

CITY OF HILLSDALE, MICHIGAN
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
YEAR ENDED JUNE 30, 2015

CITY OF HILLSDALE, MICHIGAN

TABLE OF CONTENTS

JUNE 30, 2015

PAGE

Independent Auditor’s Report.....i - ii

Management’s Discussion and Analysis.....iii - xiv

Basic Financial Statements:

 Government-Wide Financial Statements:

 Statement of Net Position..... 1

 Statement of Activities.....2 - 3

 Fund Financial Statements:

 Balance Sheet – Governmental Funds.....4

 Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
 to Net Position of Governmental Activities on the Statement of Net Position..... 5

 Statement of Revenues, Expenditures, and Changes in Fund
 Balances – Governmental Funds.....6

 Reconciliation of the Statement of Revenues, Expenditures and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities.....7

 Statement of Net Position – Proprietary Funds.....8

 Statement of Revenues, Expenses and Changes in Net
 Position – Proprietary Funds.....9

 Statement of Cash Flows – Proprietary Funds..... 10 - 11

 Statement of Fiduciary Net Position – Fiduciary Funds..... 12

 Statement of Changes in Fiduciary Net Position – Fiduciary Funds..... 13

Notes to Financial Statements.....14 - 33

Required Supplementary Information:

Budgetary Comparison Schedule – General Fund..... 34 - 35

Budgetary Comparison Schedule – Major Street Fund..... 36

Budgetary Comparison Schedule – Local Street Fund.....37

Schedule of Changes in the Net Pension Liability and Related Ratios..... 38

Schedule of Employer Contributions.....39

Other Supplementary Information:

Combining and Individual Fund Statements and Schedules:

Combining Balance Sheet – Nonmajor Governmental Funds.....40

Combining Statement of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds..... 41

Combining Balance Sheet – Nonmajor Special Revenue Funds.....42

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

Combining Balance Sheet – Nonmajor Capital Project Funds.....44

Combining Statement of Revenues, Expenditures and Changes in
Fund Balances – Nonmajor Capital Project Funds.....45

Combining Balance Sheet – Nonmajor Permanent Funds.....46

Combining Statement of Revenues, Expenditures and Changes in
Fund Balances – Nonmajor Permanent Funds.....47

Dial-A-Ride Enterprise Fund:

Local Revenues..... 48

Local Revenues – Based on a September 30, 2014 Year End..... 49

Federal and State Awards..... 50

Federal and State Awards – Based on a September 30, 2014 Year End..... 51

Expenditures of Federal and State Awards.....52

Operating and Contract Expenses..... 53

Operating and Contract Expenses – Based on a June 30, 2015 Year End 54

Operating and Contract Expenses – Based on a September 30, 2014 Year End 55

Nonurban Regular Service Revenue Report – Based on a September 30, 2014 Year End..... 56

Nonurban Regular Service Expense Report – Based on a September 30, 2014 Year End..... 57

Nonurban Regular Service Non-Financial Information – Based on a September 30, 2014 Year End.....58

Operating Assistance Calculation – Based on a September 30, 2014 Year End 59

Internal Service and Agency Funds:

Combining Statement of Net Position – Internal Service Funds..... 60

Combining Statement of Revenues, Expenses and Changes in
Net Position – Internal Service Funds..... 61

Combining Statement of Cash Flows – Internal Service Funds..... 62

Other Reports:

**Independent Auditor’s Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*..... 63 - 64**

Schedule of Findings and Responses..... 65 - 66

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 1 to the financial statements, the City adopted the provisions of Government Accounting Standards Board (GASB) Statement 68 "Accounting and Financial Reporting for Pensions" and GASB 71 "Pension Transition for Contributions made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68". The implementation of these pronouncements had effects on the beginning net position, deferred inflows and deferred outflows. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii - xiv, as well as the budgetary comparison information and retirement system information on pages 34-39, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hillsdale's basic financial statements. The combining and individual nonmajor fund financial statements, the Dial-A-Ride Enterprise Fund information, as well as the combining statements for the internal service and agency funds, are presented for purposes of additional analysis and are not a part of the required basic financial statements.

This supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information as described above and listed in the table of contents is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2015 on our consideration the City of Hillsdale, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hillsdale's internal control over financial reporting and compliance.

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

Certified Public Accountants

Hillsdale, Michigan
November 30, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Hillsdale
Management's Discussion and Analysis
June 30, 2015

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, 2015.

Financial Highlights

- The amount that City assets and deferred outflows of resources exceeded its liabilities at the close of the most recent fiscal year was \$60,188,867 (*net position*). Of this amount, \$14,593,137 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Governmental activities net change in position decreased \$1,436,334, while business-type activities changes in net position increased \$360,151. The combined net change in position decreased by about two percent (1.79%) or \$1,076,541.
- The Statement of Net Position contains a new calculation to comply with the Government Accounting Standards Board (GASB) Statement No. 68 called Net Pension Liability. The net pension liability was determined by an annual actuarial valuation as of December 31, 2014 combined with the City's pension contributions for January – June 2015. The City's net pension liability for both governmental and business type activities for the fiscal year ending June 30, 2015 was \$2,317,041.
- Government wide long and short-term liabilities, not including the pension liability, decreased one and one-half percent (1.5 %) or \$562,361.
- Business-type activities liabilities, not including the pension liability, decreased nine percent (8.75%).
- As of the close of the current fiscal year, the City's Governmental funds reported combined ending fund balances of \$3,062,653. That is up \$359,600 or thirteen percent (13.3%) from the prior year.
- Investment in Michigan South Central Power Agency decreased by \$68,875.
- 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 \$941,507. That represents twenty percent (19.90%) of total general fund expenditures for fiscal year 2015-16.
- The City's total bonded debt decreased fifty percent (49.79%) or \$361,000 during the current fiscal year.

Overview of the Financial Statements

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

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

City of Hillsdale
Management's Discussion and Analysis
June 30, 2015

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

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

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

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

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

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

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

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

City of Hillsdale
Management's Discussion and Analysis
June 30, 2015

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

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

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

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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-33 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 40-62 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Hillsdale, assets exceeded liabilities by \$60,188,867 at the close of the 2015 fiscal year.

City of Hillsdale
Management's Discussion and Analysis
June 30, 2015

The total governmental and business-type activities *long-term liabilities outstanding* increased \$1,754,680, or forty-four percent (44%) from the prior year. This increase is directly related to the implementation of the new Government Accounting Standard Board's (GASB) Statement No. 68 pension reporting requirements. This statement changed the way the City must now report pension liabilities. Previously only the yearly pension contributions were reported on the government-wide of fund financial statements. The long-term costs of retirement plans were included in the notes section only. The new requirement provides a better picture of all post-employment costs and the government's long-term financial obligations. The comparison to the previous year is misleading, because the net pension liability was not calculated last year. When you factor out the net pension liability, total liabilities for the City actually decreased over fourteen percent (14.1%) from the prior year.

By far the largest portion of the City's assets, more than seventy-one percent (71.6%), reflects its investment in land, buildings, vehicles, equipment and infrastructure less any outstanding related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it is important to note that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City's Net Position	Governmental		Business-type		Total		Total
	Activities		Activities				Percent
	2014	2015	2014	2015	2014	2015	Change
Current and Other Assets	\$3,425,037	\$3,873,585	\$16,620,931	\$16,973,942	\$20,045,968	\$20,847,527	4.00%
Capital Assets	\$22,637,798	\$21,903,244	\$22,568,114	\$22,759,136	\$45,205,912	\$44,662,380	-1.20%
Total Assets	\$26,062,835	\$25,776,829	\$39,189,045	\$39,733,078	\$65,251,880	\$65,509,907	0.40%
Long-term Liabilities Outstanding	\$226,440	\$216,818	\$2,243,664	\$1,236,173	\$2,470,104	\$1,452,991	-41.18%
Net Pension Liability		\$1,294,209		\$1,022,832	\$0	\$2,317,041	100.00%
Other Liabilities	\$147,369	\$248,126	\$1,368,999	\$1,722,994	\$1,516,368	\$1,971,120	29.99%
Total Liabilities	\$373,809	\$1,759,153	\$3,612,663	\$3,981,999	\$3,986,472	\$5,741,152	44.02%
Net Position:							
Invested In Capital Assets Net of Related Debt	\$22,637,798	\$21,903,244	\$20,622,793	\$21,198,569	\$43,260,591	\$43,101,813	-0.37%
Restricted	\$1,774,445	\$2,116,943	\$281,600	\$376,974	\$2,056,045	\$2,493,917	21.30%
Unrestricted	\$1,276,783	\$232,147	\$14,671,989	\$14,360,990	\$15,948,772	\$14,593,137	-8.50%
Net Position	\$25,689,026	\$24,252,334	\$35,576,382	\$35,936,533	\$61,265,408	\$60,188,867	-1.76%

A portion of the City's assets (\$2,493,917) represents resources that are subject to internal and external restrictions on how they may be used. The remaining balance of \$14,593,137 is *unrestricted assets* that may be used to meet the government's ongoing obligations to citizens and creditors. That amount decreased \$1,355,635, or eight and one-half percent (8.5%) from the prior year. That decrease was in the governmental-type activities due to a reclassification of assets because of the net pension liability reporting requirement.

City of Hillsdale
Management's Discussion and Analysis
June 30, 2015

City's Changes in Net Position

	Governmental		Business-type		Total		Total Percentage Change
	Activities		Activities		Total		
Revenues:	2014	2015	2014	2015	2014	2015	
Program Revenues:							
Charges for Services	\$300,183	\$303,524	\$15,751,642	\$15,825,012	\$16,051,825	\$16,128,536	0.48%
Operating Grants & Contributions	\$1,090,352	\$948,895	\$166,620	\$286,881	\$1,256,972	\$1,235,776	-1.69%
Capital Grants & Contributions	\$349,846	\$157,529	\$0	\$0	\$349,846	\$157,529	-54.97%
Total Revenues	\$1,740,381	\$1,409,948	\$15,918,262	\$16,111,893	\$17,658,643	\$17,521,841	-0.77%
Expenses:							
General Government	\$1,346,912	\$1,158,500			\$1,346,912	\$1,158,500	-13.99%
Public Safety	\$1,762,802	\$1,810,531			\$1,762,802	\$1,810,531	2.71%
Public Services	\$362,321	\$372,085			\$362,321	\$372,085	2.69%
Highways & Streets	\$2,048,325	\$1,928,080			\$2,048,325	\$1,928,080	-5.87%
Community & economic development	\$52,185	\$147,231			\$52,185	\$147,231	182.13%
Recreation & Culture	\$640,263	\$661,318			\$640,263	\$661,318	3.29%
Capital Outlay	\$120,179	\$70,811			\$0	\$70,811	100.00%
Other	\$4,847	\$0			\$4,847	\$0	-100.00%
Unallocated Depreciation	\$35,500	\$35,500			\$35,500	\$35,500	0.00%
Electric			\$ 13,138,334	\$12,178,862	\$13,138,334	\$12,178,862	-7.30%
Water			\$ 1,404,261	\$1,164,383	\$1,404,261	\$1,164,383	-17.08%
Sewer			\$1,241,615	\$1,280,740	\$1,241,615	\$1,280,740	3.15%
Transportation			\$ 339,230	\$ 339,222	\$339,230	\$339,222	0.00%
Total Expenses	\$6,373,334	\$6,184,056	\$16,123,440	\$14,963,207	\$22,376,595	\$21,147,263	-5.49%
Increase (Decrease) in Net Position Before Transfers	(\$4,632,953)	(\$4,774,108)	(\$205,178)	\$1,148,686	(\$4,717,952)	(\$3,625,422)	-23.16%
General Revenues:							
Taxes Grants & Contributions Not Restricted	\$2,787,158	\$2,752,652			\$2,787,158	\$2,752,652	-1.24%
To Specific Programs	\$806,685	\$828,856			\$806,685	\$828,856	2.75%
Unrestricted Investment Earnings	\$22,294	\$25,096	\$1,476,293	(\$35,714)	\$1,498,587	(\$10,618)	-100.71%
Other Revenues	\$813,735	\$701,529	\$8,559	\$34,270	\$822,294	\$735,799	-10.52%
Transfers - Internal Activity	\$18,283	\$11,125	(\$18,283)	(\$11,125)	\$0	\$0	0.00%
Total General Revenues	\$4,448,155	\$4,319,258	\$1,466,569	(\$12,569)	5,914,724	4,306,689	-27.19%
Changes in Net Position	(\$184,798)	(\$454,850)	\$1,261,391	\$1,136,117	\$1,196,772	\$681,267	-43.07%
Net Position - Beginning of Year	\$25,873,824	\$24,707,184	\$34,314,991	\$34,800,416	\$60,188,815	\$59,507,600	-1.13%
Net Position - End of Year	\$25,689,026	\$24,252,334	\$35,576,382	\$35,936,533	\$61,385,587	\$60,188,867	-1.95%

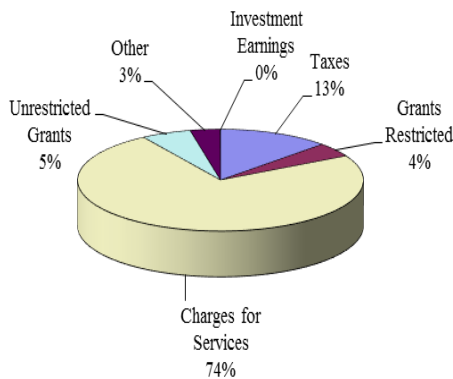
The City's total program revenue for 2015, (including restricted and operating grants and contributions) was \$17,521,841. This represents about a one percent (0.8%) decrease from the prior year. The largest decrease was in capital grants and contributions which are project specific, one-time sources of revenue.

City of Hillsdale
 Management's Discussion and Analysis
 June 30, 2015

Government wide, charges for services revenue remained relatively stable, moving upward by about one-half of one percent (0.48%). More than ninety-eight percent (98.1%) of the total charges for services revenue comes from the business-type activities (electric, water, sewer and transportation funds). Of those activities, the electric fund generated more than eighty-three percent (83.2%) of those charges.

The chart above shows that the general revenues, for both the governmental and business-type activities, decreased around twenty-seven percent (27.19%). These revenues consist of taxes, unrestricted grants and contributions, investment earnings, internal transfers between funds, and various other miscellaneous revenues. The tax revenue declined slightly more than one percent (1.24%) from the prior year. Governmental and business-type activities total other revenues decreased by more than ten and one-half percent (10.52%) or \$86,495. These revenues are from various sources and often include one-time revenues. The biggest disparity was in the business-type unrestricted investment earnings, going from a more than \$1.4 million gain to a \$35,714 loss. This reflects the volatility of the utilities investment in the Michigan South Central Power Agency.

**Source of Revenue for Fiscal Yr 2015
 Governmental & Business-type Activities**

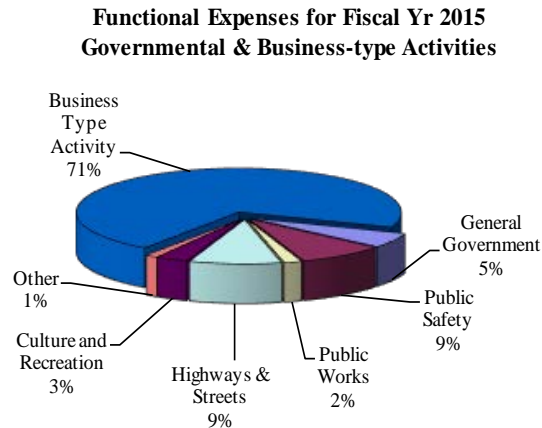


The pie graph to the left reveals the major sources of revenues collected by the municipality's governmental and business-type activities combined. Charges for services make up seventy-four percent (74%) of revenues. Eighty-one percent (81%) of those monies come from the electric utility and are not used for general governmental operations. Taxes, used primarily to fund general governmental activities, constitute thirteen percent (13%) of overall revenues. Grants, restricted and unrestricted, combined account for nine percent (9%) of total revenues. Investment earnings and other miscellaneous revenue sources make up the remaining four percent (4%).

Total expenditures decreased overall by five and one-half percent (5.49%) from fiscal year 2013-14. Five (5) of the government's functions/programs experienced an increase, while six (6) functions/programs reduced their expenditures. The transportation function and unallocated depreciation remained relatively unchanged. The modest increases experienced by the other functions/programs was overshadowed by the \$1 million reduction in the electric utility operations purchased power costs. General government, highways and streets, capital outlay, and the water fund all contributed to the overall decrease in operational costs. The following functions/programs increased their expenditures: public safety, public services, community and economic development, recreation and sewer operations. Staffing changes, insurance costs and reclassification of expenditures can be attributed to these increases.

City of Hillsdale
Management's Discussion and Analysis
June 30, 2015

As the functions graph on the right depicts, business type activities (electric, water, sewer, and transportation operations) make up seventy-one percent (71%) of all the municipality's expenditures. The largest portions of overall expenditures, fifty-seven percent (57.6%), are incurred by the electric fund. General governmental activities account for only five percent (5%) of total expenditures; public safety and highways and streets each account for nine percent (9%) each, recreation and culture account for three percent (3%), public works two percent (2%) and other miscellaneous activities make up the remaining one percent (1%).



Governmental activities. Governmental activities had a change in net position of (\$454,850). Key elements from operations for the year are:

- The city received various operating and capital grants and contributions for a variety of activities: rental rehabilitation (\$5,000 for rehabilitation of downtown apartments); library (\$7,363 for technology updates and children's library services & supplies); for land and operational improvements at the airport (\$77,129); Sandy Beach renovations (Rotary Club contributions of \$7,895); dugouts at Fields of Dreams (\$17,200 in Community Foundation grants) and Stocks Park land improvements (\$10,291 public contributions).
- Program revenues declined \$330,433 from the prior year. The biggest decline was in grants and contributions. These revenues sources are volatile because they are project specific, one time revenues.
- General Revenues for all governmental activities decreased about five percent (4.67%) or \$128,897. The biggest reduction came from other revenue sources. These are various sources of income that flocculate depending on a variety of different circumstances. It is important to note that tax revenue decreased \$34,506, or just a little more than one percent (1.24%). While it is still a decrease, the City is hopeful that the property values have bottomed out and the real-estate market will start moving in the positive direction in the coming years.
- Overall governmental activities expenditures declined by about three percent (2.97%). Shifts in staffing levels and employee turnover played a role in these reductions.
- The biggest change in the governmental activities is related to the Government Accounting Standards Board (GASB) Statement No. 68 requirements. The new statement, requires that each municipality calculate a net pension liability. This is done through a series of complex calculations. It appears on the government wide statements only. Prior to this, the pension liability was reported in the notes section of the financial statements. The governmental activities net pension liability is \$1,294,209. Net effect of this new format on the government wide statements reduces the unrestricted net position by more than eighty-one percent (81.82%).

City of Hillsdale
Management's Discussion and Analysis
June 30, 2015

Business-type activities. Business-type activities experienced a net gain for the year of \$1,136,117. Key elements of the business-type activities increase are as follows:

- This year the electric fund had a \$918,460 increase in net position. This is directly linked to an approximate \$1 million reduction in the purchased power costs.
- The water fund realized a positive change in net position of \$94,120. This is the result of a reduction in transmission and distribution costs.
- A positive net change in position of \$57,669 was experienced by the sewer fund. The increase is linked to the rate increases instituted in January of 2014. A decrease in treatment and collection costs also attributed to the increase.
- The public transportation department experienced a positive net change in position for the year of \$65,868. This increase is related to a higher transfer in from the General Fund and an increase in grant funding from federal and state sources.

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, 2015 the City's governmental funds reported combined ending fund balances of \$3,062,653. That is a \$359,600 increase from the prior year.

Governmental fund balance is broken into three categories: non-spendable, restricted, and unassigned. Non-spendable fund balance is that portion of fund balance reflecting assets not in spendable form. Prepaid expenditures are the most common type of these expenditures. These are expenses paid in advance for things like health and liability insurances paid in one fiscal year for coverage that extends into the next. The governmental funds prepaid expenditures totaled \$108,687. The restricted portion of fund balance refers to resources subject to externally imposed and legally enforceable constraints put in place by the resource providers, e.g. grantors or creditors, or by law through constitutional provisions or enabling legislation. The governmental funds restricted fund balance is \$2,116,943. This constitutes an increase of just over nineteen percent (19.3%) from the prior year.

Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. That portion of the governmental funds fund balance is \$837,023 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 \$941,507. Of that balance, \$104,484 is classified as non-spendable for prepaid expenditures. The remaining \$837,023 is unassigned and therefore available for spending at the government's discretion.

City of Hillsdale
Management's Discussion and Analysis
June 30, 2015

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, \$240,383 in Major and \$111,512 in Local, are thus designated to be spent only on the streets. These fund balances are classified as restricted.

Other nonmajor governmental funds collectively experienced a combined net increase in fund balances for the year of \$262,588. None of these fund balances are considered unassigned. Of the \$1,769,251 balance, \$4,203 is classified as non-spendable, prepaid expenditures. The remaining nonmajor governmental fund balances are considered restricted for various reasons. There are three permanent endowments (Cemetery Perpetual Care Fund, Stocks Park Perpetual Maintenance Fund, and the R.L. Owen Memorial Trust Fund). Combined they have a total restricted fund balance of \$703,196. The restricted nonmajor special revenue fund balances total \$158,240. These include the fund balances from the Library, Recreation, and Drug Forfeitures Funds. The combined restricted fund balances of the Capital Improvement, Library Improvement, Airport Improvement, Mrs. Stocks Park, Fire Equipment, and Fields of Dreams Funds is \$903,612.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail. Investment in capital assets net of related debt for all proprietary funds increased almost three percent (2.79%). This represents the amount of net position that is invested in capital and therefore not available for future spending. Total restricted investments increased almost thirty-four percent (33.87%). Designated net position decreased \$205,835 from the prior year. Undesignated net position of the water, sewer, electric, and transportation funds at the end of the year declined by about one percent (0.86%). The proprietary funds had a total net position at fiscal year-end of \$35,936,343. That is a total overall increase of one percent or \$360,153. All the gain was realized in net investment in capital and restricted investments.

Half of the proprietary funds realized an increase in net position for the year and half experienced a net loss. The sewer fund ended the year with a decrease in net position of \$147,921 and the water fund's net position decreased \$114,664. The electric fund had a net increase in assets of \$556,870. The transportation fund increased \$65,868 in net position.

General Fund Budgetary Highlights

The general fund revenue budget for fiscal year 2015 was originally \$4,348,900. It was amended down to \$3,848,900. These amendments were made because of unrealized grants through the Michigan State Housing Authority for rental rehabilitation and blight elimination. The federal revenues were reduced by \$560,000. Other revenues were increased by \$40,000 and state revenue sharing was increased by \$20,000.

Differences between the original and final amended General Fund expenditure budgets totaled \$487,900. Miscellaneous adjustments, both positive and negative, in the General Government departments, with a net decrease of \$56,000 in that classification. These adjustments were due to a variety of issues such as additional parking lot maintenance not originally budgeted, legal fees to defend tax tribunal cases, staffing changes and changes in utility costs. Public safety (Police, Fire, and Code Enforcement) budget amendments netted out at a reduction of \$66,000. The Police Department amendments reduced wages and equipment rentals by a total of \$80,000 due to staffing changes. The Fire Department budget was

City of Hillsdale
Management's Discussion and Analysis
June 30, 2015

increased by \$14,000 due to the timing on capital purchases and unexpected repairs on two of the fire trucks. There was no change in the Code Enforcement budget. The Public Works classification net budgets increased by \$25,000. Public Services' budget was increased \$7,500 to account for the solid waste coupons that straggled in after the program was discontinued at the beginning of the fiscal year. The remainder of the increase was to cover street lighting utility costs. The Economic Development Department's budget was reduced \$560,000 due to the MSHDA rental rehab grant not moving forward as quickly as anticipated. An additional amount of \$70,000 was needed in culture and recreation activity due to unbudgeted repairs to the parking lots in the parks system. An additional \$100,000 was added to the "Transfers Out" of the General Fund, which went to the Capital Improvement Fund for future capital projects.

Capital Asset and Debt Administration

Capital assets. The City's cash outlay for capital assets in both its governmental and business type activities as of June 30, 2015, amounted to more than \$1.49 million. This investment in capital assets includes land, buildings and system improvements, machinery and equipment, library books, recreational land improvements, roads, and water mains. Depreciation for the 2015 fiscal year amounted to more than the capital investments, resulting in a combined total capital assets, net of depreciation, reduction of more than one percent (1.4%).

City's Capital Assets
(Net of Depreciation)

	Governmental		Business-type		Total		Total Percent Change 2014- 15
	Activities		Activities				
	2014	2015	2014	2015	2014	2015	
Land	\$8,618,707	\$8,618,707	\$197,401	\$361,042	\$8,816,108	\$8,979,749	1.86%
Buildings and System Improvements	\$3,582,111	\$3,483,680	\$20,641,403	\$19,766,836	\$24,223,514	\$23,250,516	-4.02%
Library Books	\$216,982	\$222,188	\$0	\$0	\$216,982	\$222,188	2.40%
Machinery and Equipment	\$400,000	\$311,492	\$162,436	\$210,213	\$562,436	\$521,705	-7.24%
Infrastructure	\$9,819,998	\$9,184,146	\$0	\$0	\$9,819,998	\$9,184,146	-6.48%
Construction in Progress	\$0	\$0	\$1,566,874	\$2,421,047	\$1,566,874	\$2,421,047	54.51%
Total	\$22,637,798	\$21,820,213	\$22,568,114	\$22,759,138	\$45,205,912	\$44,579,351	-1.39%

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

- Beautification and land improvements to Mrs. Stocks Park in the amount of \$61,572.
- The electric utility invested \$135,000 this fiscal year in the AMI Project (electric smart meter installation) which began last year.
- The electric fund also purchased a pickup with a plow for \$28,000.
- The sewer fund began work on the sewage disposal system project at the waste water treatment plant and incurred upfront costs for engineering, legal fees, etc. of \$650,000.
- The water fund expended funds on the wellhead project, which was partially funded through the Michigan Department of Environmental Quality Stormwater Asset Management and Wastewater grant. That grant amounted to little more than \$16,000.

City of Hillsdale
Management's Discussion and Analysis
June 30, 2015

- The utility also purchased Milsoft outage management software for \$67,000 and Wonderware operations software for \$40,000 with the costs split between all three utility funds.
- The library purchased numerous books at a cost of \$27,279.
- The airport incurred construction costs of \$81,042 on the patricidal parallel taxiway and new entrance road project as part of the ongoing airport expansion initiative.
- Purchased a patrol car for the Police Department for \$34,248.

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 \$358,000, which consisted of revenue bonds. These bonds pledged the City utility's income to be received from the constructed assets to pay the debt service of the bond issue. The City has no general obligation bonds outstanding. The City of Hillsdale, for bonding purposes, has a credit assessment with Standard & Poor's of "Low Investment Grade" and is currently "non-rated" with Moody's and Fitch.

City's Outstanding Debt

Revenue Bonds

	Business-type		Total	
	Activities			
	2014	2015	2014	2015
Revenue Bonds	\$719,000	\$358,000	\$719,000	\$358,000
Total	\$719,000	\$358,000	\$719,000	\$358,000

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, 2014 was \$144,812,300. That translates into a debt limit of \$14,481,230. The City's revenue bond debt is exempt from that limit, so as of June 30, 2015 there is no debt applicable to the limit.

The City's bonded debt decreased during the current fiscal year more than fifty percent (50.2%) or \$361,000. The City's total outstanding long-term debt obligation, including the bond debt, as of June 30, 2015 was \$1,939,812, which includes compensated absence liabilities as well as all other outstanding loan obligations, including the revenue bonds. The City's other debt obligations consist of \$379,245 in compensated absences for the governmental and business-type activities combined and the Board of Public Utilities capital lease debt obligation of \$1,202,567.

City of Hillsdale
Management's Discussion and Analysis
June 30, 2015

In the spring of 2015 the Board of Public Utilities began the process to issue revenue bonds for the construction of improvements to the City's sewage disposal system at the Waste Water Treatment Plant. The project is estimated to cost \$7,616,000. The City has entered into an agreement with the State of Michigan Clean Water Revolving Loan Program (the SRF Loan Program) to pay the cost of the project comprised of a long-term low-interest loan to be evidenced by revenue bonds issued under Act 94 of the Public Acts of Michigan of 1933 as amended, in a not to exceed amount of \$7,616,000. It is anticipated that through this program an estimated amount of \$1,000,000 will be discharged in the SRF Loan Program principal forgiveness program once the project is completed.

Additional information on the City's long-term debt can be found in note No. 8 on pages 26-27 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 2015-16 fiscal year:

- The property tax inflationary rate for 2015 tax year of 0.30%.
- 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 \$126,720 of its General Fund fund balance for general operating purposes.
- The projection for gas and weight taxes, used to maintain the road systems throughout the state was projected to increase about three and one-half percent (3.5%) based on historical trends. These taxes are collected by the state and disbursed to the local governmental agencies (cities, townships, road commissions, and counties) based on population and miles of roads maintained in each classification (major or local).
- Health insurance costs projections of twenty-five percent (25%) increase.
- No wage increases were projected.

Requests for Information

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF NET POSITION
JUNE 30, 2015

	PRIMARY GOVERNMENT			COMPONENT UNITS	
	ACTIVITIES	BUSINESS-TYPE		TAX INCREMENT FINANCE AUTHORITY	ECONOMIC DEVELOPMENT CORPORATION
		ACTIVITIES	TOTAL		
ASSETS					
Cash and investments	\$ 3,095,109	\$ 3,630,261	\$ 6,725,370	\$ 625,745	\$ 123,658
Receivables	365,901	1,107,976	1,473,877	-	-
Internal balances	100,572	(100,572)	-	-	-
Prepaid items and other assets	157,980	299,520	457,500	-	-
Inventory	154,023	904,013	1,058,036	-	-
Investment in M.S.C.P.A.	-	11,132,744	11,132,744	-	-
Capital assets, net:					
Assets not being depreciated	8,618,707	2,782,089	11,400,796	65,000	-
Assets being depreciated	13,284,537	19,977,047	33,261,584	-	-
TOTAL ASSETS	25,776,829	39,733,078	65,509,907	690,745	123,658
DEFERRED OUTFLOWS OF RESOURCES					
Pension related	234,658	185,454	420,112	-	-
LIABILITIES					
Accounts payable	139,011	160,742	299,753	483	-
Accrued expenses	109,115	1,061,628	1,170,743	-	1,000
Accrued interest	-	5,820	5,820	-	-
Due to other governments	-	7,983	7,983	-	925
Net pension liability	1,294,209	1,022,832	2,317,041	-	-
Non-current liabilities:					
Due within one year	-	357,940	357,940	-	-
Due in more than one year	216,818	1,365,054	1,581,872	-	-
TOTAL LIABILITIES	1,759,153	3,981,999	5,741,152	483	1,925
NET POSITION					
Net investment in capital assets	21,903,244	21,198,569	43,101,813	65,000	173,721
Restricted for:			-		
Special revenues	510,135		510,135	-	-
Debt service	-	376,974	376,974	-	-
Capital projects	903,612	-	903,612	-	-
Endowment and trust principal	703,196	-	703,196	-	-
Unrestricted	232,147	14,360,990	14,593,137	625,262	121,733
TOTAL NET POSITION	\$ 24,252,334	\$ 35,936,533	\$ 60,188,867	\$ 690,262	\$ 295,454

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

FUNCTIONS / PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
PRIMARY GOVERNMENT					
Governmental Activities:					
General government	\$ 1,158,500	\$ 228,099	\$ 15,588	\$ -	\$ (914,813)
Public safety	1,810,531	-	9,002	-	(1,801,529)
Public works	372,085	-	-	-	(372,085)
Highways and streets	1,928,080	-	659,923	-	(1,268,157)
Community and economic development	147,231	-	5,000	-	(142,231)
Culture and recreation	661,318	75,425	102,833	-	(483,060)
Capital outlay	70,811	-	156,549	157,529	243,267
Unallocated depreciation, excluding direct portion	35,500	-	-	-	(35,500)
Total Governmental Activities	<u>6,184,056</u>	<u>303,524</u>	<u>948,895</u>	<u>157,529</u>	<u>(4,774,108)</u>
Business-type Activities:					
Electric	12,178,862	13,164,763	-	-	985,901
Sewer	1,280,740	1,339,988	-	-	59,248
Water	1,164,383	1,264,871	-	-	100,488
Transportation	339,222	55,390	286,881	-	3,049
Total Business-type Activities	<u>14,963,207</u>	<u>15,825,012</u>	<u>286,881</u>	<u>-</u>	<u>1,148,686</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 21,147,263</u>	<u>\$ 16,128,536</u>	<u>\$ 1,235,776</u>	<u>\$ 157,529</u>	<u>\$ (3,625,422)</u>
COMPONENT UNITS					
Tax Increment Finance Authority	\$ 77,534	\$ -	\$ -	\$ -	\$ (77,534)
Economic Development Corporation	3,990	-	-	-	(3,990)
TOTAL COMPONENT UNITS	<u>\$ 81,524</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (81,524)</u>

continued...

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF ACTIVITIES (CONCLUDED)
YEAR ENDED JUNE 30, 2015

	<u>PRIMARY GOVERNMENT</u>			<u>COMPONENT UNITS</u>	
	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS- ACTIVITIES</u>	<u>TOTAL</u>	<u>TAX INCREMENT FINANCE AUTHORITY</u>	<u>ECONOMIC DEVELOPMENT CORPORATION</u>
CHANGES IN NET POSITION					
Net (expense) revenue	\$ (4,774,108)	\$ 1,148,686	\$ (3,625,422)	\$ (77,534)	\$ (3,990)
General Revenues:					
Property taxes	2,752,652	-	2,752,652	131,963	-
Unrestricted grants and contributions	828,856	-	828,856	-	-
Interest and investment gains	25,096	(35,714)	(10,618)	612	121
Other revenues (expenses)	701,529	34,270	735,799	-	-
Transfers - internal activities	11,125	(11,125)	-	-	-
Total general revenues, contributions and transfers	<u>4,319,258</u>	<u>(12,569)</u>	<u>4,306,689</u>	<u>132,575</u>	<u>121</u>
CHANGES IN NET POSITION	(454,850)	1,136,117	681,267	55,041	(3,869)
NET POSITION - BEGINNING OF YEAR - RESTATED	<u>24,707,184</u>	<u>34,800,416</u>	<u>59,507,600</u>	<u>635,221</u>	<u>299,323</u>
NET POSITION - END OF YEAR	<u>\$ 24,252,334</u>	<u>\$ 35,936,533</u>	<u>\$ 60,188,867</u>	<u>\$ 690,262</u>	<u>\$ 295,454</u>

See accompanying notes to the basic financial statements.

FUND FINANCIAL STATEMENTS

CITY OF HILLSDALE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	GENERAL	MAJOR STREET	LOCAL STREET	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL
ASSETS					
Cash and investments	\$ 860,782	\$ 168,638	\$ 82,848	\$ 1,715,097	\$ 2,827,365
Receivables:					
Accounts receivable	68,208	84,503	35,720	71,287	259,718
Special assessments	105,258	-	-	-	105,258
Due from other funds	100,120	-	-	3,417	103,537
Due from other governmental units	925	-	-	-	925
Prepaid expenditures	104,484	-	-	4,203	108,687
TOTAL ASSETS	\$ 1,239,777	\$ 253,141	\$ 118,568	\$ 1,794,004	\$ 3,405,490
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 117,958	\$ 7,444	\$ 3,835	\$ 10,353	\$ 139,590
Due to other funds	-	-	-	3,734	3,734
Salaries payable	75,054	5,314	3,221	10,666	94,255
Unearned revenue	105,258	-	-	-	105,258
TOTAL LIABILITIES	298,270	12,758	7,056	24,753	342,837
Fund Balances:					
Non-spendable:					
Prepaid expenditures	104,484	-	-	4,203	108,687
Restricted:					
Special revenue funds	-	240,383	111,512	158,240	510,135
Capital project funds	-	-	-	903,612	903,612
Permanent funds	-	-	-	703,196	703,196
Unassigned	837,023	-	-	-	837,023
TOTAL FUND BALANCES	941,507	240,383	111,512	1,769,251	3,062,653
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,239,777	\$ 253,141	\$ 118,568	\$ 1,794,004	\$ 3,405,490

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO
NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION
JUNE 30, 2015

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 3,062,653**

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

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

The cost of capital assets is	\$ 44,121,061	
Accumulated depreciation is	<u>(22,217,817)</u>	21,903,244

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

Deferred special assessments revenue		105,258
--------------------------------------	--	---------

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

Net position of governmental activities accounted for in the Internal Service Fund	654,657	
Less portion included in capital assets	<u>(216,595)</u>	438,062

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

Compensated absences	197,332	
Net pension liability	<u>1,294,209</u>	(1,491,541)

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

Deferred outflows of resources related to pensions		234,658
--	--	---------

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ 24,252,334**

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015

	GENERAL	MAJOR STREET	LOCAL STREET	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL
REVENUES					
Taxes	\$ 2,058,003	\$ -	\$ -	\$ 130,568	\$ 2,188,571
Intergovernmental - federal and state	836,396	498,609	161,314	145,511	1,641,830
Licenses and permits	112,142	-	-	-	112,142
Contributions from local units	-	-	-	13,800	13,800
Charges for services	22,157	-	-	65,590	87,747
Fines and violations	5,644	-	-	57,476	63,120
Interest and rentals	88,981	844	-	73,409	163,234
Miscellaneous	713,259	3,971	2,450	112,066	831,746
TOTAL REVENUES	3,836,582	503,424	163,764	598,420	5,102,190
EXPENDITURES					
General government	1,161,784	-	-	-	1,161,784
Public safety	1,739,363	-	-	873	1,740,236
Public works	333,181	-	-	-	333,181
Highways and streets	-	360,816	274,514	-	635,330
Community and economic development	147,231	-	-	-	147,231
Culture and recreation	216,269	-	-	336,708	552,977
Capital outlay	-	-	-	213,426	213,426
TOTAL EXPENDITURES	3,597,828	360,816	274,514	551,007	4,784,165
REVENUES OVER (UNDER) EXPENDITURES	238,754	142,608	(110,750)	47,413	318,025
OTHER FINANCING SOURCES (USES)					
Contribution from TIFA	10,000	-	-	20,450	30,450
Operating transfers in	199,328	-	139,165	204,025	542,518
Operating transfers out	(433,450)	(73,686)	(14,957)	(9,300)	(531,393)
TOTAL OTHER FINANCING SOURCES (USES):	(224,122)	(73,686)	124,208	215,175	41,575
NET CHANGES IN FUND BALANCES	14,632	68,922	13,458	262,588	359,600
FUND BALANCES - BEGINNING OF YEAR	926,875	171,461	98,054	1,506,663	2,703,053
FUND BALANCES - END OF YEAR	\$ 941,507	\$ 240,383	\$ 111,512	\$ 1,769,251	\$ 3,062,653

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 359,600

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

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

Depreciation expense	\$ (847,764)	
Capital outlay	<u>169,893</u>	(677,871)

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.

(Decrease) in unavailable revenue		(35,112)
-----------------------------------	--	----------

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.

(Decrease) in net position of Internal Service Funds		(38,664)
--	--	----------

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.

Decrease in the accrual for compensated absences	14,905	
(Increase) in net pension liability	(312,367)	
Increase in deferred outflows of resources related to pensions	<u>234,658</u>	(62,804)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ (454,851)**

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL
	ELECTRIC	WATER	SEWER	NONMAJOR		ACTIVITIES
				FUND	TOTAL	INTERNAL
				DIAL-A-RIDE		SERVICE
						FUNDS
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 914,056	\$ 6,894	\$ -	\$ 31,731	\$ 952,681	\$ 200,267
Investments	-	-	-	-	-	67,477
Construction fund	115,961	-	-	-	115,961	-
Receivables:						
Accounts (net of allowance for bad debts of \$180,000)	849,277	61,088	109,449	88,162	1,107,976	-
Accrued interest	3,654	1,421	-	-	5,075	-
Due from other funds	739,220	-	-	-	739,220	769
Inventory, at cost	428,844	78,000	5,067	-	511,911	154,023
Prepaid operating lease	82,645	-	-	-	82,645	-
Prepaid expenses	107,289	38,718	57,252	8,541	211,800	49,293
TOTAL CURRENT ASSETS	3,240,946	186,121	171,768	128,434	3,727,269	471,829
Noncurrent assets:						
Designated investments	1,811,764	372,881	-	-	2,184,645	-
Restricted investments	-	376,974	-	-	376,974	-
TOTAL NONCURRENT ASSETS	1,811,764	749,855	-	-	2,561,619	-
Capital assets:						
Land	181,108	49,614	122,901	7,419	361,042	-
Plant and equipment	32,722,704	10,849,669	14,155,046	1,134,001	58,861,420	1,917,123
Construction in progress	1,706,632	57,271	657,144	-	2,421,047	-
	34,610,444	10,956,554	14,935,091	1,141,420	61,643,509	1,917,123
Less accumulated depreciation	(22,257,354)	(6,117,228)	(10,203,055)	(306,736)	(38,884,373)	(1,700,528)
NET CAPITAL ASSETS	12,353,090	4,839,326	4,732,036	834,684	22,759,136	216,595
Other assets:						
Long-term inventories	392,102	-	-	-	392,102	-
Investment in M.S.C.P.A.	11,132,744	-	-	-	11,132,744	-
TOTAL OTHER ASSETS	11,524,846	-	-	-	11,524,846	-
TOTAL ASSETS	28,930,646	5,775,302	4,903,804	963,118	40,572,870	688,424
DEFERRED OUTFLOWS OF RESOURCES - Pension	86,419	49,899	49,136	-	185,454	-
LIABILITIES						
Current liabilities:						
Capital lease payable	182,940	-	-	-	182,940	-
Accounts payable	54,079	19,730	85,417	1,516	160,742	11,421
Accrued purchased power	749,630	-	-	-	749,630	-
Accrued expenses	146,772	13,863	17,424	7,392	185,451	2,861
Customer deposits	109,127	10,031	7,389	-	126,547	-
Due to other funds	49,366	88,642	655,343	46,441	839,792	-
Due to other governments	-	-	-	7,983	7,983	-
TOTAL CURRENT LIABILITIES	1,291,914	132,266	765,573	63,332	2,253,085	14,282
Current liabilities (payable from restricted and designated assets):						
Bonds payable	-	175,000	-	-	175,000	-
Accrued interest	-	5,820	-	-	5,820	-
TOTAL CURRENT LIABILITIES	-	180,820	-	-	180,820	-
(PAYABLE FROM RESTRICTED AND RESERVED ASSETS)	-	180,820	-	-	180,820	-
Noncurrent liabilities:						
Accrued compensated absences	100,540	18,681	24,641	18,565	162,427	19,485
Bonds and capital lease payable	1,019,627	183,000	-	-	1,202,627	-
Net pension liability	476,627	275,208	270,997	-	1,022,832	-
TOTAL NONCURRENT LIABILITIES	1,596,794	476,889	295,638	18,565	2,387,886	19,485
TOTAL LIABILITIES	2,888,708	789,975	1,061,211	81,897	4,821,791	33,767
NET POSITION						
Net investment in capital assets	11,150,523	4,481,326	4,732,036	834,684	21,198,569	216,595
Restricted investments	-	376,974	-	-	376,974	-
Unrestricted:						
Designated	1,811,764	372,881	-	-	2,184,645	-
Undesignated	13,166,070	(195,955)	(840,307)	46,537	12,176,345	438,062
TOTAL NET POSITION	\$ 26,128,357	\$ 5,035,226	\$ 3,891,729	\$ 881,221	\$ 35,936,533	\$ 654,657

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2015

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL
	ELECTRIC	WATER	SEWER	NONMAJOR	TOTAL	ACTIVITIES
				FUND		INTERNAL
			DIAL-A-		SERVICE	FUNDS
OPERATING REVENUES						
Charges for services	\$ 13,123,329	\$ 1,254,947	\$ 1,258,330	\$ 55,390	\$ 15,691,996	\$ 457,918
Intergovernmental - federal and state	-	5,000	76,783	199,478	281,261	-
Miscellaneous	41,434	4,924	4,875	-	51,233	155,973
TOTAL OPERATING REVENUES	13,164,763	1,264,871	1,339,988	254,868	16,024,490	613,891
OPERATING EXPENSES						
Purchased power	9,142,441	-	-	-	9,142,441	-
Production expense	458,696	113,065	-	-	571,761	-
Purification expense	-	288,638	-	-	288,638	-
Treatment expense	-	-	734,430	-	734,430	-
Transmission and distribution	1,431,030	455,315	-	-	1,886,345	-
Administrative and general	1,094,065	287,724	300,008	-	1,681,797	-
Sewer collection	-	-	246,302	-	246,302	-
Highways and streets	-	-	-	-	-	659,216
Transportation	-	-	-	339,224	339,224	-
TOTAL OPERATING EXPENSES	12,126,232	1,144,742	1,280,740	339,224	14,890,938	659,216
OPERATING INCOME (LOSS)	1,038,531	120,129	59,248	(84,356)	1,133,552	(45,325)
NONOPERATING REVENUES (EXPENSES)						
Interest income	27,266	5,895	-	-	33,161	529
Interest expense	(52,630)	(19,641)	-	-	(72,271)	-
Other income (expense)	45,732	(12,263)	(2,304)	87,404	118,569	-
Gain (loss) on investment	(68,875)	-	-	-	(68,875)	-
Gain (loss) on disposal of assets	2,381	-	725	-	3,106	6,132
Transfers in from other funds	-	-	-	109,260	109,260	-
Transfers out to other funds	(73,945)	-	-	(46,440)	(120,385)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(120,071)	(26,009)	(1,579)	150,224	2,565	6,661
CHANGES IN NET POSITION	918,460	94,120	57,669	65,868	1,136,117	(38,664)
NET POSITION - BEGINNING OF YEAR - RESTATED	25,209,897	4,941,106	3,834,060	815,353	34,800,416	693,321
NET POSITION - END OF YEAR	\$ 26,128,357	\$ 5,035,226	\$ 3,891,729	\$ 881,221	\$ 35,936,533	\$ 654,657

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2015

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL
	NONMAJOR				TOTAL	ACTIVITIES
	ELECTRIC	WATER	SEWER	FUND		INTERNAL
			DIAL-A-RIDE			SERVICE
						FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers, residents and users	\$ 13,172,684	\$ 1,246,140	\$ 1,207,044	\$ 57,250	\$ 15,683,118	\$ -
Other operating receipts	930,196	25,909	565,406	199,478	1,720,989	-
Receipts for interfund services provided	-	-	-	-	-	614,360
Cash paid to suppliers of goods and services	(11,323,498)	(452,990)	(424,901)	(72,244)	(12,273,633)	(294,364)
Cash paid to employees for services	(921,061)	(417,584)	(574,906)	(217,664)	(2,131,215)	(234,359)
Other operating payments	(889,554)	(28,051)	(37,769)	-	(955,374)	-
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	968,767	373,424	734,874	(33,180)	2,043,885	85,637
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Intergovernmental nonoperating revenues	44,226	-	-	-	44,226	-
Transfers from/(to) other funds	(73,945)	-	-	62,820	(11,125)	-
NET CASH PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES	(29,719)	-	-	62,820	33,101	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Payments on capital debt	(176,512)	(361,000)	-	-	(537,512)	-
Interest on capital debt	(52,630)	(20,750)	-	-	(73,380)	-
Proceeds from the disposal of assets	2,381	-	725	-	3,106	6,132
Purchase of capital assets, net	(317,072)	(115,792)	(733,294)	(87,204)	(1,253,362)	-
Other capital investment fees	-	(12,159)	(2,305)	-	(14,464)	(34,248)
NET CASH (USED BY) CAPITAL AND RELATED FINANCING ACTIVITIES	(543,833)	(509,701)	(734,874)	(87,204)	(1,875,612)	(28,116)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investments	(595,000)	(235,000)	-	-	(830,000)	-
Proceeds from the sale of investments	568,583	371,878	-	-	940,461	-
Interest income received	27,974	6,293	-	-	34,267	656
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	1,557	143,171	-	-	144,728	656
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	396,772	6,894	-	(57,564)	346,102	58,177
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	517,284	-	-	89,295	606,579	142,090
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 914,056	\$ 6,894	\$ -	\$ 31,731	\$ 952,681	\$ 200,267

continued...

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF CASH FLOWS (CONCLUDED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2015

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL
	ELECTRIC	WATER	SEWER	NONMAJOR		INTERNAL
				FUND		
				DIAL-A-RIDE	TOTAL	FUNDS
BALANCE SHEET CLASSIFICATION OF CASH						
Current assets - cash and cash equivalents	\$ 914,056	\$ 6,894	\$ -	\$ 31,731	\$ 952,681	\$ 200,267
RECONCILIATION OF OPERATING INCOME (LOSS)						
TO NET CASH PROVIDED BY OPERATING						
ACTIVITIES						
Operating income (loss)	\$ 1,038,531	\$ 120,129	\$ 59,248	\$ (84,356)	\$ 1,133,552	\$ (45,325)
Adjustments to reconcile operating income (loss)						
to net cash provided by (used in) operating activities:						
Depreciation	632,122	235,020	178,752	53,139	1,099,033	90,932
(Increase)/decrease in:						
Receivables	49,356	(8,807)	(51,285)	(225)	(10,961)	-
Due from other funds	(474,634)	-	-	-	(474,634)	469
Inventory	(39,592)	4,293	1,228	-	(34,071)	35,462
Prepaid expenses	(90,728)	(1,416)	(5,912)	(731)	(98,787)	(3,414)
Increase/(decrease) in:						
Accounts payable	29,744	(17,380)	52,722	684	65,770	2,647
Accrued expenses	(194,635)	32,224	35,967	928	(125,516)	4,866
Due to other funds	12,891	9,121	463,825	(2,621)	483,216	-
Customer deposits	5,712	240	329	-	6,281	-
NET CASH PROVIDED BY (USED IN)						
OPERATING ACTIVITIES	<u>\$ 968,767</u>	<u>\$ 373,424</u>	<u>\$ 734,874</u>	<u>\$ (33,182)</u>	<u>\$ 2,043,883</u>	<u>\$ 85,637</u>

See accompanying notes to the basic financial statements.

CITY OF HILLSDALE, MICHIGAN
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	<u>HOSPITAL PRIVATE PURPOSE TRUST FUND</u>	<u>AGENCY FUNDS</u>
ASSETS		
Cash and investments	\$ 15,049	\$ 3,456
LIABILITIES		
Due to other agencies		\$ 3,456
NET POSITION		
Unrestricted	15,049	
TOTAL NET POSITION	<u>\$ 15,049</u>	

See accompanying notes to the basic financial statements.

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

	<u>HOSPITAL PRIVATE PURPOSE TRUST FUND</u>
ADDITIONS:	
Investment income	<u>\$ 119</u>
DEDUCTIONS:	
Other	<u>40</u>
CHANGES IN NET POSITION	79
NET POSITION - BEGINNING OF YEAR	<u>14,970</u>
NET POSITION - END OF YEAR	<u><u>\$ 15,049</u></u>

See accompanying notes to the basic financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Note 1: Summary of Significant Accounting Policies

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

Reporting Entity

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

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

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

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

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

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

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

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

Note 1: Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

The government reports the following major governmental funds:

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

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

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

The government reports the following major proprietary funds:

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

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

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

Additionally, the government reports the following fund types:

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

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

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

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

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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:

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

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

Fund Equity – 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 2014 had a taxable value of approximately \$131,931,584 (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 2014-15 was 14.9205 mills, with an additional .9947 mills levied for operations of the Mitchell Public Library.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

Note 1: Summary of Significant Accounting Policies (Concluded)

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

Adoption of New Accounting Standards – GASB Statement No. 68, Accounting and Financial Reporting for Pensions, was implemented during the year. The statement requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI).

GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68, was implemented during the year as it is required to be applied simultaneously with the provisions of GASB Statement No. 68. The statement addresses and issue regarding the application of the transition provision of GASB Statement No. 68 and amends paragraph 137 of GASB Statement No. 68 and requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

Subsequent Events – Management has evaluated subsequent events through November 30, 2015, the date the financial statements were available to be issued. No such significant events or transactions were identified.

Note 2: Stewardship, Compliance and Accountability

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

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

Excess of Expenditures over Appropriations – For the year ended June 30, 2015, expenditures that exceeded appropriations in the General Fund or major special revenue funds, if any, are disclosed in the Required Supplementary Information on pages 34 – 39.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

Note 3: Cash and Investments

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

	<u>Primary Government</u>	<u>Component Units</u>
Statement of Net Position:		
Cash and investments	\$ 6,725,370	\$ 749,403
Statement of Fiduciary Net Position:		
Hospital Private Purpose Trust Fund:		
Cash and investments	15,049	
Agency Funds:		
Cash and investments	3,456	
	<u>\$ 6,743,875</u>	<u>\$ 749,403</u>
	<u>Primary Government</u>	<u>Component Units</u>
Bank deposits (checking accounts, savings accounts and short-term CDs)	\$ 2,766,585	\$
Investments in securities, mutual funds, long-term CDs and similar vehicles	3,974,640	749,403
Cash on hand	2,650	
	<u>\$ 6,743,875</u>	<u>\$ 749,403</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.

<u>Rating S&P</u>	<u>Investment Type</u>	<u>Remaining Maturity</u>		
		<u>12 Months or Less</u>	<u>1 to 5 Years</u>	<u>Greater Than 5 Years</u>
	Certificates of Deposit	\$	\$ 2,526,416	\$
	Michigan CLASS Investments Pool	1,394,474		
	U.S. Governmental Agency Bonds		420,175	462,004
	Corporate Bonds		273,737	
	Municipal Bonds		490,603	
	Fidelity Government Money Market	175,821		
	Fidelity Investment Cash	84,008		

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

Note 3: Cash and Investments (Concluded)

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 \$1,394,474 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, \$2,400,530 of the City's bank balance of \$3,974,385 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 \$882,179.

Supplemental Disclosure of Cash Flow Information

For the year ended June 30, 2015, the HBPU purchased \$36,796 of equipment with a capital lease financing arrangement.

Note 4: Receivables

Receivables of the governmental activities of the primary government at June 30, 2015, consist of the following:

Other governmental units (primarily the State of Michigan)	\$	150,153
Accounts receivable		110,490
Special assessments – short-term		9,353
Special assessments – long-term		95,905
		<hr/>
	\$	365,901
		<hr/> <hr/>

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

Note 5: Capital Assets

Capital assets activity for the year ended June 30, 2015 was as follows:

Primary Government	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 8,618,707	\$	\$	\$ 8,618,707
Capital assets being depreciated:				
Land improvements	693,617	26,890		720,507
Buildings and improvements	4,992,738			4,992,738
Books	301,954	27,278	(17,025)	312,207
Equipment and vehicles	2,947,009	34,248	(56,357)	2,924,900
Infrastructure	26,436,276	115,725		26,552,001
Total capital assets being depreciated	<u>35,371,594</u>	<u>204,141</u>	<u>(73,382)</u>	<u>35,502,353</u>
Accumulated depreciation:				
Land improvements	253,090	26,646		279,736
Buildings and improvements	1,789,429	98,675		1,888,104
Books	84,972	22,072	17,025	90,019
Equipment and vehicles	2,547,009	101,450	56,357	2,592,102
Infrastructure	16,678,003	689,852		17,367,855
Total accumulated depreciation	<u>21,352,503</u>	<u>938,695</u>	<u>73,382</u>	<u>22,217,816</u>
Total capital assets being depreciated - net	<u>14,019,091</u>	<u>(734,554)</u>		<u>13,284,537</u>
Governmental activities capital assets - net	<u>\$ 22,637,798</u>	<u>\$ (734,554)</u>	<u>\$</u>	<u>\$ 21,903,244</u>
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 361,042	\$	\$	\$ 361,042
Construction in progress	1,566,874	854,173		2,421,047
Total capital assets not being depreciated	<u>1,927,916</u>	<u>854,173</u>		<u>2,782,089</u>
Capital assets being depreciated:				
Equipment	361,184	87,204		448,388
Plant and systems	58,106,613	348,678	(42,259)	58,413,032
Total capital assets being depreciated	<u>58,467,797</u>	<u>435,882</u>	<u>(42,259)</u>	<u>58,861,420</u>
Accumulated depreciation:				
Equipment	198,748	39,427		238,175
Plant and systems	37,628,851	1,059,606	(42,259)	38,646,198
Total accumulated depreciation	<u>37,827,599</u>	<u>1,099,033</u>	<u>(42,259)</u>	<u>38,884,373</u>
Total capital assets being depreciated - net	<u>20,640,198</u>	<u>663,151</u>		<u>19,977,047</u>
Business-type activities capital assets - net	<u>\$ 22,568,114</u>	<u>\$ 191,022</u>	<u>\$</u>	<u>\$ 22,759,136</u>

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

Note 5: Capital Assets (Concluded)

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

Governmental Activities:	
Public safety	\$ 5,050
Highways and streets	636,568
Culture and recreation	133,616
Public works	37,030
Unallocated	35,500
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	90,931
Total depreciation expense – governmental activities	\$ 938,695
Business-Type Activities:	
Electric	\$ 632,122
Water	235,020
Sewer	178,752
Transportation	53,139
Total depreciation expense – business-type activities	\$ 1,099,033

Note 6: Interfund Receivables, Payables and Transfers

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

	Receivable	Payable
Due from/to other funds:		
General Fund	\$ 100,120	\$
Nonmajor Governmental Funds	3,417	3,734
Water Fund		88,642
Sewer Fund		655,343
Electric Fund	739,220	49,366
Nonmajor Enterprise Fund	769	46,441
	\$ 843,526	\$ 843,526
	Transfers In	Transfers Out
General Fund	\$ 199,328	\$ 433,450
Major Street Fund		73,686
Local Street	139,165	14,957
Nonmajor Governmental Funds	204,025	9,300
Electric Fund		73,945
Nonmajor Enterprise Fund	109,260	46,440
	\$ 651,778	\$ 651,778

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

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

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 7: Investment in Michigan South Central Power Agency

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

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

	Percent of Ownership
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>

The City of Hillsdale Board of Public Utilities (HBPU) is accounting for its investment in M.S.C.P.A. as a joint venture in accordance with GASB Statement No. 14. Information presented below is taken from financial statements of the M.S.C.P.A. for the year ended June 30, 2015, audited by other auditors whose report dated August 26, 2015 expressed an unmodified opinion for those statements.

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

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

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

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, 2015, is as follows:

	Total M.S.C.P.A.	Hillsdale Board of Public Utilities Portion 25.5%
Total assets	\$ 79,081,401	\$ 20,165,757
Total liabilities	35,423,580	9,033,012
Net Position	\$ 43,657,821	\$ 11,132,745
Operating revenues	\$ 55,638,148	\$ 14,187,728
Operating expenses	54,062,121	13,785,841
Operating Income	1,576,027	401,887
Other income and expenses	(51,756)	(13,198)
Changes in Net Position	1,524,271	388,689
Net Position, Beginning of Year	42,133,550	10,744,055
Net Position, End of Year	\$ 43,657,821	\$ 11,132,744

Note 8: Debt

The City of Hillsdale's Board of Public Utilities maintains a \$250,000 line of credit with County National Bank bearing a 4% interest rate which expires November 30, 2016. There was no activity during the year.

Long-term liability activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government Governmental activities:					
Compensated absences	\$ 226,440	\$	\$ 9,622	\$ 216,818	\$
Business-type activities:					
Revenue bonds	\$ 719,000	\$	\$ 361,000	\$ 358,000	\$ 175,000
Capital lease	1,379,079		176,512	1,202,567	182,940
Compensated absences	145,585	16,842		162,427	
	\$ 2,243,664	\$ 16,842	\$ 537,512	\$ 1,722,994	\$ 357,940

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

Note 8: Debt (Concluded)

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

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

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

<u>Business-Type Activities</u>	<u>Due in Fiscal Year End</u>	<u>Interest Rates</u>	<u>Amount</u>
2009 Water Refunding	2017	3.50% - 3.90%	\$ 358,000
Capital Lease – The government has a capital lease agreement with Government Capital Corporation for utility equipment. Annual lease payments of \$227,737 including interest at 3.6% through September 16, 2020.			\$ 1,202,567
Total bonds and capital lease			\$ 1,560,567

Annual debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 357,940	\$ 54,258	\$ 412,198
2017	372,603	40,702	413,305
2018	196,508	30,229	226,737
2019	203,665	23,072	226,737
2020	211,082	15,655	226,737
2021 - 2025	218,769	7,968	226,737
Total	\$ 1,560,567	\$ 171,884	\$ 1,732,451

Note 9: Segment Information – Enterprise Funds

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

Note 10: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2015, 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 (CONTINUED)

JUNE 30, 2015

Note 11: Defined Benefit Pension Plan

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is a agent multiple-employer, statewide public employee pension plan established by the Michigan's Legislature under Public Act 135 of 1945 and administered by a nine (9) member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing MERS' website at www.mersofmich.com.

Summary of Significant Accounting Policies

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

Benefits Provided

Benefits provided include plans with multipliers ranging from 2.00% to 2.50%.

Vesting period of 10 years.

Normal retirement age is 60 with early retirement at 50/55 with 25/20 years of service.

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

At the December 31, 2014 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefits	69
Inactive employees entitled to but not yet receiving benefits	9
Active employees	<u>69</u>
	<u>147</u>

Contributions

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

Employer contributions range from 0.00% to 19.62% based on annual payroll for open divisions.

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2014, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

Note 11: Defined Benefit Pension Plan (Continued)

Actuarial assumptions – The total pension liability in the December 31, 2014 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 3% - 4%

Salary Increases: 4.5% in the long-term (for calendar years 2015 and 2016 the wage inflation assumption is 2% and 3%, respectively, instead of 4.5%)

Investment rate of return: 8.0%, net of investment expense including inflation

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%.

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2008. (MERS Retirement Board is currently conducting an actuarial experience study covering the period from January 1, 2009, through December 31, 2013.)

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

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

Discount Rate – The discount rate used to measure the total pension liability is 8.25% for 2014. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

Note 11: Defined Benefit Pension Plan (Continued)

Changes in Net Pension Liability

The following table provides the calculation of the change in net pension liability:

	Changes in Net Pension Liability		
	Increase (Decrease)		
	Total Pension (a)	Fiduciary Net Position (b)	Net Pension (a) - (b)
Balances at 12/31/13	\$ 20,090,076	\$ 18,191,663	\$ 1,898,413
Changes for the Year			
Service Cost	364,196	-	364,196
Interest on Total Pension Liability	1,621,607	-	1,621,607
Employer Contributions	-	332,464	(332,464)
Employee Contributions	-	137,790	(137,790)
Net investment income	-	1,138,603	(1,138,603)
Benefit payments, including employee refunds	(1,232,671)	(1,232,671)	-
Administrative expense	-	(41,685)	41,685
Other changes	(1)	2	(3)
Net changes	753,131	334,503	418,628
Balances as of 12/31/14	<u>\$ 20,843,207</u>	<u>\$ 18,526,166</u>	<u>\$ 2,317,041</u>

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

	1% Decrease	Current Discount Rate	1% Increase
Net Pension Asset (Liability)	<u>\$ 4,481,632</u>	<u>\$ 2,317,041</u>	<u>\$ 462,636</u>

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions – For the year ended June 30, 2015 the City recognized pension expense of \$471,590. The City reported deferred outflows and inflows of resources related to the pension at June 30, 2015 from the following sources:

	Deferred Outflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 263,232
Pension contributions subsequent to measurement date	<u>156,880</u>
	<u>\$ 420,112</u>

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

Note 11: Defined Benefit Pension Plan (Concluded)

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

Year Ended	
June 30	
2016	\$ 65,808
2017	65,808
2018	65,808
2019	65,808
	\$ 263,232
	\$ 263,232

Note 12: Net Position Restated

New accounting standards adopted during the year require local units of government to report the defined benefit pension plan's net pension liability (NPL) in their financial statements. This requires a restatement to beginning net position for the amount of the NPL that was outstanding as of July 1, 2014.

	Governmental Activities	Business-Type Activities
Beginning net position	\$ 25,689,026	\$ 35,576,380
Restatement to report the net pension liability at July 1, 2014	(981,842)	(775,964)
Restated beginning net position	\$ 24,707,184	\$ 34,800,416

Note 13: 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 14: Dial-A-Ride Enterprise Fund

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

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Note 14: Dial-A-Ride Enterprise Fund (Concluded)

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

Other Revenue – Other revenue, totaling \$192, 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, 2014 through June 30, 2015, Dial-A-Ride paid \$1,915 in 50201 Pension. Of this amount, \$1,915 paid the actuarial required minimum contribution and \$-0- was paid in excess of the actuarial required minimum contribution. The entire amount of \$1,915 was expensed on the books and is included in Dial-A-Ride's total eligible expenses for the fiscal year ending September 30, 2015.

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

Note 15: Deficit Funds

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

Note 16: Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The statement follows the framework for financial reporting of defined benefit OPEB plans in Statement No. 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2016-2017 fiscal year.

In June 2015, the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The statement replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The statement requires governments providing other postemployment benefits (OPEB) to recognize their unfunded OPEB obligations as a liability for the first time, and to more comprehensibly and comparably measure the annual costs of OPEB benefits. The statement also enhances accountability and transparency through revised note disclosures and requires supplementary information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2017-2018 fiscal year.

CITY OF HILLSDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONCLUDED)

JUNE 30, 2015

Note 16: Upcoming Accounting Pronouncements (Concluded)

In June 2105, the GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified with a source of authoritative GAAP. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2015-2016 fiscal year.

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HILLSDALE, MICHIGAN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2015

	BUDGETED AMOUNTS		ACTUAL
	ORIGINAL	FINAL	
REVENUES			
City Taxes:			
Property	\$ 1,902,000	\$ 1,902,000	\$ 1,910,322
Administrative fees	60,000	60,000	61,267
Interest and penalties	20,000	20,000	37,930
Industrial facilities tax	50,000	50,000	48,484
Total City taxes	<u>2,032,000</u>	<u>2,032,000</u>	<u>2,058,003</u>
State revenue	828,000	848,000	831,396
Federal revenue	600,000	40,000	5,000
Licenses and permits	98,800	98,800	112,142
Charges for services	18,650	18,650	22,157
Fines and violations	6,000	6,000	5,644
Interest and rentals	89,200	89,200	88,981
Miscellaneous	676,250	716,250	713,259
TOTAL REVENUES	<u>4,348,900</u>	<u>3,848,900</u>	<u>3,836,582</u>
EXPENDITURES			
General government:			
Council	39,950	32,450	30,361
City manager	217,535	177,535	174,082
Administrative	194,700	154,700	159,175
Elections	14,250	14,250	11,099
Assessor	92,680	127,680	117,179
Clerk	83,910	93,910	83,397
Finance department	98,960	98,960	92,952
Treasurer	127,900	132,900	130,375
Building and grounds	123,905	108,905	108,645
Parking lots	29,790	57,290	55,473
Cemetery	117,385	107,385	105,885
Airport	104,805	83,805	93,161
Total general government	<u>1,245,770</u>	<u>1,189,770</u>	<u>1,161,784</u>
Public safety:			
Police	1,338,450	1,258,450	1,235,041
Fire	466,070	480,070	464,424
Code enforcement	42,845	42,845	39,898
Total public safety	<u>1,847,365</u>	<u>1,781,365</u>	<u>1,739,363</u>
Public works:			
Public services	266,095	273,595	263,189
Street lights	71,000	88,500	69,992
Total public works	<u>337,095</u>	<u>362,095</u>	<u>333,181</u>

continued...

CITY OF HILLSDALE, MICHIGAN
BUDGETARY COMPARISON SCHEDULE (CONCLUDED)
GENERAL FUND
YEAR ENDED JUNE 30, 2015

	BUDGETED AMOUNTS		ACTUAL
	ORIGINAL	FINAL	
EXPENDITURES (CONTINUED)			
Community and economic development:			
Planning	\$ 73,115	\$ 73,115	\$ 66,799
Economic development	665,000	105,000	80,432
Total community and economic development	738,115	178,115	147,231
Culture and recreation	150,000	220,000	216,269
TOTAL EXPENDITURES	4,318,345	3,731,345	3,597,828
REVENUES OVER (UNDER) EXPENDITURES	30,555	117,555	238,754
OTHER FINANCING SOURCES (USES)			
Contribution from TIFA	10,000	10,000	10,000
Operating transfers in	198,200	198,200	199,328
Operating transfers (out)	(333,450)	(433,450)	(433,450)
TOTAL OTHER FINANCING SOURCES (USES)	(125,250)	(225,250)	(224,122)
NET CHANGE IN FUND BALANCE	(94,695)	(107,695)	14,632
FUND BALANCE - BEGINNING OF YEAR	926,875	926,875	926,875
FUND BALANCE - END OF YEAR	\$ 832,180	\$ 819,180	\$ 941,507

CITY OF HILLSDALE, MICHIGAN
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND
YEAR ENDED JUNE 30, 2015

	BUDGETED AMOUNTS		ACTUAL
	ORIGINAL	FINAL	
REVENUES			
State revenue	\$ 478,500	\$ 478,500	\$ 498,609
Interest and rentals	1,000	1,000	844
Miscellaneous	1,000	1,000	3,971
TOTAL REVENUES	480,500	480,500	503,424
EXPENDITURES			
Highways and streets:			
Street surface	98,910	98,910	57,894
Trunkline street surface	11,835	11,835	10,596
R.O.W. maintenance	73,775	73,775	78,415
Trunkline R.O.W. maintenance	8,890	8,890	6,089
Trees	45,360	45,360	26,080
Trunkline trees	730	730	744
Drainage	39,095	39,095	31,468
Trunkline R.O.W. drainage	5,155	5,155	896
Traffic	51,145	51,145	55,205
Trunkline traffic	6,575	6,575	5,906
Winter maintenance	84,760	84,760	71,119
Trunkline winter maintenance	22,640	22,640	16,404
TOTAL EXPENDITURES	448,870	448,870	360,816
REVENUES OVER (UNDER) EXPENDITURES	31,630	31,630	142,608
OTHER FINANCING SOURCES (USES)			
Transfers out	(71,500)	(71,500)	(73,686)
TOTAL OTHER FINANCING SOURCES (USES)	(71,500)	(71,500)	(73,686)
NET CHANGES IN FUND BALANCES	(39,870)	(39,870)	68,922
FUND BALANCES - BEGINNING OF YEAR	171,461	171,461	171,461
FUND BALANCES - END OF YEAR	\$ 131,591	\$ 131,591	\$ 240,383

CITY OF HILLSDALE, MICHIGAN
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET FUND
YEAR ENDED JUNE 30, 2015

	BUDGETED AMOUNTS		ACTUAL
	ORIGINAL	FINAL	
REVENUES			
State revenue	\$ 155,500	\$ 155,500	\$ 161,314
Miscellaneous	-	-	2,450
TOTAL REVENUES	155,500	155,500	163,764
EXPENDITURES			
Highways and streets:			
Street surface	81,060	81,060	77,477
R.O.W. maintenance	62,465	62,465	67,577
Trees	49,990	49,990	43,349
Drainage	21,630	21,630	27,272
Traffic	17,765	17,765	13,842
Winter maintenance	47,555	47,555	44,997
TOTAL EXPENDITURES	280,465	280,465	274,514
REVENUES OVER (UNDER) EXPENDITURES	(124,965)	(124,965)	(110,750)
OTHER FINANCING SOURCES (USES)			
Transfers in	139,165	139,165	139,165
Transfers out	(14,200)	(14,200)	(14,957)
TOTAL OTHER FINANCING SOURCES (USES)	124,965	124,965	124,208
NET CHANGES IN FUND BALANCES	-	-	13,458
FUND BALANCES - BEGINNING OF YEAR	98,054	98,054	98,054
FUND BALANCES - END OF YEAR	\$ 98,054	\$ 98,054	\$ 111,512

CITY OF HILLSDALE, MICHIGAN
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
DEFINED BENEFIT PENSION PLAN
YEAR ENDED DECEMBER 31, 2014
Last 10 Years*

	2014
Total Pension Liability	
Service cost	\$ 364,196
Interest	1,621,607
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions	-
Benefit payments including employee refunds	(1,232,671)
Other	(1)
Net Change in Total Pension Liability	753,131
Total Pension Liability - beginning	20,090,076
Total Pension Liability - ending	\$ 20,843,207
Plan Fiduciary Net Position	
Contributions-employer	\$ 332,464
Contributions-employee	137,790
Net investment income	1,138,603
Benefit payments including employee refunds	(1,232,671)
Administrative expense	(41,685)
Other	2
Net Change in Plan Fiduciary Net Position	334,503
Plan Fiduciary Net Position - beginning	18,191,663
Plan Fiduciary Net Position - ending	\$ 18,526,166
Employer Net Pension Liability - ending	\$ 2,317,041
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	88.88%
Covered Employee Payroll	\$ 3,531,325
Employer's Net Pension Liability as a percentage of covered employee payroll	65.61%

Notes to schedule:

Benefit changes: There were no changes made to benefits in the December 31, 2014 valuation.

Changes in assumptions: There were no changes in actuarial assumptions or methods affecting the December 31, 2014 valuation.

Above dates are based on measurement date, which may not necessarily tie to the fiscal year end June 30, 2015

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

CITY OF HILLSDALE, MICHIGAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
YEAR ENDED JUNE 30, 2015
Last 10 Years*

	2015
Actuarial Determined Contributions	\$ 330,003
Contributions in relation to the actuarially determined contribution	330,003
Contribution deficiency (excess)	-
 Covered Employee Payroll	 3,531,325
 Contributions as a percentage of covered employee payroll	 9.35%

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HILLSDALE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2015

	<u>SPECIAL REVENUE</u>	<u>CAPITAL PROJECT</u>	<u>PERMANENT FUNDS</u>	<u>TOTAL</u>
ASSETS				
Cash and investments	\$ 126,932	\$ 888,367	\$ 699,798	\$ 1,715,097
Accounts receivable	49,268	22,000	19	71,287
Due from other funds	-	19	3,398	3,417
Prepaid expenditures	4,203	-	-	4,203
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 180,403</u>	<u>\$ 910,386</u>	<u>\$ 703,215</u>	<u>\$ 1,794,004</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 3,579	\$ 6,774	\$ -	\$ 10,353
Accrued payroll and related liabilities	10,666	-	-	10,666
Due to other funds	3,715	-	19	3,734
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>17,960</u>	<u>6,774</u>	<u>19</u>	<u>24,753</u>
 Fund Balances:				
Non-spendable				
Prepaid expenditures	4,203	-	-	4,203
Restricted	158,240	903,612	703,196	1,765,048
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>162,443</u>	<u>903,612</u>	<u>703,196</u>	<u>1,769,251</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 180,403</u>	<u>\$ 910,386</u>	<u>\$ 703,215</u>	<u>\$ 1,794,004</u>

CITY OF HILLSDALE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015

	<u>SPECIAL REVENUE</u>	<u>CAPITAL PROJECT</u>	<u>PERMANENT FUNDS</u>	<u>TOTAL</u>
REVENUES				
Taxes	\$ 130,568	\$ -	\$ -	\$ 130,568
Intergovernmental - federal and state	15,472	130,039	-	145,511
Contributions from local units	13,800	-	-	13,800
Charges for services	52,942	-	12,648	65,590
Fines and violations	57,476	-	-	57,476
Interest and rentals	19,810	37,503	16,096	73,409
Miscellaneous	27,590	78,888	5,588	112,066
	<u>317,658</u>	<u>246,430</u>	<u>34,332</u>	<u>598,420</u>
TOTAL REVENUES				
	317,658	246,430	34,332	598,420
EXPENDITURES				
General government	-	-	-	-
Public safety	873	-	-	873
Culture and recreation	336,708	-	-	336,708
Capital outlay	-	213,426	-	213,426
	<u>337,581</u>	<u>213,426</u>	<u>-</u>	<u>551,007</u>
TOTAL EXPENDITURES				
	337,581	213,426	-	551,007
REVENUES OVER (UNDER) EXPENDITURES	<u>(19,923)</u>	<u>33,004</u>	<u>34,332</u>	<u>47,413</u>
OTHER FINANCING SOURCES (USES)				
Gain (loss) on sale of investment	-	-	-	-
Contribution from TIFA	-	20,450	-	20,450
Transfers in	60,025	144,000	-	204,025
Transfers out	(2,000)	-	(7,300)	(9,300)
	<u>58,025</u>	<u>164,450</u>	<u>(7,300)</u>	<u>215,175</u>
TOTAL OTHER FINANCING SOURCES (USES)				
	58,025	164,450	(7,300)	215,175
CHANGES IN FUND BALANCES	38,102	197,454	27,032	262,588
FUND BALANCES - BEGINNING OF YEAR	<u>124,341</u>	<u>706,158</u>	<u>676,164</u>	<u>1,506,663</u>
FUND BALANCES - END OF YEAR	<u>\$ 162,443</u>	<u>\$ 903,612</u>	<u>\$ 703,196</u>	<u>\$ 1,769,251</u>

CITY OF HILLSDALE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2015

	LIBRARY	RECREATION COMMISSION	DRUG FORFEITURES	TOTAL
ASSETS				
Cash and equivalents	\$ (2,173)	\$ 8,996	\$ 3,041	\$ 9,864
Investments	117,068	-	-	117,068
Accounts receivable	48,918	350	-	49,268
Prepaid expenditures	288	3,915	-	4,203
	<u>\$ 164,101</u>	<u>\$ 13,261</u>	<u>\$ 3,041</u>	<u>\$ 180,403</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 2,483	\$ 1,096	\$ -	\$ 3,579
Accrued payroll and related liabilities	5,337	5,329	-	10,666
Due to other funds	3,655	60	-	3,715
	<u>11,475</u>	<u>6,485</u>	<u>-</u>	<u>17,960</u>
Fund Balances:				
Non-spendable				
Prepaid expenditures	288	3,915	-	4,203
Restricted	152,338	2,861	3,041	158,240
	<u>152,626</u>	<u>6,776</u>	<u>3,041</u>	<u>162,443</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 164,101</u>	<u>\$ 13,261</u>	<u>\$ 3,041</u>	<u>\$ 180,403</u>

CITY OF HILLSDALE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2015

	<u>LIBRARY</u>	<u>RECREATION COMMISSION</u>	<u>DRUG FORFEITURES</u>	<u>TOTAL</u>
REVENUES				
Taxes	\$ 130,568	\$ -	\$ -	\$ 130,568
Intergovernmental - federal and state	15,472	-	-	15,472
Contributions from local units	13,800	-	-	13,800
Charges for services	9,714	43,228	-	52,942
Fines and violations	55,270	-	2,206	57,476
Interest and rentals	1,323	18,487	-	19,810
Miscellaneous	23,345	4,245	-	27,590
TOTAL REVENUES	<u>249,492</u>	<u>65,960</u>	<u>2,206</u>	<u>317,658</u>
EXPENDITURES				
Public safety	-	-	873	873
Culture and recreation	211,256	125,452	-	336,708
TOTAL EXPENDITURES	<u>211,256</u>	<u>125,452</u>	<u>873</u>	<u>337,581</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>38,236</u>	<u>(59,492)</u>	<u>1,333</u>	<u>(19,923)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	60,025	-	60,025
Transfers out	(2,000)	-	-	(2,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,000)</u>	<u>60,025</u>	<u>-</u>	<u>58,025</u>
CHANGES IN FUND BALANCES	36,236	533	1,333	38,102
FUND BALANCES - BEGINNING OF YEAR	<u>116,390</u>	<u>6,243</u>	<u>1,708</u>	<u>124,341</u>
FUND BALANCES - END OF YEAR	<u>\$ 152,626</u>	<u>\$ 6,776</u>	<u>\$ 3,041</u>	<u>\$ 162,443</u>

CITY OF HILLSDALE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS
JUNE 30, 2015

	LIBRARY IMPROVEMENT	FIELDS OF DREAMS	STOCK PARK	CAPITAL IMPROVEMENT	AIRPORT IMPROVEMENT	FIRE EQUIPMENT	TOTAL
ASSETS							
Cash and equivalents	\$ 13,026	\$ (4,165)	\$ (21)	\$ 480,396	\$ 271,977	\$ -	\$ 761,213
Investments	-	11,802	23,906	-	-	91,446	127,154
Accounts receivable	-	-	-	21,122	878	-	22,000
Due from other funds	-	-	19	-	-	-	19
TOTAL ASSETS	\$ 13,026	\$ 7,637	\$ 23,904	\$ 501,518	\$ 272,855	\$ 91,446	\$ 910,386
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ -	\$ 1,700	\$ -	\$ 3,731	\$ 1,343	\$ -	\$ 6,774
TOTAL LIABILITIES	-	1,700	-	3,731	1,343	-	6,774
Fund Balances:							
Restricted	13,026	5,937	23,904	497,787	271,512	91,446	903,612
TOTAL FUND BALANCES	13,026	5,937	23,904	497,787	271,512	91,446	903,612
TOTAL LIABILITIES AND FUND BALANCES	\$ 13,026	\$ 7,637	\$ 23,904	\$ 501,518	\$ 272,855	\$ 91,446	\$ 910,386

CITY OF HILLSDALE, MICHIGAN
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECT FUNDS
 YEAR ENDED JUNE 30, 2015

	<u>LIBRARY IMPROVEMENT</u>	<u>FIELD OF DREAMS</u>	<u>STOCK PARK</u>	<u>CAPITAL IMPROVEMENT</u>	<u>AIRPORT IMPROVEMENT</u>	<u>FIRE EQUIPMENT</u>	<u>TOTAL</u>
REVENUES							
Intergovernmental - federal and state	\$ -	\$ -	\$ -	\$ 52,909	\$ 77,130	\$ -	\$ 130,039
Interest and rentals	-	14	32	-	37,369	88	37,503
Miscellaneous	-	13,185	10,291	15,915	39,404	93	78,888
TOTAL REVENUES	<u>-</u>	<u>13,199</u>	<u>10,323</u>	<u>68,824</u>	<u>153,903</u>	<u>181</u>	<u>246,430</u>
EXPENDITURES							
Capital outlay	-	26,930	18,542	50,560	117,394	-	213,426
TOTAL EXPENDITURES	<u>-</u>	<u>26,930</u>	<u>18,542</u>	<u>50,560</u>	<u>117,394</u>	<u>-</u>	<u>213,426</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>(13,731)</u>	<u>(8,219)</u>	<u>18,264</u>	<u>36,509</u>	<u>181</u>	<u>33,004</u>
OTHER FINANCING SOURCES (USES)							
Contributions from TIFA	-	-	-	20,450	-	-	20,450
Transfers in (out)	-	-	(6,000)	150,000	-	-	144,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(6,000)</u>	<u>170,450</u>	<u>-</u>	<u>-</u>	<u>164,450</u>
CHANGES IN FUND BALANCES	<u>-</u>	<u>(13,731)</u>	<u>(14,219)</u>	<u>188,714</u>	<u>36,509</u>	<u>181</u>	<u>197,454</u>
FUND BALANCES - BEGINNING OF YEAR	<u>13,026</u>	<u>19,668</u>	<u>38,123</u>	<u>309,073</u>	<u>235,003</u>	<u>91,265</u>	<u>706,158</u>
FUND BALANCES - END OF YEAR	<u>\$ 13,026</u>	<u>\$ 5,937</u>	<u>\$ 23,904</u>	<u>\$ 497,787</u>	<u>\$ 271,512</u>	<u>\$ 91,446</u>	<u>\$ 903,612</u>

CITY OF HILLSDALE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS
JUNE 30, 2015

	R.L. OWEN MEMORIAL	CEMETERY PERPETUAL CARE	STOCK PARK MAINTENANCE	TOTAL
ASSETS				
Cash and investments	\$ 41,036	\$ 140,328	\$ 890	\$ 182,254
Investments, at cost	-	482,005	35,539	517,544
Due from other funds	-	3,398	-	3,398
Accounts receivable	-	-	19	19
TOTAL ASSETS	\$ 41,036	\$ 625,731	\$ 36,448	\$ 703,215
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	\$ -	\$ -	\$ 19	\$ 19
Fund Balances:				
Restricted	41,036	625,731	36,429	703,196
TOTAL FUND BALANCES	41,036	625,731	36,429	703,196
TOTAL LIABILITIES AND FUND BALANCES	\$ 41,036	\$ 625,731	\$ 36,448	\$ 703,215

CITY OF HILLSDALE, MICHIGAN
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR PERMANENT FUNDS
 YEAR ENDED JUNE 30, 2015

	<u>R.L. OWEN MEMORIAL</u>	<u>CEMETERY PERPETUAL CARE</u>	<u>STOCK PARK MAINTENANCE</u>	<u>TOTAL</u>
REVENUES				
Charges for services	\$ -	\$ 12,648	\$ -	\$ 12,648
Interest and rentals	6,258	9,735	103	16,096
Miscellaneous	-	-	5,588	5,588
TOTAL REVENUES	<u>6,258</u>	<u>22,383</u>	<u>5,691</u>	<u>34,332</u>
EXPENDITURES				
General government	-	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>6,258</u>	<u>22,383</u>	<u>5,691</u>	<u>34,332</u>
OTHER FINANCING SOURCES (USES)				
Gain (loss) on sale of investment	-	-	-	-
Transfers in (out)	-	(13,300)	6,000	(7,300)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(13,300)</u>	<u>6,000</u>	<u>(7,300)</u>
CHANGES IN FUND BALANCES	6,258	9,083	11,691	27,032
FUND BALANCES - BEGINNING OF YEAR	<u>34,778</u>	<u>616,648</u>	<u>24,738</u>	<u>676,164</u>
FUND BALANCES - END OF YEAR	<u>\$ 41,036</u>	<u>\$ 625,731</u>	<u>\$ 36,429</u>	<u>\$ 703,196</u>

CITY OF HILLSDALE, MICHIGAN
LOCAL REVENUES
DIAL-A-RIDE ENTERPRISE FUND
YEAR ENDED JUNE 30, 2015

	<u>7/1/2014 - 9/30/2014</u>	<u>10/1/2014 - 6/30/2015</u>	<u>7/1/2014 - 6/30/2015</u>
OPERATING REVENUES AND TRANSFERS			
Demand response (farebox) - nonurban	\$ 11,465	\$ 43,925	\$ 55,390
Transfer in from general fund	-	109,260	109,260
TOTAL LOCAL REVENUES	<u>\$ 11,465</u>	<u>\$ 153,185</u>	<u>\$ 164,650</u>

CITY OF HILLSDALE, MICHIGAN
LOCAL REVENUES
DIAL-A-RIDE ENTERPRISE FUND
BASED ON A SEPTEMBER 30, 2014 YEAR END

	<u>10/1/2013 - 6/30/2014</u>	<u>7/1/2014 - 9/30/2014</u>	<u>10/1/2013 - 9/30/2014</u>
OPERATING REVENUES AND TRANSFERS			
Demand response (farebox) - nonurban	\$ 45,381	\$ 11,465	\$ 56,846
Michigan Transit Pool dividend	1,147	-	1,147
Transfer in from general fund	<u>87,950</u>	<u>-</u>	<u>87,950</u>
 TOTAL LOCAL REVENUES	 <u>\$ 134,478</u>	 <u>\$ 11,465</u>	 <u>\$ 145,943</u>

CITY OF HILLSDALE, MICHIGAN
FEDERAL AND STATE AWARDS
DIAL-A-RIDE ENTERPRISE FUND
YEAR END JUNE 30, 2015

	<u>7/1/2014 - 9/30/2014</u>	<u>10/1/2014 - 6/30/2015</u>	<u>7/1/2014 - 6/30/2015</u>
Michigan Department of Transportation			
Local bus operating	\$ 36,594	\$ 93,420	\$ 130,014
Preliminary reconciliation payback - FY 2013	(3,174)		(3,174)
Final audit FY 2011	-	1,504	1,504
Final audit FY 2012	-	2,093	2,093
Federal Transit Administration			
Section 5311	26,715	42,134	68,849
Section 5311 - Capital - bus replacement	-	87,404	87,404
RTAP Training reimbursement	192	-	192
TOTAL FEDERAL AND STATE AWARDS	<u>\$ 60,327</u>	<u>\$ 226,555</u>	<u>\$ 286,882</u>

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

	<u>10/1/2013 - 6/30/2014</u>	<u>7/1/2014 - 9/30/2014</u>	<u>TOTAL</u>
Michigan Department of Transportation			
Local bus operating	\$ 95,495	\$ 36,594	\$ 132,089
Preliminary reconciliation - FY 2013	(3,174)	(5,930)	(9,104)
Federal Transit Administration			
Section 5311	25,931	26,715	52,646
RTAP Training reimbursement	533	192	725
TOTAL FEDERAL AND STATE AWARDS	<u>\$ 118,785</u>	<u>\$ 57,571</u>	<u>\$ 176,356</u>

CITY OF HILLSDALE, MICHIGAN
EXPENDITURES OF FEDERAL AND STATE AWARDS
DIAL-A-RIDE ENTERPRISE FUND
YEAR ENDED JUNE 30, 2015

	FEDERAL PROJECT NUMBER	GRANT AUTHORIZATION NUMBER	PROGRAM AWARD AMOUNT	CURRENT YEAR'S EXPENDITURES			PRIOR YEARS' EXPENDITURES	AWARD AMOUNT REMAINING
				TOTAL	FEDERAL	STATE		
FEDERAL AND STATE GRANTOR / PASS THROUGH								
GRANTOR / PROGRAM TITLE								
U.S. DEPARTMENT OF TRANSPORTATION								
Passed through Michigan Department of Transportation								
Federal Transit Capital Grants								
Capital Grant replacement bus	120733	2012-0097/P4	\$ 121,561	\$ 87,404	\$ 69,923	\$ 17,481	\$ -	\$ 34,157
Operating assistance - Section 5311	122471	2012-0097/P5/R1	53,776	42,214	42,214	-	11,355	207
Operating assistance - Section 5311	125921	2012-0097/P6/R1	63,409	26,633	26,633	-	-	36,776
RTAP Training reimbursement	WK0050/0055	MI-18-X050/X055	4,500	192	192	-	-	4,308
MICHIGAN DEPARTMENT OF TRANSPORTATION								
Operating Assistance - Act 51								
Nonurban - 2015 Budgeted	N/A	N/A	124,564	93,420	-	93,420	-	31,144
Nonurban - 2014 Reconciled	N/A	N/A	136,326	36,594	-	36,594	99,732	-
Nonurban - 2013 Reconciled	N/A	N/A	122,109	-	-	-	122,109	-
Nonurban - 2012 Final Audited	N/A	N/A	117,732	-	-	-	117,732	-
Nonurban - 2011 Final Audited	N/A	N/A	112,010	-	-	-	112,010	-
			<u>\$ 855,987</u>	<u>\$ 286,457</u>	<u>\$ 138,962</u>	<u>\$ 147,495</u>	<u>\$ 462,938</u>	<u>\$ 106,592</u>

CITY OF HILLSDALE, MICHIGAN
OPERATING AND CONTRACT EXPENSES
DIAL-A-RIDE ENTERPRISE FUND
YEAR ENDING JUNE 30, 2015

	<u>NONURBAN</u>	<u>TOTAL</u>
Labor	\$ 174,633	\$ 174,633
Fringe benefits	80,476	80,476
Services	25,696	25,696
Materials & supplies	14,253	14,253
Insurance	25,073	25,073
Utilities	11,160	11,160
Miscellaneous	1,232	1,232
Depreciation	53,139	53,139
	<hr/>	<hr/>
TOTAL EXPENSES	<u>\$ 385,662</u>	<u>\$ 385,662</u>

CITY OF HILLSDALE, MICHIGAN
OPERATING AND CONTRACT EXPENSES
DIAL-A-RIDE ENTERPRISE FUND
YEAR ENDING JUNE 30, 2015

	NONURBAN		TOTAL
	07/01/2014 - 9/30/2014	10/01/2014 - 6/30/2015	
Labor	\$ 33,783	\$ 140,850	\$ 174,633
Fringe benefits	24,824	55,652	80,476
Services	3,514	22,182	25,696
Materials & supplies	777	13,476	14,253
Insurance	12,627	12,446	25,073
Utilities	1,443	9,717	11,160
Miscellaneous	180	1,052	1,232
Depreciation	-	53,139	53,139
TOTAL EXPENSES	\$ 77,148	\$ 308,514	\$ 385,662

CITY OF HILLSDALE, MICHIGAN
OPERATING AND CONTRACT EXPENSES
DIAL-A-RIDE ENTERPRISE FUND
BASED ON A SEPTEMBER 30, 2014 YEAR END

	NONURBAN		TOTAL
	10/1/2013 - 6/30/2014	7/1/2014 - 9/30/2014	
Labor	\$ 147,855	\$ 33,783	\$ 181,638
Fringe benefits	51,910	24,824	76,734
Services	17,113	3,514	20,627
Materials & supplies	29,340	777	30,117
Insurance	13,108	12,627	25,735
Utilities	11,517	1,443	12,960
Miscellaneous	765	180	945
Depreciation	53,139	-	53,139
TOTAL EXPENSES	\$ 324,747	\$ 77,148	\$ 401,895

CITY OF HILLSDALE, MICHIGAN
NONURBAN REGULAR SERVICE REVENUE REPORT
DIAL-A-RIDE ENTERPRISE FUND
BASED ON A SEPTEMBER 30, 2014 YEAR END

<u>CODE</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
401	Farebox Revenue	
40100	Passenger Fares	\$ 56,846
407	Non Trans Revenue	
40799	Other non trans revenue	1,147
409	Local Revenues	
40910	Local operating assistance	87,950
411	State Formula and Contracts	
41101	State operating assistance	136,326
413	Federal Contracts	
41301	Federal Section 5311 (operating funds only)	55,294
41314	Capital contract reimbursement	-
41398	RTAP	<u>725</u>
	TOTAL REVENUES	<u>\$ 338,288</u>

CITY OF HILLSDALE, MICHIGAN
NONURBAN REGULAR SERVICE EXPENSE REPORT
DIAL-A-RIDE ENTERPRISE FUND
BASED ON A SEPTEMBER 30, 2014 YEAR END

CODE	DESCRIPTION	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL
501	Labor				
50101	Operators' salaries and wages	\$ 110,805	\$ -	\$ -	\$ 110,805
50102	Other salaries and wages	-	4,727	22,993	27,720
50103	Dispatchers' salaries and wages	43,113	-	-	43,113
502	Fringe Benefits				
50200	Other fringe benefits	62,849	2,928	10,957	76,734
503	Services				
50305	Audit costs	-	-	-	-
50399	Other	10,139	-	6,331	16,470
504	Materials and Supplies				
50401	Fuel and lubricants	25,005	-	-	25,005
50402	Tires and tubes	2,585	-	-	2,585
50499	Other materials and supplies	1,749	4,301	-	6,050
505	Utilities				
50500	Utilities	12,960	-	-	12,960
506	Insurance				
50603	Liability insurance	22,556	-	-	22,556
50699	Other insurance	-	-	3,179	3,179
509	Miscellaneous Expenses				
50902	Travel, meetings and training	502	-	-	502
50999	Miscellaneous	-	-	-	-
512	Operating Leases and Rentals				
51200	Operating leases and rentals	1,078	-	-	1,078
513	Depreciation				
51300	Depreciation	53,139	-	-	53,139
540	Ineligible refunds & credits				
54000	Ineligible refunds & credits (insurance)	1,147	-	-	1,147
550	Ineligible Expenses				
55007	Ineligible depreciation	53,139	-	-	53,139
574	Ineligible Expenses				
57402	Ineligible RTAP	-	533	192	725
	Total expenses				<u>\$ 401,896</u>
	Total ineligible expenses				<u>\$ 55,011</u>
	Total eligible expenses				<u>\$ 346,885</u>

CITY OF HILLSDALE, MICHIGAN
NONURBAN REGULAR SERVICE NON-FINANCIAL INFORMATION
DIAL-A-RIDE ENTERPRISE FUND
BASED ON A SEPTEMBER 30, 2014 YEAR END

	<u>WEEKDAY</u>	<u>SATURDAY</u>	<u>SUNDAY</u>	<u>TOTAL</u>
Non-Financial Information				
Annual Reconciliation				
10/1/2013 - 9/30/2014				
Vehicle Hours	5,230	-	-	5,230
Vehicle Miles	<u>54,976</u>	<u>-</u>	<u>-</u>	<u>54,976</u>
Passengers Reg.	16,551	-	-	16,551
Passengers - Sr.	3,112	-	-	3,112
Passengers - Per. Disb.	8,009	-	-	8,009
Passengers - Sr. Disb.	<u>4,833</u>	<u>-</u>	<u>-</u>	<u>4,833</u>
Total Demand - Response	<u>32,505</u>	<u>-</u>	<u>-</u>	<u>32,505</u>
Days Operated	<u>251</u>	<u>-</u>	<u>-</u>	<u>251</u>
	<u>Quantity</u>			
Total Demand - Response Vehicles	4			
Demand-Response Vehicles w/Lifts	4			
Diesel/Gasoline Gallons Consumed	8,827			
Total Transit (full-time equivalent) Employees	4			
Total Revenue Vehicles (full-time equivalent) Operators	4			

CITY OF HILLSDALE, MICHIGAN
OPERATING ASSISTANCE CALCULATION
DIAL-A-RIDE ENTERPRISE FUND
BASED ON A SEPTEMBER 30, 2014 YEAR END

	<u>NONURBAN</u>
Total expenses	\$ 401,896
Less ineligible expenses:	
Depreciation	53,138
RTAP	725
Insurance refund	1,147
Total State eligible expenses	<u>\$ 346,886</u>
Eligible expenses for State reimbursement	\$ 346,886
Reimbursement percentage	0.3930
State operating assistance	<u>\$ 136,326</u>
Total federal eligible expenses	\$ 346,886
Less additional federal ineligible expenses per A-87:	
Audit costs	1,296
Eligible expenses for federal reimbursement	<u>\$ 345,590</u>
Reimbursement percentage	0.1600
Section 5311 operating assistance	<u>\$ 55,294</u>

CITY OF HILLSDALE, MICHIGAN
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2015

	DEPARTMENT OF PUBLIC SERVICE LEAVE & BENEFITS	PUBLIC SERVICE INVENTORY	REVOLVING MOBILE EQUIPMENT	UNEMPLOYMENT INSURANCE	TOTAL
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 12,176	\$ 73,683	\$ 114,408	\$ -	\$ 200,267
Investments	-	-	-	67,477	67,477
Due from other funds	-	769	-	-	769
Inventory	-	154,023	-	-	154,023
Prepaid expenses	24,123	-	25,170	-	49,293
TOTAL CURRENT ASSETS	36,299	228,475	139,578	67,477	471,829
Capital assets:					
Equipment	-	-	1,917,123	-	1,917,123
Less: accumulated depreciation	-	-	(1,700,528)	-	(1,700,528)
TOTAL CAPITAL ASSETS, NET	-	-	216,595	-	216,595
TOTAL ASSETS	36,299	228,475	356,173	67,477	688,424
LIABILITIES					
Current liabilities:					
Accounts payable	-	4,109	7,312	-	11,421
Accrued payroll and related liabilities	-	739	2,122	-	2,861
TOTAL CURRENT LIABILITIES	-	4,848	9,434	-	14,282
Other liabilities:					
Compensated absences	13,720	-	5,765	-	19,485
TOTAL LIABILITIES	13,720	4,848	15,199	-	33,767
NET POSITION					
Net investment in capital assets	-	-	216,595	-	216,595
Unrestricted	22,579	223,627	124,379	67,477	438,062
TOTAL NET POSITION	\$ 22,579	\$ 223,627	\$ 340,974	\$ 67,477	\$ 654,657

CITY OF HILLSDALE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2015

	DEPARTMENT OF PUBLIC SERVICE LEAVE & BENEFITS	PUBLIC SERVICE INVENTORY	REVOLVING MOBILE EQUIPMENT	INSURANCE	TOTAL
OPERATING REVENUES					
Charges for services	\$ -	\$ 121,834	\$ 336,084	\$ -	\$ 457,918
Miscellaneous	137,441		14,132	4,400	155,973
TOTAL OPERATING REVENUES	137,441	121,834	350,216	4,400	613,891
OPERATING EXPENSES					
Salaries	31,262	2,586	54,186	-	88,034
Fringe benefits	106,179	1,063	40,535	-	147,777
Supplies	-	136,808	112,066	-	248,874
Contracted services	-	4,343	6,919	-	11,262
Maintenance	-	3,373	14,012	-	17,385
Insurance	-	-	39,456	-	39,456
Miscellaneous	-	-	7,206	4,594	11,800
Capital outlay	-	-	3,696	-	3,696
Depreciation	-	-	90,932	-	90,932
TOTAL OPERATING EXPENSES	137,441	148,173	369,008	4,594	659,216
OPERATING INCOME (LOSS)	-	(26,339)	(18,792)	(194)	(45,325)
NONOPERATING REVENUES					
Gain (loss) on disposal of assets	-	-	6,132	-	6,132
Interest income	-	-	463	66	529
	-	-	6,595	66	6,661
CHANGES IN NET POSITION	-	(26,339)	(12,197)	(128)	(38,664)
NET POSITION - BEGINNING OF YEAR	22,579	249,966	353,171	67,605	693,321
NET POSITION - END OF YEAR	\$ 22,579	\$ 223,627	\$ 340,974	\$ 67,477	\$ 654,657

CITY OF HILLSDALE, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2015

	DEPARTMENT OF PUBLIC SERVICE LEAVE & BENEFITS	PUBLIC SERVICE INVENTORY	REVOLVING MOBILE EQUIPMENT	INSURANCE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash paid to suppliers	\$ -	\$ (104,973)	\$ (184,797)	\$ (4,594)	\$ (294,364)
Cash paid to employees	(136,512)	(3,494)	(94,353)	-	(234,359)
Receipts for interfund services provided	137,441	121,755	350,764	4,400	614,360
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>929</u>	<u>13,288</u>	<u>71,614</u>	<u>(194)</u>	<u>85,637</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase of capital assets	-	-	(34,248)	-	(34,248)
Proceeds from the disposal of capital assets	-	-	6,132	-	6,132
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>-</u>	<u>(28,116)</u>	<u>-</u>	<u>(28,116)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income	-	-	462	194	656
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>-</u>	<u>-</u>	<u>462</u>	<u>194</u>	<u>656</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	929	13,288	43,960	-	58,177
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>11,247</u>	<u>60,395</u>	<u>70,448</u>	<u>-</u>	<u>142,090</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 12,176</u>	<u>\$ 73,683</u>	<u>\$ 114,408</u>	<u>\$ -</u>	<u>\$ 200,267</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	\$ -	\$ (26,339)	\$ (18,792)	\$ (194)	\$ (45,325)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	-	-	90,932	-	90,932
(Increase)/decrease in:					
Accounts receivable	-	-	-	-	-
Due from other funds	-	(79)	548	-	469
Inventory	-	35,462	-	-	35,462
Prepaid expenses	(1,742)	-	(1,672)	-	(3,414)
Increase/(decrease) in:					
Accounts payable	-	4,089	(1,442)	-	2,647
Accrued expenses	2,671	155	2,040	-	4,866
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 929</u>	<u>\$ 13,288</u>	<u>\$ 71,614</u>	<u>\$ (194)</u>	<u>\$ 85,637</u>

OTHER REPORTS

GAO GOVERNMENT AUDITING STANDARDS REPORT

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Hillsdale, Michigan's basic financial statements and have issued our report thereon dated November 30, 2015.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses – Findings 2015-2 and 2015-3.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as 2015-1 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hillsdale, Michigan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as Finding 2015-4.

City of Hillsdale, Michigan's Response to Findings

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

Purpose of this Report

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

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

Certified Public Accountants

CITY OF HILLSDALE

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2015

Finding 2015-1 Financial Statement Preparation (Repeat finding)

Internal Control Finding considered a significant deficiency

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

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

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

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

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

Finding 2015-2 Inventory Reporting

Internal Control Finding considered a material weakness

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

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

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

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

View of responsible officials: Accounting personnel will reconcile the detailed asset list to the general ledger on a monthly basis, and seek technical assistance from the software company when needed.

Finding 2015-3 Year End Financial Close and Reporting Process
Internal Control Finding considered a material weakness

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

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

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

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

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

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

View of responsible officials: The business office will develop and maintain a process and checklist to implement during their year end close.

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

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

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

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

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

View of responsible officials: The finance director and City manager will work toward improving the general appropriations document to include estimated revenues as required.