

CITY OF HILLSDALE, MICHIGAN
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
YEAR ENDED JUNE 30, 2014

CITY OF HILLSDALE, MICHIGAN

TABLE OF CONTENTS

JUNE 30, 2014

	PAGE
Independent Auditor’s Report	i - ii
Management’s Discussion and Analysis	iii - xv
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	1
Statement of Activities.....	2 - 3
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	4
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Position of Governmental Activities on the Statement of Net Position.....	5
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	7
Statement of Net Position – Proprietary Funds.....	8
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds.....	9
Statement of Cash Flows – Proprietary Funds.....	10 - 11
Statement of Fiduciary Net Position – Fiduciary Funds.....	12
Statement of Changes in Fiduciary Net Position – Fiduciary Funds.....	13
Notes to Financial Statements	14 - 30

Required Supplementary Information

Budgetary Comparison Schedule – General Fund..... 31 - 32

Budgetary Comparison Schedule – Major Street Fund..... 33

Budgetary Comparison Schedule – Local Street Fund.....34

Municipal Employees’ Retirement System of Michigan..... 35

Other Supplementary Information:

Combining and Individual Fund Statements and Schedules:

Combining Balance Sheet – Nonmajor Governmental Funds.....36

Combining Statement of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds..... 37

Combining Balance Sheet – Nonmajor Special Revenue Funds..... 38

Combining Statement of Revenues, Expenditures and Changes in
Fund Balances – Nonmajor Special Revenue Funds.....39

Combining Balance Sheet – Nonmajor Capital Project Funds.....40

Combining Statement of Revenues, Expenditures and Changes in
Fund Balances – Nonmajor Capital Project Funds.....41

Combining Balance Sheet – Nonmajor Permanent Funds.....42

Combining Statement of Revenues, Expenditures and Changes in
Fund Balances – Nonmajor Permanent Funds.....43

Dial-A-Ride Enterprise Fund:

Local Revenues..... 44

Local Revenues – Based on a September 30, 2013 Year End..... 45

Federal and State Awards..... 46

Federal and State Awards – Based on a September 30, 2013 Year End..... 47

Expenditures of Federal and State Awards.....48

Operating and Contract Expenses..... 49

Operating and Contract Expenses – Based on a June 30, 2014 Year End 50

Operating and Contract Expenses – Based on a September 30, 2013 Year End 51

Nonurban Regular Service Revenue Report – Based on a September 30, 2013 Year End..... 52

Nonurban Regular Service Expense Report – Based on a September 30, 2013 Year End..... 53

Nonurban Regular Service Non-Financial Information – Based on a September 30, 2013 Year End..... 54

Operating Assistance Calculation – Based on a September 30, 2013 Year End 55

Internal Service and Agency Funds:

Combining Statement of Net Position – Internal Service Funds..... 56

Combining Statement of Revenues, Expenses and Changes in
Net Position – Internal Service Funds..... 57

Combining Statement of Cash Flows – Internal Service Funds..... 58

**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*..... 59 - 60**

Schedule of Findings and Responses..... 61 - 62



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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 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including 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 financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan, as of June 30, 2014, 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 – xv, as well as the budgetary comparison information and retirement system information on pages 31-35, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hillsdale's basic financial statements. The combining and individual nonmajor fund financial statements, the Dial-A-Ride Enterprise Fund information, as well as the combining statements for the internal service and agency funds, are presented for purposes of additional analysis and are not a part of the required basic financial statements. This supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information as described above and listed in the table of contents is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2014 on our consideration of 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 City of Hillsdale's internal control over financial reporting and compliance.

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

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Hillsdale
Management's Discussion and Analysis
June 30, 2014

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, 2014.

Financial Highlights

- The position of the City exceeded its liabilities at the close of the most recent fiscal year by \$61,265,408 (*net position*). Of this amount, \$15,948,772 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Governmental activities net change in position decreased \$184,798, while business-type activities changes in net position increased \$1,261,391. The combined net change in position increased almost two percent (1.79%) or \$1,076,593.
- Total Government wide liabilities, long and short-term combined, increased by more than fourteen percent (14.06%) or \$491,476.
- As of the close of the current fiscal year, the City's Governmental funds reported combined ending fund balances of \$2,703,053. Of that amount, the government has \$836,924 unrestricted (*unassigned*) assets *available for spending* at its discretion.
- September of 2013 the Board of Public Utilities entered into a municipal lease agreement for \$1,379,079 to replace electric meters.
- Investment in Michigan South Central Power Agency increased by \$1.4 million.
- Council established the policy of maintaining a minimum General Fund fund balance reserve of fifteen percent (15%) back in 1992. At the end of the current fiscal year, total fund balance for the general fund was \$926,875. That represents twenty percent (20%) of total general fund expenditures for fiscal year 2014-15.
- The City's total bonded debt decreased more than thirty-two percent (32.6%) or \$347,000 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are 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.

City of Hillsdale
Management's Discussion and Analysis
June 30, 2014

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

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

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

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

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

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

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

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

City of Hillsdale
Management's Discussion and Analysis
June 30, 2014

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

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

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

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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-30 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain other information. This includes combining and individual fund financial statements and schedules, which can be found on pages 31-58 of this report.

City of Hillsdale
Management's Discussion and Analysis
June 30, 2014

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Hillsdale, assets exceeded liabilities by \$61,265,408 at the close of the 2014 fiscal year.

The total governmental and business-type activities *long-term liabilities outstanding* increased \$459,673, or almost twenty-three percent (22.9%) from the prior year. This is reflective of the capital lease agreement for utility equipment added this year. Other Liabilities, comprised mostly of compensated absences, increased a modest two percent (2.1%). This resulted in an overall increase in total liabilities of fourteen percent (14.06%).

By far the largest portion of the City's assets, more than seventy percent (70.6%), 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's Net Position	Governmental		Business-type		Total		Total Percent Change
	Activities		Activities		Total		
	2013	2014	2013	2014	2013	2014	
Current and Other Assets	\$3,805,830	\$3,425,037	\$15,390,450	\$16,620,931	\$19,196,280	\$20,045,968	4.43%
Capital Assets	\$22,609,466	\$22,637,798	\$21,878,065	\$22,568,114	\$44,487,531	\$45,205,912	1.61%
Total Assets	\$26,415,296	\$26,062,835	\$37,268,515	\$39,189,045	\$63,683,811	\$65,251,880	2.46%
Long-term Liabilities Outstanding	\$322,539	\$226,440	\$1,687,892	\$2,243,664	\$2,010,431	\$2,470,104	22.86%
Other Liabilities	\$218,933	\$147,369	\$1,265,632	\$1,368,999	\$1,484,565	\$1,516,368	2.14%
Total Liabilities	\$541,472	\$373,809	\$2,953,524	\$3,612,663	\$3,494,996	\$3,986,472	14.06%
Net Position:							
Invested In Capital Assets Net of Related Debt	\$22,609,466	\$22,637,798	\$20,812,065	\$20,622,793	\$43,421,531	\$43,260,591	-0.37%
Restricted	\$1,781,846	\$1,774,445	\$934,772	\$281,600	\$2,716,618	\$2,056,045	24.32%
Unrestricted	\$1,482,512	\$1,276,783	\$12,568,154	\$14,671,989	\$14,050,666	\$15,948,772	13.51%
Net Position	\$25,873,824	\$25,689,026	\$34,314,991	\$35,576,382	\$60,188,815	\$61,265,408	1.79%

A portion of the City's assets (\$2,056,045) represents resources that are subject to external restrictions on how they may be used. The remaining balance is *unrestricted assets* that may be used to meet the government's ongoing obligations to citizens and creditors. That amount increased \$1,898,106, or thirteen and one-half percent (13.5%) from the prior year. All of that increase was in the business-type activities (Board of Public Utilities).

City of Hillsdale
Management's Discussion and Analysis
June 30, 2014

The City's total program revenue for 2014, (including restricted and operating grants and contributions) was \$17,658,643. This represents a two and one-half percent (2.5%) increase over the prior year. The largest increase was in capital grants and contributions. These revenues went up more than seventy-two percent (72.2) or \$146,727. Operating grants and contributions declined almost thirty-seven percent (36.7%). Both of these categories are volatile, unpredictable, and often project specific, one-time sources of revenue.

City of Hillsdale
Management's Discussion and Analysis
June 30, 2014

City's Changes in Net Position

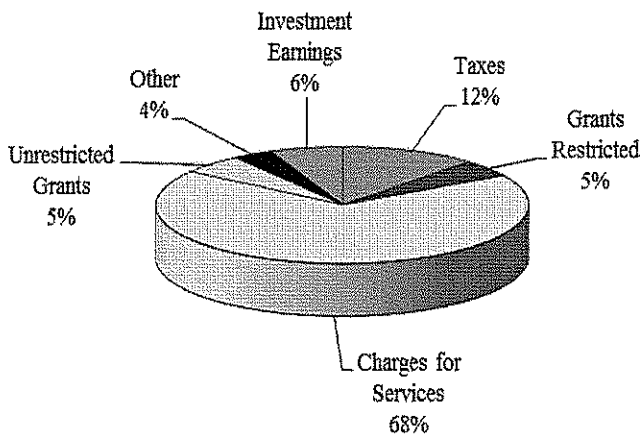
	Governmental		Business-type		Total		Total Percentage Change
	Activities		Activities				
Revenues:	2013	2014	2013	2014	2013	2014	
Program Revenues:							
Charges for Services	\$249,338	\$300,183	\$14,789,798	\$15,751,642	\$15,039,136	\$16,051,825	6.73%
Operating Grants & Contributions	\$1,817,655	\$1,090,352	\$293,908	\$166,620	\$2,111,563	\$1,256,972	-40.47%
Capital Grants & Contributions	\$78,525	\$349,846	\$0	\$0	\$78,525	\$349,846	345.52%
Total Revenues	\$2,145,518	\$1,740,381	\$15,083,706	\$15,918,262	\$17,229,224	\$17,658,643	2.49%
Expenses:							
General Government	\$1,231,547	\$1,346,912			\$1,231,547	\$1,346,912	9.37%
Public Safety	\$1,858,376	\$1,762,802			\$1,858,376	\$1,762,802	-5.14%
Public Services	\$373,952	\$362,321			\$373,952	\$362,321	-3.11%
Highways & Streets	\$1,242,129	\$2,048,325			\$1,242,129	\$2,048,325	64.90%
Community & economic development	\$69,668	\$52,185			\$69,668	\$52,185	-25.09%
Recreation & Culture	\$604,738	\$640,263			\$604,738	\$640,263	5.87%
Capital Outlay	\$0	\$120,179			\$0	\$120,179	100.00%
Other	\$84,097	\$4,847			\$84,097	\$4,847	-94.24%
Unallocated Depreciation	\$36,368	\$35,500			\$36,368	\$35,500	-2.39%
Electric			\$14,127,113	\$13,138,334	\$14,127,113	\$13,138,334	-7.00%
Water			\$1,086,973	\$1,404,261	\$1,086,973	\$1,404,261	29.19%
Sewer			\$1,347,989	\$1,241,615	\$1,347,989	\$1,241,615	-7.89%
Transportation			\$309,717	\$339,230	\$309,717	\$339,230	9.53%
Total Expenses	\$5,500,875	\$6,373,334	\$16,871,792	\$16,123,440	\$22,372,667	\$22,496,774	0.55%
Increase (Decrease) in							
Net Position Before Transfers	(\$3,355,357)	(\$4,632,953)	(\$1,788,086)	(\$205,178)	(\$5,143,443)	(\$4,838,131)	-5.94%
General Revenues:							
Taxes	\$2,266,635	\$2,787,158			\$2,266,635	\$2,787,158	22.96%
Grants & Contributions Not Restricted							
To Specific Programs	\$782,235	\$806,685			\$782,235	\$806,685	3.13%
Unrestricted Investment Earnings	\$34,091	\$22,294	\$14,497	\$1,476,293	\$48,588	\$1,498,587	2984.27%
Other Revenues	\$424,359	\$813,735	\$28,239	\$8,559	\$452,598	\$822,294	81.68%
Transfers - Internal Activity	(\$30,654)	\$18,283	\$53,269	(\$18,283)	\$22,615	\$0	-100.00%
Total General Revenues	\$3,476,666	\$4,448,155	\$96,005	\$1,466,569	3,572,671	5,914,724	65.55%
Changes in Net Position	\$121,309	(\$184,798)	(\$1,692,081)	\$1,261,391	(\$1,570,772)	\$1,076,593	-168.54%
Net Position - Beginning of Year	\$25,752,515	\$25,873,824	\$36,007,072	\$34,314,991	\$61,759,587	\$60,188,815	-2.54%
Net Position - End of Year	\$25,873,824	\$25,689,026	\$34,314,991	\$35,576,382	\$60,188,815	\$61,265,408	1.79%

City of Hillsdale
 Management's Discussion and Analysis
 June 30, 2014

Government wide, charges for services revenues went up almost seven percent (6.7%) mainly due to rate changes for utility services (electric, water, sewer). More than ninety-eight percent (98.2%) of the total charges for services revenue comes from the business-type activities (electric, water, sewer and transportation funds). Of those activities, the electric fund generated about eighty-three percent (82.5%) of those charges.

The chart below shows that the general revenues, for both the governmental and business-type activities, increased by more than sixty-five percent (65.6%). These revenues consist of taxes, unrestricted grants and contributions, investment earnings, internal transfers between funds, and various other miscellaneous revenues. The tax revenue increased \$520,523 from the prior year. This increase comes from contributions in lieu of taxes paid by the Board of Public Utilities and two housing developments. These payments are based on sales and/or rents collected. Both the governmental and business-type activities other revenues went up \$369,696. These revenues are from various sources and often include one-time revenue sources. The major increase of \$1.45 million in unrestricted investment earnings is due to reclassification of the BPU's investment in the Michigan South Central Power Agency.

**Source of Revenue for Fiscal Yr 2014
 Governmental & Business-type Activities**



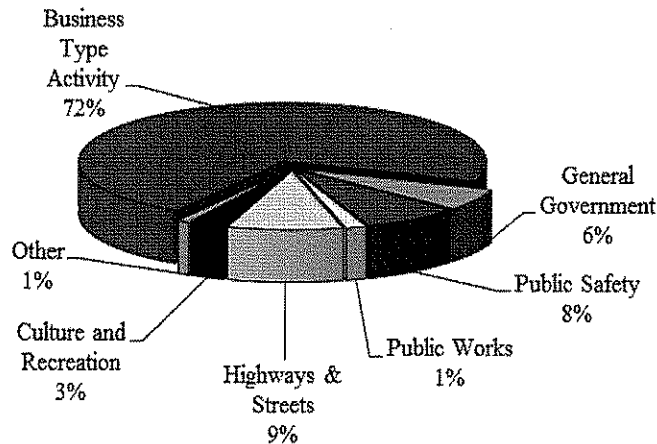
This pie graph reveals the major sources of revenues collected by the municipality's governmental and business-type activities combined. Charges for services are the largest single portion of revenues received. Eighty-four percent (84%) of those monies come from the electric utility and are not used for general governmental operations. Taxes, used primarily to fund general governmental activities, constitute twelve percent (12%) of overall revenues. Grants, restricted and unrestricted, combined account for ten percent (10%) of total revenues. Investment earnings and other miscellaneous revenue sources make up the remaining ten percent (10%).

Total expenditures increased slightly by about one-half of one percent (0.55%) from fiscal year 2012-13. Six (6) of the government's activities saw an increase, while seven (7)

activities reduced their expenditures. Increases were realized in: general government, highways and streets, recreation and culture, capital outlay, water and transportation activities. Almost sixty-five percent (64.9%) of this increase was attributed to highways and street related activities. Staffing changes, insurance costs and classification of expenditures can be attributed to the variances. These increases were offset by decreases totaling about \$1.3 million in: public safety, public services, community and economic development, electric and sewer activities. The electric fund reductions in power costs and transmission and distribution costs of \$ 988,779 accounted for seventy-six percent (76.0%) of the total reduction in expenditures, due to reclassification of change in equity interest in joint venture (MSCPA).

City of Hillsdale
 Management's Discussion and Analysis
 June 30, 2014

**Functional Expenses for Fiscal Yr 2014
 Governmental & Business-type Activities**



As the functions graph on the left depicts, business type activities (electric, water, sewer, and transportation operations) make up seventy-six percent (72%) of all the municipality's expenditures. The largest portions of overall expenditures, fifty-eight percent (58.4%), are incurred by the electric fund. General governmental activities account for only six percent (6%) of total expenditures; public safety makes up eight percent (8%), highways and streets amount to only nine percent (9%), while recreation and culture accounts for three percent (3%) and public works and other miscellaneous activities make up the remaining two percent (2%).

Governmental activities. Governmental activities had a negative net change in position of \$184,798. Key elements from operations for the year are:

- The received various operating and capital grants and contributions for a variety of activities: public safety (\$1,000 for firefighting equipment); library (\$10,480 for technology updates and children's library services & supplies); property acquisition for continued airport expansion (\$346,546); Sandy Beach renovations (Rotary Club contributions of \$53,210); and Stocks Park renovations (\$22,949 public contributions).
- General Revenues for all governmental activities increase about twenty-eight percent (27.9%) or \$971,489. Every category except unrestricted investment earnings experienced an increase. Tax revenue increased \$520,523, which amounts to more than fifty-three percent (53.3%) of the total increase. The other biggest contributing factor is found in other revenues. That is due to the receipt of unexpected revenue from a number of different sources.
- The increase in recreation and culture expenditures is attributed to the allocation of depreciation expense.
- The five percent (5.1%) decline in public safety expenditures and three percent (3.1%) decline in public services is directly linked to the capital purchases for the Fire Department in last year's budget, reclassification of expenditures and staffing changes.
- The sixty-five percent (64.9%) increase in highways and streets is due to: reclassification of expenditures, reconstruction of Charles Street, and higher winter maintenance costs due to the amount of snowfall and savvier cold temperatures experienced last winter.

Business-type activities. Business-type activities experienced a net gain for the year of \$1,076,593. Key elements of the business-type activities decrease are as follows:

- This year the electric fund had a \$1,519,404 increase in net position. This is directly linked to the increase in value of joint venture with MSCPA.
- The water fund realized a positive change in net position of \$43,785. This is the result of a rate increase that took effect in January 2014.

City of Hillsdale
Management's Discussion and Analysis
June 30, 2014

- A negative net change in position of \$225,080 was experienced by the sewer fund. The decrease is due rates not being adequate to cover costs. A rate study was done and new higher rates took effect in January 2014. Assets in the sewer fund were reallocated to decrease the funds deficit.
- The public transportation department experienced a negative net change in position for the year of \$76,472. This loss is related to a reduction in revenues and increase costs for workers compensation and liability insurances, vehicle repairs, and utilities.

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, 2014 the City's governmental funds reported combined ending fund balances of \$2,703,053. That is a \$125,539 decrease from the prior year.

Governmental fund balance is broken into three categories: nonspendable, restricted, and unassigned. Nonspendable 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 \$91,684. The restricted portion of fund balance refers to resources subject to externally imposed and legally enforceable constraints imposed either by external resource providers, e.g. grantors or creditors, or by law through constitutional provisions or enabling legislation. The governmental funds restricted fund balance is \$1,774,445. This constitutes a slight decline of less than one percent from the prior year. These funds are for the perpetual care of the two municipal cemeteries and future maintenance of Mrs. Stocks Park. It also includes the special revenue fund balances for the Library, Major and Local Street Funds, and the debt service fund. All the capital improvement funds (Airport, Fields of Dreams, Mrs. Stocks Park, and the general Capital Improvement Fund) are also included in the restricted use fund balances.

In particular, *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 \$836,924 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 \$926,875. Of that balance, \$89,951 is classified as nonspendable for prepaid expenditures. The remaining \$836,924 is unassigned and therefore available for spending at the government's discretion. This balance represents a decrease from the prior fiscal year of \$115,265. This reduction was planned by the municipality to reconstruct Charles Street.

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, \$171,461 in Major and \$98,054 in Local, are thus designated to be spent only on the streets. These fund balances are classified as restricted.

City of Hillsdale
Management's Discussion and Analysis
June 30, 2014

Other nonmajor governmental funds collectively experienced a combined net increase in fund balances for the year of \$43,181. None of these fund balances are considered unassigned. Of the \$1,506,663 balance, \$1,733 is classified as nonspendable. The remaining nonmajor governmental fund balances are considered restricted for various reasons. There are two permanent endowments (Cemetery Perpetual Care Fund, and Stocks Park Perpetual Maintenance Fund). Combined they have a total restricted fund balance of \$676,164. The restricted special revenue fund balances total \$392,123. These include the fund balances from the Library, Recreation, Drug Forfeitures, and Police Public Relations Funds. It is also inclusive of \$706,158 from all the nonmajor capital project funds which are: Capital Improvement, Airport Improvement, Mrs. Stocks Park, Library Improvement, Fire Equipment, and Fields of Dreams Funds.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail. Investment in capital assets net of related debt for all proprietary funds decreased by less than one percent (0.9%). This represents the amount of net position that is invested in capital and therefore not available for future spending. Total restricted investments declined almost seventy percent (69.9%). Unrestricted, undesignated net position of the water, sewer, electric, and transportation funds at the end of the year increased more than twenty percent (20.2%). The unrestricted, designated net position of the proprietary funds increased \$2,166,651.

Half of the proprietary funds realized an increase in net position for the year and half experienced a net loss. The sewer fund ended the year with a decrease in net position of \$225,326 and the transportation fund's net position decreased \$76,472. As previously mentioned, the electric fund had a net increase in assets of \$1,519,404. The water fund also experienced an increase of \$43,785 in net position.

General Fund Budgetary Highlights

The general fund revenue budget for fiscal year 2014 was originally \$5,183,100. It was amended down to \$3,793,100. These amendments were made, in part, because of an unrealized grant through the Michigan State Housing Authority for rental rehabilitation. The federal revenues were reduced by \$1,000,000 and other revenues by \$300,000. An adjustment was also required to current taxes to bring the budget more into line with what was actually collected.

Differences between the original and final amended General Fund expenditure budgets totaled \$1,230,900. Miscellaneous adjustments, both positive and negative, in the General Government departments, with a net increase of \$84,100 in that classification. These adjustments were due to a variety of issues such as: health insurance changes, legal fees to defend tax tribunal cases; increased heating costs and snow removal on city owned property; staffing changes and increased utility costs. Reductions totaling \$35,000 were made in the Public Safety budgets (Police & Fire) because of insurance and staffing changes. The Economic Development Department's budget was reduced \$1,300,000 due to the MSHDA rental rehab grant not being realized. An additional amount of \$20,000 was needed in culture and recreation due to the harsh winter conditions.

City of Hillsdale
Management's Discussion and Analysis
June 30, 2014

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, 2014, amounted to more than \$2.4 million. This investment in capital assets includes land, buildings and system improvements, machinery and equipment, Library books, recreational land improvements, roads, and water mains. The City's combined total capital assets, net of depreciation, increased almost two percent (1.6%) in the current fiscal year.

	City's Capital Assets (Net of Depreciation)						Total Percent Change
	Governmental Activities		Business-type Activities		Total		
	2013	2014	2013	2014	2013	2014	
Land	\$8,269,469	\$8,618,707	\$197,401	\$197,401	\$8,466,870	\$8,816,108	4.12%
Buildings and System Improvements	3,655,173	3,582,111	21,248,264	20,641,403	\$24,903,437	\$24,223,514	-2.73%
Library Books	214,163	216,982			\$214,163	\$216,982	1.32%
Machinery and Equipment	347,191	400,000	201,862	162,436	\$549,053	\$562,436	2.44%
Infrastructure	10,123,470	9,819,998			\$10,123,470	\$9,819,998	-3.00%
Construction in Progress	0	0	230,538	1,566,874	230,538	1,566,874	579.66%
Total	\$22,609,466	\$22,637,798	\$21,878,065	\$22,568,114	\$44,487,531	\$45,205,912	1.61%

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

- A variety of infrastructure projects (street reconstructions/sidewalks) were done throughout the year at a combined cost of approximately \$383,276.
- Beautification and improvements to Mrs. Stocks Park, building and site improvements at Sandy Beach, DPS site improvements and columbarium for Lakeview Cemetery were accomplished for a total cost of \$113,989.
- The utility (electric, water, and sewer funds) did a variety of projects throughout the year totaling \$1,765,848. Utility poles, rebuilt Carleton Road substation, purchased a meter reading truck, a wire reel rack, replaced primary sludge pump and RAS pump, computer upgrades, replaced Charles Street water mains, and URD on Broad Street.
- The library purchased numerous books at a cost of \$21,849.
- The airport spent \$349,238 to facilitate property acquisition for the multi-year airport expansion project.
- Purchased a dump truck for the Department of Public Services and a patrol car for the Police Department for \$150,858.

Additional information on the City's capital assets can be found in note No. 5 on pages 23-24 of this report.

City of Hillsdale
 Management's Discussion and Analysis
 June 30, 2014

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$719,000, which consisted of revenue bonds, where the City utility has pledged the income to be received from the constructed assets to pay the debt service of the related bond issues. The City has no general obligation bonds outstanding.

City's Outstanding Debt

	Revenue Bonds			
	Business-type		Total	
	Activities			
	2013	2014	2013	2014
Revenue Bonds	\$1,066,000	\$719,000	\$1,066,000	\$719,000
Total	\$1,066,000	\$719,000	\$1,066,000	\$719,000

The City of Hillsdale has a revenue bond rating with Standard & Poor's of "BBB" and is currently "non-rated" with Moody's.

The City's bonded debt decreased during the current fiscal year by \$347,000 or thirty-two percent (32.6%).

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, 2013 was \$144,951,780. That translates into a debt limit of \$14,495,178. The City's revenue bond debt is exempt from that limit, so as of June 30, 2014 there is no debt applicable to that limit.

The City's total outstanding long-term debt obligation, as of June 30, 2014 was \$2,243,664, which includes compensated absence liabilities as well as other outstanding loan obligations and bonds. In this fiscal year, the Board of Public Utilities added a new debt. They entered into a capital lease agreement with Government Capital Corporation for utility equipment. The annual lease payments of \$227,737 will be paid through September 16, 2020.

Additional information on the City's long-term debt can be found in note No. 8 on pages 27-28 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2014-15 fiscal year:

- The unemployment rate for Hillsdale County (which includes the City) in March 2014 was 9.0%. That's down 0.2% from the 9.2% of one year ago. That rate was 1.0% higher than the State of Michigan's unemployment rate of 8.0% and 2.3% higher than the national unemployment rate of 6.7% for the same time period.

City of Hillsdale
Management's Discussion and Analysis
June 30, 2014

- The property tax inflationary rate for 2014 tax year of 1.016%.
- 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 to spend down \$74,695 of its General Fund fund balance for general operating purposes.
- The projection for gas and weight taxes, used to maintain the road systems throughout the state was projected to increase about 2 percent based on historical trends. These taxes are collected by the state and disbursed to the local governmental agencies (cities, townships, road commissions, and counties) based on population and miles of roads maintained in each classification (major or local).
- Health insurance costs increase projections of 25%.
- No wage increases were projected.

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, 2014

	PRIMARY GOVERNMENT			COMPONENT UNITS	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	TAX INCREMENT FINANCE AUTHORITY	ECONOMIC DEVELOPMENT CORPORATION
ASSETS					
Cash and investments	\$ 2,696,745	\$ 3,278,659	\$ 5,975,404	\$ 571,649	\$ 125,672
Receivables	313,380	1,009,611	1,322,991		
Internal balances	87,864	(87,864)			
Prepaid items and other assets	137,563	348,964	486,527		
Inventory	189,485	869,942	1,059,427		
Investment in M.S.C.P.A.		11,201,619	11,201,619		
Capital assets, net:					
Assets not being depreciated	8,618,707	1,764,275	10,382,982	65,000	173,721
Assets being depreciated	14,019,091	20,803,839	34,822,930		
TOTAL ASSETS	26,062,835	39,189,045	65,251,880	636,649	299,393
LIABILITIES					
Accounts payable	58,919	96,340	155,259	1,428	70
Accrued expenses	88,450	1,257,749	1,346,199		
Accrued interest		6,929	6,929		
Due to other governments		7,983	7,983		
Non-current liabilities:					
Due within one year		537,512	537,512		
Due in more than one year	226,440	1,706,152	1,932,592		
TOTAL LIABILITIES	373,809	3,612,665	3,986,474	1,428	70
NET POSITION					
Net investment in capital assets	22,637,798	20,622,793	43,260,591	65,000	173,721
Restricted for:					
Special revenues	392,123		392,123		
Debt service		281,600	281,600		
Capital projects	706,158		706,158		
Endowment and trust principal	676,164		676,164		
Unrestricted	1,276,783	14,671,987	15,948,770	570,221	125,602
TOTAL NET POSITION	\$ 25,689,026	\$ 35,576,380	\$ 61,265,406	\$ 635,221	\$ 299,323

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

FUNCTIONS / PROGRAMS	PROGRAM REVENUES				
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE
PRIMARY GOVERNMENT					
Governmental Activities:					
General government	\$ 1,346,912	\$ 223,117	\$ 15,691	\$	\$ (1,108,104)
Public safety	1,762,802		4,678		(1,758,124)
Public works	362,321				(362,321)
Highways and streets	2,048,325		701,386		(1,346,939)
Community and economic development	52,185				(52,185)
Culture and recreation	640,263	77,066	90,530		(472,667)
Capital outlay	120,179		278,067	349,846	507,734
Other	4,847				(4,847)
Unallocated depreciation, excluding direct portion	35,500				(35,500)
Total Governmental Activities	6,373,334	300,183	1,090,352	349,846	(4,632,953)
Business-type Activities:					
Electric	13,138,334	13,244,076			105,742
Sewer	1,241,615	1,274,013			32,398
Water	1,404,261	1,176,303			(227,958)
Transportation	339,230	57,248	166,620		(115,362)
Total Business-type Activities	16,123,440	15,751,640	166,620		(205,180)
TOTAL PRIMARY GOVERNMENT	\$ 22,496,774	\$ 16,051,823	\$ 1,256,972	\$ 349,846	\$ (4,838,133)
COMPONENT UNITS					
Tax Increment Finance Authority	\$ 55,616	\$	\$	\$	\$ (55,616)
Economic Development Corporation	717				(717)
TOTAL COMPONENT UNITS	\$ 56,333	\$	\$	\$	\$ (56,333)

continued...

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF ACTIVITIES (CONCLUDED)
YEAR ENDED JUNE 30, 2014

	<u>PRIMARY GOVERNMENT</u>			<u>COMPONENT UNITS</u>	
	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>	<u>TAX INCREMENT FINANCE AUTHORITY</u>	<u>ECONOMIC DEVELOPMENT CORPORATION</u>
CHANGES IN NET POSITION					
Net (expense) revenue	\$ (4,632,953)	\$ (205,180)	\$ (4,838,133)	\$ (55,616)	\$ (717)
General Revenues:					
Property taxes	2,787,158		2,787,158	124,390	
Unrestricted grants and contributions	806,685		806,685		
Interest and investment gains	22,294	1,476,293	1,498,587	307	67
Other revenues (expenses)	813,735	8,559	822,294		
Transfers - internal activities	18,283	(18,283)			
Total general revenues, contributions and transfers	4,448,155	1,466,569	5,914,724	124,697	67
CHANGES IN NET POSITION	(184,798)	1,261,389	1,076,591	69,081	(650)
NET POSITION - BEGINNING OF YEAR	25,873,824	34,314,991	60,188,815	566,140	299,973
NET POSITION - END OF YEAR	<u>\$ 25,689,026</u>	<u>\$ 35,576,380</u>	<u>\$ 61,265,406</u>	<u>\$ 635,221</u>	<u>\$ 299,323</u>

See accompanying notes to the basic financial statements.

FUND FINANCIAL STATEMENTS

CITY OF HILLSDALE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>GENERAL</u>	<u>MAJOR STREET</u>	<u>LOCAL STREET</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL</u>
ASSETS					
Cash and investments	\$ 811,652	\$ 112,201	\$ 84,864	\$ 1,478,333	\$ 2,487,050
Receivables:					
Accounts receivable	33,661	73,174	24,115	42,060	173,010
Special assessments	140,370				140,370
Due from other funds	86,951			40,909	127,860
Prepaid expenditures	89,951			1,733	91,684
TOTAL ASSETS	<u>\$ 1,162,585</u>	<u>\$ 185,375</u>	<u>\$ 108,979</u>	<u>\$ 1,563,035</u>	<u>\$ 3,019,974</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 26,795	\$ 10,941	\$ 6,602	\$ 5,807	\$ 50,145
Due to other funds				41,234	41,234
Salaries payable	68,545	2,973	4,323	9,331	85,172
Unearned revenue	140,370				140,370
TOTAL LIABILITIES	<u>235,710</u>	<u>13,914</u>	<u>10,925</u>	<u>56,372</u>	<u>316,921</u>
Fund Balances:					
Non-spendable:					
Prepaid expenditures	89,951			1,733	91,684
Restricted:					
Special revenue funds		171,461	98,054	122,608	392,123
Capital project funds				706,158	706,158
Permanent funds				676,164	676,164
Unassigned	836,924				836,924
TOTAL FUND BALANCES	<u>926,875</u>	<u>171,461</u>	<u>98,054</u>	<u>1,506,663</u>	<u>2,703,053</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,162,585</u>	<u>\$ 185,375</u>	<u>\$ 108,979</u>	<u>\$ 1,563,035</u>	<u>\$ 3,019,974</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, 2014

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 2,703,053**

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

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

The cost of capital assets is	\$ 43,990,301	
Accumulated depreciation is	<u>(21,352,503)</u>	22,637,798

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	140,370
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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	693,321	
Less portion included in capital assets	<u>(273,278)</u>	420,043

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

Compensated absences	<u>(212,238)</u>
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TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ 25,689,026**

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, 2014

	<u>GENERAL</u>	<u>MAJOR STREET</u>	<u>LOCAL STREET</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL</u>
REVENUES					
Taxes	\$ 2,095,349	\$	\$	\$ 133,503	\$ 2,228,852
Intergovernmental - federal and state	809,366	541,731	159,656	361,768	1,872,521
Licenses and permits	105,477				105,477
Contributions from local units				13,800	13,800
Charges for services	17,542			72,122	89,664
Fines and violations	5,872			45,547	51,419
Interest and rentals	87,112	704		76,832	164,648
Miscellaneous	723,187	5,707	159	231,300	960,353
TOTAL REVENUES	<u>3,843,905</u>	<u>548,142</u>	<u>159,815</u>	<u>934,872</u>	<u>5,486,734</u>
EXPENDITURES					
General government	1,322,543			350	1,322,893
Public safety	1,744,675			811	1,745,486
Public works	318,294				318,294
Highways and streets		425,787	274,953		700,740
Community and economic development	56,553				56,553
Culture and recreation	173,906			357,711	531,617
Debt service:					
Principal payments					
Capital outlay				966,682	966,682
TOTAL EXPENDITURES	<u>3,615,971</u>	<u>425,787</u>	<u>274,953</u>	<u>1,325,554</u>	<u>5,642,265</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>227,934</u>	<u>122,355</u>	<u>(115,138)</u>	<u>(390,682)</u>	<u>(155,531)</u>
OTHER FINANCING SOURCES (USES)					
Gain (loss) on sale of investment				(1,591)	(1,591)
Contribution from TIFA	10,000			3,300	13,300
Operating transfers in	195,656		156,750	469,755	822,161
Operating transfers out	(548,855)	(202,775)	(14,647)	(37,601)	(803,878)
TOTAL OTHER FINANCING SOURCES (USES):	<u>(343,199)</u>	<u>(202,775)</u>	<u>142,103</u>	<u>433,863</u>	<u>29,992</u>
NET CHANGES IN FUND BALANCES	<u>(115,265)</u>	<u>(80,420)</u>	<u>26,965</u>	<u>43,181</u>	<u>(125,539)</u>
FUND BALANCES - BEGINNING OF YEAR	<u>1,042,140</u>	<u>251,881</u>	<u>71,089</u>	<u>1,463,482</u>	<u>2,828,592</u>
FUND BALANCES - END OF YEAR	<u>\$ 926,875</u>	<u>\$ 171,461</u>	<u>\$ 98,054</u>	<u>\$ 1,506,663</u>	<u>\$ 2,703,053</u>

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, 2014

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ (125,539)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures, and in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (883,459)	
Capital outlay	<u>846,511</u>	(36,948)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Current year deferred special assessments	2,943
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An Internal Service Fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.

Change in net position from governmental activities in the Internal Service Fund	(12,648)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Increase in the accrual for compensated absences	<u>(12,606)</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ (184,798)**

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL
	NONMAJOR					ACTIVITIES
	ELECTRIC	WATER	SEWER	FUND DIAL-A-RIDE	TOTAL	INTERNAL SERVICE FUNDS
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 517,284			\$ 89,295	\$ 606,579	\$ 142,090
Investments						67,605
Construction fund	152,758				152,758	
Receivables:						
Accounts (net of allowance for bad debts of \$180,000)	898,633	52,281	58,164	533	1,009,611	
Accrued interest	2,856	1,818			4,674	
Due from other funds	268,712				268,712	1,238
Inventory, at cost	389,252	82,293	6,295		477,840	189,485
Prepaid expenses	95,080	37,302	51,340	7,810	191,532	45,879
TOTAL CURRENT ASSETS	<u>2,324,575</u>	<u>173,694</u>	<u>115,799</u>	<u>97,638</u>	<u>2,711,706</u>	<u>446,297</u>
Noncurrent assets:						
Designated investments	1,785,347	605,133			2,390,480	
Restricted investments		281,600			281,600	
TOTAL NONCURRENT ASSETS	<u>1,785,347</u>	<u>886,733</u>			<u>2,672,080</u>	
Capital assets:						
Land	17,467	49,613	122,902	7,419	197,401	
Plant and equipment	32,707,933	10,780,685	14,096,023	1,046,797	58,631,438	1,939,231
Construction in progress	1,555,803	10,571	500		1,566,874	
	34,281,203	10,840,869	14,219,425	1,054,216	60,395,713	1,939,231
Less accumulated depreciation	(21,649,860)	(5,882,210)	(10,041,932)	(253,597)	(37,827,599)	(1,665,953)
NET CAPITAL ASSETS	<u>12,631,343</u>	<u>4,958,659</u>	<u>4,177,493</u>	<u>800,619</u>	<u>22,568,114</u>	<u>273,278</u>
Other assets:						
Long-term inventories	392,102				392,102	
Investment in M.S.C.P.A.	11,201,619				11,201,619	
TOTAL OTHER ASSETS	<u>11,593,721</u>				<u>11,593,721</u>	
TOTAL ASSETS	<u>28,334,986</u>	<u>6,019,086</u>	<u>4,293,292</u>	<u>898,257</u>	<u>39,545,621</u>	<u>719,575</u>
LIABILITIES						
Current liabilities:						
Capital lease payable	176,512				176,512	
Accounts payable	24,335	37,110	32,695	2,200	96,340	8,774
Accrued purchased power	980,188				980,188	
Accrued expenses	151,208			6,088	157,296	3,278
Customer deposits	103,414	9,791	7,060		120,265	
Due to other funds	36,475	79,521	191,518	49,062	356,576	
Due to other governments				7,983	7,983	
TOTAL CURRENT LIABILITIES	<u>1,472,132</u>	<u>126,422</u>	<u>231,273</u>	<u>65,333</u>	<u>1,895,160</u>	<u>12,052</u>
Current liabilities (payable from restricted and designated assets):						
Bonds payable		361,000			361,000	
Accrued interest		6,929			6,929	
TOTAL CURRENT LIABILITIES (PAYABLE FROM RESTRICTED AND RESERVED ASSETS)		<u>367,929</u>			<u>367,929</u>	
Noncurrent liabilities:						
Accrued compensated absences	88,800	16,845	22,369	17,571	145,585	14,202
Bonds and capital lease payable	1,202,567	358,000			1,560,567	
TOTAL NONCURRENT LIABILITIES	<u>1,291,367</u>	<u>374,845</u>	<u>22,369</u>	<u>17,571</u>	<u>1,706,152</u>	<u>14,202</u>
TOTAL LIABILITIES	<u>2,763,499</u>	<u>869,196</u>	<u>253,642</u>	<u>82,904</u>	<u>3,969,241</u>	<u>26,254</u>
NET POSITION						
Net investment in capital assets	11,405,022	4,239,659	4,177,493	800,619	20,622,793	273,278
Restricted investments		281,600			281,600	
Unrestricted:						
Designated	1,785,347	605,133			2,390,480	
Undesignated	12,381,118	23,498	(137,843)	14,734	12,281,507	420,043
TOTAL NET POSITION	<u>\$ 25,571,487</u>	<u>\$ 5,149,890</u>	<u>\$ 4,039,650</u>	<u>\$ 815,353</u>	<u>\$ 35,576,380</u>	<u>\$ 693,321</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, 2014

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL
	ELECTRIC	WATER	SEWER	NONMAJOR		ACTIVITIES
				FUND	TOTAL	INTERNAL
			DIAL-A-RIDE			SERVICE
						FUNDS
OPERATING REVENUES						
Charges for services	\$ 13,198,597	\$ 1,269,568	\$ 1,171,888	\$ 57,248	\$ 15,697,301	\$ 513,241
Miscellaneous	45,479	4,445	4,415		54,339	158,829
TOTAL OPERATING REVENUES	<u>13,244,076</u>	<u>1,274,013</u>	<u>1,176,303</u>	<u>57,248</u>	<u>15,751,640</u>	<u>672,070</u>
OPERATING EXPENSES						
Purchased power	10,195,013				10,195,013	
Production expense	480,104	114,155			594,259	
Purification expense		278,868			278,868	
Treatment expense			845,484		845,484	
Transmission and distribution	1,269,810	508,418			1,778,228	
Administrative	1,190,099	309,152	304,870		1,804,121	306
Sewer collection			253,907		253,907	
Highways and streets						687,097
Transportation				339,230	339,230	
TOTAL OPERATING EXPENSES	<u>13,135,026</u>	<u>1,210,593</u>	<u>1,404,261</u>	<u>339,230</u>	<u>16,089,110</u>	<u>687,403</u>
OPERATING INCOME (LOSS)	<u>109,050</u>	<u>63,420</u>	<u>(227,958)</u>	<u>(281,982)</u>	<u>(337,470)</u>	<u>(15,333)</u>
NONOPERATING REVENUES (EXPENSES)						
Interest income	29,513	9,678	2,372		41,563	278
Interest expense	(3,308)	(31,022)			(34,330)	
Other income (expense)	6,590	1,709	260	166,620	175,179	
Gain (loss) on investment	1,434,730				1,434,730	
Gain (loss) on disposal of assets						2,407
Transfers in from other funds				87,950	87,950	
Transfers out to other funds	(57,171)			(49,062)	(106,233)	
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>1,410,354</u>	<u>(19,635)</u>	<u>2,632</u>	<u>205,508</u>	<u>1,598,859</u>	<u>2,685</u>
CHANGES IN NET POSITION	<u>1,519,404</u>	<u>43,785</u>	<u>(225,326)</u>	<u>(76,474)</u>	<u>1,261,389</u>	<u>(12,648)</u>
NET POSITION - BEGINNING OF YEAR	<u>24,052,083</u>	<u>5,106,105</u>	<u>4,264,976</u>	<u>891,827</u>	<u>34,314,991</u>	<u>705,969</u>
NET POSITION - END OF YEAR	<u>\$ 25,571,487</u>	<u>\$ 5,149,890</u>	<u>\$ 4,039,650</u>	<u>\$ 815,353</u>	<u>\$ 35,576,380</u>	<u>\$ 693,321</u>

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL
	NONMAJOR				TOTAL	INTERNAL
	ELECTRIC	WATER	SEWER	DIAL-A-RIDE		SERVICE
						FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers, residents and users	\$ 13,179,654	\$ 1,276,763	\$ 1,175,598	\$ 57,253	\$ 15,689,268	\$
Other operating receipts	1,058,156	376,231	4,415		1,438,802	
Receipts for interfund services provided						670,931
Cash paid to suppliers of goods and services	(12,561,610)	(496,781)	(686,415)	(279,860)	(14,024,666)	(485,757)
Cash paid to employees for services	(977,931)	(469,517)	(563,655)		(2,011,103)	(108,338)
Other operating payments			(551,903)		(551,903)	
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>698,269</u>	<u>686,696</u>	<u>(621,960)</u>	<u>(222,607)</u>	<u>540,398</u>	<u>76,836</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Net borrowings (repayments) on revolving loan	(250,000)				(250,000)	
Interest payments on revolving loan	(3,308)				(3,308)	
Intergovernmental nonoperating revenues				166,620	166,620	
Transfers from/(to) other funds	(57,171)			38,888	(18,283)	
NET CASH PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES	<u>(310,479)</u>			<u>205,508</u>	<u>(104,971)</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Bond payments on capital debt		(347,000)			(347,000)	
Interest on capital debt		(34,330)			(34,330)	
Proceeds from the disposal of assets						2,407
Purchase of capital assets, net	(275,186)	(159,844)	(85,070)		(520,100)	(150,858)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(275,186)</u>	<u>(541,174)</u>	<u>(85,070)</u>		<u>(901,430)</u>	<u>(148,451)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investments	(1,514,983)	(606,678)	(278,365)		(2,400,026)	(9,129)
Proceeds from the sale of investments	1,589,178	451,189	975,647		3,016,014	
Interest income received	25,651	9,967	9,748		45,366	278
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>99,846</u>	<u>(145,522)</u>	<u>707,030</u>		<u>661,354</u>	<u>(8,851)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	212,450			(17,099)	195,351	(80,466)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>304,834</u>			<u>106,394</u>	<u>411,228</u>	<u>222,556</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 517,284</u>	<u>\$</u>	<u>\$</u>	<u>\$ 89,295</u>	<u>\$ 606,579</u>	<u>\$ 142,090</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, 2014

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL
	ELECTRIC	WATER	SEWER	NONMAJOR		ACTIVITIES
				FUND	TOTAL	INTERNAL
			DIAL-A-RIDE			SERVICE
						FUNDS
BALANCE SHEET CLASSIFICATION OF CASH						
Current assets - cash and cash equivalents	\$ 517,284	\$	\$	\$ 89,295	\$ 606,579	\$ 142,090
RECONCILIATION OF OPERATING INCOME (LOSS)						
TO NET CASH PROVIDED BY OPERATING						
ACTIVITIES						
Operating income (loss)	\$ 109,050	\$ 63,420	\$ (227,958)	\$ (281,980)	\$ (337,468)	\$ (15,333)
Adjustments to reconcile operating income (loss)						
to net cash provided by (used in) operating activities:						
Depreciation	597,136	242,220	183,305	53,139	1,075,800	96,311
Changes in:						
Receivables	(18,943)	7,188	3,709	3	(8,043)	100
Due from other funds	155,282	321,882	400		477,564	(1,238)
Inventory	(41,034)	(6,959)	161		(47,832)	22,148
Prepaid expenses	(6,038)	(5,333)	(5,955)	(246)	(17,572)	(4,307)
Accounts payable	(90,613)	14,368	3,251	(332)	(73,326)	(5,862)
Accrued expenses	(6,704)	(26,358)	(27,615)	4,478	(56,199)	(14,983)
Due to other funds	(8,572)	75,727	(551,903)	2,331	(482,417)	
Customer deposits	8,705	541	645		9,891	
NET CASH PROVIDED BY (USED IN)						
OPERATING ACTIVITIES	<u>\$ 698,269</u>	<u>\$ 686,696</u>	<u>\$ (621,960)</u>	<u>\$ (222,607)</u>	<u>\$ 540,398</u>	<u>\$ 76,836</u>

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	HOSPITAL PRIVATE PURPOSE TRUST FUND	AGENCY FUNDS
	<u> </u>	<u> </u>
ASSETS		
Cash and investments	\$ 14,970	\$ 20,889
	<u> </u>	<u> </u>
LIABILITIES		
Due to other agencies	<u> </u>	\$ 20,889
		<u> </u>
NET POSITION		
Unrestricted	14,970	
	<u> </u>	
TOTAL NET POSITION	\$ 14,970	
	<u> </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, 2014

	<u>HOSPITAL PRIVATE PURPOSE TRUST FUND</u>
ADDITIONS:	
Investment income	<u>\$ 255</u>
DEDUCTIONS:	
Other	<u>310</u>
CHANGES IN NET POSITION	(55)
NET POSITION - BEGINNING OF YEAR	<u>15,025</u>
NET POSITION - END OF YEAR	<u><u>\$ 14,970</u></u>

See accompanying notes to the basic financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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, 2014

Note 1: Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

The government reports the following major governmental funds:

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

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.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

Note 1: Summary of Significant Accounting Policies (Continued)

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

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for and the payment of principal and interest on long-term general obligation debt of governmental funds not being financed by proprietary funds. This fund was closed out as of fiscal year end.

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

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

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

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

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

Additional Financial Statement Presentation Information – 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.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

Note 1: Summary of Significant Accounting Policies (Continued)

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

The City reports its investments (when applicable) in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity. Accordingly, investments in bankers’ acceptances and commercial paper are recorded at amortized cost.

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.

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. Also, certain resources have been set aside to fund capital asset replacements.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

Long-Term Obligations – In the government-wide financial statements (Statement of Net 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 or 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.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

Note 1: Summary of Significant Accounting Policies (Concluded)

Fund Equity – The City has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this guidance, fund balances of 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 2013 had a taxable value of approximately \$137,337,041 (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 2013-14 was 14.9205 mills, with an additional .9947 mills levied for operations of the Mitchell Public Library.

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

Adoption of New Accounting Standards – The Governmental Accounting Standards Board issued Statements 63 and 65, *Financial Reporting of Deferred Outflows or Resources, Deferred Inflows of Resources, and Net Position, and Items Previously Reported as Assets and Liabilities*, which the City complied with effective July 1, 2012. The new standards provide guidance for reporting deferred outflows or resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.

Subsequent Events – Management has evaluated subsequent events through December 9, 2014, the date the financial statements were available to be issued. No such significant events or transactions were identified.

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.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

Note 2: Stewardship, Compliance and Accountability (Concluded)

Budgetary Information (Concluded) – 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, 2014, expenditures that exceeded appropriations in the General Fund or major special revenue funds, if any, are disclosed in the Required Supplementary Information on pages 31 – 34.

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 Government	Component Units
Statement of Net Position:		
Cash and investments	\$ 5,975,404	\$ 697,321
Statement of Fiduciary Net Position:		
Hospital Private Purpose Trust Fund:		
Cash and investments	14,970	
Agency Funds:		
Cash and investments	20,889	
	\$ 6,011,263	\$ 697,321
	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts and short-term CDs)	\$ 2,468,952	\$ (11,449)
Investments in securities, mutual funds and similar vehicles	3,539,661	708,770
Cash on hand	2,650	
	\$ 6,011,263	\$ 697,321

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.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

Note 3: Cash and Investments (Concluded)

Interest Rate Risk (Concluded)

Rating S&P	Investment Type	Remaining Maturity		
		12 Months or Less	1 to 5 Years	Greater Than 5 Years
N/A	Certificates of Deposit	\$ 693,674	\$ 1,094,197	\$
AAAm	Michigan CLASS Investments Pool	1,421,853		
AAA	U.S. Governmental Agency Bonds		834,922	
Not rated	Fidelity Government Money Market	392,028		
N/A	Fidelity Investment Cash	84,231		

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 Michigan CLASS investment pool is a Michigan public sector investment program invested under an interlocal trust agreement according to provisions of the Urban Cooperation Act of 1967. This investment pool in the amount of \$1,421,853 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, \$1,370,030 of the City's bank balance of \$3,778,254 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. As of year-end, City investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the City to buy the securities – Federal agency securities in the reported amount of \$834,922.

Supplemental Disclosure of Cash Flow Information

For the year ended June 30, 2014, the HBPU purchased \$1,226,321 of equipment with a capital lease financing arrangement.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

Note 4: Receivables

Receivables of the governmental activities of the primary government at June 30, 2014, consist of the following:

Other governmental units (primarily the State of Michigan)	\$	107,018
Accounts receivable		65,992
Special assessments – short-term		3,672
Special assessments – long-term		136,698
		<u>136,698</u>
	<u>\$</u>	<u>313,380</u>

Note 5: Capital Assets

Capital assets activity for the year ended June 30, 2014 was as follows:

Primary Government	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 8,269,469	\$ 349,238	\$	\$ 8,618,707
Capital assets being depreciated:				
Land improvements	622,133	71,484		693,617
Buildings and improvements	4,950,233	42,505	(61,725)	4,931,013
Books	280,105	21,849		301,954
Equipment and vehicles	2,817,458	150,858	(21,307)	2,947,009
Infrastructure	26,114,725	383,276		26,498,001
Total capital assets being depreciated	<u>34,784,654</u>	<u>669,972</u>	<u>(83,032)</u>	<u>35,371,594</u>
Accumulated depreciation:				
Land improvements	227,391	25,699		253,090
Buildings and improvements	1,689,802	99,627		1,789,429
Books	65,942	19,030		84,972
Equipment and vehicles	2,470,267	148,666	71,924	2,547,009
Infrastructure	15,991,255	686,748		16,678,003
Total accumulated depreciation	<u>20,444,657</u>	<u>979,770</u>	<u>71,924</u>	<u>21,352,503</u>
Total capital assets being depreciated - net	<u>14,339,997</u>	<u>(309,798)</u>	<u>(11,108)</u>	<u>14,019,091</u>
Governmental activities capital assets - net	<u>\$ 22,609,466</u>	<u>\$ 39,440</u>	<u>\$ (11,108)</u>	<u>\$ 22,637,798</u>
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 197,401	\$	\$	\$ 197,401
Construction in progress	230,538	1,336,336		1,566,874
Total capital assets not being depreciated	<u>427,939</u>	<u>1,336,336</u>		<u>1,764,275</u>

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

Note 5: Capital Assets (Concluded)

	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
Business-Type Activities:				
Capital assets being depreciated:				
Equipment	361,184			361,184
Plant and systems	57,877,690	429,512	(36,948)	58,270,254
Total capital assets being depreciated	58,238,874	429,512	(36,948)	58,631,438
Accumulated depreciation:				
Equipment	159,322	39,426		198,748
Plant and systems	36,629,426	1,036,373	36,948	37,628,851
Total accumulated depreciation	36,788,748	1,075,799	36,948	37,827,599
Total capital assets being depreciated - net	21,450,126	(646,287)		20,803,839
Business-type activities capital assets - net	\$ 21,878,065	\$ 690,049	\$	\$ 22,568,114

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

Governmental Activities:	
Public safety	\$ 12,948
Highways and streets	660,489
Culture and recreation	130,495
Public works	44,027
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	96,311
Total depreciation expense – governmental activities	\$ 979,770
Business-Type Activities:	
Electric	\$ 597,136
Water	242,220
Sewer	183,305
Transportation	53,139
Total depreciation expense – business-type activities	\$ 1,075,800

Note 6: Interfund Receivables, Payables and Transfers

The City reports interfund balances between many of its funds. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the statements of net 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, 2014

Note 6: Interfund Receivables, Payables and Transfers (Concluded)

	<u>Receivable</u>	<u>Payable</u>
Due from/to other funds:		
General Fund	\$ 86,951	\$
Nonmajor Governmental Funds	40,909	41,234
Water Fund		79,521
Sewer Fund		191,518
Electric Fund	268,712	36,475
Internal Service Fund	1,238	
Nonmajor Enterprise Fund		49,062
	<u>\$ 397,810</u>	<u>\$ 397,810</u>
	<u>Transfers In</u>	<u>Transfers Out</u>
Transfers:		
General Fund	\$ 195,656	\$ 548,855
Major Street Fund		202,775
Local Street	156,750	14,647
Nonmajor Governmental Funds	469,755	37,601
Electric Fund		57,171
Nonmajor Enterprise Fund	87,950	49,062
	<u>\$ 910,111</u>	<u>\$ 910,111</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 7: Investment in Michigan South Central Power Agency

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

Participating municipalities and their respective shares of ownership are as follows:

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

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

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

The City of Hillsdale Board of Public Utilities (HBPU) is accounting for its investment in M.S.C.P.A. as a joint venture in accordance with GASB Statement No. 14. Information presented below is taken from financial statements of the M.S.C.P.A. for the year ended June 30, 2014, audited by other auditors whose report dated August 21, 2014 expressed an unmodified opinion for those statements.

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

Summary information of the Hillsdale Board of Public Utilities investment in the M.S.C.P.A. as of and for the year ended June 30, 2014, is as follows:

	Total M.S.C.P.A.	Hillsdale Board of Public Utilities Portion 25.5%
Total assets	\$ 65,663,613	\$ 16,744,221
Total liabilities	21,735,695	5,542,602
Net Position	\$ 43,927,918	\$ 11,201,619
Operating revenues	\$ 70,037,047	\$ 17,859,447
Operating expenses	64,389,944	16,419,436
Operating Income	5,647,103	1,440,011
Other income and expenses	(20,710)	(5,281)
Changes in Net Position	5,626,393	1,434,730
Net Position, Beginning of Year	38,301,525	9,766,889
Net Position, End of Year	\$ 43,927,918	\$ 11,201,619

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

Note 8: Debt

The City of Hillsdale's Board of Public Utilities maintains a \$250,000 line of credit with County National Bank bearing a 4% interest rate which expires November 30, 2014. The balance on the line of credit as of the end of the fiscal year was \$-0-.

Long-term liability activity for the year ended June 30, 2014 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:					
Compensated absences	\$ 218,933	\$ 7,507	\$	\$ 226,440	\$
Business-type activities:					
Revenue bonds	\$ 1,066,000	\$	\$ 347,000	\$ 719,000	\$ 361,000
Capital lease		1,379,079		1,379,079	176,512
Compensated absences	199,632		54,047	145,585	
	<u>\$ 1,265,632</u>	<u>\$ 1,379,079</u>	<u>\$ 401,047</u>	<u>\$ 2,243,664</u>	<u>\$ 537,512</u>

For the governmental activities, compensated absences are primarily paid out of the General Fund.

General Obligation Bonds – The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. No general obligation bonds were issued during the current year.

Revenue Bonds – The government also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year-end are as follows:

<u>Business-Type Activities</u>	<u>Due in Fiscal Year End</u>	<u>Interest Rates</u>	<u>Amount</u>
2009 Water Refunding	2017	3.50% - 3.90%	\$ 529,000
2002 Water Refunding	2015	3.625% - 4.00%	190,000
			<u>\$ 719,000</u>

Capital Lease – The government has a capital lease agreement with Government Capital Corporation for utility equipment. Annual lease payments of \$227,737 including interest at 3.6% through September 16, 2020

	<u>\$ 1,379,079</u>
Total bonds and capital lease	<u>\$ 2,098,079</u>

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

Note 8: Debt (Concluded)

Annual debt service requirements to maturity are as follows:

	Principal	Interest	Total
2015	\$ 537,512	\$ 70,976	\$ 608,488
2016	357,940	54,258	412,198
2017	372,603	40,702	413,305
2018	196,508	30,229	226,737
2019	203,665	23,072	226,737
2020 - 2025	429,851	23,623	453,474
Total	\$ 2,098,079	\$ 242,860	\$ 2,340,949

Note 9: Segment Information – Enterprise Funds

The City issued revenue bonds to finance certain improvements to its water and sewer distribution and treatment systems. Because the Water and Sewer Funds, which are individual funds that account entirely for the government's water distribution and treatment and sewage disposal and treatment activities, are segments, and are reported as major funds in the fund financial statements, segment disclosures herein are not required.

Note 10: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2014, the City carried commercial insurance to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

Note 11: Pension Plan

Plan Description – The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer public employee pension plan administered by the Retirement Board of MERS in accordance with the MERS Act of 1984, as amended by 1996 Public Act 220 (as amended), as embodied in the MERS Plan Document (as revised). Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees' Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-2308.

Funding Policy – The City is required to contribute at an actuarially determined rate designed to accumulate sufficient assets to pay benefits when due. Employees are currently required to contribute 3-5% of covered wages to the Plan. The contribution requirements of the City are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the City.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

Note 11: Pension Plan (Concluded)

Annual Pension Cost – Using MERS information based upon a calendar 2013 year, the City contributed \$254,277 for pension costs, which is equal to 71% of the annual required contribution of \$358,908. The required contribution was determined as part of the December 31, 2013 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% and (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City’s unfunded actuarial accrued liability at December 31, 2013, the date of the latest actuarial valuation, is being amortized as a level percentage of projected payroll on an open basis over 30 years.

<u>Fiscal Year Ending</u>	<u>Three-Year Trend Information</u>		<u>Net Pension Obligation</u>
	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	
6/30/11	\$ 205,119	\$ 100%	\$
6/30/12	316,680	66%	108,846
6/30/13	358,908	71%	104,631

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Liability (AAL) - Entry Age</u>	<u>Assets in Access of (AAL)</u>	<u>Funded Ratio Total</u>	<u>(c) Covered Payroll</u>	<u>UAL as a Percentage of Covered Payroll</u>
12/31/11	\$ 18,731,506	\$ 19,105,980	\$ (374,474)	98%	\$ 3,508,427	11%
12/31/12	18,948,680	19,791,786	(843,106)	96%	3,238,980	26%
12/31/13	19,316,636	20,693,338	(1,376,702)	93%	3,537,185	39%

The required schedule of funding progress presented as required supplementary information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 12: Commitments and Contingencies

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

Note 13: Dial-A-Ride Enterprise Fund

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

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONCLUDED)

JUNE 30, 2014

Note 13: Dial-A-Ride Enterprise Fund (Concluded)

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

Other Revenue – Other revenue, totaling \$1,068, consists of training cost reimbursements.

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, 2013 through June 30, 2014, Dial-A-Ride paid \$1,703 in 50201 Pension. Of this amount, \$1,703 paid the actuarial required minimum contribution and \$-0- was paid in excess of the actuarial required minimum contribution. The entire amount of \$1,703 was expensed on the books and is included in Dial-A-Ride's total eligible expenses for the fiscal year ending September 30, 2014.

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

Note 14: Sewer Fund Deficit

As required by the State of Michigan Department of Treasury, the HBPU has filed a deficit elimination plan for the deficit net position in the Sewer Fund.

Note 15: Upcoming Accounting and Reporting Changes

The Government Accounting Standards Board has issued Statement 67, *Financial Reporting for Pension Plans*, and Statement 68, *Accounting and Financial Reporting for Pensions*. Statement 67 changes how public employee pension plans calculate and report their total pension liability. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. The effect of these changes has not been determined. Statement 67 is effective for the year ending June 30, 2015 and Statement 68 is effective for the year ending June 30, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HILLSDALE, MICHIGAN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2014

	BUDGETED AMOUNTS		ACTUAL
	ORIGINAL	FINAL	
REVENUES			
City Taxes:			
Property	\$ 2,055,000	\$ 1,965,000	\$ 1,969,397
Administrative fees	70,000	70,000	62,944
Interest and penalties	15,000	15,000	29,623
Industrial facilities tax	25,000	25,000	33,385
Total City taxes	<u>2,165,000</u>	<u>2,075,000</u>	<u>2,095,349</u>
State revenue	803,000	803,000	809,366
Federal revenue	1,000,000		
Licenses and permits	94,000	94,000	105,477
Charges for services	18,800	18,800	17,542
Fines and violations	6,000	6,000	5,872
Interest and rentals	95,800	95,800	87,112
Miscellaneous	1,000,500	700,500	723,187
	<u>5,183,100</u>	<u>3,793,100</u>	<u>3,843,905</u>
TOTAL REVENUES			
EXPENDITURES			
General government:			
Council	39,795	38,695	31,684
City manager	210,375	210,375	201,743
Administrative	203,000	233,000	211,236
Elections	17,565	17,565	12,050
Assessor	193,475	178,475	178,763
Clerk	82,890	80,890	73,898
Finance department	101,295	101,295	96,215
Treasurer	123,910	148,110	137,181
Building and grounds	118,745	146,745	141,832
Parking lots	30,710	30,710	28,868
Cemetery	114,255	114,255	100,641
Airport	95,525	115,525	108,432
Total general government	<u>1,331,540</u>	<u>1,415,640</u>	<u>1,322,543</u>
Public safety:			
Police	1,352,635	1,317,635	1,288,835
Fire	467,920	467,920	449,777
Code enforcement	6,115	6,115	6,063
Total public safety	<u>1,826,670</u>	<u>1,791,670</u>	<u>1,744,675</u>
Public works:			
Public services	284,350	274,350	248,135
Street lights	63,500	73,500	70,159
Total public works	<u>347,850</u>	<u>347,850</u>	<u>318,294</u>

continued...

CITY OF HILLSDALE, MICHIGAN
BUDGETARY COMPARISON SCHEDULE (CONCLUDED)
GENERAL FUND
YEAR ENDED JUNE 30, 2014

	BUDGETED AMOUNTS		ACTUAL
	ORIGINAL	FINAL	
EXPENDITURES (CONTINUED)			
Community and economic development:			
Planning	\$ 5,650	\$ 5,650	\$ 4,368
Economic development	1,365,000	65,000	52,185
Total community and economic development	1,370,650	70,650	56,553
Culture and recreation	158,910	178,910	173,906
TOTAL EXPENDITURES	5,035,620	3,804,720	3,615,971
REVENUES OVER (UNDER) EXPENDITURES	147,480	(11,620)	227,934
OTHER FINANCING SOURCES (USES)			
Contribution from TIFA	10,000	10,000	10,000
Operating transfers in	198,810	198,810	195,656
Operating transfers (out)	(558,855)	(558,855)	(548,855)
TOTAL OTHER FINANCING SOURCES (USES)	(350,045)	(350,045)	(343,199)
NET CHANGE IN FUND BALANCE	(202,565)	(361,665)	(115,265)
FUND BALANCE - BEGINNING OF YEAR	1,042,140	1,042,140	1,042,140
FUND BALANCE - END OF YEAR	\$ 839,575	\$ 680,475	\$ 926,875

CITY OF HILLSDALE, MICHIGAN
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND
YEAR ENDED JUNE 30, 2014

	BUDGETED AMOUNTS		ACTUAL
	ORIGINAL	FINAL	
REVENUES			
State revenue	\$ 471,000	\$ 471,000	\$ 541,731
Interest and rentals	500	500	704
Miscellaneous	1,000	1,000	5,707
TOTAL REVENUES	472,500	472,500	548,142
EXPENDITURES			
Highways and streets:			
Street surface	103,070	103,070	77,669
Trunkline street surface	12,095	12,095	12,171
R.O.W. maintenance	72,415	72,415	73,678
Trunkline R.O.W. maintenance	9,180	9,180	5,215
Trees	44,390	44,390	38,415
Trunkline trees	670	670	203
Drainage	39,345	39,345	36,147
Trunkline R.O.W. drainage	5,215	5,215	1,309
Traffic	52,145	52,145	31,271
Trunkline traffic	6,600	6,600	5,695
Winter maintenance	83,840	83,840	106,471
Trunkline winter maintenance	22,785	22,785	37,543
TOTAL EXPENDITURES	451,750	451,750	425,787
REVENUES OVER (UNDER) EXPENDITURES	20,750	20,750	122,355
OTHER FINANCING SOURCES (USES)			
Transfers out	(195,750)	(195,750)	(202,775)
TOTAL OTHER FINANCING SOURCES (USES)	(195,750)	(195,750)	(202,775)
NET CHANGES IN FUND BALANCES	(175,000)	(175,000)	(80,420)
FUND BALANCES - BEGINNING OF YEAR	251,881	251,881	251,881
FUND BALANCES - END OF YEAR	\$ 76,881	\$ 76,881	\$ 171,461

CITY OF HILLSDALE, MICHIGAN
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET FUND
YEAR ENDED JUNE 30, 2014

	BUDGETED AMOUNTS		ACTUAL
	ORIGINAL	FINAL	
REVENUES			
State revenue	\$ 154,100	\$ 154,100	\$ 159,656
Miscellaneous			159
TOTAL REVENUES	<u>154,100</u>	<u>154,100</u>	<u>159,815</u>
EXPENDITURES			
Highways and streets:			
Street surface	81,290	81,290	69,390
R.O.W. maintenance	68,965	68,965	70,710
Trees	57,565	57,565	46,497
Drainage	22,810	22,810	20,942
Traffic	18,320	18,320	8,691
Winter maintenance	47,840	47,840	58,723
TOTAL EXPENDITURES	<u>296,790</u>	<u>296,790</u>	<u>274,953</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(142,690)</u>	<u>(142,690)</u>	<u>(115,138)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	156,750	156,750	156,750
Transfers out	(14,060)	(14,060)	(14,647)
TOTAL OTHER FINANCING SOURCES (USES)	<u>142,690</u>	<u>142,690</u>	<u>142,103</u>
NET CHANGES IN FUND BALANCES			26,965
FUND BALANCES - BEGINNING OF YEAR	<u>71,089</u>	<u>71,089</u>	<u>71,089</u>
FUND BALANCES - END OF YEAR	<u>\$ 71,089</u>	<u>\$ 71,089</u>	<u>\$ 98,054</u>

CITY OF HILLSDALE, MICHIGAN
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN
JUNE 30, 2014

Schedule of Funding Progress

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date December 31,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (Overfunded) (UAAL) (2-1)	Funded Ratio (1/2)	Covered Payroll	UAAL as a % of Covered Payroll (3/5)
2009	17,887,885	17,082,988	(804,897)	104.7%	3,769,712	0.0%
2010	18,431,442	17,892,124	(539,318)	103.0%	3,632,843	0.0%
2011	18,731,506	19,105,980	374,474	98.0%	3,508,427	10.7%
2012	18,948,680	19,791,786	843,106	95.7%	3,238,980	26.0%
2013	19,316,636	20,693,338	1,376,702	93.0%	3,537,185	39.0%

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Annual Actual Contribution	Percentage Contributed
2009	240,089	240,089	100%
2010	229,262	229,262	100%
2011	283,176	205,119	72%
2012	316,680	207,834	66%
2013	358,908	254,277	71%

See accompanying notes to the basic financial statements.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HILLSDALE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	SPECIAL REVENUE	CAPITAL PROJECT	PERMANENT FUNDS	TOTAL
ASSETS				
Cash and investments	\$ 134,871	\$ 708,207	\$ 635,255	\$ 1,478,333
Accounts receivable	38,809	3,251		42,060
Due from other funds			40,909	40,909
Prepaid expenditures	1,733			1,733
TOTAL ASSETS	\$ 175,413	\$ 711,458	\$ 676,164	\$ 1,563,035
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 507	\$ 5,300	\$	\$ 5,807
Accrued payroll and related liabilities	9,331			9,331
Due to other funds	41,234			41,234
TOTAL LIABILITIES	51,072	5,300		56,372
Fund Balances:				
Non-spendable				
Prepaid expenditures	1,733			1,733
Restricted	122,608	706,158	676,164	1,504,930
TOTAL FUND BALANCES	124,341	706,158	676,164	1,506,663
TOTAL LIABILITIES AND FUND BALANCES	\$ 175,413	\$ 711,458	\$ 676,164	\$ 1,563,035

CITY OF HILLSDALE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	<u>SPECIAL REVENUE</u>	<u>CAPITAL PROJECT</u>	<u>PERMANENT FUNDS</u>	<u>TOTAL</u>
REVENUES				
Taxes	\$ 133,503	\$	\$	\$ 133,503
Intergovernmental - federal and state	15,222	346,546		361,768
Contributions from local units	13,800			13,800
Charges for services	53,657		18,465	72,122
Fines and violations	45,547			45,547
Interest and rentals	20,855	40,066	15,911	76,832
Miscellaneous	32,087	193,522	5,691	231,300
TOTAL REVENUES	<u>314,671</u>	<u>580,134</u>	<u>40,067</u>	<u>934,872</u>
EXPENDITURES				
General government			350	350
Public safety	811			811
Culture and recreation	357,711			357,711
Capital outlay		966,682		966,682
TOTAL EXPENDITURES	<u>358,522</u>	<u>966,682</u>	<u>350</u>	<u>1,325,554</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(43,851)</u>	<u>(386,548)</u>	<u>39,717</u>	<u>(390,682)</u>
OTHER FINANCING SOURCES (USES)				
Gain (loss) on sale of investment			(1,591)	(1,591)
Contribution from TIFA		3,300		3,300
Transfers in	59,155	410,600		469,755
Transfers out	(2,000)		(35,601)	(37,601)
TOTAL OTHER FINANCING SOURCES (USES)	<u>57,155</u>	<u>413,900</u>	<u>(37,192)</u>	<u>433,863</u>
CHANGES IN FUND BALANCES	13,304	27,352	2,525	43,181
FUND BALANCES - BEGINNING OF YEAR	<u>111,037</u>	<u>678,806</u>	<u>673,639</u>	<u>1,463,482</u>
FUND BALANCES - END OF YEAR	<u>\$ 124,341</u>	<u>\$ 706,158</u>	<u>\$ 676,164</u>	<u>\$ 1,506,663</u>

CITY OF HILLSDALE, MICHIGAN
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2014

	<u>LIBRARY</u>	<u>RECREATION COMMISSION</u>	<u>DRUG FORFEITURES</u>	<u>POLICE PUBLIC RELATIONS</u>	<u>TOTAL</u>
ASSETS					
Cash and equivalents	\$ (25,773)	\$ 7,220	\$ 1,708	\$	\$ (16,845)
Investments	151,716				151,716
Accounts receivable	38,809				38,809
Prepaid expenditures	(1,953)	3,686			1,733
TOTAL ASSETS	<u>\$ 162,799</u>	<u>\$ 10,906</u>	<u>\$ 1,708</u>	<u>\$</u>	<u>\$ 175,413</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 391	\$ 116		\$	\$ 507
Accrued payroll and related liabilities	4,852	4,479			9,331
Due to other funds	41,166	68			41,234
TOTAL LIABILITIES	<u>46,409</u>	<u>4,663</u>			<u>51,072</u>
Fund Balances:					
Non-spendable					
Prepaid expenditures	(1,953)	3,686			1,733
Restricted	118,343	2,557	1,708		122,608
TOTAL FUND BALANCES	<u>116,390</u>	<u>6,243</u>	<u>1,708</u>		<u>124,341</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 162,799</u>	<u>\$ 10,906</u>	<u>\$ 1,708</u>	<u>\$</u>	<u>\$ 175,413</u>

CITY OF HILLSDALE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2014

	<u>LIBRARY</u>	<u>RECREATION COMMISSION</u>	<u>DRUG FORFEITURES</u>	<u>POLICE PUBLIC RELATIONS</u>	<u>TOTAL</u>
REVENUES					
Taxes	\$ 133,503	\$	\$	\$	\$ 133,503
Intergovernmental - federal and state	15,222				15,222
Contributions from local units	13,800				13,800
Charges for services	9,760	43,897			53,657
Fines and violations	44,550		997		45,547
Interest and rentals	2,585	18,270			20,855
Miscellaneous	27,994	4,093			32,087
TOTAL REVENUES	<u>247,414</u>	<u>66,260</u>	<u>997</u>		<u>314,671</u>
EXPENDITURES					
Public safety				811	811
Culture and recreation	234,961	122,750			357,711
TOTAL EXPENDITURES	<u>234,961</u>	<u>122,750</u>		<u>811</u>	<u>358,522</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>12,453</u>	<u>(56,490)</u>	<u>997</u>	<u>(811)</u>	<u>(43,851)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in		59,155			59,155
Transfers out	(2,000)				(2,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,000)</u>	<u>59,155</u>			<u>57,155</u>
CHANGES IN FUND BALANCES	10,453	2,665	997	(811)	13,304
FUND BALANCES - BEGINNING OF YEAR	<u>105,937</u>	<u>3,578</u>	<u>711</u>	<u>811</u>	<u>111,037</u>
FUND BALANCES - END OF YEAR	<u>\$ 116,390</u>	<u>\$ 6,243</u>	<u>\$ 1,708</u>	<u>\$</u>	<u>\$ 124,341</u>

CITY OF HILLSDALE, MICHIGAN
 COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECT FUNDS
 JUNE 30, 2014

	LIBRARY IMPROVEMENT	FIELD OF DREAMS	STOCK PARK	CAPITAL IMPROVEMENT	AIRPORT IMPROVEMENT	FIRE EQUIPMENT	TOTAL
ASSETS							
Cash and equivalents	\$ 13,026	\$ 3,188	\$ (6,672)	\$ 311,793	\$ 234,332	\$ 1,215	\$ 556,882
Investments		16,480	44,795			90,050	151,325
Accounts receivable					3,251		3,251
TOTAL ASSETS	<u>\$ 13,026</u>	<u>\$ 19,668</u>	<u>\$ 38,123</u>	<u>\$ 311,793</u>	<u>\$ 237,583</u>	<u>\$ 91,265</u>	<u>\$ 711,458</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$	\$	\$	\$ 2,720	\$ 2,580	\$	\$ 5,300
Accrued payroll and related liabilities							
TOTAL LIABILITIES				<u>2,720</u>	<u>2,580</u>		<u>5,300</u>
Fund Balances:							
Restricted	13,026	19,668	38,123	309,073	235,003	91,265	706,158
TOTAL FUND BALANCES	<u>13,026</u>	<u>19,668</u>	<u>38,123</u>	<u>309,073</u>	<u>235,003</u>	<u>91,265</u>	<u>706,158</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 13,026</u>	<u>\$ 19,668</u>	<u>\$ 38,123</u>	<u>\$ 311,793</u>	<u>\$ 237,583</u>	<u>\$ 91,265</u>	<u>\$ 711,458</u>

CITY OF HILLSDALE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECT FUNDS
YEAR ENDED JUNE 30, 2014

	LIBRARY IMPROVEMENT	FIELD OF DREAMS	STOCK PARK	CAPITAL IMPROVEMENT	AIRPORT IMPROVEMENT	FIRE EQUIPMENT	TOTAL
REVENUES							
Intergovernmental - federal and state	\$	\$	\$	\$	\$	\$	\$
Interest and rentals		8	23		346,546	45	346,546
Miscellaneous	1	7,815	22,926	107,174	54,791	815	193,522
TOTAL REVENUES	1	7,823	22,949	107,174	441,327	860	580,134
EXPENDITURES							
Capital outlay	119	280	17,874	539,260	409,149		966,682
TOTAL EXPENDITURES	119	280	17,874	539,260	409,149		966,682
REVENUES OVER (UNDER) EXPENDITURES	(118)	7,543	5,075	(432,086)	32,178	860	(386,548)
OTHER FINANCING SOURCES (USES)							
Contributions from TIFA				3,300			3,300
Transfers in				335,600	50,000	25,000	410,600
TOTAL OTHER FINANCING SOURCES (USES)				338,900	50,000	25,000	413,900
CHANGES IN FUND BALANCES	(118)	7,543	5,075	(93,186)	82,178	25,860	27,352
FUND BALANCES - BEGINNING OF YEAR	13,144	12,125	33,048	402,259	152,825	65,405	678,806
FUND BALANCES - END OF YEAR	\$ 13,026	\$ 19,668	\$ 38,123	\$ 309,073	\$ 235,003	\$ 91,265	\$ 706,158

CITY OF HILLSDALE, MICHIGAN
 COMBINING BALANCE SHEET
 NONMAJOR PERMANENT FUNDS
 JUNE 30, 2014

	R.L. OWEN MEMORIAL	CEMETERY PERPETUAL CARE	STOCK PARK MAINTENANCE	TOTAL
ASSETS				
Cash and investments	\$ 34,778	\$ 429,191	\$	\$ 463,969
Investments, at cost		146,548	24,738	171,286
Due from other funds		40,909		40,909
TOTAL ASSETS	\$ 34,778	\$ 616,648	\$ 24,738	\$ 676,164
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other agencies	\$	\$	\$	\$
Fund Balances:				
Restricted	34,778	616,648	24,738	676,164
TOTAL FUND BALANCES	34,778	616,648	24,738	676,164
TOTAL LIABILITIES AND FUND BALANCES	\$ 34,778	\$ 616,648	\$ 24,738	\$ 676,164

CITY OF HILLSDALE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR PERMANENT FUNDS
YEAR ENDED JUNE 30, 2014

	R.L. OWEN MEMORIAL	CEMETERY PERPETUAL CARE	STOCK PARK MAINTENANCE	TOTAL
REVENUES				
Charges for services	\$	\$ 18,465	\$	\$ 18,465
Interest and rentals	3,350	12,446	115	15,911
Miscellaneous			5,691	5,691
TOTAL REVENUES	3,350	30,911	5,806	40,067
EXPENDITURES				
General government		350		350
TOTAL EXPENDITURES		350		350
REVENUES OVER (UNDER) EXPENDITURES	3,350	30,561	5,806	39,717
OTHER FINANCING SOURCES (USES)				
Gain (loss) on sale of investment		(1,591)		(1,591)
Transfers out		(35,601)		(35,601)
TOTAL OTHER FINANCING SOURCES (USES)		(37,192)		(37,192)
CHANGES IN FUND BALANCES	3,350	(6,631)	5,806	2,525
FUND BALANCES - BEGINNING OF YEAR	31,428	623,279	18,932	673,639
FUND BALANCES - END OF YEAR	\$ 34,778	\$ 616,648	\$ 24,738	\$ 676,164

CITY OF HILLSDALE, MICHIGAN
LOCAL REVENUES
DIAL-A-RIDE ENTERPRISE FUND
YEAR ENDED JUNE 30, 2014

	<u>7/1/2013 - 9/30/2013</u>	<u>10/1/2013 - 6/30/2014</u>	<u>7/1/2013 - 6/30/2014</u>
OPERATING REVENUES AND TRANSFERS			
Demand response (farebox) - nonurban	\$ 11,867	\$ 45,381	\$ 57,248
Transfer in from general fund		87,950	87,950
TOTAL LOCAL REVENUES	<u>\$ 11,867</u>	<u>\$ 133,331</u>	<u>\$ 145,198</u>

CITY OF HILLSDALE, MICHIGAN
LOCAL REVENUES
DIAL-A-RIDE ENTERPRISE FUND
BASED ON A SEPTEMBER 30, 2013 YEAR END

	<u>10/1/2012 - 6/30/2013</u>	<u>7/1/2013 - 9/30/2013</u>	<u>10/1/2012 - 9/30/2013</u>
OPERATING REVENUES AND TRANSFERS			
Demand response (farebox) - nonurban	\$ 39,843	\$ 11,867	\$ 51,710
Transfer in from general fund	<u>100,000</u>		<u>100,000</u>
 TOTAL LOCAL REVENUES	 <u>\$ 139,843</u>	 <u>\$ 11,867</u>	 <u>\$ 151,710</u>

CITY OF HILLSDALE, MICHIGAN
 FEDERAL AND STATE AWARDS
 DIAL-A-RIDE ENTERPRISE FUND
 YEAR END JUNE 30, 2014

	<u>7/1/2013 - 9/30/2013</u>	<u>10/1/2013 - 6/30/2014</u>	<u>7/1/2013 - 6/30/2014</u>
Michigan Department of Transportation			
Local bus operating	\$ 35,889	\$ 89,565	\$ 125,454
Federal Transit Administration			
Section 5311	13,020	25,931	38,951
RTAP Training reimbursement	535	533	1,068
Michigan Transit Pool dividend		<u>1,147</u>	<u>1,147</u>
 TOTAL FEDERAL AND STATE AWARDS	 <u>\$ 49,444</u>	 <u>\$ 117,176</u>	 <u>\$ 166,620</u>

CITY OF HILLSDALE, MICHIGAN
FEDERAL AND STATE AWARDS
DIAL-A-RIDE ENTERPRISE FUND
BASED ON A SEPTEMBER 30, 2013 YEAR END

	<u>10/1/2012 - 6/30/2013</u>	<u>7/1/2013 - 9/30/2013</u>	<u>TOTAL</u>
Michigan Department of Transportation			
Local bus operating	\$ 90,855	\$ 35,889	\$ 126,744
Federal Transit Administration			
Section 5311	35,660	13,020	48,680
Capital grant	124,594		124,594
RTAP Training reimbursement	396	535	931
	<u>251,505</u>	<u>49,444</u>	<u>300,949</u>
TOTAL FEDERAL AND STATE AWARDS	<u>\$ 251,505</u>	<u>\$ 49,444</u>	<u>\$ 300,949</u>

CITY OF HILLSDALE, MICHIGAN
EXPENDITURES OF FEDERAL AND STATE AWARDS
DIAL-A-RIDE ENTERPRISE FUND
YEAR ENDED JUNE 30, 2014

FEDERAL CFDA NUMBER	GRANT NUMBER AUTHORIZATION NUMBER	PROGRAM AWARD AMOUNT	CURRENT YEAR'S EXPENDITURES		PRIOR YEARS' EXPENDITURE	AWARD AMOUNT REMAINING
			TOTAL	FEDERAL		
20.526	2012-0097/P4	\$ 121,561	\$	\$	\$	\$ 121,561
	2012-0097/P3	52,080	27,596		21,678	2,806
	2012-0097/P5	23,124	11,355			11,769
			95,495			33,866
			31,321			(3,641)
						93,960
						115,639
						110,506
						129,526
		\$ 803,437	\$ 165,767	\$ 38,951	\$ 471,309	\$ 166,361
						\$ 126,816

**FEDERAL AND STATE GRANTOR / PASS THROUGH
GRANTOR / PROGRAM TITLE
U.S. DEPARTMENT OF TRANSPORTATION**

Passed through Michigan Department of Transportation
Federal Transit Capital Grants
Capital Grant

Operating assistance - Section 5311

MICHIGAN DEPARTMENT OF TRANSPORTATION

Operating Assistance - Act 51

- Nonurban - 2014
- Nonurban - 2013
- Nonurban - 2012
- Nonurban - 2011
- Nonurban - 2010

CITY OF HILLSDALE, MICHIGAN
OPERATING AND CONTRACT EXPENSES
DIAL-A-RIDE ENTERPRISE FUND
YEAR ENDING JUNE 30, 2014

	<u>NONURBAN</u>	<u>TOTAL</u>
Labor	\$ 183,174	\$ 183,174
Fringe benefits	73,012	73,012
Services	17,113	17,113
Materials & supplies	35,129	35,129
Insurance	13,108	13,108
Utilities	12,476	12,476
Miscellaneous	1,141	1,141
Depreciation	53,139	53,139
Capital		
	<hr/>	<hr/>
TOTAL EXPENSES	<u>\$ 388,292</u>	<u>\$ 388,292</u>

CITY OF HILLSDALE, MICHIGAN
OPERATING AND CONTRACT EXPENSES
DIAL-A-RIDE ENTERPRISE FUND
YEAR ENDING JUNE 30, 2014

	NONURBAN		TOTAL
	07/01/2013 - 9/30/2013	10/01/2013 - 6/30/2014	
Labor	\$ 35,319	\$ 147,855	\$ 183,174
Fringe benefits	21,102	51,910	73,012
Services		17,113	17,113
Materials & supplies	5,789	29,340	35,129
Insurance		13,108	13,108
Utilities	959	11,517	12,476
Miscellaneous	376	765	1,141
Depreciation		53,139	53,139
Capital			
TOTAL EXPENSES	\$ 63,545	\$ 324,747	\$ 388,292

CITY OF HILLSDALE, MICHIGAN
OPERATING AND CONTRACT EXPENSES
DIAL-A-RIDE ENTERPRISE FUND
BASED ON A SEPTEMBER 30, 2013 YEAR END

	NONURBAN		TOTAL
	10/1/2012 - 6/30/2013	7/1/2013 - 9/30/2013	
Labor	\$ 137,865	\$ 35,319	\$ 173,184
Fringe benefits	49,747	21,102	70,849
Services	9,434		9,434
Materials & supplies	27,383	5,789	33,172
Insurance	11,656		11,656
Utilities	9,478	959	10,437
Miscellaneous	749	376	1,125
Depreciation	53,139		53,139
TOTAL EXPENSES	\$ 299,451	\$ 63,545	\$ 362,996

CITY OF HILLSDALE, MICHIGAN
NONURBAN REGULAR SERVICE REVENUE REPORT
DIAL-A-RIDE ENTERPRISE FUND
BASED ON A SEPTEMBER 30, 2013 YEAR END

<u>CODE</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
401	Farebox Revenue	
40100	Passenger Fares	\$ 51,710
409	Local Revenues	
40910	Local operating assistance	100,000
411	State Formula and Contracts	
41101	State operating assistance	126,744
413	Federal Contracts	
41301	Federal Section 5311 (operating funds only)	48,680
41314	Capital contract reimbursement	124,594
41398	RTAP	931
	TOTAL REVENUES	\$ 452,659

CITY OF HILLSDALE, MICHIGAN
NONURBAN REGULAR SERVICE EXPENSE REPORT
DIAL-A-RIDE ENTERPRISE FUND
BASED ON A SEPTEMBER 30, 2013 YEAR END

CODE	DESCRIPTION	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL
501	Labor	\$	\$	\$	\$
50101	Operators' salaries and wages	107,263			107,263
50102	Other salaries and wages		5,887	21,471	27,358
50103	Dispatchers' salaries and wages	38,563			38,563
502	Fringe Benefits				
50200	Other fringe benefits	58,169	2,363	10,317	70,849
503	Services				
50305	Audit costs				
50399	Other	5,455	145	4,997	10,597
504	Materials and Supplies				
50401	Fuel and lubricants	25,736			25,736
50402	Tires and tubes	559			559
50499	Other materials and supplies	2,042	4,049		6,091
505	Utilities				
50500	Utilities	10,437			10,437
506	Insurance				
50603	Liability insurance	6,669			6,669
50699	Other insurance			4,987	4,987
509	Miscellaneous Expenses				
50902	Travel, meetings and training				
50999	Miscellaneous			749	749
512	Operating Leases and Rentals				
51200	Operating leases and rentals				
513	Depreciation				
51300	Depreciation	53,139			53,139
550	Ineligible Expenses				
55007	Ineligible depreciation	53,139			53,139
574	Ineligible Expenses				
57402	Ineligible RTAP	931			
	Total expenses				<u>\$ 362,997</u>
	Total ineligible expenses				<u>\$ 54,070</u>
	Total eligible expenses				<u>\$ 308,927</u>

CITY OF HILLSDALE, MICHIGAN
NONURBAN REGULAR SERVICE NON-FINANCIAL INFORMATION
DIAL-A-RIDE ENTERPRISE FUND
BASED ON A SEPTEMBER 30, 2013 YEAR END

	<u>WEEKDAY</u>	<u>SATURDAY</u>	<u>SUNDAY</u>	<u>TOTAL</u>
Non-Financial Information				
Annual Reconciliation				
10/1/2012 - 9/30/2013				
Vehicle Hours	5,168			5,168
Vehicle Miles	52,961			52,961
Passengers Reg.	14,130			14,130
Passengers - Sr.	2,979			2,979
Passengers - Per. Disb.	7,385			7,385
Passengers - Sr. Disb.	4,831			4,831
Total Demand - Response	<u>29,325</u>			<u>29,325</u>
Days Operated	<u>250</u>			<u>250</u>
	<u>Quantity</u>			
Total Demand - Response Vehicles	4			
Demand-Response Vehicles w/Lifts	4			
Diesel/Gasoline Gallons Consumed	8,079			
Total Transit (full-time equivalent) Employees	5			
Total Revenue Vehicles (full-time equivalent) Operators	4			

CITY OF HILLSDALE, MICHIGAN
OPERATING ASSISTANCE CALCULATION
DIAL-A-RIDE ENTERPRISE FUND
BASED ON A SEPTEMBER 30, 2013 YEAR END

	<u>NONURBAN</u>
Total expenses	\$ 362,997
Less ineligible expenses:	
Depreciation	53,139
RTAP	931
Capital expenditures	
Total State eligible expenses	<u>\$ 308,927</u>
Eligible expenses for State reimbursement	\$ 308,927
Reimbursement percentage	0.3953
State operating assistance	<u>\$ 122,119</u>
Total federal eligible expenses	\$ 308,927
Less additional federal ineligible expenses per A-87:	
Audit costs	<u>1,139</u>
Eligible expenses for federal reimbursement	\$ 307,788
Reimbursement percentage	<u>0.1600</u>
Section 5311 operating assistance	<u>\$ 49,246</u>

CITY OF HILLSDALE, MICHIGAN
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2014

	DEPARTMENT OF PUBLIC SERVICE LEAVE & BENEFITS	PUBLIC SERVICE INVENTORY	REVOLVING MOBILE EQUIPMENT	UNEMPLOYMENT INSURANCE	TOTAL
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 11,247	\$ 60,395	\$ 70,448	\$	\$ 142,090
Investments				67,605	67,605
Due from other funds		690	548		1,238
Inventory		189,485			189,485
Prepaid expenses	22,381		23,498		45,879
TOTAL CURRENT ASSETS	33,628	250,570	94,494	67,605	446,297
Capital assets:					
Equipment			1,939,231		1,939,231
Less: accumulated depreciation			(1,665,953)		(1,665,953)
TOTAL CAPITAL ASSETS, NET			273,278		273,278
TOTAL ASSETS	33,628	250,570	367,772	67,605	719,575
LIABILITIES					
Current liabilities:					
Accounts payable		20	8,754		8,774
Accrued payroll and related liabilities	961	584	1,733		3,278
TOTAL CURRENT LIABILITIES	961	604	10,487		12,052
Other liabilities:					
Compensated absences	10,088		4,114		14,202
TOTAL LIABILITIES	11,049	604	14,601		26,254
NET POSITION					
Net investment in capital assets			273,278		273,278
Unrestricted	22,579	249,966	79,893	67,605	420,043
TOTAL NET POSITION	\$ 22,579	\$ 249,966	\$ 353,171	\$ 67,605	\$ 693,321

CITY OF HILLSDALE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2014

	DEPARTMENT OF PUBLIC SERVICE LEAVE & BENEFITS	PUBLIC SERVICE INVENTORY	REVOLVING MOBILE EQUIPMENT	UNEMPLOYMENT INSURANCE	TOTAL
OPERATING REVENUES					
Charges for services	\$	\$ 129,600	\$ 383,641	\$	\$ 513,241
Miscellaneous	143,389		6,040	9,400	158,829
TOTAL OPERATING REVENUES	143,389	129,600	389,681	9,400	672,070
OPERATING EXPENSES					
Salaries	35,448	2,673	55,347		93,468
Fringe benefits	93,257	229	37,051		130,537
Supplies		115,616	144,804		260,420
Contracted services		133	33,661		33,794
Maintenance		6,022	18,576		24,598
Insurance			36,340		36,340
Miscellaneous			8,595	306	8,901
Capital outlay			3,034		3,034
Depreciation			96,311		96,311
TOTAL OPERATING EXPENSES	128,705	124,673	433,719	306	687,403
OPERATING INCOME (LOSS)	14,684	4,927	(44,038)	9,094	(15,333)
NONOPERATING REVENUES					
Gain (loss) on disposal of assets			2,407		2,407
Interest income			243	35	278
			2,650	35	2,685
CHANGES IN NET POSITION	14,684	4,927	(41,388)	9,129	(12,648)
NET POSITION - BEGINNING OF YEAR	7,895	245,039	394,559	58,476	705,969
NET POSITION - END OF YEAR	\$ 22,579	\$ 249,966	\$ 353,171	\$ 67,605	\$ 693,321

CITY OF HILLSDALE, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2014

	DEPARTMENT OF PUBLIC SERVICE LEAVE & BENEFITS	PUBLIC SERVICE INVENTORY	REVOLVING MOBILE EQUIPMENT	UNEMPLOYMENT INSURANCE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash paid to suppliers	\$ (96,308)	\$ (100,208)	\$ (288,935)	\$ (306)	\$ (485,757)
Cash paid to employees	(51,683)	(2,673)	(53,982)		(108,338)
Receipts for interfund services provided	143,389	129,010	389,132	9,400	670,931
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(4,602)</u>	<u>26,129</u>	<u>46,215</u>	<u>9,094</u>	<u>76,836</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase of capital assets			(150,858)		(150,858)
Proceeds from the disposal of capital assets			2,407		2,407
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES			<u>(148,451)</u>		<u>(148,451)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments				(9,129)	(9,129)
Interest income			243	35	278
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES			<u>243</u>	<u>(9,094)</u>	<u>(8,851)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(4,602)</u>	<u>26,129</u>	<u>(101,993)</u>		<u>(80,466)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>15,849</u>	<u>34,266</u>	<u>172,441</u>		<u>222,556</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 11,247</u>	<u>\$ 60,395</u>	<u>\$ 70,448</u>	<u>\$</u>	<u>\$ 142,090</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 14,684	\$ 4,927	\$ (44,038)	\$ 9,094	\$ (15,333)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation			96,311		96,311
Changes in:					
Accounts receivable		100			100
Due from other funds		(690)	(548)		(1,238)
Inventory		22,148			22,148
Prepaid expenses	(2,734)		(1,573)		(4,307)
Accounts payable	(317)	(940)	(4,605)		(5,862)
Accrued expenses	(16,235)	584	668		(14,983)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (4,602)</u>	<u>\$ 26,129</u>	<u>\$ 46,215</u>	<u>\$ 9,094</u>	<u>\$ 76,836</u>

OTHER REPORTS

GAO GOVERNMENT AUDITING STANDARDS REPORT

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, 2014, and the related notes to the financial statements, which collectively comprise the City of Hillsdale, Michigan's basic financial statements and have issued our report thereon dated December 9, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hillsdale, Michigan'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 of Hillsdale, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hillsdale, Michigan's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses – Findings 2014-2, 2014-3, and 2014-4.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as 2014-1 to be a significant deficiency.

Compliance and Other Matters

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

City of Hillsdale, Michigan's Response to Findings

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

Purpose of this Report

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

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

Certified Public Accountants

CITY OF HILLSDALE

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2014

Finding 2014-1 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 2014-2 Capital Assets Reporting – Board of Public Utilities

Internal Control Finding considered a material weakness

Requirement: The amount of capital assets recorded within the Electric Fund, Water Fund and Sewer Fund general ledger must be supported by detailed subsidiary ledgers.

Condition: At the time of our audit, management was unable to provide a detailed asset listing that agreed to the general ledger, and the internal controls over periodic reconciliation to the general ledger was lacking. Additionally, management could not provide a written capitalization policy.

Cause: This condition was caused by the following circumstances - 1) The accounting personnel is new and inexperienced at generating or requesting the correct reports from the capital asset software; 2) During our audit, we found that journal entries were made by the previous accountant that posted back into the 2012-13 year.

Effect: The result of these conditions is that management did not have internal controls in place to prevent and/or detect unreconciled balances. Also, without a written capitalization policy, there may be items placed on the asset list unnecessarily.

View of responsible officials: Management will provide the necessary training to accounting personnel regarding the capital asset software. Accounting personnel will reconcile the detailed asset list to the general ledger on a monthly basis. Management will also submit a proposed capitalization policy to the Board for approval.

Finding 2014-3 Bank Reconciliations – Board of Public Utilities
Internal Control Finding considered a material weakness

Requirement: All cash accounts should be reconciled to their respective bank statements monthly.

Condition: At the time of our audit, the Electric Fund bank reconciliation for June 30, 2014 was incomplete and did not agree to the general ledger. Upon further review, only one out of all twelve months was actually reconciled to the general ledger, and most months there was a large variance.

Cause: This condition was caused by new accounting personnel lacking the experience with the billing system and timing issues related to cash receipts. However, what caused the prior accountant to not reconcile each month is unknown.

Effect: Without a reconciled cash balance, there is a risk that amounts reported on the financial statements are materially misstated.

View of responsible officials: New accounting personnel will become familiar with the billing and cash receipting systems and develop a system to reconcile the bank statements to the general ledger on a monthly basis.

Finding 2014-4 Unrecorded Debt – Board of Public Utilities
Internal Control Finding considered a material weakness

Requirement: All outstanding debt of the City must be properly recorded and accounted for.

Condition: At the time of our audit, the balance of outstanding debt owed to Municipal Finance by the Electric Fund was understated by \$152,000. In relation to the outstanding debt, management was not aware of an escrow account held to be used for future asset purchases.

Cause: This condition was caused by the initial capital lease and the underlying assets not recorded properly.

Effect: The balance of outstanding debt and escrow were understated.

View of responsible officials: Accounting personnel will maintain the debt schedule and related use of escrow funds going forward.