

City of Hillsdale, Michigan

Financial Statements
And Independent Auditors' Report

Year Ended June 30, 2012

Independent Auditors' Report	i - ii
Management's Discussion and Analysis	iii - xiv
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	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 Assets of Governmental Activities on the Statement of Net Assets.....	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 Assets – Proprietary Funds.....	8
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds.....	9
Statement of Cash Flows – Proprietary Funds	10 - 11
Statement of Fiduciary Net Assets – Fiduciary Funds	12
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds.....	13
Notes to Financial Statements.....	14-30
Required Supplemental 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 Supplemental 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 Debt Service Fund	40
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Debt Service Fund.....	41
Combining Balance Sheet – Nonmajor Capital Project Funds	42
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Project Funds.....	43
Combining Balance Sheet – Nonmajor Permanent Funds	44
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Permanent Funds.....	45

Dial-A-Ride Enterprise Fund:

Local Revenues.....	46
Local Revenues – Based on a September 30, 2010 Year End	47
Federal and State Awards.....	48
Federal and State Awards – Based on a September 30, 2010 Year End	49
Expenditures of Federal and State Awards.....	50
Operating and Contract Expenses	51
Operating and Contract Expenses – Based on a June 30, 2010 Year End.....	52
Operating and Contract Expenses – Based on a September 30, 2010 Year End	53
Nonurban Regular Service Revenue Report – Based on a September 30, 2010 Year End	54
Nonurban Regular Service Expense Report – Based on a September 30, 2010 Year End	55
Nonurban Regular Nonfinancial Report – Based on a September 30, 2010 Year End	56
Operating Assistance Calculation – Based on a September 30, 2010 Year End	57

Internal Service and Agency Funds:

Combining Statement of Net Assets – Internal Service Funds	58
Combining Statement of Revenues, Expenses and Changes in Net Assets – Internal Service Funds.....	59
Combining Statement of Cash Flows – Internal Service Funds.....	60

**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*.....** 61-63



Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective 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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 2, 2012, on our consideration of the City's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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The Honorable Mayor and
Members of the City Council

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hillsdale's financial statements as a whole. 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 required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Sincerely,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

November 2, 2012

Management's Discussion and Analysis

As management of the *City of Hillsdale, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$61,759,587 (*net assets*). Of this amount, \$16,493,941 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$48,093 or .08 percent.
- Government wide total liabilities, long and short-term combined, decreased more than ten percent (10.09%) or \$419,949.
- As of the close of the current fiscal year, the City's Governmental funds reported combined ending fund balances of \$3,027,840. Approximately thirty-six percent (36.2%) of this total or \$1,096,385 is *available for spending* at the government's discretion (*unassigned*).
- 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 \$1,171,205. That represents twenty-eight percent (28%) of total general fund expenditures for 2013.
- The City's total bonded debt decreased over twenty-three percent (23.6%) or \$485,000 during the current fiscal year. The city paid \$178,000 in loans payable during the fiscal year. That contributed to a decline in long-term governmental activities debt of about forty-four percent (43.7%).

Overview of the Financial Statements

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

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

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net

assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

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

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

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

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

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

The City maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, major street, local street, and airport 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 these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

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

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

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

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain other information. This includes combining and individual fund financial statements and schedules, which can be found on pages 31-60 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Hillsdale, assets exceeded liabilities by \$61,759,587 at the close of the 2012 fiscal year.

The total governmental and business-type activities *long-term liabilities outstanding* declined \$697,906, or more than twenty-six percent (26.1%) from the prior year. Total liabilities declined

just over ten percent (10.1%). Cash and other assets also increased more than three and a half percent (3.51%).

By far the largest portion of the City's net assets, almost seventy percent (69.3%), 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 Assets	Governmental		Business-type		Total		Total Percent Change
	Activities		Activities		Total		
	2011	2012	2011	2012	2011	2012	
Current and Other Assets	\$3,244,018	\$4,045,437	\$17,136,529	\$17,050,423	\$20,380,547	\$21,095,860	3.51%
Capital Assets	\$22,928,189	\$22,318,016	\$22,565,165	\$22,088,169	\$45,493,354	\$44,406,185	-2.39%
Total Assets	\$26,172,207	\$26,363,453	\$39,701,694	\$39,138,592	\$65,873,901	\$65,502,045	-0.56%
Long-term Liabilities Outstanding	\$420,239	\$236,532	\$2,255,981	\$1,741,782	\$2,676,220	\$1,978,314	-13.15%
Other Liabilities	\$259,640	\$374,406	\$1,226,547	\$1,389,738	\$1,486,187	\$1,764,144	-8.09%
Total Liabilities	\$679,879	\$610,938	\$3,482,528	\$3,131,520	\$4,162,407	\$3,742,458	-10.09%
Net Assets:							
Invested In Capital Assets Net of Related Debt	\$22,722,189	\$22,290,016	\$20,515,165	\$20,523,169	\$43,237,354	\$42,813,185	-0.98%
Restricted	\$1,351,414	\$1,405,974	\$1,100,514	\$1,046,487	\$2,451,928	\$2,452,461	0.02%
Unrestricted	\$1,418,725	\$2,056,525	\$14,603,487	\$14,437,416	\$16,022,212	\$16,493,941	2.94%
Total Net Assets	\$25,492,328	\$25,752,515	\$36,219,166	\$36,007,072	\$61,711,494	\$61,759,587	0.08%

An additional portion of the City's net assets (\$2,452,461) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* that may be used to meet the government's ongoing obligations to citizens and creditors increased \$471,729. That represents about a three percent (2.94%) increase.

City's Changes in Net Assets

	Governmental		Business-type		Total		Total Percentage Change
	Activities		Activities		Total		
	2011	2012	2011	2012	2011	2012	
Program Revenues:							
Charges for Services	\$236,994	\$228,646	\$14,336,828	\$14,498,813	\$14,573,822	\$14,727,459	1.05%
Operating Grants & Contributions	1,203,808	1,195,082	324,368	186,998	\$1,528,176	\$1,382,080	-9.56%
Capital Grants & Contributions	1,065,877	144,844	-	-	\$1,065,877	\$144,844	-86.41%
Total Program Revenues	\$2,506,679	\$1,568,572	\$14,661,196	\$14,685,811	\$17,167,875	\$16,254,383	-5.32%

Expenses:							
General Government	996,865	1,156,662			\$996,865	1,156,662	16.03%
Public Safety	1,775,882	1,736,636			\$1,775,882	1,736,636	-2.21%
Public Services	421,962	435,015			\$421,962	435,015	3.09%
Highways & Streets	1,194,179	1,345,961			\$1,194,179	1,345,961	12.71%
Health (Building Inspect/Assessing)	152,808	140,464			\$152,808	140,464	-8.08%
Community & Economic Development	99,332	35,349			99,332	35,349	-64.41%
Recreation & Culture	487,995	449,772			\$487,995	449,772	-7.83%
Interest on Long-term Debt	988	0			\$988	0	-100.00%
Other	309,145	78,579			\$309,145	78,579	-74.58%
Unallocated Depreciation	36,368	36,368			\$36,368	\$36,368	0.00%
Electric			12,870,602	12,413,572	\$12,870,602	12,413,572	-3.55%
Water			1,013,944	1,145,641	\$1,013,944	1,145,641	-7.73%
Sewer			1,100,594	935,569	\$1,100,594	\$935,569	4.09%
Transportation			346,022	343,263	\$346,022	343,263	-0.80%
Total Expenses	\$5,475,524	\$5,414,806	\$15,331,162	\$14,838,045	\$20,806,686	\$20,252,851	-2.66%
Increase (Decrease) in Net assets Before General Revenues and Transfers							
	(\$2,968,845)	(\$3,846,234)	(\$669,966)	(\$152,234)	(\$3,638,811)	(\$3,998,468)	9.00%
General Revenues:							
Taxes	2,498,344	2,541,243			\$2,498,344	\$2,541,243	1.72%
Grants & Contributions Not Restricted							
To Specific Programs	781,060	778,694			\$781,060	\$778,694	-0.30%
Unrestricted Investment Earnings	47,369	38,682	59,847	46,847	\$107,216	\$85,529	-20.23%
Other Revenues	399,511	735,392	157,972	(181,707)	\$557,483	\$553,685	13.39%
Transfers - Internal Activity	(-51,759)	12,410	56,475	75,000	\$4,716	\$87,410	1,753.48%
Total General Revenues	3,674,525	4,106,421	274,294	(59,860)	3,948,819	4,046,561	2.48%
Net Income	\$705,680	\$260,187	(\$395,672)	(\$212,094)	\$310,008	\$48,093	-84.49%
Net Assets - Beginning of Year	\$24,786,648	\$25,492,328	\$36,614,838	\$36,219,166	\$61,401,486	\$61,711,494	0.50%
Net Assets - End of Year	\$25,492,328	\$25,752,515	\$36,219,166	\$36,007,072	\$61,711,494	\$61,759,587	0.08%

The City's total program revenue for 2012, (including restricted and operating grants and contributions) was \$16,254,383. This represents more than a five percent (5.3%) decrease. There was more than a fourteen percent (9.56%) decline in operating grants and contributions of \$146,096 and a decrease of \$921,033 in capital grants and contributions. The decline in capital grant revenue is due mainly to decreased activity on the airport multi-year expansion project. This multi-year project is ninety-seven and a half percent (97.5%) funded from the Federal Aviation Administration and the State of Michigan.

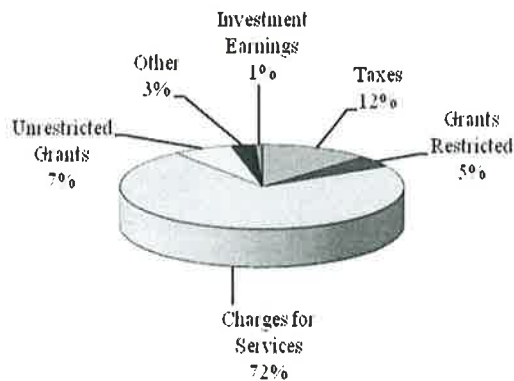
More than ninety-seven percent (97.5%) of the total charges for services revenue comes from the business-type activities (electric, water, sewer and transportation). Of those activities, the electric fund generated about eighty-two percent (82.5%) of those charges. The chart above

shows that the general revenues, for both the governmental and business-type activities, increased by more than two percent (2.48%). These revenues consist of taxes, unrestricted grants and contributions, investment earnings, internal transfers between funds, and various other miscellaneous revenues. Tax revenues saw a slight increase of \$42,899. Grants & contributions not restricted to specific programs remained relatively unchanged from the prior year. The big decline was in unrestricted investment earnings as interest rates continue to spiral downward. There was not much change in the other revenues. The largest change was in internal activity transfers which increased \$82,694 from the prior period.

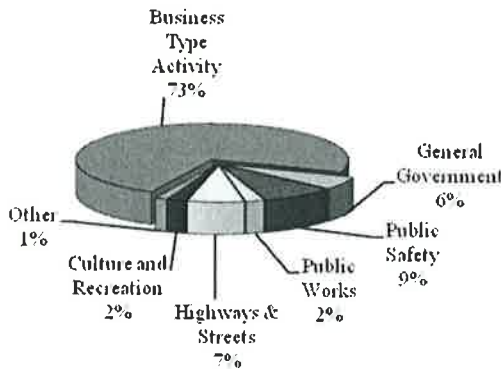
Total government wide expenses declined \$553,835 or more than two and a half percent (2.7%) for the year. All categories of expenditures declined except for general government, highways and streets, public services, and sewer. The increases in general government are linked to increased legal fees for tax cases and the disbursement of the six-year-old personal property tax settlement to other jurisdictions. The increases in the public services and highways and streets are connected to the reconstruction project of State Street from Union east to the city limits. The increase in the sewer fund can be traced back to the increase of treatment costs. There was a sixty-four percent (64.4%) decrease in community and economic development expenditures. The City chose to contract these services instead of hiring a full-time staff person. There was approximately a six month gap between the time the former employee left until a contractual firm was hired, adding to the cost savings for this fiscal year. Finally the seventy-four percent (74.6%) decline in other expenditures resulted in the way capital outlay was allocated in 2011. Instead of lumping it all in the other category, this year it was more accurately allocated to the correct function.

The pie graph to the right reveals the major sources of revenues collected by the municipalities governmental and business-type activities combined. Charges for services are the largest single portion of revenues received. Eighty-two percent 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

Source of Revenue for Fiscal Yr 2012
Governmental & Business-type Activities



Functional Expenses for Fiscal Yr 2012
Governmental & Business-type Activities



12% of overall revenues. Grants, restricted and unrestricted combined, account for 12% of total revenues. Investment earnings and other miscellaneous revenue sources make up the remaining 4%.

As the functions graph on the left depicts, business type activities (electric, water, sewer, and transportation operations) make up

seventy-three percent (73%) of all the municipality's expenditures. The largest portion of overall expenditures, sixty-one percent (61.29%), is incurred by the electric fund. General governmental activities account for only six percent (6%) of total expenditures; public safety makes up nine percent (9%), highways and streets amount to only seven percent (7%), while recreation and culture and public works are both two percent (2%) each, and the remaining one percent (1%) comes from miscellaneous operational costs.

Governmental activities. Governmental activities had a net income of \$260,187. That is sixty-three percent (63.1%) less than the prior year's \$705,680 net income. Key elements from operations for the year are:

- Capital grants and contributions declined more than eighty-six percent (86.4%) or \$921,033. As already stated, this decline was primarily due to a reduction in capital activity at the airport.
- General Revenues for all governmental activities went up almost twelve percent (11.75%) or \$431,896. The biggest contributing factor is an increase in net internal transfer activity of \$64,169.
- Property tax revenues increased slightly by about two percent (1.72%) or \$42,899.
- Other revenue sources were up \$335,881. The City received a \$300,000 settlement for repayment of a Community Development Block Grant loan connected with an industrial plant closure.
- General government expenditures are down slightly more than one percent (1.1%). This was a reflection of management's continued efforts to reduce operational costs through staffing level shifts/changes, health insurance changes and increased employee insurance co-pays.
- Public safety expenditures declined just more than two percent (2.21%) as the police department moved to twelve hour shifts.
- There was no interest payments made in this fiscal year. The governmental activities funds no longer have any interest bearing debt.

Business-type activities. Business-type activities experienced a net loss for the year of \$212,094. Key elements of the business-type activities decrease are as follows:

- This year the electric fund had a \$557,374 decline in net assets. This decline can be directly linked to the utility's 2009 decision to freeze the power cost adjustment (PCA) charged to their customers in a volatile market. The utility chose to subsidize those costs from the electric fund's reserves to stabilize its customer's electric charges because of the difficult economic conditions.
- Both the water and sewer funds realized a positive change in net assets. The sewer fund net assets increased by \$129,861 and the water fund increased \$244,674.
- The transportation activity experienced a thirty-one percent (30.8%) decline in nonoperating revenues.
- Transmission and distribution costs for the electric and water funds decreased \$590,847, or almost twenty-seven percent (26.9 %) from the prior year.
- The water fund experienced a net income of \$244,674.
- The sewer fund realized a positive change in net assets of \$129,861.
- The transportation fund finished the year with a net decrease in assets of \$29,255.

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, 2012, the City's governmental funds reported combined ending fund balances of \$3,027,840. That is a \$769,030 increase or thirty-four percent (34.0%) in comparison with 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 \$77,263. 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 \$1,854,192. This constitutes an increase of approximately twenty-seven percent (27.0%) 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 include 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 \$1,096,385 and available for spending at the government's discretion.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance of the general fund was \$1,171,205. Of that balance, \$74,820 is classified as nonspendable for prepaid expenditures. The remaining \$1,096,385 is unassigned and therefore available for spending at the government's discretion. This balance represents an increase from the prior fiscal year of \$262,540.

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, \$218,692 in Major and \$43,326 in Local, are thus designated to be spent only on the streets. These fund balances are classified as restricted.

The Airport Improvement Fund had a June 30, 2012 fund balance of \$77,229. That constitutes a fourteen percent (13.7%) decrease from a year ago. The municipality is still working with the Bureau of Aeronautics on a multi-million dollar airport expansion project. The City has received grant funding from the Federal Aviation Administration and the State of Michigan to facilitate this project. Approximately 97.5% of this project will be paid for with federal and state grants. The fund balance in this fund is restricted for use to fund the local 2.5% grant match.

Other nonmajor governmental funds collectively experienced a combined net increase in fund balances for the year of \$435,980. None of these fund balances are considered unassigned. Of the \$1,517,388 balance, \$2,443 is classified as nonspendable. The remaining nonmajor governmental fund balances are considered restricted for various reasons. There are three permanent endowments (R.L. Owen Memorial Fund, Cemetery Perpetual Care Fund, and Stocks Park Perpetual Maintenance Fund). Combined they have a total restricted fund balance of \$676,427. The restricted special revenue fund balances total \$108,971. These include the fund balances from the Library, Recreation, Drug Forfeitures, Police Public Relations and Fire Equipment Funds. It is also inclusive of \$726,542 from all the nonmajor capital project funds which are: Capital Improvement, Mrs. Stocks Park, Fields of Dreams, Three Meadows, and Library Improvement Funds. There is \$3,005 reserved for debt service.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail. Unrestricted, undesignated net assets of the water, sewer, electric, and transportation funds at the end of the year declined just more than two percent (2.3%). Unrestricted, designated net assets for all City proprietary funds increased \$107,190. Net assets restricted investments and the amount invested in capital assets, net of related debt remained relatively stable from last year, declining less than two tenths of one percent (0.2%).

Half of the proprietary funds realized an increase in net assets for the year and half experienced a net loss. The sewer fund ended the year with an increase in net assets of \$129,861 and the water fund's net assets increased \$244,674. As previously mentioned, the electric fund had a net decrease in assets of \$557,374. The transportation fund experienced a decrease of \$29,255 in net assets.

General Fund Budgetary Highlights

The general fund revenue budget was increased by \$620,000 during the fiscal year 2012. The projection for property taxes increased \$150,000 to adjust for a six-year-old personal property tax case settlement realized during the year. The State Revenue Sharing line item was increased by \$170,000 to recognize the receipt of the Economic Vitality Incentive Program revenues not anticipated during the budgeting process. Other revenues increased \$300,000 because of a CDBG loan settlement worked out with a local manufacturer.

Differences between the original and final amended General Fund expenditure budgets totaled \$565,000. The adjustments made were as follows: Administrative (175) increased legal fees \$50,000 for additional work done on the property tax cases; Treasurer (253) was increased \$150,000 in anticipation of disbursing the personal property tax case settlement to other jurisdictions; the Building and Grounds (265) budget was underestimated by \$15,000 due to unbudgeted work at the Mitchell building; and the transfer out of General Fund (965) to the Capital Improvement Fund (401) was increased by \$350,000 to fund infrastructure improvements in subsequent years.

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, 2012, amounted to approximately \$1.6 million. This investment in capital assets includes land, buildings and system improvements, machinery and equipment, Library books, recreational land improvements, roads, and storm sewers. The City's combined

total capital assets, net of depreciation, decreased by about one percent (0.98%) in the current fiscal year.

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

- A variety of infrastructure projects (street resurfacings/reconstructions/storm sewer/sidewalks) were done throughout the year at a combined cost of approximately \$101,736.
- Beautification and improvements to Mrs. Stocks Park and picnic tables for Owens park in the amount of \$26,437.
- The utility (electric, water, and sewer funds) did a variety of projects throughout the year totaling \$1,178,503. The electric fund capital projects included: URD and overhead extensions; line transformers, reclosers and meters; meter based surge protective devices; computer upgrades; Warehouse upgrades; Christmas decorations. For the water and sewer funds: meters; clean well #2 & #8; 6" water lead at HCHC; replace channel monster.
- Primary government purchased two police patrol cars for \$45,524.
- The library purchased numerous books at a cost of \$21,038.
- John Pulver donated a large collection of Michigan related books nonfiction and fiction books and artifacts valued at \$130,424.
- The airport purchased \$64,784 in land and aviation easements that will be used to facilitate the multi-year airport expansion project.

	Governmental		Business-type		Total		Percent
	Activities		Activities		Total		Change
	2011	2012	2011	2012	2011	2012	
Land	\$8,181,506	\$8,246,290	\$197,401	\$197,401	\$8,378,907	\$8,443,691	0.77%
Buildings and System Improvements	3,554,691	3,548,374	21,732,993	21,513,098	\$25,287,684	\$25,061,472	-0.89%
Library Books	84,962	215,596			\$84,962	\$215,596	153.76%
Machinery and Equipment	591,820	470,071	131,423	118,819	\$723,243	\$588,890	-18.58%
Infrastructure	10,515,210	9,837,685			\$10,515,210	\$9,837,685	-6.44%
Construction in Progress	0	0	503,349	258,851	503,349	258,851	-48.57%
Total	\$22,928,189	\$22,318,016	\$22,565,166	\$22,088,169	\$45,493,355	\$44,406,185	-2.39%

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

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$1,565,000, 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		2011	2012
	2011	2012		
Revenue Bonds	\$2,050,000	\$1,565,000	\$2,050,000	\$1,565,000
Total	\$2,050,000	\$1,565,000	\$2,050,000	\$1,565,000

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 \$485,000 or twenty-three percent (23.6%). The City's long-term general obligation debt, decreased during the current fiscal year by \$178,000, which is more than an eighty-six percent (86.4%) reduction. No new debt was issued during the year.

The City's total outstanding long-term debt obligation, as of June 30, 2012 was \$1,978,314, which includes compensated absence liabilities as well as other outstanding loan obligations and bonds. 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, 2011 was \$163,349,446. That translates into a debt limit of \$16,334,945. The City's revenue bond debt is exempt from that limit, so the current debt applicable to that limit is only \$28,000.

Additional information on the City's long-term debt can be found in Note 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 2012-13 fiscal year:

- The unemployment rate for Hillsdale County (which includes the City) in March 2012 was 9.6%. That's down .8% from the 10.4% of one year ago. That rate was .6% higher than the State of Michigan's unemployment rate of 9.0% and 1.2% higher than the national unemployment rate of 8.4% for the same time period.
- The property tax inflationary rate for the 2012 tax year is 1.027.
- 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 \$163,665 of its General Fund fund balance in this budget due to projected shortfalls in revenues.

- The projection for gas and weight taxes, used to maintain the road systems throughout the State was projected to increase slightly based on the most recent past history. 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 were projected to increase at 25%.
- Staffing levels were projected to remain the same. Wages for all non union staff were raised three percent. All union wages and benefits were estimated according to current contracts.

Requests for Information

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

City of Hillsdale, Michigan

Statement of Net Assets

June 30, 2012

	Primary Government			Component Units	
	Governmental	Business-type	Total	Tax Increment	Economic
	Activities	Activities		Finance	Development
			Authority	Corporation	
Assets:					
Cash and investments	\$ 3,297,761	\$ 4,228,367	\$ 7,526,128	\$ 401,969	\$ 126,882
Receivables	352,258	1,035,023	1,387,281	-	-
Internal balances	79,103	(74,152)	4,951	-	-
Prepaid items and other assets	109,004	164,753	273,757	-	-
Inventory	207,311	860,561	1,067,872	-	-
Inventory in M.S.C.P.A.	-	10,835,871	10,835,871	-	-
Capital assets, net:					
Assets not being depreciated	8,246,290	456,252	8,702,542	65,000	173,721
Assets being depreciated	14,071,726	21,631,917	35,703,643	12,722	-
Total assets	<u>26,363,453</u>	<u>39,138,592</u>	<u>65,502,045</u>	<u>479,691</u>	<u>300,603</u>
Liabilities:					
Accounts payable	177,949	114,546	292,495	1,085	70
Accrued expenses	81,707	1,262,053	1,343,760	-	-
Accrued interest	-	13,139	13,139	-	-
Deferred revenue	114,750	-	114,750	-	-
Non-current liabilities:					
Due within one year	49,000	499,000	548,000	-	-
Due in more than one year	187,532	1,242,782	1,430,314	-	-
Total liabilities	<u>610,938</u>	<u>3,131,520</u>	<u>3,742,458</u>	<u>1,085</u>	<u>70</u>
Net Assets:					
Invested in capital assets, net of related debt	22,290,016	20,523,169	42,813,185	77,722	173,721
Restricted for:					
Debt service	3,005	1,046,487	1,049,492	-	-
Capital projects	726,542	-	726,542	-	-
Endowment and trust principal	676,427	-	676,427	-	-
Unrestricted	2,056,525	14,437,416	16,493,941	400,884	126,812
Total net assets	<u>\$ 25,752,515</u>	<u>\$ 36,007,072</u>	<u>61,759,587</u>	<u>\$ 478,606</u>	<u>\$ 300,533</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan

Statement of Activities

Year Ended June 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government					
Governmental Activities:					
General government	\$ 1,297,126	\$ 113,362	\$ 481,452	\$ 80,060	\$ (622,252)
Public safety	1,736,636	-	5,897	-	(1,730,739)
Public works	435,015	17,094	-	64,784	(353,137)
Highways and streets	1,345,961	-	623,527	-	(722,434)
Culture and recreation	449,772	98,190	84,206	-	(267,376)
Community and economic development	35,349	-	-	-	(35,349)
Other	78,579	-	-	-	(78,579)
Unallocated depreciation, excluding direct portion	36,368	-	-	-	(36,368)
Total governmental activities	<u>5,414,806</u>	<u>228,646</u>	<u>1,195,082</u>	<u>144,844</u>	<u>(3,846,234)</u>
Business-type Activities:					
Electric	12,413,572	11,955,017	-	-	(458,555)
Sewer	1,145,641	1,261,665	-	-	116,024
Water	935,569	1,232,235	-	-	296,666
Transportation	343,263	49,896	186,998	-	(106,369)
Total business-type activities	<u>14,838,045</u>	<u>14,498,813</u>	<u>186,998</u>	<u>-</u>	<u>(152,234)</u>
Total primary government	<u>\$ 20,252,851</u>	<u>\$ 14,727,459</u>	<u>\$ 1,382,080</u>	<u>\$ 144,844</u>	<u>\$ (3,998,468)</u>
Component Units					
Tax Increment Finance Authority	\$ 63,977	\$ -	\$ -	\$ -	\$ (63,977)
Economic Development Corporation	1,947	-	-	-	(1,947)
Total component units	<u>\$ 65,924</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (65,924)</u>

continued..

City of Hillsdale, Michigan
Statement of Activities (Continued)
Year Ended June 30, 2012

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Tax Increment Finance Authority	Economic Development Corporation
	Changes in Net Assets				
Net (expense) revenue	\$ (3,846,234)	\$ (152,234)	\$ (3,998,468)	\$ (63,977)	(1,947)
General Revenues:					
Property taxes	2,541,243	-	2,541,243	142,733	-
Unrestricted grants and contributions	778,694	-	778,694	-	-
Interest and investment earnings	38,682	46,847	85,529	423	114
Other revenues (expenses)	735,392	(181,707)	553,685	92	14,033
Transfers - internal activities	12,410	75,000	87,410	(87,410)	-
Total general revenues, contributions and transfers	4,106,421	(59,860)	4,046,561	55,838	14,147
Changes in Net Assets	260,187	(212,094)	48,093	(8,139)	12,200
Net Assets - Beginning of Year	25,492,328	36,219,166	61,711,494	486,745	288,333
Net Assets - End of Year	\$ 25,752,515	\$ 36,007,072	\$ 61,759,587	\$ 478,606	\$ 300,533

See Notes to Financial Statements.

City of Hillsdale, Michigan

Balance Sheet
Governmental Funds
June 30, 2012

	General	Major Street	Local Street	Airport Improvement	Other Nonmajor Governmental Funds	Total
<u>Assets</u>						
Cash and investments	\$ 1,241,793	\$ 163,451	\$ 27,938	\$ 73,310	\$ 1,553,267	\$ 3,059,759
Receivables:						
Accounts receivable	34,591	70,625	23,228	4,267	35,821	168,532
Special assessments	183,726	-	-	-	-	183,726
Due from other funds	79,543	-	-	-	111,916	191,459
Prepaid expenditures	74,820	-	-	-	2,443	77,263
Total assets	\$ 1,614,473	\$ 234,076	\$ 51,166	\$ 77,577	\$ 1,703,447	\$ 3,680,739
<u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable	\$ 78,805	\$ 12,031	\$ 6,756	\$ 348	\$ 64,913	\$ 162,853
Due to other funds	-	-	-	-	112,356	112,356
Salaries payable	65,987	3,353	1,084	-	8,790	79,214
Deferred revenue	298,476	-	-	-	-	298,476
Total liabilities	443,268	15,384	7,840	348	186,059	652,899
Fund Balances:						
Nonspendable:						
Prepaid expenditures	74,820	-	-	-	2,443	77,263
Restricted:						
Special revenue funds	-	218,692	43,326	-	108,971	370,989
Debt service funds	-	-	-	-	3,005	3,005
Capital project funds	-	-	-	77,229	726,542	803,771
Permanent funds	-	-	-	-	676,427	676,427
Unassigned	1,096,385	-	-	-	-	1,096,385
Total fund balances	1,171,205	218,692	43,326	77,229	1,517,388	3,027,840
Total liabilities and fund balances	\$ 1,614,473	\$ 234,076	\$ 51,166	\$ 77,577	\$ 1,703,447	\$ 3,680,739

See Notes to Financial Statements.

City of Hillsdale, Michigan

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
June 30, 2012

Total Fund Balances - Governmental Funds		\$ 3,027,840
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		
The cost of the capital assets is	\$ 41,857,766	
Accumulated depreciation is	<u>(19,539,750)</u>	
		22,318,016
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		183,726
Internal service funds are used by management to charge the costs of certain equipment usage and administrative costs to individual governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		
Net assets of governmental activities accounted for in the internal service fund	751,825	
Less portion included in capital assets	<u>(319,592)</u>	
		432,233
Long-term liabilities not due and payable in the current period and not reported in the funds:		
Contracts and loans payable		(28,000)
Compensated absences		<u>(181,300)</u>
Total Net Assets - Governmental Activities		<u>\$ 25,752,515</u>

City of Hillsdale, Michigan
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2012

	General	Major Street	Local Street	Airport Improvement	Other Nonmajor Governmental Funds	Total
Revenues:						
Taxes	\$ 2,449,816	\$ -	\$ -	\$ -	\$ 148,881	\$ 2,598,697
Intergovernmental - federal and state	782,526	469,764	153,763	64,784	13,502	1,484,339
Licenses and permits	91,273	-	-	-	-	91,273
Charges for services	17,527	-	-	-	72,425	89,952
Fines and violations	8,281	-	-	-	39,140	47,421
Interest and rentals	85,288	476	-	6,915	53,605	146,284
Miscellaneous	1,104,069	2,841	-	56,624	94,116	1,257,650
Total revenues	<u>4,538,780</u>	<u>473,081</u>	<u>153,763</u>	<u>128,323</u>	<u>421,669</u>	<u>5,715,616</u>
Expenditures:						
General government	1,276,830	-	-	-	-	1,276,830
Public safety	1,677,708	-	-	-	5,537	1,683,245
Public works	313,471	-	-	-	-	313,471
Highways and streets	-	396,936	223,048	-	-	619,984
Community and economic development	35,349	-	-	-	-	35,349
Culture and recreation	149,165	-	-	-	332,523	481,688
Debt service:						
Principal payments	-	-	-	-	178,000	178,000
Interest and fiscal charges	-	-	-	-	-	-
Capital outlay	-	-	-	140,589	229,401	369,990
Total expenditures	<u>3,452,523</u>	<u>396,936</u>	<u>223,048</u>	<u>140,589</u>	<u>745,461</u>	<u>4,958,557</u>
Revenues Over (Under) Expenditures	<u>1,086,257</u>	<u>76,145</u>	<u>(69,285)</u>	<u>(12,266)</u>	<u>(323,792)</u>	<u>757,059</u>
Other Financing Sources (Uses):						
Gain (loss) on sale of investment	-	-	-	-	(16)	(16)
Operating transfers in	30,977	-	68,535	-	787,785	887,297
Operating transfers out	(847,313)	-	-	-	(27,997)	(875,310)
Total other financing sources (uses)	<u>(816,336)</u>	<u>-</u>	<u>68,535</u>	<u>-</u>	<u>759,772</u>	<u>11,971</u>
Net Changes in Fund Balances	269,921	76,145	(750)	(12,266)	435,980	769,030
Fund Balances - Beginning of Year	901,284	142,547	44,076	89,495	1,081,408	2,258,810
Fund Balances - End of Year	<u>\$ 1,171,205</u>	<u>\$ 218,692</u>	<u>\$ 43,326</u>	<u>\$ 77,229</u>	<u>\$ 1,517,388</u>	<u>\$ 3,027,840</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds	\$	769,030
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.		
Depreciation expense	\$	(967,221)
Capital outlay		<u>422,851</u>
		(544,370)
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		(57,454)
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the Statement of Net Assets, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.		
Repayment to bond holders		178,000
An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.		
Change in net assets from governmental activities in the internal service fund		(73,719)
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>(11,300)</u>
Change in Net Assets of Governmental Activities	\$	<u><u>260,187</u></u>

City of Hillsdale, Michigan
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Business-type Activities - Enterprise Funds					Governmental Activities
	Electric	Water	Sewer	Nonmajor Fund Dial-A-Ride	Total	Internal Service Funds
Assets:						
Current assets:						
Cash and cash equivalents	\$ 900	\$ 93,724	\$ -	\$ 83,569	\$ 178,193	\$ 187,734
Investments	-	-	-	-	-	50,268
Receivables:						
Accounts (net of allowance for bad debts of \$120,000)	863,908	78,464	75,060	514	1,017,946	-
Accrued interest	9,682	2,668	4,727	-	17,077	-
Due from other funds	297,120	392,771	-	-	689,891	-
Inventory, at cost	384,497	74,851	7,052	-	466,400	207,311
Prepaid expenses	85,364	30,278	43,282	5,829	164,753	31,741
Total current assets	<u>1,641,471</u>	<u>672,756</u>	<u>130,121</u>	<u>89,912</u>	<u>2,534,260</u>	<u>477,054</u>
Noncurrent assets:						
Restricted investments	-	495,190	551,297	-	1,046,487	-
Designated investments	2,468,137	250,341	285,209	-	3,003,687	-
Total noncurrent assets	<u>2,468,137</u>	<u>745,531</u>	<u>836,506</u>	<u>-</u>	<u>4,050,174</u>	<u>-</u>
Capital assets:						
Land	17,467	49,613	122,902	7,419	197,401	-
Plant and equipment	32,045,419	10,406,447	13,913,565	1,087,267	57,452,698	1,856,126
Construction in progress	232,845	28,006	-	-	258,851	-
	<u>32,295,731</u>	<u>10,482,066</u>	<u>14,036,467</u>	<u>1,094,686</u>	<u>57,908,950</u>	<u>1,856,126</u>
Less accumulated depreciation	(20,414,612)	(5,423,526)	(9,672,383)	(310,260)	(35,820,781)	(1,536,534)
Net capital assets	<u>11,881,119</u>	<u>5,058,540</u>	<u>4,364,084</u>	<u>784,426</u>	<u>22,088,169</u>	<u>319,592</u>
Other assets:						
Long-term inventories	394,161	-	-	-	394,161	-
Investment in M.S.C.P.A.	10,835,871	-	-	-	10,835,871	-
Total other assets	<u>11,230,032</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,230,032</u>	<u>-</u>
Total assets	<u>27,220,759</u>	<u>6,476,827</u>	<u>5,330,711</u>	<u>874,338</u>	<u>39,902,635</u>	<u>796,646</u>
Liabilities:						
Current liabilities (payable from current assets):						
Accounts payable	46,039	41,329	23,753	3,425	114,546	15,096
Accrued purchased power	863,193	-	-	-	863,193	-
Accrued expenses	240,719	19,069	25,130	10,261	295,179	2,493
Customer deposits	83,582	7,628	4,488	-	95,698	-
Due to other funds	31,938	3,000	685,255	43,850	764,043	-
Due to other governments	-	-	-	7,983	7,983	-
Total current liabilities (payable from current assets)	<u>1,265,471</u>	<u>71,026</u>	<u>738,626</u>	<u>65,519</u>	<u>2,140,642</u>	<u>17,589</u>
Current liabilities (payable from restricted assets):						
Bonds payable	-	334,000	165,000	-	499,000	-
Accrued interest	-	12,314	825	-	13,139	-
Total current liabilities (payable from restricted assets)	<u>-</u>	<u>346,314</u>	<u>165,825</u>	<u>-</u>	<u>512,139</u>	<u>-</u>
Noncurrent liabilities:						
Accrued compensated absences	109,441	26,835	33,204	7,302	176,782	27,232
General obligation and revenue bonds payable	-	1,066,000	-	-	1,066,000	-
Total noncurrent liabilities	<u>109,441</u>	<u>1,092,835</u>	<u>33,204</u>	<u>7,302</u>	<u>1,242,782</u>	<u>27,232</u>
Total liabilities	<u>1,374,912</u>	<u>1,510,175</u>	<u>937,655</u>	<u>72,821</u>	<u>3,895,563</u>	<u>44,821</u>
Net Assets:						
Invested in capital assets, net of related debt	11,881,119	3,658,540	4,199,084	784,426	20,523,169	319,592
Restricted investments	-	495,190	551,297	-	1,046,487	-
Unrestricted:						
Designated	2,468,137	250,341	285,209	-	3,003,687	-
Undesignated	11,496,591	562,581	(642,534)	17,091	11,433,729	432,233
Total net assets	<u>\$ 25,845,847</u>	<u>\$ 4,966,652</u>	<u>\$ 4,393,056</u>	<u>\$ 801,517</u>	<u>\$ 36,007,072</u>	<u>\$ 751,825</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Revenues, Expenses
and Changes in Net Assets
Proprietary Funds
Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds					Governmental Activities
	Electric	Water	Sewer	Nonmajor Fund	Total	Internal Service Funds
				Dial-A-Ride		
Operating Revenues:						
Charges for services	\$ 11,955,017	\$ 1,232,235	\$ 1,261,665	\$ 49,896	\$ 14,498,813	\$ 416,943
Other	93,468	5,025	9,551	514	108,558	167,212
Total operating revenues	<u>12,048,485</u>	<u>1,237,260</u>	<u>1,271,216</u>	<u>50,410</u>	<u>14,607,371</u>	<u>584,155</u>
Operating Expenses:						
Purchased power	9,617,950	-	-	-	9,617,950	-
Production expense	661,723	62,785	-	-	724,508	-
Purification expense	-	250,408	-	-	250,408	-
Treatment expense	-	-	605,645	-	605,645	-
Transmission and distribution	1,241,342	359,727	-	-	1,601,069	-
Administrative	892,557	262,649	322,366	-	1,477,572	662,734
Sewer collection	-	-	217,630	-	217,630	-
Transportation	-	-	-	343,263	343,263	-
Total operating expenses	<u>12,413,572</u>	<u>935,569</u>	<u>1,145,641</u>	<u>343,263</u>	<u>14,838,045</u>	<u>662,734</u>
Operating Income (Loss)	<u>(365,087)</u>	<u>301,691</u>	<u>125,575</u>	<u>(292,853)</u>	<u>(230,674)</u>	<u>(78,579)</u>
Nonoperating Revenues (Expenses):						
Interest income	32,299	4,521	10,027	-	46,847	759
Interest expense	-	(54,781)	(5,700)	-	(60,481)	-
Other income (expense)	26,190	(6,757)	(41)	186,998	206,390	-
Gain(loss) on disposal of assets	(250,776)	-	-	1,600	(249,176)	3,678
Transfers in from other funds	-	-	-	75,000	75,000	423
Total nonoperating revenues (expenses)	<u>(192,287)</u>	<u>(57,017)</u>	<u>4,286</u>	<u>263,598</u>	<u>18,580</u>	<u>4,860</u>
Changes in Net Assets	<u>(557,374)</u>	<u>244,674</u>	<u>129,861</u>	<u>(29,255)</u>	<u>(212,094)</u>	<u>(73,719)</u>
Net Assets - Beginning of Year	<u>26,403,221</u>	<u>4,721,978</u>	<u>4,263,195</u>	<u>830,772</u>	<u>36,219,166</u>	<u>825,544</u>
Net Assets - End of Year	<u>\$ 25,845,847</u>	<u>\$ 4,966,652</u>	<u>\$ 4,393,056</u>	<u>\$ 801,517</u>	<u>\$ 36,007,072</u>	<u>\$ 751,825</u>

City of Hillsdale, Michigan
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds					Governmental
	Electric	Water	Sewer	Nonmajor	Total	Internal
				Fund		Service
			Dial-A-Ride		Funds	
Cash Flows From Operating Activities:						
Cash received from customers, residents and users	\$ 12,104,173	\$ 1,238,503	\$1,228,949	\$ 50,006	\$ 14,621,631	\$ -
Other operating receipts	110,637	38,994	9,587	514	159,732	-
Receipts for interfund services provided	-	-	-	-	-	584,155
Cash paid to suppliers of goods and services	(10,871,474)	(432,913)	(773,278)	(166,974)	(12,244,639)	(476,512)
Cash paid to employees for services	(747,172)	(250,648)	(383,813)	(141,226)	(1,522,859)	(126,610)
Net cash provided by (used in) operating activities	<u>596,164</u>	<u>593,936</u>	<u>81,445</u>	<u>(257,680)</u>	<u>1,013,865</u>	<u>(18,967)</u>
Cash Flows From Noncapital Financing Activities:						
Intergovernmental nonoperating revenues	-	-	-	186,998	186,998	-
Transfers from other funds	-	-	-	75,000	75,000	423
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>261,998</u>	<u>261,998</u>	<u>423</u>
Cash Flows From Capital and Related Financing Activities:						
Bond payments on capital debt	-	(325,000)	(160,000)	-	(485,000)	-
Interest on capital debt	-	(58,507)	(6,500)	-	(65,007)	-
Proceeds from the disposal of assets	-	-	-	1,600	1,600	3,678
Purchase of capital assets, net	(1,005,159)	(133,144)	(30,871)	(9,327)	(1,178,501)	(45,523)
Net cash used by capital and related financing activities	<u>(1,005,159)</u>	<u>(516,651)</u>	<u>(197,371)</u>	<u>(7,727)</u>	<u>(1,726,908)</u>	<u>(41,845)</u>
Cash Flows from Investing Activities:						
Purchase of investments	(1,458,972)	(391,913)	(400,775)	-	(2,251,660)	(17,885)
Proceeds from the sale of investments	1,554,000	410,000	505,000	-	2,469,000	21,864
Other nonoperating income received	26,190	-	-	-	26,190	-
Other nonoperating expenses	-	(6,757)	(41)	-	(6,798)	-
Interest income received	34,594	5,109	11,742	-	51,445	759
Net cash provided by (used in) investing activities	<u>155,812</u>	<u>16,439</u>	<u>115,926</u>	<u>-</u>	<u>288,177</u>	<u>4,738</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(253,183)</u>	<u>93,724</u>	<u>-</u>	<u>(3,409)</u>	<u>(162,868)</u>	<u>(55,651)</u>
Cash and Cash Equivalents - Beginning of Year	<u>254,083</u>	<u>-</u>	<u>-</u>	<u>86,978</u>	<u>341,061</u>	<u>243,385</u>
Cash and Cash Equivalents - End of Year	<u>\$ 900</u>	<u>\$ 93,724</u>	<u>\$ -</u>	<u>\$ 83,569</u>	<u>\$ 178,193</u>	<u>\$ 187,734</u>

Continued..

City of Hillsdale, Michigan
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds					Governmental
	Electric	Water	Sewer	Nonmajor	Total	Internal
				Fund		Service
			Dial-A-Ride		Funds	
Balance Sheet Classification of Cash						
Current assets - cash and cash equivalents	\$ 900	\$ 93,724	\$ -	\$ 83,569	\$ 178,193	\$ 187,734
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Operating income (loss)	\$ (365,087)	\$ 301,691	\$ 125,575	\$ (292,853)	\$ (230,674)	\$ (78,579)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	684,600	227,003	186,973	35,643	1,134,219	111,327
Changes in:						
Receivables	79,012	4,988	(33,921)	110	50,189	-
Due from other funds	124,876	33,969	36	-	158,881	-
Inventories	18,325	7,839	(2,219)	-	23,945	(22,220)
Prepaid expenses	(10,796)	(3,353)	(4,255)	169	(18,235)	(1,613)
Investments in M.S.C.P.A.	(54,382)	-	-	-	(54,382)	-
Accounts payable	(28,359)	28,869	(43,852)	693	(42,649)	(10,452)
Accrued expenses	170,830	(5,228)	(5,133)	1,394	161,863	(17,430)
Due to other funds	(39,674)	(3,122)	(142,964)	(2,836)	(188,596)	-
Customer deposits	16,819	1,280	1,205	-	19,304	-
Net Cash Provided by (Used In) Operating Activities	\$ 596,164	\$ 593,936	\$ 81,445	\$ (257,680)	\$ 1,013,865	\$ (18,967)

City of Hillsdale, Michigan
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	Hospital Private Purpose Trust Fund	Agency Funds
	<u> </u>	<u> </u>
Assets:		
Cash and investments	\$ 15,286	\$ 15,186
	<u> </u>	<u> </u>
Liabilities:		
Due to other funds	-	4,951
Due to other agencies	-	10,235
Total liabilities	<u> </u>	<u>\$ 15,186</u>
Net Assets:		
Unrestricted	<u>15,286</u>	
Total net assets	<u>\$ 15,286</u>	

City of Hillsdale, Michigan
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2012

	Hospital Private Purpose Trust Fund
Revenue:	
Investment income	<u>\$ 245</u>
Expenses:	
Other	<u> 287</u>
Changes in Net Assets	(42)
Net Assets - Beginning of Year	<u> 15,328</u>
Net Assets - End of Year	<u><u> \$ 15,286</u></u>

City of Hillsdale, Michigan
Notes to Financial Statements

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 – 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 Hillsdale Housing Commission are excluded from the accompanying financial statements since the Housing Commission's operating and capital expenditures, including debt service, are financed entirely from federal grants and rentals, the City has no involvement in the determination of the Housing Commission's budget and rental rates, and it has no obligation for 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

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

The government reports the following major governmental funds:

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

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.

Airport Improvement Fund - This fund is used to account for the financial resources to be used for the construction or acquisition of equipment and improvements of the airport.

The government reports the following major proprietary funds:

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

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

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

Additionally, the government reports the following fund types:

Special Revenue Funds – These funds account for 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

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.

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

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

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

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

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

Additional Financial Statement Presentation Information - Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

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

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 assets.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Additional Financial Statement Presentation Information (Continued) - 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.

Assets, Liabilities, and Net Assets or Equity

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, *Deposit 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 current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

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

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

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

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 Assets) and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund types. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

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 2012 had a taxable value of approximately \$150,000,000 (not including properties subject to Industrial Facilities Tax exemption), representing 50% of estimated current market value. The government's general operating tax rate for fiscal year 2011-12 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.

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information

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

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

City of Hillsdale, Michigan
Notes to Financial Statements

Note 2 - Stewardship, Compliance and Accountability (Continued)

Excess of Expenditures over Appropriations

For the year ended June 30, 2012, expenditures that exceeded appropriations in the General Fund or major special revenue funds, if any, are disclosed in the Required Supplemental Information on pages 31-34.

Note 3 – Cash and Investments

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

	<u>Primary Government</u>	<u>Component Units</u>
Statement of Net Assets:		
Cash and investments	\$7,526,128	\$ 528,851
Statement of Fiduciary Net Assets:		
Hospital Private Purpose Trust Fund:		
Cash and investments	15,286	-
Agency Funds:		
Cash and investments	<u>15,186</u>	<u>-</u>
	<u>\$7,556,600</u>	<u>\$ 528,851</u>
	<u>Primary Government</u>	<u>Component Units</u>
Bank deposits (checking accounts, savings accounts and short-term CDs)	\$ 1,537,741	\$ (18,696)
Investments in securities, mutual funds and similar vehicles	6,017,109	547,547
Cash on hand	<u>1,750</u>	<u>-</u>
	<u>\$7,556,600</u>	<u>\$ 528,851</u>

Interest Rate Risk

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

City of Hillsdale, Michigan
Notes to Financial Statements

Note 3 – Cash and Investments (Continued)

Rating S&P	Investment Type	Remaining Maturity		
		12 Months or Less	1 to 5 Years	Greater Than 5 Years
N/A	Certificates of Deposit	\$ 400,000	\$ 327,289	\$ -
AAAm	Michigan CLASS Investments Pool	1,519,347	-	-
AAA	U.S. Government Agency Bonds	29,421	3,738,156	-
N/A	Fidelity Government Money Market	545,904	-	-
N/A	Fidelity Investment Cash	4,539	-	-

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 \$1,519,347 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, \$1,670,254 of the City's bank balance of \$2,389,263 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. As of year-end, City investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the City to buy the securities - Federal agency securities in the reported amount of \$3,767,577.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 4 – Receivables

Receivables of the governmental activities of the primary government at June 30, 2012, consist of the following:

Other governmental units (primarily the State of Michigan)	\$106,239
Accounts receivable	62,293
Special assessments - short-term	57,000
Special assessments – long-term	<u>126,726</u>
	<u>\$352,258</u>

Note 5 - Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

Primary Government	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ <u>8,181,506</u>	\$ <u>64,784</u>	\$ <u>-</u>	\$ <u>8,246,290</u>
Capital assets being depreciated:				
Land improvements	443,911	26,437	-	470,348
Buildings and improvements	4,797,462	78,433	-	4,875,895
Books	582,765	151,461	439,722	294,504
Equipment and vehicles	2,824,706	45,524	17,076	2,853,154
Infrastructure	<u>25,015,839</u>	<u>101,736</u>	<u>-</u>	<u>25,117,575</u>
Total capital assets being depreciated	<u>33,664,683</u>	<u>403,591</u>	<u>456,798</u>	<u>33,611,476</u>
Accumulated depreciation:				
Land improvements	183,363	19,716	-	203,079
Buildings and improvements	1,503,319	91,471	-	1,594,790
Books	497,803	20,827	439,722	78,908
Equipment and vehicles	2,232,886	167,273	17,076	2,383,083
Infrastructure	<u>14,500,629</u>	<u>779,261</u>	<u>-</u>	<u>15,279,890</u>
Total accumulated depreciation	<u>18,918,000</u>	<u>1,078,548</u>	<u>456,798</u>	<u>19,539,750</u>
Total capital assets being depreciated - net	<u>14,746,683</u>	<u>(674,957)</u>	<u>-</u>	<u>14,071,726</u>
Governmental activities capital assets - net	<u>\$22,928,189</u>	<u>\$ (610,173)</u>	<u>\$ -</u>	<u>\$22,318,016</u>
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 197,401	\$ -	\$ -	\$ 197,401
Construction in progress	<u>503,348</u>	<u>26,006</u>	<u>(270,503)</u>	<u>258,851</u>
Total capital assets not being depreciated	<u>700,749</u>	<u>26,006</u>	<u>(270,503)</u>	<u>456,252</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 5 - Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
Capital assets being depreciated:				
Equipment	482,382	9,327	(90,055)	401,654
Plant and systems	<u>56,596,673</u>	<u>1,143,170</u>	<u>(688,799)</u>	<u>57,051,044</u>
Total capital assets being depreciated	<u>57,079,055</u>	<u>1,152,497</u>	<u>(778,854)</u>	<u>57,452,698</u>
Accumulated depreciation:				
Equipment	350,959	21,931	(90,055)	282,835
Plant and systems	<u>34,863,680</u>	<u>1,112,288</u>	<u>(438,022)</u>	<u>35,537,946</u>
Total accumulated depreciation	<u>35,214,639</u>	<u>1,134,219</u>	<u>(528,077)</u>	<u>35,820,781</u>
Total capital assets being depreciated - net	<u>21,864,416</u>	<u>18,278</u>	<u>(250,777)</u>	<u>21,631,917</u>
Business-type activities capital assets - net	<u>\$22,565,165</u>	<u>\$ 44,284</u>	<u>\$(521,280)</u>	<u>\$22,088,169</u>

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

Governmental Activities:		
Public safety		\$ 42,291
Highways and streets		725,977
Culture and recreation		119,546
Public works		43,039
Unallocated		36,368
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets		<u>111,327</u>
Total depreciation expense – governmental activities		<u>\$ 1,078,548</u>
Business-Type Activities:		
Electric		\$ 684,600
Water		227,003
Sewer		186,973
Transportation		<u>35,643</u>
Total depreciation expense – business-type activities		<u>\$ 1,134,219</u>

Note 6 - Interfund Receivables, Payables and Transfers

The City reports interfund balances between many of its funds. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and proprietary funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. In the prior year, the Cemetery Perpetual Care Fund loaned the Library Fund monies to pay off a loan for improvements. The balance at year-end was approximately \$112,000.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 6 - Interfund Receivables, Payables and Transfers (Continued)

	<u>Receivable</u>	<u>Payable</u>
Due from/to other funds:		
General Fund	\$ 79,543	\$ -
Nonmajor Governmental Funds	111,916	112,356
Water Fund	392,771	3,000
Sewer Fund	-	685,255
Electric Fund	297,120	31,938
Agency Funds	-	4,951
Nonmajor Enterprise Fund	-	43,850
	<u>\$ 881,350</u>	<u>\$ 881,350</u>
	<u>Transfers In</u>	<u>Transfers Out</u>
Transfers:		
General Fund	\$ 30,977	\$ 847,313
Local Street	68,535	-
Nonmajor Governmental Funds	787,785	27,997
Component Units	-	87,410
Revolving Mobile Equipment Fund	423	-
Nonmajor Enterprise Fund	75,000	-
	<u>\$ 962,720</u>	<u>\$ 962,720</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; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 7 - Investment In Michigan South Central Power Agency

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

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

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

City of Hillsdale, Michigan
Notes to Financial Statements

Note 7 - Investment in Michigan South Central Power Agency (Continued)

The City of Hillsdale Board of Public Utilities is accounting for its investment in M.S.C.P.A. as a joint venture in accordance with GASB Statement No. 14. Information presented below is taken from financial statements of the M.S.C.P.A. for the year ended June 30, 2012, audited by other auditors whose report dated August 21, 2012, expressed an unqualified opinion for those statements.

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

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, 2012, is as follows:

	Total M.S.C.P.A.	Hillsdale Board of Public Utilities Portion 25.5%
Total assets	\$51,612,086	\$13,161,083
Total liabilities	<u>9,118,477</u>	<u>2,325,212</u>
Net Assets	<u>\$42,493,609</u>	<u>\$10,835,871</u>
Operating revenues	\$45,776,324	\$11,672,963
Operating expenses	<u>45,347,738</u>	<u>11,563,673</u>
Operating Income	428,586	109,290
Other income and expenses	<u>(215,325)</u>	<u>(54,908)</u>
Changes in Net Assets	213,261	54,382
Net Assets, Beginning of Year	<u>42,280,348</u>	<u>10,781,489</u>
Net Assets, End of Year	<u>\$42,493,609</u>	<u>\$10,835,871</u>

City of Hillsdale, Michigan
Notes to Financial Statements

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. No amounts were borrowed from this line as of year-end.

Long-term liability activity for the year ended June 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental activities:					
Contract and loans payable	\$ 206,000	\$ -	\$ 178,000	\$ 28,000	\$ 28,000
Compensated absences	<u>214,239</u>	<u>-</u>	<u>5,707</u>	<u>208,532</u>	<u>21,000</u>
	<u>\$ 420,239</u>	<u>\$ -</u>	<u>\$ 183,707</u>	<u>\$ 236,532</u>	<u>\$ 49,000</u>
Business-type activities:					
Revenue bonds	\$2,050,000	\$ -	\$ 485,000	\$1,565,000	\$ 499,000
Compensated absences	<u>205,981</u>	<u>-</u>	<u>29,199</u>	<u>176,782</u>	<u>-</u>
	<u>\$2,255,981</u>	<u>\$ -</u>	<u>\$ 514,199</u>	<u>\$1,741,782</u>	<u>\$ 499,000</u>

For the governmental activities, compensated absences are generally liquidated by 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.

Other Obligations - The government has entered into various long-term loan and installment contract agreements.

Loan and installment obligations currently outstanding are as follows:

<u>Purpose</u>	<u>Due in Fiscal Year End</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities:			
Other government debt:			
Loan – Community			
Development Block Grant –			
Industrial park property acquisitions	2013	0.00%	\$ <u>28,000</u>
			<u>\$ 28,000</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 8 - Debt (Continued)

Annual debt service requirements to maturity for the loan are as follows:

<u>Year Ending June 30,</u>	<u>Other Governmental Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 28,000	\$ -
Total	<u>\$ 28,000</u>	<u>\$ -</u>

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%	\$ 850,000
2002 Water Refunding	2015	3.625% - 4.00%	550,000
1992 Sewer	2013	2%	<u>165,000</u>
			<u>\$1,565,000</u>

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 499,000	\$ 50,201
2014	347,000	34,330
2015	361,000	20,750
2016	175,000	10,461
2017	<u>183,000</u>	<u>3,568</u>
Total	<u>\$1,565,000</u>	<u>\$119,310</u>

Note 9 - Segment Information – Enterprise Funds

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

Note 10 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2012, 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.

City of Hillsdale, Michigan
Notes to Financial Statements

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 ME'R 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.

Annual Pension Cost - For the year ended June 30, 2012, the City's pension cost of \$163,485 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2011 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 10.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability at December 31, 2011, the date of the latest actuarial valuation, is being amortized as a level percentage of projected payroll on an open basis over 28 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/09	\$240,089	100%	\$ -
6/30/10	229,262	100%	-
6/30/11	163,485	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Assets in Excess of AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/09	\$17,887,885	\$17,082,847	\$804,897	105%	\$3,769,712	-21.4%
12/31/10	18,431,442	17,892,124	539,318	103%	3,632,843	-14.8
12/31/11	18,731,506	19,105,980	(374,474)	98%	3,508,427	10.7

City of Hillsdale, Michigan
Notes to Financial Statements

Note 11 - Pension Plan (Continued)

The required schedule of funding progress presented as required supplemental 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.

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 \$514, 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, 2011 through June 30, 2012, Dial-A-Ride paid \$1,712 in 50201 Pension. Of this amount, \$1,712 paid the actuarial required minimum contribution and \$0 was paid in excess of the actuarial required minimum contribution. The entire amount of \$1,712 was expensed on the books and is included in Dial-A-Ride's total eligible expenses for the fiscal year ending September 30, 2012.

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

Required Supplemental Information

City of Hillsdale, Michigan
 Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2012

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
City Taxes:			
Property	\$ 2,209,000	\$ 2,359,000	\$ 2,288,077
Administrative fees	72,000	72,000	71,551
Interest and penalties	45,000	45,000	41,532
Industrial facilities tax	45,000	45,000	48,656
Total city taxes	<u>2,371,000</u>	<u>2,521,000</u>	<u>2,449,816</u>
State revenue	538,000	708,000	781,155
Federal revenue	-	-	1,371
Licenses and permits	84,600	84,600	91,273
Charges for services	15,500	15,500	17,527
Fines and violations	3,500	3,500	8,281
Interest and rentals	75,200	75,200	85,288
Other revenue	<u>830,920</u>	<u>1,130,920</u>	<u>1,104,069</u>
Total revenues	<u>3,918,720</u>	<u>4,538,720</u>	<u>4,538,780</u>
Expenditures:			
General government:			
Council	29,445	29,445	25,730
City manager	226,300	226,300	199,649
Administrative	186,500	236,500	217,854
Elections	14,365	14,365	12,126
Assessor	147,100	147,100	138,414
Clerk	83,115	83,115	66,291
Finance department	99,325	99,325	92,736
Treasurer	121,810	271,810	190,072
Building and grounds	111,350	126,350	116,449
Parking lots	31,315	31,315	20,178
Cemetery	114,290	114,290	115,477
Airport	87,130	87,130	81,854
Total general government	<u>1,252,045</u>	<u>1,467,045</u>	<u>1,276,830</u>
Public safety:			
Police	1,238,750	1,268,750	1,253,177
Fire	471,460	441,460	422,481
Building inspector	4,400	4,400	2,050
Total public safety	<u>1,714,610</u>	<u>1,714,610</u>	<u>1,677,708</u>
Public works:			
Public services	287,515	287,515	252,169
Street lights	65,500	65,500	61,302
Total public works	<u>353,015</u>	<u>353,015</u>	<u>313,471</u>

Continued...

City of Hillsdale, Michigan
 Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2012

	Budgeted Amounts		Actual
	Original	Final	
Expenditures (Continued):			
Community and economic development:			
Planning	\$ 5,600	\$ 5,600	\$ 2,634
Economic development	100,000	100,000	32,715
Total community and economic development	<u>105,600</u>	<u>105,600</u>	<u>35,349</u>
Culture and recreation	<u>146,410</u>	<u>146,410</u>	<u>149,165</u>
Total expenditures	<u>3,571,680</u>	<u>3,786,680</u>	<u>3,452,523</u>
Revenues Over (Under) Expenditures	<u>347,040</u>	<u>752,040</u>	<u>1,086,257</u>
Other Financing Sources (Uses):			
Transfers in	32,000	32,000	30,977
Transfers out	(526,780)	(876,780)	(847,313)
Total other financing sources (uses)	<u>(494,780)</u>	<u>(844,780)</u>	<u>(816,336)</u>
Net Changes In Fund Balances	(147,740)	(92,740)	269,921
Fund Balances - Beginning of Year	<u>901,284</u>	<u>901,284</u>	<u>901,284</u>
Fund Balances - End of Year	<u>\$ 753,544</u>	<u>\$ 808,544</u>	<u>\$ 1,171,205</u>

City of Hillsdale, Michigan
 Budgetary Comparison Schedule
 Major Street Fund
 Year Ended June 30, 2012

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
State revenue	\$ 430,100	\$ 430,100	\$ 469,764
Interest and rentals	300	300	476
Other revenue	2,500	2,500	2,841
Total revenues	432,900	432,900	473,081
Expenditures:			
Highways and streets:			
General government	41,650	41,650	45,610
Street surface	79,555	79,555	51,251
Trunkline street surface	12,220	12,220	4,900
R.O.W maintenance	66,415	66,415	69,226
Trunkline R.O.W. maintenance	9,195	9,195	4,245
Trees	44,750	44,750	45,356
Trunkline trees	625	625	788
Drainage	35,420	35,420	42,301
Trunkline R.O.W. drainage	4,325	4,325	4,148
Traffic	50,730	50,730	65,409
Trunkline traffic	6,730	6,730	4,760
Winter maintenance	85,570	85,570	46,074
Trunkline winter maintenance	23,350	23,350	12,868
Total highways and streets	460,535	460,535	396,936
Total expenditures	460,535	460,535	396,936
Net Changes in Fund Balances	(27,635)	(27,635)	76,145
Fund Balances - Beginning of Year	142,547	142,547	142,547
Fund Balances - End of Year	\$ 114,912	\$ 114,912	\$ 218,692

City of Hillsdale, Michigan
 Budgetary Comparison Schedule
 Local Street Fund
 Year Ended June 30, 2012

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
State revenue	\$ 141,300	\$ 141,300	\$ 153,763
Total revenues	<u>141,300</u>	<u>141,300</u>	<u>153,763</u>
Expenditures:			
Highways and streets:			
General government	12,770	12,770	14,010
Street surface	73,440	73,440	54,075
R.O.W maintenance	73,195	73,195	49,225
Trees	58,370	58,370	52,625
Drainage	23,785	23,785	12,507
Traffic	18,735	18,735	14,245
Winter maintenance	49,540	49,540	26,361
Total highways and streets	<u>309,835</u>	<u>309,835</u>	<u>223,048</u>
Total expenditures	<u>309,835</u>	<u>309,835</u>	<u>223,048</u>
Revenues Over (Under) Expenditures	<u>(168,535)</u>	<u>(168,535)</u>	<u>(69,285)</u>
Other Financing Sources (Uses):			
Transfers in	168,535	68,535	68,535
Total other financing sources (uses)	<u>168,535</u>	<u>68,535</u>	<u>68,535</u>
Net Changes in Fund Balances	-	(100,000)	(750)
Fund Balances - Beginning of Year	<u>44,076</u>	<u>44,076</u>	<u>44,076</u>
Fund Balances - End of Year	<u>\$ 44,076</u>	<u>\$ (55,924)</u>	<u>\$ 43,326</u>

City of Hillsdale, Michigan
Municipal Employees Retirement System of Michigan
Year Ended June 30, 2012

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)
2007	\$ 16,926,763	\$ 16,134,278	\$ (792,485)	104.9%	\$ 3,799,429	-20.9%
2008	17,395,167	16,606,847	(788,320)	104.7%	3,893,506	-20.2%
2009	17,887,885	17,082,988	(804,897)	104.7%	3,769,712	-21.4%
2010	18,431,442	17,892,124	(539,318)	103.0%	3,632,843	-14.8%
2011	18,731,506	19,105,980	374,474	98.0%	3,508,427	10.7%

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Annual Actual Contribution	Percentage Contributed
2007	\$ 220,196	\$ 220,196	100%
2008	231,791	231,791	100%
2009	240,089	240,089	100%
2010	229,262	229,262	100%
2011	163,485	163,485	100%

Other Supplemental Information

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

	Special Revenue	Debt Service	Capital Project	Permanent Funds	Total
<u>Assets</u>					
Cash and investments	\$ 198,989	\$ 3,005	\$ 786,607	\$ 564,666	\$ 1,553,267
Accounts receivable	35,767	-	-	54	35,821
Due from other funds	209	-	-	111,707	111,916
Prepaid expenditures	2,443	-	-	-	2,443
Total assets	\$ 237,408	\$ 3,005	\$ 786,607	\$ 676,427	\$ 1,703,447
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 5,204	\$ -	\$ 59,709	\$ -	\$ 64,913
Accrued payroll and related liabilities	8,434	-	356	-	8,790
Due to other funds	112,356	-	-	-	112,356
Total liabilities	125,994	-	60,065	-	186,059
Fund Balances:					
Nonspendable:					
Prepaid expenditures	2,443	-	-	-	2,443
Restricted	108,971	3,005	726,542	676,427	1,514,945
Total fund balances	111,414	3,005	726,542	676,427	1,517,388
Total liabilities and fund balances	\$ 237,408	\$ 3,005	\$ 786,607	\$ 676,427	\$ 1,703,447

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2012

	Special Revenue	Debt Service	Capital Project	Permanent Funds	Total
Revenues:					
Taxes	\$ 148,881	\$ -	\$ -	\$ -	\$ 148,881
Intergovernmental - federal and state	13,502	-	-	-	13,502
Charges for services	59,050	-	-	13,375	72,425
Fines and violations	39,140	-	-	-	39,140
Interest and rentals	26,025	-	29	27,551	53,605
Miscellaneous	56,651	-	36,390	1,075	94,116
Total revenues	<u>343,249</u>	<u>-</u>	<u>36,419</u>	<u>42,001</u>	<u>421,669</u>
Expenditures:					
Public safety	5,537	-	-	-	5,537
Culture and recreation	332,523	-	-	-	332,523
Debt service:					
Principal payments	-	178,000	-	-	178,000
Interest and fiscal charges	-	-	-	-	-
Capital outlay	-	-	229,401	-	229,401
Total expenditures	<u>338,060</u>	<u>178,000</u>	<u>229,401</u>	<u>-</u>	<u>745,461</u>
Revenues Over (Under) Expenditures	<u>5,189</u>	<u>(178,000)</u>	<u>(192,982)</u>	<u>42,001</u>	<u>(323,792)</u>
Other Financing Sources (Uses):					
Gain (loss) on sale of investment	-	-	-	(16)	(16)
Transfers in	47,555	178,000	562,230	-	787,785
Transfers out	(2,000)	-	-	(25,997)	(27,997)
Total other financing sources (uses)	<u>45,555</u>	<u>178,000</u>	<u>562,230</u>	<u>(26,013)</u>	<u>759,772</u>
Changes in Fund Balances	50,744	-	369,248	15,988	435,980
Fund Balances - Beginning of Year	<u>60,670</u>	<u>3,005</u>	<u>357,294</u>	<u>660,439</u>	<u>1,081,408</u>
Fund Balances - End of Year	<u>\$ 111,414</u>	<u>\$ 3,005</u>	<u>\$ 726,542</u>	<u>\$ 676,427</u>	<u>\$ 1,517,388</u>

City of Hillsdale, Michigan
 Combining Balance Sheet
 Nonmajor Special Revenue Funds
 June 30, 2012

	Library	Recreation Commission	Drug Forfeitures	Police Public Relations	Fire Equipment	Total
Assets						
Cash and cash equivalents	\$ 2,630	\$ 12,096	\$ 711	\$ 1,447	\$ -	\$ 16,884
Investments	142,394	-	-	-	39,711	182,105
Accounts receivable	35,229	538	-	-	-	35,767
Due from other funds	209	-	-	-	-	209
Prepaid expenditures	-	2,443	-	-	-	2,443
Total assets	\$ 180,462	\$ 15,077	\$ 711	\$ 1,447	\$ 39,711	\$ 237,408
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 3,554	\$ 1,550	\$ -	\$ 100	\$ -	\$ 5,204
Accrued payroll and related liabilities	4,861	3,573	-	-	-	8,434
Due to other funds	112,264	92	-	-	-	112,356
Total liabilities	120,679	5,215	-	100	-	125,994
Fund Balances:						
Nonspendable:						
Prepaid expenditures	-	2,443	-	-	-	2,443
Restricted	59,783	7,419	711	1,347	39,711	108,971
Total fund balances	59,783	9,862	711	1,347	39,711	111,414
Total liabilities and fund balances	\$ 180,462	\$ 15,077	\$ 711	\$ 1,447	\$ 39,711	\$ 237,408

City of Hillsdale, Michigan
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Special Revenue Funds
 Year Ended June 30, 2012

	Library	Recreation Commission	Drug Forfeitures	Police Public Relations	Fire Equipment	Total
Revenues:						
Taxes	\$ 148,881	-	-	-	-	\$ 148,881
Intergovernmental - federal and state	13,502	-	-	-	-	13,502
Charges for services	23,512	35,538	-	-	-	59,050
Fines and violations	39,140	-	-	-	-	39,140
Interest and rentals	5,598	20,390	-	-	37	26,025
Miscellaneous	47,243	6,943	-	2,065	400	56,651
Total revenues	<u>277,876</u>	<u>62,871</u>	<u>-</u>	<u>2,065</u>	<u>437</u>	<u>343,249</u>
Expenditures:						
Public safety	-	-	-	5,537	-	5,537
Culture and recreation	231,521	101,002	-	-	-	332,523
Total expenditures	<u>231,521</u>	<u>101,002</u>	<u>-</u>	<u>5,537</u>	<u>-</u>	<u>338,060</u>
Revenues Over (Under) Expenditures	<u>46,355</u>	<u>(38,131)</u>	<u>-</u>	<u>(3,472)</u>	<u>437</u>	<u>5,189</u>
Other Financing Sources (Uses):						
Transfers in	-	47,555	-	-	-	47,555
Transfers out	(2,000)	-	-	-	-	(2,000)
Total other financing sources (uses)	<u>(2,000)</u>	<u>47,555</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,555</u>
Changes in Fund Balances	<u>44,355</u>	<u>9,424</u>	<u>-</u>	<u>(3,472)</u>	<u>437</u>	<u>50,744</u>
Fund Balances - Beginning of Year	<u>15,428</u>	<u>438</u>	<u>711</u>	<u>4,819</u>	<u>39,274</u>	<u>60,670</u>
Fund Balances - End of Year	<u>\$ 59,783</u>	<u>\$ 9,862</u>	<u>\$ 711</u>	<u>\$ 1,347</u>	<u>\$ 39,711</u>	<u>\$ 111,414</u>

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Debt Service Fund
June 30, 2012

	<u>Assets</u>	<u>Bond and Interest</u>
Cash and cash equivalents		\$ 3,005
	<u>Fund Balance</u>	
Restricted		3,005
Total fund balance		\$ 3,005

City of Hillsdale, Michigan
 Combining Statement of Revenues, Expenditures, and
 Changes in Fund Balances
 Nonmajor Debt Service Fund
 Year Ended June 30, 2012

	<u>Bond and Interest</u>
Revenue:	
Interest income	\$ -
Expenditures:	
Principal retirement	178,000
Interest and fiscal charges	-
Total expenditures	<u>178,000</u>
Revenues Under Expenditures	(178,000)
Other Financing Sources:	
Transfers in	<u>178,000</u>
Changes in Fund Balance	-
Fund Balance - Beginning of Year	<u>3,005</u>
Fund Balance - End of Year	<u><u>\$ 3,005</u></u>

City of Hillsdale, Michigan
 Combining Balance Sheet
 Nonmajor Capital Project Funds
 June 30, 2012

<u>Assets</u>	<u>Library Improvement</u>	<u>Three Meadows</u>	<u>Field of Dreams</u>	<u>Stock Park</u>	<u>Capital Improvement</u>	<u>Total</u>
Cash and cash equivalents	\$ 14,341	\$ 423	\$ (190)	\$ (738)	\$ 739,544	\$ 753,380
Investments	-	-	9,715	23,512	-	33,227
Total assets	<u>\$ 14,341</u>	<u>\$ 423</u>	<u>\$ 9,525</u>	<u>\$ 22,774</u>	<u>\$ 739,544</u>	<u>\$ 786,607</u>
 <u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable	-	-	-	\$ 3,928	\$ 55,781	\$ 59,709
Accrued payroll and related liabilities	-	-	-	-	356	356
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 3,928</u>	<u>\$ 56,137</u>	<u>\$ 60,065</u>
Fund Balances:						
Restricted	14,341	423	9,525	18,846	683,407	726,542
Total fund balances	<u>14,341</u>	<u>423</u>	<u>9,525</u>	<u>18,846</u>	<u>683,407</u>	<u>726,542</u>
Total liabilities and fund balances	<u>\$ 14,341</u>	<u>\$ 423</u>	<u>\$ 9,525</u>	<u>\$ 22,774</u>	<u>\$ 739,544</u>	<u>\$ 786,607</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures and,
Changes in Fund Balances
Nonmajor Capital Project Funds
Year Ended June 30, 2012

	Library Improvement	Three Meadows	Field of Dreams	Stock Park	Capital Improvement	Total
Revenues:						
Interest and rentals	\$ -	\$ -	\$ 8	\$ 21	\$ -	\$ 29
Miscellaneous	14,341	-	3,386	18,663	-	36,390
Total revenues	14,341	-	3,394	18,684	-	36,419
Expenditures:						
Capital outlay	-	-	-	17,340	212,061	229,401
Total expenditures	-	-	-	17,340	212,061	229,401
Revenues Over (Under) Expenditures	14,341	-	3,394	1,344	(212,061)	(192,982)
Other Financing Sources (Uses):						
Transfers in	-	-	-	-	562,230	562,230
Total other financing sources (uses)	-	-	-	-	562,230	562,230
Changes in Fund Balances	14,341	-	3,394	1,344	350,169	369,248
Fund Balances - Beginning of Year	-	423	6,131	17,502	333,238	357,294
Fund Balances - End of Year	\$ 14,341	\$ 423	\$ 9,525	\$ 18,846	\$ 683,407	\$ 726,542

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Permanent Funds
June 30, 2012

	<u>R.L. Owen Memorial</u>	<u>Cemetery Perpetual Care</u>	<u>Stock Park Maintenance</u>	<u>Total</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 29,233	\$ 249,150	\$ -	\$ 278,383
Investments, at cost	-	267,847	18,436	286,283
Accounts receivable	-	-	54	54
Due from other funds	-	111,707	-	111,707
Total assets	<u>\$ 29,233</u>	<u>\$ 628,704</u>	<u>\$ 18,490</u>	<u>\$ 676,427</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Due to other agencies	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balances:				
Restricted	<u>29,233</u>	<u>628,704</u>	<u>18,490</u>	<u>676,427</u>
Total fund balances	<u>29,233</u>	<u>628,704</u>	<u>18,490</u>	<u>676,427</u>
Total liabilities and fund balances	<u>\$ 29,233</u>	<u>\$ 628,704</u>	<u>\$ 18,490</u>	<u>\$ 676,427</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures and,
Changes in Fund Balances
Nonmajor Permanent Funds
Year Ended June 30, 2012

	R.L. Owen Memorial	Cemetery Perpetual Care	Stock Park Maintenance	Total
Revenues:				
Charges for services	\$ -	\$ 13,375	\$ -	\$ 13,375
Interest and rentals	6,081	21,302	168	27,551
Miscellaneous	-	-	1,075	1,075
Total revenues	<u>6,081</u>	<u>34,677</u>	<u>1,243</u>	<u>42,001</u>
Other Financing Sources (Uses):				
Gain (loss) on sale of investment	-	(16)	-	(16)
Transfers out	(5,997)	(20,000)	-	(25,997)
Total other financing sources (uses)	<u>(5,997)</u>	<u>(20,016)</u>	<u>-</u>	<u>(26,013)</u>
Changes in Fund Balances	84	14,661	1,243	15,988
Fund Balances - Beginning of Year	<u>29,149</u>	<u>614,043</u>	<u>17,247</u>	<u>660,439</u>
Fund Balances - End of Year	<u>\$ 29,233</u>	<u>\$ 628,704</u>	<u>\$ 18,490</u>	<u>\$ 676,427</u>

City of Hillsdale, Michigan

Local Revenues

Dial-A-Ride Enterprise Fund

Year Ended June 30, 2012

	07/01/2011 - 09/30/2011	10/01/2011 - 06/30/2012	Total
Operating Revenues and Transfers:			
Demand response (farebox) - nonurban	\$ 8,800	\$ 41,096	\$ 49,896
Other	1,600	514	2,114
Transfer in from general fund	-	75,000	75,000
Total local revenues	<u>\$ 10,400</u>	<u>\$ 116,610</u>	<u>\$ 127,010</u>

City of Hillsdale, Michigan
 Local Revenues
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2011 Year End

	10/01/2010 - 06/30/2011	07/1/2011 - 09/30/2011	Total
Operating Revenues and Transfers:			
Demand response (farebox) - nonurban	\$ 50,770	\$ 8,800	\$ 59,570
Other	25	1,600	1,625
Transfer in from general fund	<u>105,419</u>	<u>-</u>	<u>105,419</u>
 Total local revenues	 <u>\$ 156,214</u>	 <u>\$ 10,400</u>	 <u>\$ 166,614</u>

City of Hillsdale, Michigan

Federal and State Awards

Dial-A-Ride Enterprise Fund

Year Ended June 30, 2012

	<u>07/01/2011 -</u> <u>09/30/2011</u>	<u>10/1/2011 -</u> <u>06/30/2012</u>	<u>Total</u>
Michigan Department of Transportation			
Local bus operating	\$ 1,965	\$ 104,084	\$ 106,049
Federal Transit Administration			
Section 5311	15,637	54,777	70,414
Repayment of advance	(15,637)	-	(15,637)
Capital grant	6,410	19,761	26,171
RTAP	-	-	-
Total federal and state awards	<u>\$ 8,375</u>	<u>\$ 178,622</u>	<u>\$ 186,997</u>

City of Hillsdale, Michigan
 Federal and State Awards
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2011 Year End

	<u>10/01/2010 - 06/30/2011</u>	<u>07/1/2011 - 09/30/2011</u>	<u>Total</u>
Michigan Department of Transportation			
Local bus operating	\$ 108,541	\$ 1,965	\$ 110,506
Federal Transit Administration			
Section 5311	56,102	15,637	71,739
Repayment of advance	-	(15,637)	(15,637)
Capital grant	-	6,410	6,410
RTAP	<u>429</u>	<u>-</u>	<u>429</u>
 Total federal and state awards	 <u>\$ 165,072</u>	 <u>\$ 8,375</u>	 <u>\$ 173,447</u>

City of Hillsdale, Michigan
Operating and Contract Expenses
Dial-A-Ride Enterprise Fund
Year Ended June 30, 2012

	<u>Nonurban</u>	<u>Total</u>
Labor	\$ 163,474	\$ 163,474
Fringe benefits	72,463	72,463
Services	9,039	9,039
Materials and supplies	28,324	28,324
Insurance	12,187	12,187
Utilities	9,799	9,799
Miscellaneous	1,555	1,555
Depreciation	35,643	35,643
Capital	<u>10,778</u>	<u>10,778</u>
 Total expenses	 <u>\$ 343,262</u>	 <u>\$ 343,262</u>

City of Hillsdale, Michigan
 Operating and Contract Expenses
 Dial-A-Ride Enterprise Fund
 Year Ended June 30, 2012

	Nonurban		Total
	07/01/2011 - 9/30/2011	10/01/2011 - 6/30/2012	
Labor	\$ 30,747	\$ 132,727	\$ 163,474
Fringe benefits	20,491	51,972	72,463
Services	737	8,302	9,039
Materials and supplies	3,713	24,611	28,324
Insurance	-	12,187	12,187
Utilities	1,409	8,390	9,799
Miscellaneous	472	1,083	1,555
Depreciation	-	35,643	35,643
Capital	<u>2,033</u>	<u>8,745</u>	<u>10,778</u>
 Total expenses	 <u>\$ 59,602</u>	 <u>\$ 283,660</u>	 <u>\$ 343,262</u>

City of Hillsdale, Michigan
 Operating and Contract Expenses
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2011 Year End

	Nonurban		Total
	10/1/2010 - 6/30/2011	7/01/2011 - 9/30/2011	
Labor	\$ 133,082	\$ 30,747	\$ 163,829
Fringe benefits	62,115	20,491	82,606
Services	10,129	737	10,866
Materials and supplies	21,483	3,713	25,196
Insurance	6,595	-	6,595
Utilities	7,968	1,409	9,377
Miscellaneous	3,819	472	4,291
Depreciation	30,087	-	30,087
Capital expenditures	-	2,033	2,033
Total expenses	\$ 275,278	\$ 59,602	\$ 334,880

City of Hillsdale, Michigan
 Nonurban Regular Service Revenue Report
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2011 Year End

Code	Description	Amount
401	Farebox Revenue	
40100	Passenger fares	\$ 59,570
407	NonTrans Revenues	
40760	Gains from the sale of capital assets	1,625
409	Local Revenue	
40910	Local operating assistance	105,419
411	State Formula and Contracts	
41101	State operating assistance	110,506
413	Federal Contracts	
41301	Federal Section 5311 (operating funds only)	56,102
41314	Capital contract reimbursement	6,410
41398	RTAP	429
	Total revenues	<u>\$ 340,061</u>

City of Hillsdale, Michigan
 Nonurban Regular Service Expense Report
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2011 Year End

Code	Description	Operations	Maintenance	General Administration	Total
501	Labor				
50101	Operators' salaries and wages	\$ 102,684	\$ -	\$ -	\$ 102,684
50102	Other salaries and wages	-	5,391	21,562	26,953
50103	Dispatchers salaries and wages	34,192	-	-	34,192
502	Fringe Benefits				
50200	Other fringe benefits	68,389	1,854	12,363	82,606
503	Services				
50305	Audit costs	-	-	1,111	1,111
50399	Other services	2,801	2,803	4,151	9,755
504	Materials and Supplies				
50401	Fuel and lubricants	21,578	-	-	21,578
50402	Tires and tubes	2,291	-	-	2,291
50499	Other materials and supplies	1,896	1,464	-	3,360
505	Utilities				
50500	Utilities	6,595	-	-	6,595
506	Insurance				
50603	Liability insurance	6,254	-	-	6,254
50699	Other insurance	-	-	3,123	3,123
509	Miscellaneous Expenses				
50902	Travel, meetings and training	352	-	-	352
50999	Miscellaneous	-	-	3,939	3,939
512	Operating leases and rentals				
51200	Operating leases and rentals	-	-	-	-
513	Depreciation				
51300	Depreciation	30,087	-	-	30,087
550	Ineligible expenses				
55007	Ineligible depreciation	30,087	-	-	30,087
574	Ineligible expenses				
57402	Ineligible RTAP	429	-	-	429
576	Ineligible expenses				
57604	Ineligible capital expense	-	-	-	-
	Total expenses				<u>\$ 334,880</u>
	Total ineligible expenses				<u>\$ 30,516</u>
	Total eligible expenses				<u>\$ 304,364</u>

City of Hillsdale, Michigan
Nonurban Regular Service Nonfinancial Report
Dial-A-Ride Enterprise Fund
Based on a September 30, 2011 Year End

<u>Code</u>	<u>Public Service</u> <u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles	<u>51,250</u>	<u>-</u>	<u>-</u>	<u>51,250</u>

City of Hillsdale, Michigan
 Operating Assistance Calculation
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2011 Year End

	<u>Nonurban</u>
Total expenses	\$ 334,880
Less ineligible expenses:	
Depreciation	30,087
RTAP	429
Capital expenditures	-
Total State eligible expenses	<u>\$ 304,364</u>
Eligible expenses for State reimbursement	\$ 304,364
Reimbursement percentage	<u>0.363073</u>
State operating assistance	<u>\$ 110,506</u>
Total federal eligible expenses	\$ 304,364
Less additional federal ineligible expenses per A-87	
Audit costs	<u>1,111</u>
Eligible expenses for federal reimbursement	303,253
Reimbursement percentage	<u>0.185</u>
Section 5311 operating assistance	<u>\$ 56,102</u>

City of Hillsdale, Michigan
Combining Statement of Net Assets
Internal Service Funds
June 30, 2012

	Department of Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	Total
Assets:					
Current assets:					
Cash and cash equivalents	\$ 18,024	\$ 28,036	\$ 141,674	\$ -	\$ 187,734
Investments	-	-	-	50,268	50,268
Inventory	-	207,311	-	-	207,311
Prepaid expenses	13,825	-	17,916	-	31,741
Total current assets	<u>31,849</u>	<u>235,347</u>	<u>159,590</u>	<u>50,268</u>	<u>477,054</u>
Capital assets:					
Equipment	-	-	1,856,126	-	1,856,126
Less: accumulated depreciation	-	-	(1,536,534)	-	(1,536,534)
Total capital assets, net	<u>-</u>	<u>-</u>	<u>319,592</u>	<u>-</u>	<u>319,592</u>
Total assets	<u>31,849</u>	<u>235,347</u>	<u>479,182</u>	<u>50,268</u>	<u>796,646</u>
Liabilities:					
Current liabilities:					
Accounts payable	-	78	15,018	-	15,096
Accrued payroll and related liabilities	-	645	1,848	-	2,493
Total current liabilities	<u>-</u>	<u>723</u>	<u>16,866</u>	<u>-</u>	<u>17,589</u>
Other liabilities:					
Compensated absences	23,954	-	3,278	-	27,232
Total liabilities	<u>23,954</u>	<u>723</u>	<u>20,144</u>	<u>-</u>	<u>44,821</u>
Net Assets:					
Invested in capital assets, net of related debt	-	-	319,592	-	319,592
Unrestricted	7,895	234,624	139,446	50,268	432,233
Total net assets	<u>\$ 7,895</u>	<u>\$ 234,624</u>	<u>\$ 459,038</u>	<u>\$ 50,268</u>	<u>\$ 751,825</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenses
and Changes in Net Assets
Internal Service Funds
Year Ended June 30, 2012

	Department of Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	Total
Operating Revenues:					
Charges for services	\$ -	\$ 68,723	\$ 348,220	\$ -	\$ 416,943
Other revenue	142,769	-	6,559	17,884	167,212
Total operating revenues	<u>142,769</u>	<u>68,723</u>	<u>354,779</u>	<u>17,884</u>	<u>584,155</u>
Operating Expenses:					
Salaries	45,420	3,445	60,315	-	109,180
Fringe benefits	97,349	240	34,032	-	131,621
Supplies	-	38,790	9,176	-	47,966
Contracted services	-	30,049	30,963	-	61,012
Maintenance	-	-	137,294	-	137,294
Insurance	-	-	28,376	-	28,376
Miscellaneous	-	3,103	7,467	21,908	32,478
Capital outlay	-	-	3,480	-	3,480
Depreciation	-	-	111,327	-	111,327
Total operating expenses	<u>142,769</u>	<u>75,627</u>	<u>422,430</u>	<u>21,908</u>	<u>662,734</u>
Operating Income (Loss)	<u>-</u>	<u>(6,904)</u>	<u>(67,651)</u>	<u>(4,024)</u>	<u>(78,579)</u>
Nonoperating Revenues:					
Gain (loss) on disposal of assets	-	-	3,678	-	3,678
Interest income	-	-	714	45	759
Transfers in from other funds	-	-	423	-	423
	<u>-</u>	<u>-</u>	<u>4,815</u>	<u>45</u>	<u>4,860</u>
Changes In Net Assets	<u>-</u>	<u>(6,904)</u>	<u>(62,836)</u>	<u>(3,979)</u>	<u>(73,719)</u>
Net Assets - Beginning of Year	<u>7,895</u>	<u>241,528</u>	<u>521,874</u>	<u>54,247</u>	<u>825,544</u>
Net Assets - End of Year	<u>\$ 7,895</u>	<u>\$ 234,624</u>	<u>\$ 459,038</u>	<u>\$ 50,268</u>	<u>\$ 751,825</u>

City of Hillsdale, Michigan
Combining Statement of Cash Flows
Internal Service Funds
Year Ended June 30, 2012

	Department of Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	Total
Cash Flows From Operating Activities:					
Cash paid to suppliers	\$ (97,480)	\$ (103,600)	\$ (253,524)	\$ (21,908)	\$ (476,512)
Cash paid to employees	(53,480)	(3,360)	(69,770)	-	(126,610)
Receipts for interfund services provided	142,769	68,723	354,779	17,884	584,155
Net cash provided by (used in) operating activities	<u>(8,191)</u>	<u>(38,237)</u>	<u>31,485</u>	<u>(4,024)</u>	<u>(18,967)</u>
Cash Flows From Noncapital Financing Activities:					
Transfers from other funds	-	-	423	-	423
Cash Flows From Capital and Related Financing Activities:					
Proceeds from the disposal of capital assets	-	-	3,678	-	3,678
Purchase of capital assets	-	-	(45,523)	-	(45,523)
Net cash provided by (used in) capital and related financing activities	<u>-</u>	<u>-</u>	<u>(41,845)</u>	<u>-</u>	<u>(41,845)</u>
Cash Flows From Investing Activities:					
Purchase of investments	-	-	-	(17,885)	(17,885)
Proceed from the sale of investments	-	-	-	21,864	21,864
Interest income	-	-	714	45	759
Net cash provided by (used in) investing activities	<u>-</u>	<u>-</u>	<u>714</u>	<u>4,024</u>	<u>4,738</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(8,191)	(38,237)	(9,223)	-	(55,651)
Cash and Cash Equivalents - Beginning of Year	26,215	66,273	150,897	-	243,385
Cash and Cash Equivalents - End of Year	\$ 18,024	\$ 28,036	\$ 141,674	\$ -	\$ 187,734
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating income (loss)	\$ -	\$ (6,904)	\$ (67,651)	\$ (4,024)	\$ (78,579)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	-	-	111,327	-	111,327
Changes in:					
Accounts receivable	-	-	-	-	-
Inventory	-	(22,220)	-	-	(22,220)
Prepaid expenses	47	-	(1,660)	-	(1,613)
Accounts payable	(178)	(9,198)	(1,076)	-	(10,452)
Accrued expenses	(8,060)	85	(9,455)	-	(17,430)
Net Cash Provided by (Used In) Operating Activities	\$ (8,191)	\$ (38,237)	\$ 31,485	\$ (4,024)	\$ (18,967)



**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**

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

We have audited the financial statements 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, 2012, which collectively comprise the City of Hillsdale, Michigan's basic financial statements and have issued our report thereon dated November 2, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Hillsdale, Michigan, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Hillsdale, Michigan's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hillsdale, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2012-2 to be a material weakness.

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 as 2012-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

The Honorable Mayor
and Members of the City Council

Compliance

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

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management, City Council, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

November 2, 2012

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

Schedule of Findings and Responses

2012-1 – Financial Statement Preparation

Criteria or Specific Requirement: It is management's responsibility to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

Condition: As is the case with many smaller and medium-sized entities, the City has relied on its independent external auditors to assist with the preparation of the financial statements and footnotes.

Cause: The City has determined that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary expertise required to perform this task internally.

Effect: The City lacks complete internal control over the preparation of financial statements in accordance with GAAP, and instead has relied on the external auditors for this expertise.

Recommendation: We do not recommend any changes to the situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standards #115.

Views of Responsible Officials and Planned Corrective Action: We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for technical assistance. We would expect this situation to be ongoing in future years.

2012-2 – Material Audit Adjustments

Criteria or Specific Requirement: It is management's responsibility to prepare the financial statements in accordance with generally accepted accounting principles (GAAP) to capture the complete activity of the municipality.

Condition: During the course of our audit, we proposed adjustments that had a material effect on the financial statements.

Cause: Due to another governmental unit handling the activity for capital improvement projects, the activity was not recorded. Also, errors in calculation of internal service inventory were not detected and corrected.

Effect: Revenues and capital expenditures were understated that related to capital improvements. Internal service inventory was overstated.

Recommendation: We recommend the City seek technical advice regarding the recording of transactions when needed and review the financial records to ensure all activity has been recorded.

Views of Responsible Officials and Planned Corrective Action: We are aware of this deficiency and will seek technical assistance when needed to ensure all transactions have been properly recorded.