>\$ 778,480</u>	<u>\$ 2,144,075</u>

CITY OF HILLSDALE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2017

	<u>Library</u>	<u>Recreation Commission</u>	<u>Drug Forfeitures</u>	<u>Police</u>	<u>TOTAL</u>
ASSETS					
Cash and investments	\$ 221,900	\$ 19,870	\$ 3,896	\$ 9,954	\$ 255,620
Accounts receivable	39,904	-	-	290	40,194
Prepaid expenditures	4,014	3,657	-	-	7,671
TOTAL ASSETS	<u>265,818</u>	<u>23,527</u>	<u>3,896</u>	<u>10,244</u>	<u>303,485</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	1,797	7,921	-	-	9,718
Accrued payroll and related liabilities	1,650	2,560	-	-	4,210
Due to other funds	159	54	-	-	213
TOTAL LIABILITIES	<u>3,606</u>	<u>10,535</u>	<u>-</u>	<u>-</u>	<u>14,141</u>
Fund Balances:					
Non-spendable					
Prepaid expenditures	4,014	3,657	-	-	7,671
Restricted	258,198	9,335	3,896	10,244	281,673
TOTAL FUND BALANCES	<u>262,212</u>	<u>12,992</u>	<u>3,896</u>	<u>10,244</u>	<u>289,344</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 265,818</u>	<u>\$ 23,527</u>	<u>\$ 3,896</u>	<u>\$ 10,244</u>	<u>\$ 303,485</u>

CITY OF HILLSDALE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2017

	<u>Library</u>	<u>Recreation Commission</u>	<u>Drug Forfeitures</u>	<u>Police</u>	<u>TOTAL</u>
REVENUES					
Taxes	\$ 121,500	\$ -	\$ -	\$ -	\$ 121,500
State revenue	15,878	-	-	-	15,878
Contributions from local units	13,800	-	-	-	13,800
Charges for services	9,515	48,895	-	-	58,410
Fines and violations	46,548	-	552	-	47,100
Interest and rentals	2,649	16,278	-	-	18,927
Miscellaneous	80,990	4,270	-	2,205	87,465
TOTAL REVENUES	<u>290,880</u>	<u>69,443</u>	<u>552</u>	<u>2,205</u>	<u>363,080</u>
EXPENDITURES					
Public safety	-	-	55	2,227	2,282
Culture and recreation	227,083	125,665	-	-	352,748
Capital outlay	-	-	-	-	-
TOTAL EXPENDITURES	<u>227,083</u>	<u>125,665</u>	<u>55</u>	<u>2,227</u>	<u>355,030</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>63,797</u>	<u>(56,222)</u>	<u>497</u>	<u>(22)</u>	<u>8,050</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	59,650	-	-	59,650
Transfers out	(2,000)	-	-	-	(2,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,000)</u>	<u>59,650</u>	<u>-</u>	<u>-</u>	<u>57,650</u>
CHANGES IN FUND BALANCES	61,797	3,428	497	(22)	65,700
FUND BALANCES - BEGINNING OF YEAR	<u>200,415</u>	<u>9,564</u>	<u>3,399</u>	<u>10,266</u>	<u>223,644</u>
FUND BALANCES - END OF YEAR	<u>\$ 262,212</u>	<u>\$ 12,992</u>	<u>\$ 3,896</u>	<u>\$ 10,244</u>	<u>\$ 289,344</u>

CITY OF HILLSDALE, MICHIGAN
 COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECT FUNDS
 JUNE 30, 2017

	Library Improvement	Fields of Dreams	Stock Park	Capital Improvement	Airport Improvement	Three Meadows Development	Fire Equipment	TOTAL
ASSETS								
Cash and investments	\$ 8,526	\$ 10,590	\$ 35,113	\$ 308,315	\$ 174,797	\$ 1,733	\$ 38,177	\$ 577,251
Accounts receivable	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	500,000	-	-	-	500,000
TOTAL ASSETS	<u>8,526</u>	<u>10,590</u>	<u>35,113</u>	<u>808,315</u>	<u>174,797</u>	<u>1,733</u>	<u>38,177</u>	<u>1,077,251</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	-	1,000	-	-	-	-	-	1,000
TOTAL LIABILITIES	<u>-</u>	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000</u>
Fund Balances:								
Restricted	8,526	9,590	35,113	808,315	174,797	1,733	38,177	1,076,251
TOTAL FUND BALANCES	<u>8,526</u>	<u>9,590</u>	<u>35,113</u>	<u>808,315</u>	<u>174,797</u>	<u>1,733</u>	<u>38,177</u>	<u>1,076,251</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8,526</u>	<u>\$ 10,590</u>	<u>\$ 35,113</u>	<u>\$ 808,315</u>	<u>\$ 174,797</u>	<u>\$ 1,733</u>	<u>\$ 38,177</u>	<u>\$ 1,077,251</u>

CITY OF HILLSDALE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECT FUNDS
YEAR ENDED JUNE 30, 2017

	Library Improvement	Field of Dreams	Stock Park	Capital Improvement	Airport Improvement	Three Meadows Development	Fire Equipment	TOTAL
REVENUES								
State revenue	\$ -	\$ -	\$ -	\$ -	\$ 1,025	\$ -	\$ -	\$ 1,025
Interest and rentals	-	137	267	-	28,188	-	315	28,907
Contributions	-	-	-	31,218	-	-	-	31,218
Miscellaneous	-	3,871	16,765	117,632	16,156	1,733	400	156,557
TOTAL REVENUES	-	4,008	17,032	148,850	45,369	1,733	715	217,707
EXPENDITURES								
Capital outlay	-	8,061	14,109	503,590	17,308	-	-	543,068
Debt service	-	-	-	-	11,665	-	-	11,665
Other	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	-	8,061	14,109	503,590	28,973	-	-	554,733
REVENUES OVER (UNDER) EXPENDITURES	-	(4,053)	2,923	(354,740)	16,396	1,733	715	(337,026)
OTHER FINANCING SOURCES (USES)								
Transfers in (out)	-	-	-	500,000	-	-	-	500,000
CHANGES IN FUND BALANCES	-	(4,053)	2,923	145,260	16,396	1,733	715	162,974
FUND BALANCES - BEGINNING OF YEAR	8,526	13,643	32,190	663,055	158,401	-	37,462	913,277
FUND BALANCES - END OF YEAR	\$ 8,526	\$ 9,590	\$ 35,113	\$ 808,315	\$ 174,797	\$ 1,733	\$ 38,177	\$ 1,076,251

CITY OF HILLSDALE, MICHIGAN
 COMBINING BALANCE SHEET
 NONMAJOR PERMANENT FUNDS
 JUNE 30, 2017

	R.L. Owen Memorial	Cemetery Perpetual Care	Stock Park Maintenance	TOTAL
ASSETS				
Cash and investments	\$ 52,092	\$ 674,431	\$ 51,957	\$ 778,480
Due from other funds	-	-	-	-
Accounts receivable	-	-	-	-
TOTAL ASSETS	\$ 52,092	\$ 674,431	\$ 51,957	\$ 778,480
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	-	-	-	-
Fund Balances:				
Restricted	52,092	674,431	51,957	778,480
TOTAL FUND BALANCES	52,092	674,431	51,957	778,480
TOTAL LIABILITIES AND FUND BALANCES	\$ 52,092	\$ 674,431	\$ 51,957	\$ 778,480

CITY OF HILLSDALE, MICHIGAN
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR PERMANENT FUNDS
 YEAR ENDED JUNE 30, 2017

	R.L. Owen Memorial	Cemetery Perpetual Care	Stock Park Maintenance	TOTAL
REVENUES				
Charges for services	\$ -	\$ 18,551	\$ -	\$ 18,551
Interest and rentals	5,173	9,552	285	15,010
Miscellaneous	-	-	6,708	6,708
TOTAL REVENUES	<u>5,173</u>	<u>28,103</u>	<u>6,993</u>	<u>40,269</u>
EXPENDITURES				
General government	-	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>5,173</u>	<u>28,103</u>	<u>6,993</u>	<u>40,269</u>
OTHER FINANCING SOURCES (USES)				
Loss on sale of investments	-	(8,196)	-	(8,196)
Transfers in (out)	-	(850)	-	(850)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(9,046)</u>	<u>-</u>	<u>(9,046)</u>
CHANGES IN FUND BALANCES	5,173	19,057	6,993	31,223
FUND BALANCES - BEGINNING OF YEAR	<u>46,919</u>	<u>655,374</u>	<u>44,964</u>	<u>747,257</u>
FUND BALANCES - END OF YEAR	<u>\$ 52,092</u>	<u>\$ 674,431</u>	<u>\$ 51,957</u>	<u>\$ 778,480</u>

CITY OF HILLSDALE, MICHIGAN
 LOCAL REVENUES
 DIAL-A-RIDE ENTERPRISE FUND
 YEAR ENDED JUNE 30, 2017

	<u>7/1/2016 - 9/30/2016</u>	<u>10/1/2016 - 6/30/2017</u>	<u>7/1/2016 - 6/30/2017</u>
OPERATING REVENUES AND TRANSFERS			
Demand response (farebox) - nonurban	\$ 9,233	\$ 38,479	\$ 47,712
Transfer in from general fund	-	104,755	104,755
TOTAL LOCAL REVENUES	<u>\$ 9,233</u>	<u>\$ 143,234</u>	<u>\$ 152,467</u>

CITY OF HILLSDALE, MICHIGAN
 LOCAL REVENUES
 DIAL-A-RIDE ENTERPRISE FUND
 BASED ON A SEPTEMBER 30, 2016 YEAR END

	<u>10/1/2015 - 6/30/2016</u>	<u>7/1/2016 - 9/30/2016</u>	<u>10/1/2015 - 9/30/2016</u>
OPERATING REVENUES AND TRANSFERS			
Demand response (farebox) - nonurban	\$ 38,919	\$ 9,233	\$ 48,152
Transfer in from general fund	95,000	-	95,000
TOTAL LOCAL REVENUES	<u>\$ 133,919</u>	<u>\$ 9,233</u>	<u>\$ 143,152</u>

CITY OF HILLSDALE, MICHIGAN
 FEDERAL AND STATE AWARDS
 DIAL-A-RIDE ENTERPRISE FUND
 YEAR END JUNE 30, 2017

	<u>7/1/2016 - 9/30/2016</u>	<u>10/1/2016 - 6/30/2017</u>	<u>7/1/2016 - 6/30/2017</u>
Michigan Department of Transportation			
Local bus operating	\$ 28,985	\$ 107,604	\$ 136,589
Final audit fiscal year 2013	4,448	-	4,448
Preliminary reconciliation fiscal year 2015	4,345	-	4,345
Federal Transit Administration			
Section 5311	17,066	31,552	48,618
Mobility management	-	17,500	17,500
	<u>54,844</u>	<u>156,656</u>	<u>211,500</u>
TOTAL FEDERAL AND STATE AWARDS	<u>\$ 54,844</u>	<u>\$ 156,656</u>	<u>\$ 211,500</u>

CITY OF HILLSDALE, MICHIGAN
 FEDERAL AND STATE AWARDS
 DIAL-A-RIDE ENTERPRISE FUND
 BASED ON A SEPTEMBER 30, 2016 YEAR END

	<u>10/1/2015 - 6/30/2016</u>	<u>7/1/2016 - 9/30/2016</u>	<u>TOTAL</u>
Michigan Department of Transportation			
Local bus operating	\$ 98,955	\$ 28,985	\$ 127,940
Preliminary reconciliation fiscal year 2013	-	4,448	4,448
Preliminary reconciliation fiscal year 2015	-	4,345	4,345
Federal Transit Administration			
Section 5311	<u>43,680</u>	<u>17,066</u>	<u>60,746</u>
 TOTAL FEDERAL AND STATE AWARDS	 <u>\$ 142,635</u>	 <u>\$ 54,844</u>	 <u>\$ 197,479</u>

CITY OF HILLSDALE, MICHIGAN
 EXPENDITURES OF FEDERAL AND STATE AWARDS
 DIAL-A-RIDE ENTERPRISE FUND
 YEAR ENDED JUNE 30, 2017

FEDERAL CFDA NUMBER	GRANT NUMBER AUTHORIZATION NUMBER	PROGRAM AWARD AMOUNT	CURRENT YEAR'S EXPENDITURES		PRIOR YEARS' EXPENDITURES	AWARD AMOUNT REMAINING
			TOTAL	FEDERAL		
FEDERAL AND STATE GRANTOR / PASS THROUGH GRANTOR / PROGRAM TITLE						
U.S. DEPARTMENT OF TRANSPORTATION						
Passed through Michigan Department of Transportation						
20.509	2012-0097/P7/R1	\$ 68,265	\$ 33,784	\$ -	\$ 34,013	\$ 468
20.509	2012-0097/P5/R1	53,776	1,726	-	49,274	2,776
20.509	2017-0063/P1/R2	67,433	13,108	-	-	54,325
20.509	2017-0063/P2	35,000	17,500	-	-	17,500
			<u>\$ 107,604</u>	<u>\$ 28,985</u>	<u>\$ 98,955</u>	<u>\$ 35,535</u>
N/A	N/A	143,139	-	107,604	-	(8,936)
N/A	N/A	119,004	-	28,985	98,955	-
N/A	N/A	124,564	-	4,345	120,219	-
N/A	N/A	122,109	-	4,448	117,661	-
			<u>\$ 211,500</u>	<u>\$ 145,382</u>	<u>\$ 420,122</u>	<u>\$ 101,668</u>
MICHIGAN DEPARTMENT OF TRANSPORTATION						
Operating Assistance - Act 51						
Nonurban 2017 budget						
Nonurban 2016 reconciled						
Nonurban 2015 reconciled						
Nonurban 2013 final audited						

CITY OF HILLSDALE, MICHIGAN
OPERATING AND CONTRACT EXPENSES
DIAL-A-RIDE ENTERPRISE FUND
YEAR ENDING JUNE 30, 2017

	NONURBAN	TOTAL
Labor	\$ 177,969	\$ 177,969
Fringe benefits	75,585	75,585
Services	47,937	47,937
Materials & supplies	18,149	18,149
Insurance	6,074	6,074
Utilities	10,827	10,827
Depreciation	63,731	63,731
 TOTAL EXPENSES	 \$ 400,272	 \$ 400,272

CITY OF HILLSDALE, MICHIGAN
 OPERATING AND CONTRACT EXPENSES
 DIAL-A-RIDE ENTERPRISE FUND
 YEAR ENDING JUNE 30, 2017

	NONURBAN		TOTAL
	07/01/2016 - 9/30/2016	10/01/2016 - 6/30/2017	
Labor	\$ 33,662	\$ 144,307	\$ 177,969
Fringe benefits	21,929	53,656	75,585
Services	4,390	13,759	18,149
Materials & supplies	3,186	44,751	47,937
Insurance	-	6,074	6,074
Utilities	1,001	9,826	10,827
Depreciation	-	63,731	63,731
 TOTAL EXPENSES	 \$ 64,168	 \$ 336,104	 \$ 400,272

CITY OF HILLSDALE, MICHIGAN
 OPERATING AND CONTRACT EXPENSES
 DIAL-A-RIDE ENTERPRISE FUND
 BASED ON A SEPTEMBER 30, 2016 YEAR END

	NONURBAN		TOTAL
	10/1/2015 - 6/30/2016	7/1/2016 - 9/30/2016	
Labor	\$ 135,058	\$ 33,662	\$ 168,720
Fringe benefits	52,974	21,929	74,903
Services	16,542	4,390	20,932
Materials & supplies	17,535	3,186	20,721
Insurance	15,724	-	15,724
Utilities	9,500	1,001	10,501
Miscellaneous	1,765	-	1,765
Depreciation	65,596	-	65,596
 TOTAL EXPENSES	 \$ 314,694	 \$ 64,168	 \$ 378,862

CITY OF HILLSDALE, MICHIGAN
 NONURBAN REGULAR SERVICE REVENUE REPORT
 DIAL-A-RIDE ENTERPRISE FUND
 BASED ON A SEPTEMBER 30, 2016 YEAR END

<u>CODE</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
401	Farebox Revenue	
40100	Passenger Fares	\$ 48,152
409	Local Revenues	
40910	Local operating assistance	95,000
411	State Formula and Contracts	
41101	State operating assistance	117,169
413	Federal Contracts	
41301	Federal Section 5311 (operating funds only)	<u>57,622</u>
	TOTAL REVENUES	<u><u>\$ 317,943</u></u>

CITY OF HILLSDALE, MICHIGAN
NONURBAN REGULAR SERVICE EXPENSE REPORT
DIAL-A-RIDE ENTERPRISE FUND
BASED ON A SEPTEMBER 30, 2016 YEAR END

CODE	DESCRIPTION	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL
501	Labor				
50101	Operators' salaries and wages	\$ 99,114	\$ -	\$ -	\$ 99,114
50102	Other salaries and wages	-	4,309	26,791	31,100
50103	Dispatchers' salaries and wages	38,048	-		38,048
502	Fringe Benefits				
50200	Other fringe benefits	61,014	2,461	11,387	74,862
503	Services				
50305	Audit costs	-	-	1,296	1,296
50399	Other	11,454	1,791	6,306	19,551
504	Materials and Supplies				
50401	Fuel and lubricants	13,157	-	-	13,157
50402	Tires and tubes	1,557	-	-	1,557
50499	Other materials and supplies	1,893	3,117	-	5,010
505	Utilities				
50500	Utilities	10,500	-	-	10,500
506	Insurance				
50603	Liability insurance	12,501	-	-	12,501
50699	Other insurance	-	-	3,223	3,223
509	Miscellaneous Expenses				
50902	Travel, meetings and training	30	-	-	30
50999	Miscellaneous	-	-	1,765	1,765
512	Operating Leases and Rentals				
51200	Operating leases and rentals	1,052	-	-	1,052
513	Depreciation				
51300	Depreciation	65,596	-	-	65,596
540	Ineligible refunds & credits				
54000	Ineligible refunds & credits (insurance)	-	-	-	-
550	Ineligible Expenses				
55007	Ineligible depreciation	65,596	-	-	65,596
574	Ineligible Expenses				
57402	Ineligible RTAP	-	-	-	-
	Total expenses				<u>\$ 378,362</u>
	Total ineligible expenses				<u>\$ 65,596</u>
	Total eligible expenses				<u>\$ 312,766</u>

CITY OF HILLSDALE, MICHIGAN
 NONURBAN REGULAR SERVICE NON-FINANCIAL INFORMATION
 DIAL-A-RIDE ENTERPRISE FUND
 BASED ON A SEPTEMBER 30, 2016 YEAR END

	<u>WEEKDAY</u>	<u>SATURDAY</u>	<u>SUNDAY</u>	<u>TOTAL</u>
Non-Financial Information				
Annual Reconciliation				
10/1/2011 - 9/30/2012				
Vehicle Hours	5,061	-	-	5,061
Vehicle Miles	47,424	-	-	47,424
Passengers Reg.	12,436	-	-	12,436
Passengers - Sr.	3,327	-	-	3,327
Passengers - Per. Disb.	5,452	-	-	5,452
Passengers - Sr. Disb.	6,135	-	-	6,135
Total Demand - Response	<u>27,350</u>	<u>-</u>	<u>-</u>	<u>27,350</u>
Days Operated	<u>250</u>	<u>-</u>	<u>-</u>	<u>250</u>
	Quantity			
Total Demand - Response Vehicles	4			
Demand-Response Vehicles w/Lifts	4			
Diesel/Gasoline Gallons Consumed	8,592			
Total Transit (full-time equivalent) Employees	4			
Total Revenue Vehicles (full-time equivalent) Operators	3			

CITY OF HILLSDALE, MICHIGAN
OPERATING ASSISTANCE CALCULATION
DIAL-A-RIDE ENTERPRISE FUND
BASED ON A SEPTEMBER 30, 2016 YEAR END

	<u>NONURBAN</u>
Total expenses	\$ 378,362
Less ineligible expenses:	
Depreciation	65,596
Total State eligible expenses	<u>312,766</u>
Eligible expenses for State reimbursement	312,766
Reimbursement percentage	<u>0.3746</u>
State operating assistance	<u>117,169</u>
Total federal eligible expenses	312,766
Less additional federal ineligible expenses:	
Audit costs	1,296
Eligible expenses for federal reimbursement	311,470
Reimbursement percentage	0.1850
Section 5311 operating assistance	<u>\$ 57,622</u>

CITY OF HILLSDALE, MICHIGAN
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2017

	<u>Department of Public Service Leave & Benefits</u>	<u>Public Service Inventory</u>	<u>Revolving Mobile Equipment</u>	<u>Unemployment Insurance</u>	<u>TOTAL</u>
ASSETS					
Current assets:					
Cash and investments	\$ 15,090	\$ 54,065	\$ 79,138	\$ 73,699	\$ 221,992
Due from other funds	-	-	-	-	-
Inventory	-	152,715	-	-	152,715
Prepaid expenses	21,507	-	22,171	-	43,678
TOTAL CURRENT ASSETS	<u>36,597</u>	<u>206,780</u>	<u>101,309</u>	<u>73,699</u>	<u>418,385</u>
Capital assets:					
Equipment	-	-	2,204,396	-	2,204,396
Less: accumulated depreciation	-	-	(1,909,951)	-	(1,909,951)
TOTAL CAPITAL ASSETS, NET	<u>-</u>	<u>-</u>	<u>294,445</u>	<u>-</u>	<u>294,445</u>
TOTAL ASSETS	<u>36,597</u>	<u>206,780</u>	<u>395,754</u>	<u>73,699</u>	<u>712,830</u>
LIABILITIES					
Current liabilities:					
Accounts payable	234	2,108	4,934	-	7,276
Accrued payroll and related liabilities	-	416	1,078	-	1,494
TOTAL CURRENT LIABILITIES	<u>234</u>	<u>2,524</u>	<u>6,012</u>	<u>-</u>	<u>8,770</u>
Other liabilities:					
Compensated absences	13,784	-	5,861	-	19,645
TOTAL LIABILITIES	<u>14,018</u>	<u>2,524</u>	<u>11,873</u>	<u>-</u>	<u>28,415</u>
NET POSITION					
Net investment in capital assets	-	-	294,445	-	294,445
Unrestricted	22,579	204,256	89,436	73,699	389,970
TOTAL NET POSITION	<u>\$ 22,579</u>	<u>\$ 204,256</u>	<u>\$ 383,881</u>	<u>\$ 73,699</u>	<u>\$ 684,415</u>

CITY OF HILLSDALE, MICHIGAN
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 INTERNAL SERVICE FUNDS
 YEAR ENDED JUNE 30, 2017

	Department of Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	TOTAL
OPERATING REVENUES					
Charges for services	\$ 163,058	\$ 3,182	\$ 286,312	\$ -	\$ 452,552
Miscellaneous	-	-	8,603	2,200	10,803
TOTAL OPERATING REVENUES	<u>163,058</u>	<u>3,182</u>	<u>294,915</u>	<u>2,200</u>	<u>463,355</u>
OPERATING EXPENSES					
Salaries	51,457	2,673	62,831	-	116,961
Fringe benefits	111,601	1,471	36,560	-	149,632
Supplies	-	18,103	76,925	-	95,028
Contracted services	-	7,553	14,481	-	22,034
Maintenance	-	-	9,780	-	9,780
Insurance	-	-	37,291	-	37,291
Miscellaneous	-	-	6,352	422	6,774
Capital outlay	-	-	3,765	-	3,765
Depreciation	-	-	65,140	-	65,140
TOTAL OPERATING EXPENSES	<u>163,058</u>	<u>29,800</u>	<u>313,125</u>	<u>422</u>	<u>506,405</u>
OPERATING INCOME (LOSS)	<u>-</u>	<u>(26,618)</u>	<u>(18,210)</u>	<u>1,778</u>	<u>(43,050)</u>
NONOPERATING REVENUES					
Gain (loss) on disposal of assets	-	-	34,608	-	34,608
Interest income	-	-	1,110	602	1,712
	-	-	35,718	602	36,320
CHANGES IN NET POSITION	<u>-</u>	<u>(26,618)</u>	<u>17,508</u>	<u>2,380</u>	<u>(6,730)</u>
NET POSITION - BEGINNING OF YEAR	<u>22,579</u>	<u>230,874</u>	<u>366,373</u>	<u>71,319</u>	<u>691,145</u>
NET POSITION - END OF YEAR	<u>\$ 22,579</u>	<u>\$ 204,256</u>	<u>\$ 383,881</u>	<u>\$ 73,699</u>	<u>\$ 684,415</u>

CITY OF HILLSDALE, MICHIGAN
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 YEAR ENDED JUNE 30, 2017

	Department of Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash paid to suppliers	\$ -	\$ (2,691)	\$ (150,257)	\$ -	\$ (152,948)
Cash paid to employees	(166,538)	(3,751)	(98,999)	-	(269,288)
Receipts for interfund services provided	163,058	3,182	294,915	-	461,155
Net Cash Provided By (Used In) Operating Activities	<u>(3,480)</u>	<u>(3,260)</u>	<u>45,659</u>	<u>-</u>	<u>38,919</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of capital assets	-	-	34,608	-	34,608
Purchase of capital assets	-	-	(206,527)	-	(206,527)
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>(171,919)</u>	<u>-</u>	<u>(171,919)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income received	-	-	1,110	-	1,110
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,480)	(3,260)	(125,150)	-	(131,890)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	18,570	57,325	204,288	-	280,183
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 15,090</u>	<u>\$ 54,065</u>	<u>\$ 79,138</u>	<u>\$ -</u>	<u>\$ 148,293</u>
BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS					
Cash and investments	\$ 15,090	\$ 54,065	\$ 79,138	\$ 73,699	\$ 221,992
Less amounts classified as investments	-	-	-	(73,699)	(73,699)
	<u>\$ 15,090</u>	<u>\$ 54,065</u>	<u>\$ 79,138</u>	<u>\$ -</u>	<u>\$ 148,293</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	\$ -	\$ (26,618)	\$ (18,210)	\$ -	\$ (44,828)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	-	-	65,140	-	65,140
(Increase)/decrease in:					
Accounts receivable	-	-	-	-	-
Due from other funds	-	-	-	-	-
Inventory	-	22,743	-	-	22,743
Prepaid expenses	(6,068)	-	(2,491)	-	(8,559)
Increase/(decrease) in:					
Accounts payable	95	222	564	-	881
Accrued expenses	2,493	393	656	-	3,542
Net Cash Provided By (Used In) Operating Activities	<u>\$ (3,480)</u>	<u>\$ (3,260)</u>	<u>\$ 45,659</u>	<u>\$ -</u>	<u>\$ 38,919</u>

CITY OF HILLSDALE, MICHIGAN
ADDITIONAL REPORTS REQUIRED BY
THE UNIFORM GUIDANCE
YEAR ENDED JUNE 30, 2017

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, 2017, 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 November 16, 2017.

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 deficiency in the accompanying schedule of findings and questioned costs to be a material weakness - Finding 2017-2.

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 2017-1.

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.

CHBW & Co., P.C.

Certified Public Accountants

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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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, 2017.

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, 2017, and the related notes to the financial statements, which collectively comprise City of Hillsdale basic financial statements. We issued our report thereon dated November 16, 2017, 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.

CHBW & Co., P.C.

Certified Public Accountants

CITY OF HILLSDALE, MICHIGAN
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2017

	Federal CFDA Number	Federal or Pass-Through Grant Number	Award Amount	Federal Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Passed-through the Michigan Strategic Fund				
CDBG Blight Elimination	14.228	MSC-215008-ESB	\$ 785,500	\$ 196,759
CDBG Acquisition	14.228	MSC-214066-CSP	94,400	2,535
Total U.S. Department of Housing and Urban Development			<u>879,900</u>	<u>199,294</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>				
Passed-through the Michigan Department of Environmental Quality				
Capitalization Grants for Clean Water State Revolving Loan Funds	66.468	5610-01	7,435,000	983,952
Capitalization Grants for Clean Water State Revolving Loan Funds	66.468	5610-02	2,000,000	142,516
Total U.S. Environmental Protection Agency			<u>9,435,000</u>	<u>1,126,468</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Passed-through Michigan Department of Transportation				
Operating assistance - Section 5311	20.509	2012-0097/P6/R1	63,409	66,118
Operating assistance - Section 5311	20.509	2012-0097/P7/R1	68,265	-
Total U.S. Department of Transportation			<u>131,674</u>	<u>66,118</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Community Facilities Grant	10.766		28,500	28,500
Total U.S. Department of Agriculture			<u>28,500</u>	<u>28,500</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>				
Bullet Proof Vest Program	16.607			1,444
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 10,475,074</u>	<u>\$ 1,421,824</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, 2017

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, 2017. 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:

Clean Water State Revolving Funds – CFDA #66.458

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

Note 4: Federal expenditures are reported in the following fund financial statements as follows:

Governmental funds - revenue	\$ 229,238
Proprietary funds - revenue	166,118
Proprietary funds - bonds payable	1,026,468
	\$ 1,421,824

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 passthrough agency for the Environmental Protection Agency (CFDA #66.458). As of June 30, 2017, the outstanding loan payable was \$3,008,210, which consists of both Federal and State funds.

Note 6: The City did not have any subrecipients to their federal programs during the year.

CITY OF HILLSDALE, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

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> X </u> Yes	<u> </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>
66.458	Clean Water State Revolving Funds
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, 2017

Section II - Financial Statement Findings

Finding 2017-1 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 2017-2 Utility Funds – Material 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 audit findings that resulted in material adjustments to the financial statements. Specific and material items that required correction included capital assets, customer deposits, accounts payable, bonds payable, deferred inflows, deferred outflows and pension expense.

Cause: Lack of adequate financial analysis to timely detect material misstatements in the financial statements, and lack of proper review and oversight of third party consultants engaged to assist in the year-end close procedures.

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

View of responsible officials: The City Board of Public Utilities' business office has undergone a variety of changes in staffing, as well as a complete conversion of all their accounting systems. The last of these conversions took place just a month prior to the audit field work being done. In the confusion of all the changes these details were overlooked. There was not adequate time, with the current level of staffing to prepare for the audit given the amount of research needed dealing with two account systems. Staffing levels and workloads are being evaluated and new internal controls and procedures are being implemented to correct these issues moving forward.

CITY OF HILLSDALE, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)
YEAR ENDED JUNE 30, 2017

Section III – Federal Award Findings and Questioned Costs

None

CITY OF HILLSDALE, MICHIGAN
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2017

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 PRIOR AUDIT FINDINGS (CONCLUDED)
YEAR ENDED JUNE 30, 2017

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.