

City of Hillsdale, Michigan

Financial Statements
And Independent Auditors' Report

Year Ended June 30, 2011

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City of Hillsdale, Michigan

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Federal Awards Supplemental Information

**Issued Under
Separate Cover**



Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 19, 2011, on our consideration of the City's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

JACKSON

2545 Spring Arbor Road, Suite. 200
Jackson, MI 49203-3690
Phone: (517) 788-8660 | Fax: (517) 788-9872

WILLIS & JURASEK, P.C.

E-Mail: willis@willispc.com
Web site: www.willispc.com

GRAND RAPIDS

2759 West River Drive., NW
Grand Rapids, MI 49544
Phone: (616) 361-0011 | Fax: (616) 361-0154

The Honorable Mayor and
Members of the City Council

knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Sincerely,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

October 19, 2011

Management's Discussion and Analysis

As management of the *City of Hillsdale, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$61,711,494 (*net assets*). Of this amount, \$16,022,212 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$310,008.
- Government wide total liabilities, long and short-term combined decreased more than seventeen percent (17.30%) or \$870,972.
- As of the close of the current fiscal year, the City's Governmental funds reported combined ending fund balances of \$2,258,810. Approximately thirty-seven percent (37%) of this total or \$833,845 is *available for spending* at the government's discretion (*unassigned*).
- At the end of the current fiscal year, total fund balance for the general fund was \$901,284, or twenty-one percent (21%) of total general fund expenditures. That is up one percent (1%) from the prior year.
- Total liabilities for all business type activities decreased \$519,248. This decrease represents more than fifty-nine percent (59%) of the combined decline in the City's long and short term liabilities.
- The City increased its capital grants and contributions by 254 percent or \$765,030 from fiscal year 2010.
- The City's total bonded debt decreased over eighteen percent (18.5%) or \$466,000 during the current fiscal year, while the long-term debt for the City governmental activities decreased \$215,961 or more than forty percent (40.5%).

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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

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

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

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

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

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

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

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

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

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Hillsdale, assets exceeded liabilities by \$61,711,494 at the close of the 2011 fiscal year.

By far the largest portion of the City's net assets, over seventy percent (70.06%), reflects its investment in land, buildings, vehicles, equipment and infrastructure less any outstanding related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it is important to note that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City's Net Assets	Governmental		Business-type		Total		Total Percent Change
	Activities		Activities				
	2010	2011	2010	2011	2010	2011	
Current and Other Assets	\$3,303,806	\$3,244,018	\$18,144,739	\$17,136,529	\$21,448,545	\$20,380,547	-4.98%
Capital Assets	\$22,514,447	\$22,928,189	\$22,471,877	\$22,565,165	\$44,986,324	\$45,493,354	1.13%
Total Assets	\$25,818,253	\$26,172,207	\$40,616,616	\$39,701,694	\$66,434,869	\$65,873,901	-0.84%
Long-term Liabilities Outstanding	\$711,200	\$420,239	\$2,707,161	\$1,226,547	\$3,418,361	\$1,646,786	51.83%
Other Liabilities	\$320,403	\$259,640	\$1,294,615	\$2,255,981	\$1,615,018	\$2,515,621	55.76%
Total Liabilities	\$1,031,603	\$679,879	\$4,001,776	\$3,482,528	\$5,033,379	\$4,162,407	17.30%
Net Assets:							
Invested In Capital Assets Net of Related Debt	\$22,055,447	\$22,722,189	\$19,955,877	\$20,515,165	\$42,011,324	\$43,237,354	2.92%
Restricted	\$1,323,715	\$1,351,414	\$1,086,102	\$1,100,514	\$2,409,817	\$2,451,928	1.75%
Unrestricted	\$1,407,488	\$1,418,725	\$15,572,861	\$14,603,487	\$16,980,349	\$16,022,212	-5.64%
Total Net Assets	\$24,786,650	\$25,492,328	\$36,614,840	\$36,219,166	\$61,401,490	\$61,711,494	0.50%

An additional portion of the City's net assets (\$2,451,928) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$16,022,212, may be used to meet the government's ongoing obligations to citizens and creditors. That is a 5.64% decrease from the prior year's *unrestricted* balance.

During the current fiscal year the total government's net assets increased by \$310,004 or .50%. This small increase reflects the degree to which ongoing revenues exceed ongoing expenses in both the business-type and governmental activities. It also represents a 2.92% increase in capital investments, net of related debt and a 1.75% increase in restricted assets.

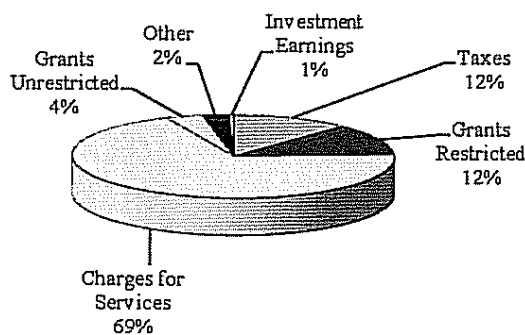
City's Changes in Net Assets

	Governmental		Business-type		Total		Total Percentage Change
	Activities		Activities		2010	2011	
Revenues:	2010	2011	2010	2011	2010	2011	
Program Revenues:							
Charges for Services	\$226,882	\$236,994	\$14,112,246	\$14,336,828	\$14,339,128	\$14,573,822	1.64%
Operating Grants & Contributions	1,208,798	1,203,808	792,369	324,368	\$2,001,167	\$1,528,176	-23.64%
Capital Grants & Contributions	300,847	1,065,877	-	-	\$300,847	\$1,065,877	254.29%
Total Revenues	\$1,736,527	\$2,506,679	\$14,904,615	\$14,661,196	\$16,641,142	\$17,167,875	3.17%
Expenses:							
General Government	1,191,677	1,096,197			\$1,191,677	\$1,096,197	-8.01%
Public Safety	1,835,322	1,775,882			\$1,835,322	\$1,775,882	-3.24%
Public Services	502,914	421,962			\$502,914	\$421,962	-16.10%
Highways & Streets	110,905	1,194,179			\$110,905	\$1,194,179	976.76%
Health (Building Inspect/Assessing)	142,561	152,808			\$142,561	\$152,808	7.19%
Recreation & Culture	479,272	487,995			\$479,272	\$487,995	1.82%
Interest on Long-term Debt	7,391	988			\$7,391	\$988	-86.63%
Other	1,127,183	309,145			\$1,127,183	\$309,145	-72.57%
Unallocated Depreciation	36,368	36,368			\$36,368	\$36,368	0.00%
Electric			12,212,039	12,870,602	\$12,212,039	\$12,870,602	5.39%
Water			1,049,569	1,013,944	\$1,049,569	\$1,013,944	-3.39%
Sewer			1,036,395	1,100,594	\$1,036,395	\$1,100,594	6.19%
Transportation			368,393	346,022	\$368,393	\$346,022	-6.07%
Total Expenses	\$5,433,593	\$5,475,524	\$14,666,396	\$15,331,162	\$20,099,989	\$20,806,686	3.52%
Increase (Decrease) in							
Net assets Before Transfers	(\$3,697,066)	(\$2,968,845)	\$238,219	(\$669,966)	(\$3,458,847)	(\$3,638,811)	5.20%
General Revenues:							
Taxes	2,614,978	2,498,344			\$2,614,978	\$2,498,344	-4.46%
Grants & Contributions Not Restricted							
To Specific Programs	769,223	781,060			\$769,223	\$781,060	1.54%
Unrestricted Investment Earnings	43,303	47,369	138,971	59,847	\$182,274	\$107,216	-41.18%
Other Revenues	861,763	399,511	108,706	157,972	\$970,469	\$557,483	-42.56%
Transfers - Internal Activity	-27,739	-51,759	133,333	56,475	\$105,594	\$4,716	-95.53%
Total General Revenues	4,261,528	3,674,525	381,010	274,294	4,642,538	3,948,819	-14.94%
Net Income	\$564,462	\$705,680	\$619,229	(\$395,672)	\$1,183,691	\$310,008	-73.81%
Net Assets - Beginning of Year	\$24,222,188	\$24,786,648	\$35,995,611	\$36,614,838	\$60,217,799	\$61,401,486	1.97%
Net Assets - End of Year	\$24,786,650	\$25,492,328	\$36,614,840	\$36,219,166	\$61,401,490	\$61,711,494	0.50%

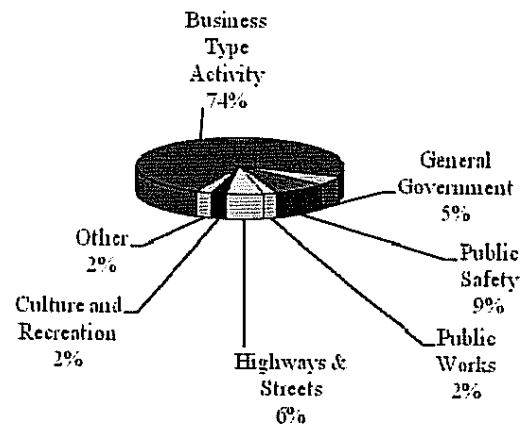
The City's total program revenue for 2011, (including restricted and operating grants and contributions) was \$17,167,875. This is reflective of a 1.64% increase in charges for services, a 23.64% decline in operating grants and contributions and a 254.29% increase in capital grants and contributions from last year. More than eighty-four percent (84.9%) of these revenues comes from charges for services in the business-type activities (Board of Public Utilities and Dial-A-Ride). Of those activities, the Board of Public Utilities' electric fund generated about eighty-four percent (83.9%) of those charges. For governmental activities revenue just more than nine percent (9.45%) comes from charges for services as opposed to almost ninety-eight percent (97.8%) for business-type activities.

The chart above shows that the general revenues, for both the governmental and business-type activities, declined by fifteen percent (14.94%). These revenues consist of taxes, unrestricted grants and contributions, investment earnings, internal transfer between funds, and various other miscellaneous revenues. Tax revenues declined \$116,634 from the prior period, grants & contributions not restricted to specific programs remained relatively unchanged from the prior year, increasing by one and one-half percent (1.54%). The big declines were in unrestricted investment earnings, other revenues, and internal transfer activity. Investment earnings declined government wide by more than forty-one percent (41.18%); other revenues decreased more than forty-two percent (42.56%) from last year; and internal activity transfers declined more than ninety-five percent (95.53%).

**Source of Revenue for Fiscal Yr 2011
Governmental & Business-type Activities**



**Functional Expenses for Fiscal Yr 2011
Governmental & Business-type Activities**



The pie graph above reveals the major sources of revenues collected by the municipality, governmental and business-type activities combined. While charges for services are the largest single portion of revenues received (69%), more than 83% 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 12% of overall revenues. Grants, restricted and unrestricted, combined account for 16% of total revenues. Investment earnings and other miscellaneous revenue sources make up the remaining 3%.

Business type activities (electric, water, sewer, and transit operations) make up the largest portion of all expenditures, almost seventy-four percent (73.68%). The electric fund incurs

almost sixty-two percent (61.86%) of all municipal expenditure costs. General governmental activities account for only five percent (5%) of total costs of both business and governmental activities; public safety makes up nine percent (9%), highways and streets amount to only six percent (6%), while recreation and culture and public works are both two percent (2%) each, and the remaining two percent (2%) of costs come from miscellaneous operational costs.

Governmental activities. Governmental activities had a net income of \$705,680. That amounts to more than a twenty-five percent (25%) increase from last year's net income of \$564,462. Key elements from operations for the year are:

- Declining property assessments resulted in property tax revenues decreasing more than four percent (4.46%) or \$116,634 from last year.
- Total General Revenues for all governmental activities is down almost fourteen percent (13.77 %).
- General government expenditures are down eight percent (8.0%) due to staffing reductions and continued efforts to constrain cost.
- Public safety expenditures declined just more than three percent (3.24%) which is a result of prior year's reduction in staffing levels.
- Runway expansion and property acquisition at the airport, funded 97.5% by federal and state capital grants, caused the Highway & Streets expenditures to sore upwards by 976.76%.
- Interest on long term debt declined 86.63% with the payoff of the outstanding balance on the loan associated with the 2002 Library expansion.

Business-type activities. Business-type activities experienced a net loss for the year of \$395,672. In spite of that, government wide the city experienced a net gain of \$310,008. Key elements of the business-type activities decrease are as follows:

- This year the electric fund had a net loss of \$595,663. This represents a 7440% decrease in net income (loss) for this fund compared with the previous year's loss of \$70,578 net income (loss). This decline can be directly linked to the reduction in customer volume and higher cost of transmission and distribution of the electricity.
- Transmission and distribution costs increased \$613,243, or almost fifty percent (49.6 %) over the prior year.
- The water fund experienced a net income of \$445,987. That represents more than a fifteen percent (15.6%) increase in net income from last year. This is part of a planned multiyear rate increase to recoup shortages experienced in earlier years.
- A few years ago the utility lowered sewer rates to expend excess earnings in that fund from previous years. Again this year, the sewer fund experienced a net loss from operations of \$330,734. That is six and one-half percent less than the loss recorded last year.
- The transportation fund finished the year with a net change in assets of \$84,738. The major contribution to this increase comes from capital activity. The transit agency purchased a new bus and finished paying for their faculty construction. In February of 2010 the transit agency, Dial-A-Ride moved into its new facility at 981 Development Drive. This is the fruit of 7 years of labor to secure the federal and state grant funding and overcome design and location obstacles. The new bus purchase was funded 80% by federal and 20% state capital grants.

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. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of June 30, 2011 the City's governmental funds reported combined ending fund balances of \$2,258,810. That is a \$50,714 decrease or just more than two percent (2.2%) in comparison with the prior year. Of that combined ending fund balance \$833,845 is designated as unassigned, making it available for spending at the government's discretion. General government, public safety, public works, culture and recreation and interest paid on debt expenditures all decreased. Highways and streets, health, and capital outlay expenditures all had small increases. The overall governmental total expenditures registered a slight increase of \$111,745 which is almost two percent (1.8%) from the prior year.

The remaining governmental fund balances are broken into three categories: nonspendable, restricted, and committed. Nonspendable fund balances are the portion of fund balance reflecting assets not in spendable form, either because they will never convert to cash (such as prepaid items) or must remain intact pursuant to legal or contractual requirements (such as the principal care of a permanent endowment). The city's nonspendable funds of \$702,266 are for the perpetual care of the two municipal cemeteries and future maintenance of Mrs. Stocks Park. A small portion of the nonspendable fund balance, \$70,976 represents prepaid expenditures, such as health and liability insurances in the various funds. Restricted fund balances are that portion of the fund balance representing resources subject to externally imposed and legally enforceable constraints imposed either by external resource providers, e.g. grantors or creditors, or by law through constitutional provisions or enabling legislation. The City has several such funds: the Library, Major and Local Streets, all the capital improvement funds (Airport, Fields of Dreams, Mrs. Stocks Park, and the general Capital Improvement Fund), and the debt service fund. This year's balance of restricted funds is \$665,566. The committed fund balance of \$57,133 represents resources held by special revenue funds for specific use but not restricted by outside sources.

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 \$901,284. Of that balance, \$67,439 is classified as nonspendable for prepaid expenditures. The remaining \$833,845 is unassigned and therefore available for spending at the government's discretion. This balance represents an increase from the prior fiscal year of \$38,623. This increase is primarily attributable to the city-wide cut-back on capital spending and staffing reductions.

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, \$142,547 in Major and \$44,076 in Local, are thus restricted to be spent only on the streets. There are no nonspendable or unassigned funds in these two funds.

The Airport Improvement Fund had a June 30, 2011 fund balance of \$89,495. That constitutes a thirty-nine percent (39.5%) decrease from a year ago. The municipality is still working with the Bureau of Aeronautics on a multi-million dollar runway expansion project. The city has received grant funding from the Federal Aviation Administration and the State of Michigan to facilitate this project. Approximately 97.5% of this project will be paid for with federal and state grants. The fund balance in this fund is restricted for use to fund the local 2.5% grant match.

Other nonmajor governmental funds collectively experienced a combined net increase in fund balances for the year of \$35,557. None of these funds are considered unassigned. Of the \$1,081,408 balance, \$3,537 is for prepaid expenditures, \$631,290 is nonspendable because it is the principal of a two permanent endowments (Cemetery Perpetual Care Fund, and Stocks Park Perpetual Maintenance Fund). The remaining funds are all restricted or committed funds for various reasons (\$57,133 is from special revenue funds, \$29,149 is restricted for permanent fund use, \$3,005 is reserved for debt service, and \$357,294 is reserved for future capital improvement projects).

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail. Undesignated net assets of the water, sewer, electric, and transportation funds at the end of the year declined more than two and one-half percent (2.5%). Net assets at fiscal year-end for all City proprietary funds decreased \$395,674 or 1.1%.

Half of the proprietary funds realized an increase in net assets for the year and half experienced a net loss. The sewer fund ended the year with a negative change in net assets of \$330,734. The electric fund's net assets decreased \$595,663. The water fund had a net increase in assets of \$445,987, while Dial-A-Ride increased \$84,738.

General Fund Budgetary Highlights

The general fund revenue budget was unchanged for the fiscal year 2011 even though only \$22,686 of the \$304,800 budgeted for the Rental Rehabilitation program was actually realized. Tax Increment Finance Authority budgeted \$10,000 to pay for a summer intern to work in the downtown area. Only about half of that was actually spent. Differences between the original and final amended General Fund expenditure budgets totaled \$235,000. The adjustments made were as follows: Economic Development (174) rental rehabilitation program participation was not what was originally anticipated so that department's budget was reduced by \$500,000; both the Street Lights (448) and Airport (295) budgets had additional cost due to increased fuel prices so each of those budgets were increased by \$5,000 each; in the Police Department (301) overtime costs were more than double what was anticipated when this budget was originally put together (from \$60,000 to \$125,000) due to staffing issues caused by the 2 year delay in settling the contract; the Department of Public Services (441) budget was increased by \$15,000 due to a devastating ice storm in the spring of 2011 that left the city with unusually large amounts of brush to be cleared away; the Cemeteries were also hit hard by the ice storm which in turn necessitated a budget increase of \$25,000 in that department; and the transfer out of General Fund (965) to the Capital Improvement Fund (401) was increased by \$150,000 to fund infrastructure improvements in subsequent years. The culture and recreation category, which is the Parks Department (756), was also over budget about \$22,000 due to the ice storm clean up, but unfortunately that amendment was missed when budget amendments were processed.

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, 2011, amounted to more than \$2 million. This investment in capital assets includes land, buildings and system improvements, machinery and equipment, Library books, recreational land improvements, roads, and storm sewers. The City's total capital assets, net of depreciation, increased by more than one percent (1.13%) in the current fiscal year for both types of activities combined.

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

- A variety of infrastructure projects (street resurfacings/reconstructions/storm sewer/sidewalks) were done throughout the year at a combined cost of approximately \$251,724.
- The utility (electric, water, and sewer funds) did a variety of projects throughout the year totaling \$1,125,863. The electric fund capital projects included: URD and overhead extensions; line transformers, reclosers and meters; computer upgrades; large format scanner; website development; Christmas decorations. For the water and sewer funds: dump truck; televising camera; lift station rework; semi-truck; field gymmy.
- The transit system finished constructed of a new facility to house their operations and purchased a replacement bus at a cost of \$115,756.
- The first phase of the Sandy Beach Park renovations was completed in this year with donations from the Rotary Club of \$79,666.
- Primary government purchased one police patrol car, a pickup truck, and a paint striper for \$52,830.
- The library purchased numerous books at a cost of \$22,737.
- The airport purchased \$1,070,194 in land and aviation easements that will be used to facilitate the multi-year runway project and purchased an \$8,000 zero-turn mower.

City's Capital Assets
(Net of Depreciation)

	Governmental		Business-type		Total		Total Percent Change 2010- 2011
	Activities		Activities				
	2010	2011	2010	2011	2010	2011	
Land	\$7,111,312	\$8,181,506	\$197,401	\$197,401	\$7,308,713	\$8,378,907	14.64%
Buildings and System Improvements	3,573,951	3,554,691	21,956,830	21,732,993	\$25,530,781	\$25,287,684	-0.95%
Library Books	82,408	84,962			\$82,408	\$84,962	3.10%
Machinery and Equipment	696,534	591,820	84,562	131,423	\$781,096	\$723,243	-7.41%
Infrastructure	11,050,242	10,515,210			\$11,050,242	\$10,515,210	-4.84%
Construction in Progress	0	0	233,084	503,349	233,084	503,349	115.95%
Total	\$22,514,447	\$22,928,189	\$22,471,877	\$22,565,166	\$44,986,324	\$45,493,355	1.13%

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 \$2,050,000, which consisted of revenue bonds, where the City utility has pledged the income to be received from the constructed assets to pay the debt service of the related bond issues. The City has no general obligation bonds outstanding.

City's Outstanding Debt				
Revenue Bonds				
	Business-type		Total	
	Activities			
	2010	2011	2010	2011
Revenue Bonds	\$2,516,000	\$2,050,000	\$2,516,000	\$2,050,000
Total	\$2,516,000	\$2,050,000	\$2,516,000	\$2,050,000

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

The City's bonded debt decreased during the current fiscal year by \$466,000 or eighteen percent (18.5%). The City's long-term general obligation debt, decreased during the current fiscal year by \$253,000, which is more than a fifty-five percent (55.1%) reduction. No new debt was issued during the year.

The City's total outstanding long-term debt obligation as of June 30, 2011 was \$2,680,669, which includes compensated absence liabilities as well as other outstanding loan obligations and bonds. State statutes limit the amount of general obligation debt a governmental entity may issue to ten percent (10%) of its total State Equalized Value (SEV). The city's state equalized valuation as of December 31, 2010 was \$166,257,660. That translates into a debt limit of \$16,621,866. The City's revenue bond debt is exempt from that limit, so the current debt applicable to that limit is only \$206,000.

Additional information on the City's long-term debt can be found in note No. 8 on pages 26-28 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2011-12 fiscal year:

- The unemployment rate for Hillsdale County (which includes the City) in April 2011 was 10.4%. That's down 8.1% from the 18.5% of one year ago. That rate was .2% higher than the State of Michigan's unemployment rate of 10.2% and 1.2% higher than the national unemployment rate of 9.05% for the same time period.

- The property tax inflationary rate for the 2011 tax year was 1.7%. Industrial closings, downsizings, mortgage foreclosures, and declining property values all continued to place downward pressure on tax revenues.
- State shared revenues were projected at the constitutional level only. All statutory revenue sharing was eliminated. At the time the budgets were prepared, it was unclear if the Governor would replace this lost revenue or not. Consequently none of this revenue was included in the 2011-12 budget.
- The city projected to spend down \$147,740 of its General Fund fund balance in this budget due to projected shortfalls in revenues. The largest and most damaging revenue cut back was from the elimination of the statutory state revenue sharing payments.
- The projection for gas and weight taxes, used to maintain the road systems throughout the state was status quo. These taxes are collected by the state and disbursed to the local governmental agencies (cities, townships, road commissions, and counties) based on population and miles of roads maintained in each classification (major or local).
- Health insurance costs were projected to increase at 25%.
- Staffing levels were projected to remain at 2011 levels as were wages.

Requests for Information

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

City of Hillsdale, Michigan
Statement of Net Assets
June 30, 2011

	Primary Government			Component Units	
	Governmental	Business-type	Total	Tax Increment	Economic
	Activities	Activities		Finance	Development
				Authority	Corporation
Assets:					
Cash and investments	\$ 2,391,369	\$ 4,338,073	\$ 6,729,442	\$ 420,078	\$ 112,415
Receivables	457,181	1,089,810	1,546,991	-	-
Internal balances	109,273	(103,867)	5,406	(946)	-
Prepaid items and other assets	101,104	146,518	247,622	-	-
Inventory	185,091	884,506	1,069,597	-	-
Investment in M.S.C.P.A.	-	10,781,489	10,781,489	-	-
Capital assets, net					
Assets not being depreciated	8,181,506	700,750	8,882,256	65,000	176,058
Assets being depreciated	14,746,683	21,864,415	36,611,098	38,167	-
Total assets	<u>26,172,207</u>	<u>39,701,694</u>	<u>65,873,901</u>	<u>522,299</u>	<u>288,473</u>
Liabilities:					
Accounts payable	184,851	157,196	342,047	11,598	140
Accrued expenses	74,789	1,051,686	1,126,475	23,956	-
Accrued interest	-	17,665	17,665	-	-
Noncurrent liabilities:					
Due within one year	103,000	485,000	588,000	-	-
Due in more than one year	<u>317,239</u>	<u>1,770,981</u>	<u>2,088,220</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>679,879</u>	<u>3,482,528</u>	<u>4,162,407</u>	<u>35,554</u>	<u>140</u>
Net Assets:					
Invested in capital assets, net of related debt	22,722,189	20,515,165	43,237,354	103,167	176,058
Restricted for:					
Debt service	3,005	1,100,514	1,103,519	-	-
Capital projects	687,970	-	687,970	-	-
Endowment and trust principal	660,439	-	660,439	-	-
Unrestricted	<u>1,418,725</u>	<u>14,603,487</u>	<u>16,022,212</u>	<u>383,578</u>	<u>112,275</u>
Total net assets	<u>\$ 25,492,328</u>	<u>\$ 36,219,166</u>	<u>\$ 61,711,494</u>	<u>\$ 486,745</u>	<u>\$ 288,333</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Activities
Year Ended June 30, 2011

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	\$ 1,096,197	\$ 101,648	\$ 468,701	\$ 90,031	\$ (435,817)
Public safety	1,775,882	-	32,049	-	(1,743,833)
Public works	421,962	17,470	-	975,846	571,354
Highways and streets	1,194,179	-	602,699	-	(591,480)
Health	152,808	-	-	-	(152,808)
Culture and recreation	487,995	117,876	100,359	-	(269,760)
Interest on long-term debt	988	-	-	-	(988)
Other	309,145	-	-	-	(309,145)
Unallocated depreciation, excluding direct portion	<u>36,368</u>	-	-	-	<u>(36,368)</u>
Total governmental activities	<u>5,475,524</u>	<u>236,994</u>	<u>1,203,808</u>	<u>1,065,877</u>	<u>(2,968,845)</u>
Business-type activities:					
Electric	12,870,602	12,130,225	-	-	(740,377)
Sewer	1,100,594	715,558	-	-	(385,036)
Water	1,013,944	1,441,128	-	-	427,184
Transportation	<u>346,022</u>	<u>49,917</u>	<u>324,368</u>	-	<u>28,263</u>
Total business-type activities	<u>15,331,162</u>	<u>14,336,828</u>	<u>324,368</u>	-	<u>(669,966)</u>
Total primary government	<u>\$ 20,806,686</u>	<u>\$ 14,573,822</u>	<u>\$ 1,528,176</u>	<u>\$ 1,065,877</u>	<u>\$ (3,638,811)</u>
Component Units					
Tax Increment Finance Authority	\$ 78,293	\$ -	\$ -	\$ -	\$ (78,293)
Economic Development Corporation	<u>1,248</u>	-	-	-	<u>(1,248)</u>
Total component units	<u>\$ 79,541</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (79,541)</u>

continued..

City of Hillsdale, Michigan
Statement of Activities (Continued)
Year Ended June 30, 2011

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Tax Increment Finance Authority	Economic Development Corporation
	Changes in Net Assets				
Net (expense) revenue	\$ (2,968,845)	\$ (669,966)	\$ (3,638,811)	\$ (78,293)	\$ (1,248)
General revenues:					
Property taxes	2,498,344	-	2,498,344	124,226	-
Unrestricted grants and contributions	781,060	-	781,060	-	-
Interest and investment earnings	47,369	59,847	107,216	515	141
Other revenues	399,511	157,972	557,483	-	-
Transfers - internal activities	(51,759)	56,475	4,716	(4,716)	-
Total general revenues, contributions and transfers	<u>3,674,525</u>	<u>274,294</u>	<u>3,948,819</u>	<u>120,025</u>	<u>141</u>
Changes in Net Assets	705,680	(395,672)	310,008	41,732	(1,107)
Net Assets - Beginning of Year	<u>24,786,648</u>	<u>36,614,838</u>	<u>61,401,486</u>	<u>445,013</u>	<u>289,440</u>
Net Assets - End of Year	<u>\$ 25,492,328</u>	<u>\$ 36,219,166</u>	<u>\$ 61,711,494</u>	<u>\$ 486,745</u>	<u>\$ 288,333</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Balance Sheet
Governmental Funds
June 30, 2011

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Airport Improvement</u>	<u>Other Nonmajor Governmenta Funds</u>	<u>Total</u>
<u>Assets</u>						
Cash and investments	\$ 860,343	\$ 90,204	\$ 29,522	\$ 80,257	\$ 1,033,411	\$ 2,093,737
Receivables:						
Accounts receivable	50,675	65,108	21,515	10,603	68,099	216,000
Special assessments	-	-	-	-	241,181	241,181
Due from other funds	118,340	-	-	-	148,495	266,835
Prepaid expenditures	67,439	-	-	-	3,537	70,976
Total assets	\$ 1,096,797	\$ 155,312	\$ 51,037	\$ 90,860	\$ 1,494,723	\$ 2,888,729
<u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable	\$ 126,609	\$ 8,361	\$ 5,824	\$ 1,365	\$ 17,407	\$ 159,566
Due to other funds	8,964	1,141	-	-	147,194	157,299
Salaries payable	53,430	3,263	1,137	-	7,533	65,363
Due to other governmental units	6,510	-	-	-	-	6,510
Deferred revenue	-	-	-	-	241,181	241,181
Total liabilities	195,513	12,765	6,961	1,365	413,315	629,919
Fund Balances:						
Nonspendable:						
Prepaid expenditures	67,439	-	-	-	3,537	70,976
Perpetual care and endowment	-	-	-	-	631,290	631,290
Restricted:						
Special revenue funds	-	142,547	44,076	-	-	186,623
Debt service funds	-	-	-	-	3,005	3,005
Capital project funds	-	-	-	89,495	357,294	446,789
Permanent funds	-	-	-	-	29,149	29,149
Committed	-	-	-	-	57,133	57,133
Unassigned	833,845	-	-	-	-	833,845
Total fund balances	901,284	142,547	44,076	89,495	1,081,408	2,258,810
Total liabilities and fund balances	\$ 1,096,797	\$ 155,312	\$ 51,037	\$ 90,860	\$ 1,494,723	\$ 2,888,729

See Notes to Financial Statements.

City of Hillsdale, Michigan

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
June 30, 2011

Total Fund Balances - Governmental Funds		\$ 2,258,810
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		
The cost of the capital assets is	\$ 41,846,189	
Accumulated depreciation is	<u>(18,918,000)</u>	
		22,928,189
 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		241,181
 Internal service funds are used by management to charge the costs of certain equipment usage and administrative costs to individual governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		
Net assets of governmental activities accounted for in the internal service funds	825,544	
Less portion included in capital assets	<u>(385,396)</u>	
		440,148
 Long-term liabilities not due and payable in the current period and not reported in the funds:		
Contracts and loans payable		(206,000)
Compensated absences		<u>(170,000)</u>
Total Net Assets - Governmental Activities		<u>\$ 25,492,328</u>

City of Hillsdale, Michigan
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2011

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Airport Improvement</u>	<u>Other Nonmajor Governmenta Funds</u>	<u>Total</u>
Revenues:						
Taxes	\$ 2,370,513	\$ -	\$ -	\$ -	\$ 150,221	\$ 2,520,734
Intergovernmental - federal and State	806,368	456,820	145,879	975,846	14,440	2,399,353
Charges for services	-	-	-	-	93,069	93,069
Fines and violations	-	-	-	-	49,548	49,548
Miscellaneous	<u>1,034,002</u>	<u>3,759</u>	<u>2,611</u>	<u>17,610</u>	<u>134,023</u>	<u>1,192,005</u>
Total revenues	<u>4,210,883</u>	<u>460,579</u>	<u>148,490</u>	<u>993,456</u>	<u>441,301</u>	<u>6,254,709</u>
Expenditures:						
General government	1,098,215	-	-	-	-	1,098,215
Public safety	1,740,299	-	-	-	23,247	1,763,546
Public works	378,461	-	-	-	-	378,461
Highways and streets	-	439,810	272,621	-	-	712,431
Health	152,808	-	-	-	-	152,808
Culture and recreation	155,158	-	-	-	327,978	483,136
Debt service:						
Principal payments	-	-	-	-	253,000	253,000
Interest and fiscal charges	-	-	-	-	2,088	2,088
Capital outlay	-	-	-	<u>1,101,874</u>	<u>303,998</u>	<u>1,405,872</u>
Total expenditures	<u>3,524,941</u>	<u>439,810</u>	<u>272,621</u>	<u>1,101,874</u>	<u>910,311</u>	<u>6,249,557</u>
Revenues Over (Under) Expenditures	<u>685,942</u>	<u>20,769</u>	<u>(124,131)</u>	<u>(108,418)</u>	<u>(469,010)</u>	<u>5,152</u>
Other Financing Sources (Uses):						
Gain (loss) on sale of investment	-	-	-	-	(707)	(707)
Operating transfers in	26,716	-	101,405	50,000	643,755	821,876
Operating transfers out	<u>(674,035)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(203,000)</u>	<u>(877,035)</u>
Total other financing sources (uses)	<u>(647,319)</u>	<u>-</u>	<u>101,405</u>	<u>50,000</u>	<u>440,048</u>	<u>(55,866)</u>
Net Changes in Fund Balances	38,623	20,769	(22,726)	(58,418)	(28,962)	(50,714)
Fund Balances - Beginning of Year	<u>862,661</u>	<u>121,778</u>	<u>66,802</u>	<u>147,913</u>	<u>1,110,370</u>	<u>2,309,524</u>
Fund Balances - End of Year	<u>\$ 901,284</u>	<u>\$ 142,547</u>	<u>\$ 44,076</u>	<u>\$ 89,495</u>	<u>\$ 1,081,408</u>	<u>\$ 2,258,810</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Governmental Funds
Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (50,714)

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

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

Depreciation expense	\$ (978,314)	
Capital outlay	<u>1,446,823</u>	468,509

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

Current year deferred special assessments		(22,390)
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Bond proceeds are reported as financing sources in governmental funds
and thus contribute to the change in fund balance. In the Statement of Net
Assets, however, issuing debt increases long-term liabilities and does not
affect the Statement of Activities. Similarly, repayment of principal is an
expenditure in the governmental funds but reduces the liability in the
Statement of Net Assets.

Repayment to bond holders		253,000
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An internal service fund is used by management to charge the costs of
certain equipment usage to individual governmental funds. The net revenue
(expense) of the fund attributable to those funds is reported with
governmental activities.

Net income from governmental activities in the internal service fund		25,183
--	--	--------

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 accrued interest payable on bonds		1,100
Decrease in the accrual for compensated absences		<u>30,992</u>

Change in Net Assets of Governmental Activities \$ 705,680

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Electric	Water	Sewer	Nonmajor Fund		
				Dial-A-Ride	Total	
Assets:						
Current assets:						
Cash and cash equivalents	\$ 254,083	\$ -	\$ -	\$ 86,978	\$ 341,061	\$ 243,385
Investments	-	-	-	-	-	54,247
Receivables:						
Accounts (net of allowance for bad debt of \$120,000)	942,920	83,452	41,139	624	1,068,135	-
Accrued interest	11,977	3,256	6,442	-	21,675	-
Due from other funds	421,996	426,740	36	-	848,772	-
Inventory, at cost	380,840	82,690	4,833	-	468,363	185,091
Prepaid expenses	74,568	26,925	39,027	5,998	146,518	30,128
Total current assets	<u>2,086,384</u>	<u>623,063</u>	<u>91,477</u>	<u>93,600</u>	<u>2,894,524</u>	<u>512,851</u>
Noncurrent assets:						
Restricted investments	-	257,093	346,741	-	603,834	-
Designated investments	2,292,663	506,525	593,989	-	3,393,177	-
Total noncurrent assets	<u>2,292,663</u>	<u>763,618</u>	<u>940,730</u>	<u>-</u>	<u>3,997,011</u>	<u>-</u>
Capital assets:						
Land	17,467	49,613	122,902	7,419	197,401	-
Plant and equipment	31,632,836	10,326,614	13,951,610	1,167,995	57,079,055	1,827,678
Construction in progress	503,349	-	-	-	503,349	-
	<u>32,153,652</u>	<u>10,376,227</u>	<u>14,074,512</u>	<u>1,175,414</u>	<u>57,779,805</u>	<u>1,827,678</u>
Less accumulated depreciation	<u>(20,071,814)</u>	<u>(5,223,828)</u>	<u>(9,554,325)</u>	<u>(364,672)</u>	<u>(35,214,639)</u>	<u>(1,442,282)</u>
Net capital assets	<u>12,081,838</u>	<u>5,152,399</u>	<u>4,520,187</u>	<u>810,742</u>	<u>22,565,166</u>	<u>385,396</u>
Other assets:						
Long-term inventories	416,143	-	-	-	416,143	-
Investment in M.S.C.P.A.	10,781,489	-	-	-	10,781,489	-
Total other assets	<u>11,197,632</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,197,632</u>	<u>-</u>
Total assets	<u>27,658,517</u>	<u>6,539,080</u>	<u>5,552,394</u>	<u>904,342</u>	<u>40,654,333</u>	<u>898,247</u>
Liabilities:						
Current liabilities (payable from current assets):						
Accounts payable	74,398	12,460	67,605	2,732	157,195	25,548
Accrued purchased power	691,380	-	-	-	691,380	-
Accrued expenses	238,993	6,348	18,266	9,051	272,658	2,916
Customer deposits	66,763	9,620	3,283	-	79,666	-
Due to other funds	71,612	6,122	828,219	46,686	952,639	-
Due to other governments	-	-	-	7,983	7,983	-
Total current liabilities (payable from current assets)	<u>1,143,146</u>	<u>34,550</u>	<u>917,373</u>	<u>66,452</u>	<u>2,161,521</u>	<u>28,464</u>
Current liabilities (payable from restricted assets):						
Bonds payable	-	325,000	160,000	-	485,000	-
Accrued interest	-	16,040	1,625	-	17,665	-
Total current liabilities (payable from restricted assets)	<u>-</u>	<u>341,040</u>	<u>161,625</u>	<u>-</u>	<u>502,665</u>	<u>-</u>
Noncurrent liabilities:						
Accrued compensated absences	112,150	41,512	45,201	7,118	205,981	44,239
General obligation and revenue bonds payable	-	1,400,000	165,000	-	1,565,000	-
Total noncurrent liabilities	<u>112,150</u>	<u>1,441,512</u>	<u>210,201</u>	<u>7,118</u>	<u>1,770,981</u>	<u>44,239</u>
Total liabilities	<u>1,255,296</u>	<u>1,817,102</u>	<u>1,289,199</u>	<u>73,570</u>	<u>4,435,167</u>	<u>72,703</u>
Net Assets:						
Invested in capital assets, net of related debt	12,081,838	3,427,399	4,195,187	810,742	20,515,166	385,396
Restricted investments	-	506,525	593,989	-	1,100,514	-
Unrestricted:						
Designated	2,292,663	257,093	346,741	-	2,896,497	-
Undesignated	12,028,720	530,961	(872,722)	20,030	11,706,989	440,148
Total net assets	<u>\$ 26,403,221</u>	<u>\$ 4,721,978</u>	<u>\$ 4,263,195</u>	<u>\$ 830,772</u>	<u>\$ 36,219,166</u>	<u>\$ 825,544</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Revenues, Expenses
and Changes in Net Assets
Proprietary Funds
Year Ended June, 2011

	Business-type Activities - Enterprise Funds					Governmental
	Electric	Water	Sewer	Nonmajor	Totals	Internal
				Fund		Service
			Dial-A-Ride		Funds	
Operating Revenues:						
Charges for services	\$ 12,130,225	\$ 1,441,128	\$ 715,558	\$ 47,863	\$ 14,334,774	\$ 482,963
Other	98,761	7,677	12,827	2,054	121,319	186,295
Total operating revenues	<u>12,228,986</u>	<u>1,448,805</u>	<u>728,385</u>	<u>49,917</u>	<u>14,456,093</u>	<u>669,258</u>
Operating Expenses:						
Purchased power	9,358,662	-	-	-	9,358,662	-
Production expense	676,309	63,510	-	-	739,819	-
Purification expense	-	246,851	-	-	246,851	-
Treatment expense	-	-	589,151	-	589,151	-
Transmission and distribution	1,849,501	342,415	-	-	2,191,916	-
Administrative	986,130	294,383	308,280	-	1,588,793	648,826
Sewer collection	-	-	194,338	-	194,338	-
Transportation	-	-	-	346,022	346,022	-
Total operating expenses	<u>12,870,602</u>	<u>947,159</u>	<u>1,091,769</u>	<u>346,022</u>	<u>15,255,552</u>	<u>648,826</u>
Operating Income (Loss)	<u>(641,616)</u>	<u>501,646</u>	<u>(363,384)</u>	<u>(296,105)</u>	<u>(799,459)</u>	<u>20,432</u>
Nonoperating Revenues (Expenses):						
Interest income	32,609	9,603	17,635	-	59,847	1,351
Interest expense	-	(66,785)	(8,825)	-	(75,610)	-
Other income (expense)	13,344	1,523	23,840	324,368	363,075	-
Transfers in from other funds	-	-	-	56,475	56,475	3,400
Total nonoperating revenues (expenses)	<u>45,953</u>	<u>(55,659)</u>	<u>32,650</u>	<u>380,843</u>	<u>403,787</u>	<u>4,751</u>
Changes in Net Assets	<u>(595,663)</u>	<u>445,987</u>	<u>(330,734)</u>	<u>84,738</u>	<u>(395,672)</u>	<u>25,183</u>
Net Assets - Beginning of Year	<u>26,998,884</u>	<u>4,275,991</u>	<u>4,593,929</u>	<u>746,034</u>	<u>36,614,838</u>	<u>800,361</u>
Net Assets - End of Year	<u>\$ 26,403,221</u>	<u>\$ 4,721,978</u>	<u>\$ 4,263,195</u>	<u>\$ 830,772</u>	<u>\$ 36,219,166</u>	<u>\$ 825,544</u>

See Notes to Financial Statements

City of Hillsdale, Michigan
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2011

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Electric	Water	Sewer	Nonmajor Fund Dial-A-Ride	Total	
Cash Flows From Operating Activities:						
Cash received from customers, residents and users	\$ 12,297,590	\$ 1,450,058	\$ 713,729	\$ 47,863	\$ 14,509,240	\$ -
Other operating receipts	45,940	7,929	(14,641)	429	39,657	-
Receipts for interfund services provided						669,258
Cash paid to suppliers of goods and services	(12,094,856)	(751,882)	138,562	(327,284)	(13,035,460)	(590,493)
Cash paid to employees for services	(797,243)	(231,369)	(354,058)	-	(1,382,670)	-
Net cash provided by (used by) operating activities	(548,569)	474,736	483,592	(278,992)	130,767	78,765
Cash Flows From Noncapital Financing Activities:						
Intergovernmental nonoperating revenues	-	-	-	323,421	323,421	-
Transfers from other funds	-	-	-	56,475	56,475	3,400
Net cash provided by noncapital financing activities	-	-	-	379,896	379,896	3,400
Cash Flows From Capital and Related Financing Activities:						
Bond payments on capital debt	-	(311,000)	(155,000)	-	(466,000)	-
Interest on capital debt	-	(69,411)	(9,600)	-	(79,011)	-
Proceeds from the disposal of assets	-	-	-	1,625	-	-
Purchase of capital assets, net	(626,614)	(123,470)	(375,779)	(102,231)	(1,228,094)	(52,831)
Net cash used by capital and related financing activities	(626,614)	(503,881)	(540,379)	(100,606)	(1,771,480)	(52,831)
Cash Flows From Investing Activities:						
Unrealized gain on investments	-	-	-	-	-	-
Purchase of investments	(1,072,102)	(280,315)	(330,541)	-	(1,682,958)	(10,836)
Proceeds from the sale of investments	1,740,000	265,000	320,000	-	2,325,000	-
Proceeds from the sale of capital assets	-	8,983	27,720	-	36,703	-
Other nonoperating income received	13,344	1,523	23,841	-	38,708	-
Other nonoperating expenses	-	-	-	-	-	-
Interest income received	37,420	9,488	15,767	-	62,675	1,351
Net cash provided by (used by) investing activities	718,662	4,679	56,787	-	780,128	(9,485)
Net Increase (Decrease) in Cash and Cash Equivalents	(456,521)	(24,466)	-	298	(480,689)	19,849
Cash and Cash Equivalents - Beginning of Year	710,604	24,466	-	86,680	821,750	223,536
Cash and Cash Equivalents - End of Year	\$ 254,083	\$ -	\$ -	\$ 86,978	\$ 341,061	\$ 243,385

Continued..

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Cash Flows (Continued)
Proprietary Funds
Year Ended June 30, 2011

	Business-type Activities - Enterprise Funds				Total	Governmental Activities - Internal Service Funds
	Electric	Water	Sewer	Nonmajor Fund Dial-A-Ride		
Balance Sheet Classification of Cash						
Current assets - cash and cash equivalents	\$ 254,083	\$ -	\$ -	\$ 86,978	341,061	\$ 243,385
Reconciliation of Operating Income (Loss)						
to Net Cash Provided by Operating Activities:						
Operating income (loss)	\$ (641,619)	\$ 501,646	\$ (363,384)	\$ (296,105)	(799,462)	\$ 20,432
Adjustments to reconcile operating income (loss)						
to net cash provided by (used in) operating activities:						
Depreciation	712,860	218,650	163,221	30,087	1,124,818	107,597
(Gain)/loss on sale of capital assets	504	252	(27,468)	(1,625)	(28,337)	-
Changes in:						
Receivables	103,197	8,930	(1,808)	5,240	115,559	-
Due from other funds	(414,104)	(248,142)	554	-	(661,692)	-
Inventories	(15,307)	(9,826)	485	-	(24,648)	(26,169)
Prepaid expenses	17,154	(2,867)	(1,751)	1,046	13,482	1,555
Investment in M.S.C.P.A.	(252,884)	-	-	-	(252,884)	-
Accounts payable	24,303	422	58,579	(19,156)	64,148	(18,972)
Accrued expenses	(137,280)	3,046	7,325	2,087	(124,822)	(5,678)
Due to other funds	43,764	2,725	647,860	(566)	693,783	-
Customer deposits	10,843	-	(21)	-	10,822	-
Net Cash Provided by (Used In) Operating Activities	\$ (548,569)	\$ 474,736	\$ 483,592	\$ (278,992)	\$ 130,767	\$ 78,765

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Hospital Private Purpose Trust Fund	Agency Funds
Assets:		
Cash and investments	\$ 15,328	\$ 29,591
Liabilities:		
Due to other funds	-	\$ 4,460
Due to other agencies	-	25,131
Total liabilities	-	\$ 29,591
Net Assets:		
Unrestricted	15,328	
Total net assets	\$ 15,328	

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2011

	<u>Hospital Private Purpose Trust Fund</u>
Revenue:	
Interest income	\$ 663
Expenses:	
Other	<u> 631</u>
Change in Net Assets	32
Net Assets - Beginning of Year	<u> 15,296</u>
Net Assets - End of Year	<u>\$ 15,328</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

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

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

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

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

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

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

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

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

The government reports the following major governmental funds:

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

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

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

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

The government reports the following major proprietary funds:

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

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

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

Additionally, the government reports the following fund types:

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

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

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

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

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

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

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

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

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

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

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued) - governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

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

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

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

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

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

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 now 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

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity (Continued) – 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 2011 had a taxable value of approximately \$151,000,000 (not including properties subject to Industrial Facilities Tax exemption), representing 50% of estimated current market value. The government's general operating tax rate for fiscal year 2010-11 was 14.9205 mills, with an additional .9947 mills levied for operations of the Mitchell Public Library.

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

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. The Council holds public hearings and a final budget must be prepared and adopted prior to July 1.

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

Excess of Expenditures Over Appropriations

For the year ended June 30, 2011, expenditures that exceeded appropriations in the General Fund or major special revenue funds, if any, are disclosed in the Required Supplemental Information on pages 31-34.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 3 – Cash and Investments

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

	Primary Government	Component Units
Statement of Net Assets:		
Cash and investments	\$6,729,442	\$ 532,493
Statement of Fiduciary Net Assets:		
Hospital Private Purpose Trust Fund:		
Cash and investments	15,328	-
Agency Funds:		
Cash and investments	29,591	-
	<u>\$6,774,361</u>	<u>\$ 532,493</u>
	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts and short-term CDs)	\$ 940,441	\$ (8,826)
Investments in securities, mutual funds and similar vehicles	5,831,270	541,319
Cash on hand	2,650	-
	<u>\$6,774,361</u>	<u>\$ 532,493</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.

Rating S&P	Investment Type	Remaining Maturity		
		12 Months or Less	1 to 5 Years	Greater Than 5 Years
N/A	Certificates of Deposit	\$ 300,000	\$ 227,331	\$ -
AAAm	Michigan CLASS Investments Pool	1,517,932	-	-
AAA	U.S. Government Agency Bonds	300,530	3,268,988	-
N/A	U.S. Government Financing Corporation	29,785	-	-
N/A	Fidelity Government Money Market	619,639	-	-
N/A	Fidelity Investment Cash	108,384	-	-

City of Hillsdale, Michigan
Notes to Financial Statements

Note 3 – Cash and Investments (Continued)

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 \$1,517,932 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, \$982,749 of the City's bank balance of \$1,860,377 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. As of year-end, City investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the City to buy the securities - Federal agency securities in the reported amount of \$3,599,303.

Note 4 – Receivables

Receivables of the governmental activities of the primary government at June 30, 2011, consist of the following:

Other governmental units (primarily the State of Michigan)	\$134,302
Accounts receivable	81,698
Special assessments - short-term	75,000
Special assessments – long-term	<u>166,181</u>
	<u>\$457,181</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 5 - Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

Primary Government	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 7,111,312	\$1,070,194	\$ -	\$ 8,181,506
Capital assets being depreciated:				
Land improvements	349,744	94,167	-	443,911
Buildings and improvements	4,797,462	-	-	4,797,462
Books	560,028	22,737	-	582,765
Equipment and vehicles	2,799,757	60,830	35,881	2,824,706
Infrastructure	24,764,114	251,725	-	25,015,839
Total capital assets being depreciated	<u>33,271,105</u>	<u>429,459</u>	<u>35,881</u>	<u>33,664,683</u>
Accumulated depreciation:				
Land improvements	163,767	19,596	-	183,363
Buildings and improvements	1,409,488	93,831	-	1,503,319
Books	477,620	20,183	-	497,803
Equipment and vehicles	2,103,223	165,544	35,881	2,232,886
Infrastructure	13,713,872	786,757	-	14,500,629
Total accumulated depreciation	<u>17,867,970</u>	<u>1,085,911</u>	<u>35,881</u>	<u>18,918,000</u>
Total capital assets being depreciated - net	<u>15,403,135</u>	<u>(656,452)</u>	<u>-</u>	<u>14,746,683</u>
Governmental activities capital assets - net	<u>\$22,514,447</u>	<u>\$ 413,742</u>	<u>\$ -</u>	<u>\$22,928,189</u>
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 197,401	\$ -	\$ -	\$ 197,401
Construction in progress	233,084	362,612	(92,347)	503,349
Total capital assets not being depreciated	<u>430,485</u>	<u>362,612</u>	<u>(92,347)</u>	<u>700,750</u>
Capital assets being depreciated:				
Equipment	573,299	63,235	(154,152)	482,382
Plant and systems	55,942,751	885,615	(231,693)	56,596,673
Total capital assets being depreciated	<u>56,516,050</u>	<u>948,850</u>	<u>(385,845)</u>	<u>57,079,055</u>
Accumulated depreciation:				
Equipment	488,737	16,374	(154,152)	350,959
Plant and systems	33,985,921	1,108,444	(230,685)	34,863,680
Total accumulated depreciation	<u>34,474,658</u>	<u>1,124,818</u>	<u>(384,837)</u>	<u>35,214,639</u>
Total capital assets being depreciated - net	<u>22,041,392</u>	<u>(175,968)</u>	<u>(1,008)</u>	<u>21,864,416</u>
Business-type activities capital assets - net	<u>\$22,471,877</u>	<u>\$ 186,644</u>	<u>\$ (93,355)</u>	<u>\$22,565,166</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 5 - Capital Assets (Continued)

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

Governmental Activities:	
Public safety	\$ 42,291
Highways and streets	733,473
Culture and recreation	120,782
Public works	45,400
Unallocated	36,368
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	<u>107,597</u>
Total depreciation expense – governmental activities	<u>\$ 1,085,911</u>
Business-Type Activities:	
Electric	\$ 712,860
Water	218,650
Sewer	163,221
Transportation	<u>30,087</u>
Total depreciation expense – business-type activities	<u>\$ 1,124,818</u>

Note 6 - Interfund Receivables, Payables and Transfers

The City reports interfund balances between many of its funds. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and proprietary funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. During the year, the Cemetery Perpetual Care Fund loaned the Library Fund monies to pay off a loan for improvements (see Note 8). The balance at year-end was approximately \$145,000.

	<u>Receivable</u>	<u>Payable</u>
Due from/to other funds:		
General Fund	\$ 118,340	\$ 8,964
Major Street	-	1,141
Nonmajor Governmental Funds	148,495	147,194
Revolving Mobile Equipment Fund	-	263
Water Fund	426,740	6,122
Sewer Fund	36	828,219
Electric Fund	421,996	71,612
Agency Funds	-	4,460
Component Units	-	946
Nonmajor Enterprise Fund	-	<u>46,686</u>
	<u>\$1,115,607</u>	<u>\$1,115,607</u>
	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 26,716	\$ 674,035
Local Street	101,405	-
Airport Improvement	50,000	-
Nonmajor Governmental Funds	647,155	203,000
Component Units	-	4,716
Nonmajor Enterprise Fund	<u>56,475</u>	-
	<u>\$ 881,751</u>	<u>\$ 881,751</u>

City of Hillsdale, Michigan
Notes to Financial Statements

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

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 7 - Investment in Michigan South Central Power Agency

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

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

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

The City of Hillsdale Board of Public Utilities is accounting for its investment in M.S.C.P.A. as a joint venture in accordance with GASB Statement No. 14. Information presented below is taken from financial statements of the M.S.C.P.A. for the year ended June 30, 2011, audited by other auditors whose report dated August 25, 2011, expressed an unqualified opinion for those statements.

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

City of Hillsdale, Michigan
Notes to Financial Statements

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

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, 2011, is as follows:

	<u>Total M.S.C.P.A.</u>	<u>Hillsdale Board of Public Utilities Portion 25.5%</u>
Total assets	\$49,351,850	\$12,584,722
Total liabilities	<u>7,071,502</u>	<u>1,803,233</u>
Net Assets	<u>\$42,280,348</u>	<u>\$10,781,489</u>
Operating revenues	\$43,501,777	\$11,092,983
Operating expenses	<u>40,748,520</u>	<u>10,390,873</u>
Operating Income	2,753,257	702,080
Other income and expenses	<u>(1,761,556)</u>	<u>(449,196)</u>
Changes in Net Assets	991,701	252,884
Net Assets, Beginning of Year	<u>41,288,647</u>	<u>10,528,605</u>
Net Assets, End of Year	<u>\$42,280,348</u>	<u>\$10,781,489</u>

Note 8 – Debt

The City of Hillsdale's Board of Public Utilities maintains a \$250,000 line of credit with County National Bank bearing a 4% interest rate. No amounts were borrowed from this line as of year-end.

Long-term liability activity for the year ended June 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental activities:					
Contract and loans payable	\$ 459,000	\$ -	\$ 253,000	\$ 206,000	\$ 78,000
Compensated absences	<u>252,200</u>	<u>-</u>	<u>37,961</u>	<u>214,239</u>	<u>25,000</u>
	<u>\$ 711,200</u>	<u>\$ -</u>	<u>\$ 290,961</u>	<u>\$ 420,239</u>	<u>\$ 103,000</u>
Business-type activities:					
Revenue bonds	\$2,516,000	\$ -	\$ 466,000	\$2,050,000	\$ 485,000
Compensated absences	<u>191,161</u>	<u>19,269</u>	<u>-</u>	<u>210,430</u>	<u>4,449</u>
	<u>\$2,707,161</u>	<u>\$ 19,269</u>	<u>\$ 466,000</u>	<u>\$2,260,430</u>	<u>\$ 489,449</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 8 - Debt (Continued)

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

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

Other Obligations - The government has entered into various long-term loan and installment contract agreements. During the year, a municipal purchase contract balance of \$175,000 for library improvements was paid off with a loan from the Cemetery Perpetual Care Fund to the Library Fund.

Loan and installment obligations currently outstanding are as follows:

<u>Purpose</u>	<u>Due in Fiscal Year End</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities:			
Other government debt:			
Loan – Strategic Loan Fund – Road improvements	2013	0.00%	\$ 150,000
Loan – Community Development Block Grant – Industrial park property acquisitions	2014	0.00%	<u>56,000</u>
			<u>\$ 206,000</u>

Annual debt service requirements to maturity for the loan and municipal service contract obligations are as follows:

<u>Year Ending June 30,</u>	<u>Other Governmental Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 78,000	\$ -
2013	78,000	-
2014	<u>50,000</u>	-
Total	<u>\$ 206,000</u>	<u>\$ -</u>

Revenue Bonds - The government also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The 1999 Water Bonds were refunded during the prior year. 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	4.75% - 5.10%	\$1,005,000
2002 Water Refunding	2015	3.00% - 4.00%	720,000
1992 Sewer	2013	2%	<u>325,000</u>
			<u>\$2,050,000</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 8 - Debt (Continued)

Revenue bond debt service requirements to maturity are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>
2012	\$ 485,000	\$ 65,008
2013	499,000	50,201
2014	347,000	34,330
2015	361,000	20,750
2016	175,000	10,461
2017	<u>183,000</u>	<u>3,568</u>
Total	<u>\$2,050,000</u>	<u>\$184,318</u>

Note 9 - Segment Information – Enterprise Funds

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

Note 10 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2011, the City carried commercial insurance to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

Note 11 - Pension Plan

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

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

City of Hillsdale, Michigan
Notes to Financial Statements

Note 11 - Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2011, the City's pension cost of \$229,262 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2010 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 10.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability at December 31, 2010, the date of the latest actuarial valuation, is being amortized as a level percentage of projected payroll on an open basis over 28 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/08	\$231,791	100%	\$ -
6/30/09	240,089	100%	-
6/30/10	229,262	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Assets in Excess of AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/08	\$17,395,167	\$16,606,847	\$788,320	105%	\$3,893,506	-20.2%
12/31/09	17,887,885	17,082,988	804,897	105%	3,769,712	-21.4
12/31/10	18,431,442	17,892,124	539,318	103%	3,632,843	-14.8

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

Note 12 - Commitments and Contingencies

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

City of Hillsdale, Michigan
Notes to Financial Statements

Note 13 – Dial-A-Ride Enterprise Fund

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

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

Other Revenue – Other revenue, totaling \$2,054, consists of \$1,625 proceeds from the sale of a bus and \$429 for 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, 2010 through June 30, 2011, Dial-A-Ride paid \$2,188 in 50201 Pension. Of this amount, \$2,188 paid the actuarial required minimum contribution and \$0 was paid in excess of the actuarial required minimum contribution. The entire amount of \$2,188 was expensed on the books and is included in Dial-A-Ride's total eligible expenses for the fiscal year ending September 30, 2011.

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

Required Supplemental Information

City of Hillsdale, Michigan
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>	
Revenues:			
City taxes:			
Property	\$ 2,205,000	\$ 2,205,000	\$ 2,187,254
Administrative fees	65,000	65,000	71,894
Interest and penalties	20,000	20,000	36,020
Industrial facilities tax	<u>75,000</u>	<u>75,000</u>	<u>75,345</u>
Total city taxes	2,365,000	2,365,000	2,370,513
State revenue	753,200	753,200	783,682
Federal revenue	304,800	304,800	22,686
Other revenue	<u>1,297,300</u>	<u>1,297,300</u>	<u>1,034,002</u>
Total revenues	<u>4,720,300</u>	<u>4,720,300</u>	<u>4,210,883</u>
Expenditures:			
General government:			
Council	34,940	34,940	24,740
Clerk	84,350	84,350	74,198
City manager	219,670	219,670	215,527
Assistant city manager	83,635	83,635	-
Economic development	620,000	120,000	99,332
Administrative	211,250	211,250	177,878
Treasurer	126,315	126,315	125,443
Street lights	60,000	65,000	61,673
Airport	76,890	81,890	81,156
Finance department	98,090	98,090	96,662
General operation	<u>150,115</u>	<u>150,115</u>	<u>141,606</u>
Total general government	<u>1,765,255</u>	<u>1,275,255</u>	<u>1,098,215</u>
Public safety:			
Police	1,245,635	1,310,635	1,313,897
Fire	<u>449,815</u>	<u>449,815</u>	<u>426,402</u>
Total public safety	<u>1,695,450</u>	<u>1,760,450</u>	<u>1,740,299</u>
Public works:			
Public services	256,395	271,395	260,030
Cemetery	<u>102,395</u>	<u>127,395</u>	<u>118,431</u>
Total public works	<u>358,790</u>	<u>398,790</u>	<u>378,461</u>

Continued..

City of Hillsdale, Michigan
 Budgetary Comparison Schedule (Continued)
 General Fund
 Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>	
Expenditures (Continued):			
Health:			
Assessor	\$ 147,945	\$ 147,945	\$ 145,023
Building inspector	6,475	6,475	7,785
Total health	<u>154,420</u>	<u>154,420</u>	<u>152,808</u>
Culture and recreation	<u>133,540</u>	<u>133,540</u>	<u>155,158</u>
Total expenditures	<u>4,107,455</u>	<u>3,722,455</u>	<u>3,524,941</u>
Revenues Over (Under) Expenditures	<u>612,845</u>	<u>997,845</u>	<u>685,942</u>
Other Financing Sources (Uses):			
Transfers in	32,000	32,000	26,716
Transfers out	<u>(644,845)</u>	<u>(794,845)</u>	<u>(674,035)</u>
Total other financing sources (uses)	<u>(612,845)</u>	<u>(762,845)</u>	<u>(647,319)</u>
Net Changes in Fund Balances	-	235,000	38,623
Fund Balances - Beginning of Year	<u>862,661</u>	<u>862,661</u>	<u>862,661</u>
Fund Balances - End of Year	<u>\$ 862,661</u>	<u>\$ 1,097,661</u>	<u>\$ 901,284</u>

City of Hillsdale, Michigan
 Budgetary Comparison Schedule
 Major Street Fund
 Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>	
Revenues:			
State revenue	\$ 425,000	\$ 425,000	\$ 456,820
Other revenue	500	500	3,759
Total revenues	<u>425,500</u>	<u>425,500</u>	<u>460,579</u>
Expenditures:			
General government	<u>43,900</u>	<u>43,900</u>	<u>44,429</u>
Highways and streets:			
Street surface	78,330	78,330	83,976
Trunkline street surface	11,910	11,910	6,307
R.O.W. maintenance	65,580	65,580	87,508
Trunkline R.O.W. maintenance	9,145	9,145	11,075
Trees	43,920	43,920	54,319
Trunkline trees	815	815	802
Drainage	37,900	37,900	20,788
Trunkline R.O.W. drainage	4,240	4,240	5,577
Traffic	47,715	47,715	26,992
Trunkline traffic	6,680	6,680	5,364
Winter maintenance	84,215	84,215	71,466
Trunkline winter maintenance	<u>23,025</u>	<u>23,025</u>	<u>21,207</u>
Total general government	<u>413,475</u>	<u>413,475</u>	<u>395,381</u>
Total expenditures	<u>457,375</u>	<u>457,375</u>	<u>439,810</u>
Net Changes in Fund Balances	(31,875)	(31,875)	20,769
Fund Balances- Beginning of Year	<u>121,778</u>	<u>121,778</u>	<u>121,778</u>
Fund Balances- End of Year	<u>\$ 89,903</u>	<u>\$ 89,903</u>	<u>\$ 142,547</u>

City of Hillsdale, Michigan
Budgetary Comparison Schedule
Local Street Fund
Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>	
Revenues:			
State revenue	\$ 138,000	\$ 138,000	\$ 145,879
Other revenue	-	-	2,611
Total revenues	<u>138,000</u>	<u>138,000</u>	<u>148,490</u>
Expenditures:			
General government	<u>12,500</u>	<u>12,500</u>	<u>13,336</u>
Highways and streets:			
Street surface	72,270	72,270	46,330
R.O.W. maintenance	72,050	72,050	73,585
Trees	57,555	57,555	67,648
Drainage	23,355	23,355	24,448
Traffic	13,535	13,535	3,281
Winter maintenance	<u>48,140</u>	<u>48,140</u>	<u>43,993</u>
Total highways and streets	<u>286,905</u>	<u>286,905</u>	<u>259,285</u>
Total expenditures	<u>299,405</u>	<u>299,405</u>	<u>272,621</u>
Revenues Over (Under) Expenditures	<u>(161,405)</u>	<u>(437,405)</u>	<u>(421,111)</u>
Other Financing Sources (Uses):			
Operating transfers in	<u>161,405</u>	<u>161,405</u>	<u>101,405</u>
Total other financing sources (uses)	<u>161,405</u>	<u>161,405</u>	<u>101,405</u>
Net Changes in Fund Balances	<u>-</u>	<u>-</u>	<u>(22,726)</u>
Fund Balances- Beginning of Year	<u>66,802</u>	<u>66,802</u>	<u>66,802</u>
Fund Balances- End of Year	<u>\$ 66,802</u>	<u>\$ 66,802</u>	<u>\$ 44,076</u>

City of Hillsdale, Michigan
Municipal Employees Retirement System of Michigan
Year Ended June 30, 2011

Schedule of Funding Progress

	(1)	(2)	(3)	(4)	(5)	(6)
		Actuarial	Unfunded			UAAL as
		Accrued	AAL			a % of
Actuarial	Actuarial	Liability	(Overfunded)	Funded	Covered	Covered
Valuation Date	Value of	(AAL) Entry	(UAAL)	Ratio (1/2)	Payroll	Payroll
December 31,	Assets	Age	(2-1)			(3/5)
2006	15,928,490	15,021,669	(906,821)	106.0%	3,710,353	-24.4%
2007	16,926,763	16,134,278	(792,485)	104.9%	3,799,429	-20.9%
2008	17,395,167	16,606,847	(788,320)	104.7%	3,893,506	-20.2%
2009	17,887,885	17,082,988	(804,897)	104.7%	3,769,712	-21.4%
2010	18,431,442	17,892,124	(539,318)	103.0%	3,632,843	-14.8%

Schedule of Employer Contributions

Year Ended	Annual	Annual	Percentage
June 30,	Required	Actual	Contributed
	Contribution	Contribution	
2006	184,342	184,342	100%
2007	220,196	220,196	100%
2008	231,791	231,791	100%
2009	240,089	240,089	100%
2010	229,262	229,262	100%

Other Supplemental Information

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

	Special Revenue	Debt Service	Capital Project	Permanent Funds	Total
<u>Assets</u>					
Cash and investments	\$ 167,446	\$ 3,005	\$ 347,803	\$ 515,157	\$ 1,033,411
Accounts receivable	47,601	-	20,498	-	68,099
Special assessments	-	-	241,181	-	241,181
Due from other funds	621	-	2,592	145,282	148,495
Prepaid expenditures	3,537	-	-	-	3,537
Total assets	\$ 219,205	\$ 3,005	\$ 612,074	\$ 660,439	\$ 1,494,723
 <u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 3,808	-	\$ 13,599	-	\$ 17,407
Accrued payroll and related liabilities	7,533	-	-	-	7,533
Due to other funds	147,194	-	-	-	147,194
Deferred revenue	-	-	241,181	-	241,181
Total liabilities	158,535	-	254,780	-	413,315
 Fund Balances:					
Nonspendable:					
Prepaid expenditures	3,537	-	-	-	3,537
Perpetual care and endowment	-	-	-	631,290	631,290
Restricted	-	3,005	357,294	29,149	389,448
Committed	57,133	-	-	-	57,133
Total fund balances	60,670	3,005	357,294	660,439	1,081,408
 Total liabilities and fund balances	\$ 219,205	\$ 3,005	\$ 612,074	\$ 660,439	\$ 1,494,723

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2011

	Special Revenue	Debt Service	Capital Project	Permanent Funds	Total
Revenues:					
Taxes	\$ 150,221	\$ -	\$ -	\$ -	\$ 150,221
Intergovernmental - federal and State	14,440	-	-	-	14,440
Charges for services	79,934	-	-	13,135	93,069
Fines and violations	49,548	-	-	-	49,548
Miscellaneous	58,213	-	41,849	33,961	134,023
Total revenues	<u>352,356</u>	<u>-</u>	<u>41,849</u>	<u>47,096</u>	<u>441,301</u>
Expenditures:					
Public safety	23,247	-	-	-	23,247
Culture and recreation	327,978	-	-	-	327,978
Debt service:					
Principal payments	-	253,000	-	-	253,000
Interest and fiscal charges	-	2,088	-	-	2,088
Capital outlay	-	-	303,998	-	303,998
Total expenditures	<u>351,225</u>	<u>255,088</u>	<u>303,998</u>	<u>-</u>	<u>910,311</u>
Revenues Over (Under) Expenditures	<u>1,131</u>	<u>(255,088)</u>	<u>(262,149)</u>	<u>47,096</u>	<u>(469,010)</u>
Other Financing Sources (Uses):					
Gain (loss) on sale of investment	-	-	-	(707)	(707)
Operating transfers in	39,500	253,000	351,255	-	643,755
Operating transfers out	(177,000)	-	-	(26,000)	(203,000)
Total other financing sources (uses)	<u>(137,500)</u>	<u>253,000</u>	<u>351,255</u>	<u>(26,707)</u>	<u>440,048</u>
Changes in Fund Balances	(136,369)	(2,088)	89,106	20,389	(28,962)
Fund Balances - Beginning of Year	<u>197,039</u>	<u>5,093</u>	<u>268,188</u>	<u>640,050</u>	<u>1,110,370</u>
Fund Balances - End of Year	<u>\$ 60,670</u>	<u>\$ 3,005</u>	<u>\$ 357,294</u>	<u>\$ 660,439</u>	<u>\$ 1,081,408</u>

City of Hillsdale, Michigan
 Combining Balance Sheet
 Nonmajor Special Revenue Funds
 June 30, 2011

	Library	Recreation Commission	Drug Forfeitures	Police Public Relations	Fire Equipment	Total
\$	(1,403) \$	1,987 \$	711 \$	4,855 \$	- \$	6,150
	122,022	-	-	-	39,274	161,296
	47,251	350	-	-	-	47,601
	621	-	-	-	-	621
	1,404	2,133	-	-	-	3,537
\$	169,895 \$	4,470 \$	711 \$	4,855 \$	39,274 \$	219,205

Assets

Cash and cash equivalents
 Investments
 Accounts receivable
 Due from other funds
 Prepaid expenditures
 Total assets

Liabilities and Fund Balances

Liabilities:

Accounts payable
 Accrued payroll and related liabilities
 Due to other funds
 Total liabilities

\$	3,031 \$	741 \$	- \$	36 \$	- \$	3,808
	4,349	3,184	-	-	-	7,533
	147,087	107	-	-	-	147,194
	154,467	4,032	-	36	-	158,535

Fund Balances:

Nonspendable:
 Prepaid expenditures
 Committed
 Total fund balances

	1,404	2,133	-	-	-	3,537
	14,024	(1,695)	711	4,819	39,274	57,133
	15,428	438	711	4,819	39,274	60,670

Total liabilities and fund balances

\$	169,895 \$	4,470 \$	711 \$	4,855 \$	39,274 \$	219,205
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City of Hillsdale, Michigan
 Combining Statement of Revenues, Expenditures and
 Changes in Fund Balances
 Nonmajor Special Revenue Funds
 Year Ended June 30, 2011

	Library	Recreation Commission	Drug Forfeitures	Police Public Relations	Fire Equipment	Total
Revenues:						
Property taxes	\$ 150,221	\$ -	\$ -	\$ -	\$ -	150,221
Intergovernmental - federal and State	14,440	-	-	-	-	14,440
Charges for services	23,488	56,446	-	-	-	79,934
Fines and violations	49,548	-	-	-	-	49,548
Miscellaneous	46,120	5,295	-	6,741	57	58,213
Total revenues	283,817	61,741	-	6,741	57	352,356
Expenditures:						
Public safety	-	-	-	8,315	14,932	23,247
Culture and recreation	219,419	108,559	-	-	-	327,978
Total expenditures	219,419	108,559	-	8,315	14,932	351,225
Revenues Over (Under) Expenditures	64,398	(46,818)	-	(1,574)	(14,875)	1,131
Other Financing Sources (Uses):						
Transfers in	-	39,500	-	-	-	39,500
Transfers out	(177,000)	-	-	-	-	(177,000)
Total other financing sources (uses)	(177,000)	39,500	-	-	-	(137,500)
Changes in Fund Balances	(112,602)	(7,318)	-	(1,574)	(14,875)	(136,369)
Fund Balances - Beginning of Year	128,030	7,756	711	6,393	54,149	197,039
Fund Balances - End of Year	15,428	438	711	4,819	39,274	60,670

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Debt Service Fund
June 30, 2011

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

City of Hillsdale, Michigan
 Combining Statement of Revenues, Expenditures, and
 Changes in Fund Balances
 Nonmajor Debt Service Fund
 Year Ended June 30, 2011

	Bond and Interest
Revenues:	
Interest income	\$ -
Expenditures:	
Principal retirement	253,000
Interest and fiscal charges	<u>2,088</u>
Total expenditures	<u>255,088</u>
Revenues Under Expenditures	(255,088)
Other Financing Sources:	
Transfers in	<u>253,000</u>
Changes in Fund Balance	(2,088)
Fund Balance - Beginning of Year	<u>5,093</u>
Fund Balance - End of Year	<u>\$ 3,005</u>

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2011

	<u>Library</u>	<u>Three</u>	<u>Field of</u>	<u>Stock</u>	<u>Capital</u>	<u>Total</u>
	<u>Improvement</u>	<u>Meadows</u>	<u>Dreams</u>	<u>Park</u>	<u>Improvement</u>	
<u>Assets</u>						
Cash and cash equivalents	\$ -	\$ 423	\$ -	\$ (2,899)	\$ 325,265	\$ 322,789
Investments	-	-	4,050	20,964	-	25,014
Receivables:						
Accounts receivable	-	-	2,081	54	18,363	20,498
Special assessments	-	-	-	-	241,181	241,181
Due from other funds	-	-	-	-	2,592	2,592
Total assets	<u>\$ -</u>	<u>\$ 423</u>	<u>\$ 6,131</u>	<u>\$ 18,119</u>	<u>\$ 587,401</u>	<u>\$ 612,074</u>
 <u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ 617	\$ 12,982	\$ 13,599
Deferred revenue	-	-	-	-	241,181	241,181
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>617</u>	<u>254,163</u>	<u>254,780</u>
Fund Balances:						
Restricted	-	423	6,131	17,502	333,238	357,294
Total fund balances	<u>-</u>	<u>423</u>	<u>6,131</u>	<u>17,502</u>	<u>333,238</u>	<u>357,294</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 423</u>	<u>\$ 6,131</u>	<u>\$ 18,119</u>	<u>\$ 587,401</u>	<u>\$ 612,074</u>

City of Hillsdale, Michigan
 Combining Statement of Revenues, Expenditures and
 Changes in Fund Balances
 Nonmajor Capital Project Funds
 Year Ended June 30, 2011

	<u>Library</u> <u>Improvement</u>	<u>Three</u> <u>Meadows</u>	<u>Field of</u> <u>Dreams</u>	<u>Stock</u> <u>Park</u>	<u>Capital</u> <u>Improvement</u>	<u>Total</u>
Revenues:						
Miscellaneous	\$ (467)	\$ -	\$ 12,676	\$ 16,584	\$ 13,056	\$ 41,849
Total revenues	<u>(467)</u>	<u>-</u>	<u>12,676</u>	<u>16,584</u>	<u>13,056</u>	<u>41,849</u>
Expenditures:						
Capital outlay	-	-	8,534	11,292	284,172	303,998
Total expenditures	<u>-</u>	<u>-</u>	<u>8,534</u>	<u>11,292</u>	<u>284,172</u>	<u>303,998</u>
Revenues Over (Under) Expenditures	<u>(467)</u>	<u>-</u>	<u>4,142</u>	<u>5,292</u>	<u>(271,116)</u>	<u>(262,149)</u>
Other Financing Sources (Uses):						
Transfers in	-	-	-	-	351,255	351,255
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>351,255</u>	<u>351,255</u>
Changes in Fund Balances	(467)	-	4,142	5,292	80,139	89,106
Fund Balances - Beginning of Year	<u>467</u>	<u>423</u>	<u>1,989</u>	<u>12,210</u>	<u>253,099</u>	<u>268,188</u>
Fund Balances - End of Year	<u>\$ -</u>	<u>\$ 423</u>	<u>\$ 6,131</u>	<u>\$ 17,502</u>	<u>\$ 333,238</u>	<u>\$ 357,294</u>

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Permanent Funds
June 30, 2011

	<u>R.L. Owen</u> <u>Memorial</u>	<u>Cemetery</u> <u>Perpetual</u> <u>Care</u>	<u>Stock</u> <u>Park</u> <u>Maintenance</u>	<u>Total</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 29,149	\$ 138,446	\$ 125	\$ 167,720
Investments, at cost	-	330,315	17,122	347,437
Due from other funds	-	145,282	-	145,282
Total assets	\$ 29,149	\$ 614,043	\$ 17,247	\$ 660,439
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Due to other agencies	\$ -	\$ -	\$ -	\$ -
Fund Balances:				
Nonspendable	-	614,043	17,247	631,290
Restricted	29,149	-	-	29,149
Total fund balances	29,149	614,043	17,247	660,439
Total liabilities and fund balances	\$ 29,149	\$ 614,043	\$ 17,247	\$ 660,439

City of Hillsdale, Michigan
 Combining Statement of Revenues, Expenditures and
 Changes in Fund Balances
 Nonmajor Permanent Funds
 Year Ended June 30, 2011

	R.L. Owen Memorial	Cemetery Perpetual Care	Stock Park Maintenance	Total
Revenues:				
Fees	\$ -	\$ 13,135	\$ -	\$ 13,135
Investment income	5,654	25,571	216	31,441
Other revenue	-	-	2,520	2,520
Total revenues	<u>5,654</u>	<u>38,706</u>	<u>2,736</u>	<u>47,096</u>
Other Financing Sources (Uses):				
Gain (loss) on sale of investment	-	(707)	-	(707)
Operating transfers out	(6,000)	(20,000)	-	(26,000)
Total other financing sources (uses)	<u>(6,000)</u>	<u>(20,707)</u>	<u>-</u>	<u>(26,707)</u>
Changes in Fund Balances	(346)	17,999	2,736	20,389
Fund Balances - Beginning of Year	<u>29,495</u>	<u>596,044</u>	<u>14,511</u>	<u>640,050</u>
Fund Balances - End of Year	<u>\$ 29,149</u>	<u>\$ 614,043</u>	<u>\$ 17,247</u>	<u>\$ 660,439</u>

City of Hillsdale, Michigan
 Local Revenues
 Dial-A-Ride Enterprise Fund
 Year Ended June 30, 2011

	<u>07/01/2010 - 09/30/2010</u>	<u>10/01/2010 - 06/30/2011</u>	<u>Total</u>
Operating Revenues and Transfers:			
Demand response (farebox) - nonurban	\$ 7,555	\$ 40,308	\$ 47,863
Other	-	2,054	2,054
Transfer in from general fund	<u>1,057</u>	<u>55,418</u>	<u>56,475</u>
 Total local revenues	 <u>\$ 8,612</u>	 <u>\$ 97,780</u>	 <u>\$ 106,392</u>

City of Hillsdale, Michigan
 Local Revenues
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2010 Year End

	<u>10/01/2009 - 06/30/2010</u>	<u>07/1/2010 - 09/30/2010</u>	<u>Total</u>
Operating Revenues:			
Demand response (farebox) - nonurban	\$ 45,365	\$ 7,555	\$ 52,920
Other	-	-	-
Transfer in from general fund	<u>133,253</u>	<u>1,057</u>	<u>134,310</u>
 Total local revenues	 <u>\$ 178,618</u>	 <u>\$ 8,612</u>	 <u>\$ 187,230</u>

City of Hillsdale, Michigan
 Federal and State Awards
 Dial-A-Ride Enterprise Fund
 Year Ended June 30, 2011

	<u>07/01/2010 -</u> <u>09/30/2010</u>	<u>10/1/2010 -</u> <u>06/30/2011</u>	<u>Total</u>
Michigan Department of Transportation			
Local bus operating	\$ 29,883	\$ 85,517	\$ 115,400
Federal Transit Administration			
Section 5311	22,492	74,122	96,614
Repayment of advance	(15,944)	-	(15,944)
ARRA - Section 5311	9,965	-	9,965
RTAP	<u>-</u>	<u>-</u>	<u>-</u>
Total federal and state awards	<u>\$ 46,396</u>	<u>\$ 159,639</u>	<u>\$ 206,035</u>

City of Hillsdale, Michigan
 Federal and State Awards
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2010 Year End

	<u>10/01/2009 -</u> <u>06/30/2010</u>	<u>07/1/2010 -</u> <u>09/30/2010</u>	<u>Total</u>
Michigan Department of Transportation			
Local bus operating	\$ 104,913	\$ 34,968	\$ 139,881
Prior year paybacks	(4,246)	(5,085)	(9,331)
Federal Transit Administration			
Section 5311	15,944	22,492	38,436
Repayment of advance	-	(15,944)	(15,944)
ARRA - Section 5311	-	9,965	9,965
RTAP	<u>636</u>	<u>-</u>	<u>636</u>
 Total federal and state awards	 <u>\$ 117,247</u>	 <u>\$ 46,396</u>	 <u>\$ 163,643</u>

City of Hillsdale
 Expenditures of Federal and State Awards
 Dial-A-Ride Enterprise Fund
 Year Ended June 30, 2011

Federal and State Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Grant Number	Authorization Number	Program Award Amount	Current Year's Expenditures		Prior Year's Expenditures	Award Amount Remaining
					Total	State		
<u>U.S. Department of Transportation</u>								
Passed through Michigan Department of Transportation								
Federal Transit Capital Grants								
Capital Grant - Section 5309 (80/20)	20.500	2007-0223/Z5	\$ 64,158	\$ 64,158	\$ 51,326	\$ 12,832	\$ -	\$ -
Capital Grant - Section 5309 (80/20)	20.500	2002-0044/Z1C	618,750	52,522	42,018	10,504	562,705	3,523
ARRA - capital grant	20.500	2007-0223/Z7	1,653	1,653	1,653	-	-	-
Operating assistance - Section 5311		2007-0223/Z9	81,888	81,888	81,888	-	-	-
ARRA - operating assistance - section 5311	20.509	2007-0223/Z8	8,747	8,747	8,747	-	-	-
<u>Michigan Department of Transportation</u>								
Operating Assistance - Act 51 Nonurban								
	N/A	N/A	115,400	115,400	-	115,400	-	-
			\$ 890,596	\$ 324,368	\$ 185,632	\$ 138,736	\$ 562,705	\$ 3,523

City of Hillsdale, Michigan
Operating and Contract Expenses
Dial-A-Ride Enterprise Fund
Year Ended June 30, 2011

	<u>Nonurban</u>	<u>Total</u>
Labor	\$ 164,950	\$ 164,950
Fringe benefits	84,514	84,514
Services	11,569	11,569
Materials and supplies	26,470	26,470
Insurance	9,377	9,377
Utilities	6,683	6,683
Miscellaneous	5,009	5,009
Rentals	-	-
Depreciation	30,087	30,087
RTAP	-	-
Capital	<u>7,363</u>	<u>7,363</u>
 Total expenses	 <u>\$ 346,022</u>	 <u>\$ 346,022</u>

City of Hillsdale, Michigan
 Operating and Contract Expenses
 Dial-A-Ride Enterprise Fund
 Year Ended June 30, 2011

	Nonurban		Total
	07/01/2010 - 9/30/2010	10/01/2010 - 6/30/2011	
Labor	\$ 31,866	\$ 133,084	\$ 164,950
Fringe benefits	22,399	62,115	84,514
Services	1,652	9,917	11,569
Materials and supplies	3,215	23,255	26,470
Insurance	-	9,377	9,377
Utilities	1,497	5,186	6,683
Miscellaneous	721	4,288	5,009
Rentals	-	-	-
Depreciation	-	30,087	30,087
RTAP	-	-	-
Capital	-	7,363	7,363
Total expenses	\$ 61,350	\$ 284,672	\$ 346,022

City of Hillsdale, Michigan
 Operating and Contract Expenses
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2010 Year End

	Nonurban		Total
	10/1/2009 - 6/30/2010	7/01/2010 - 9/30/2010	
Labor	\$ 147,084	\$ 31,866	\$ 178,950
Fringe benefits	75,050	22,399	97,449
Services	12,762	1,652	14,414
Materials and supplies	26,660	3,215	29,875
Insurance	4,541	-	4,541
Utilities	11,164	1,497	12,661
Miscellaneous	4,899	721	5,620
Rentals	6,350	-	6,350
Depreciation	14,682	-	14,682
RTAP	640	-	640
Capital	-	-	-
Total expenses	<u>\$ 303,832</u>	<u>\$ 61,350</u>	<u>\$ 365,182</u>

City of Hillsdale, Michigan
 Nonurban Regular Service Revenue Report
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2010 Year End

Code	Description	Amount
401	Farebox Revenue	
40100	Passenger fares	\$ 52,920
409	Local Revenue	
40910	Local operating assistance	134,310
411	State Formula and Contracts	
41101	State operating assistance	139,881
413	Federal Contracts	
41301	Federal Section 5311 (operating funds only)	22,492
41398	RTAP	636
41399	Other Federal Transit Contracts (ARRA Operating Funds)	<u>9,965</u>
	Total revenues	<u>\$ 360,204</u>

City of Hillsdale, Michigan
 Nonurban Regular Service Expense Report
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2010 Year End

Code	Description	Operations	Maintenance	General Administration	Total
501	Labor				
50101	Operators' salaries and wages	\$ 114,948	\$ -	\$ -	\$ 114,948
50102	Other salaries and wages	-	10,410	23,683	34,093
50103	Dispatchers salaries and wages	34,622	-	-	34,622
502	Fringe Benefits				
50200	Other fringe benefits	74,627	5,439	12,670	92,736
503	Services				
50305	Audit costs	-	-	962	962
50399	Other services	10,220	722	3,346	14,288
504	Materials and Supplies				
50401	Fuel and lubricants	18,711	-	-	18,711
50402	Tires and tubes	-	-	-	-
50499	Other materials and supplies	4,083	7,081	4,904	16,068
505	Utilities				
50500	Utilities	6,036	-	-	6,036
506	Insurance				
50603	Liability insurance	8,530	-	-	8,530
50699	Other insurance	-	-	2,634	2,634
509	Miscellaneous Expenses				
50902	Travel, meetings and training	-	-	522	522
50999	Miscellaneous	-	-	-	-
512	Operating leases and rentals				
51200	Operating leases and rentals	6,350	-	-	6,350
513	Depreciation				
51300	Depreciation	14,682	-	-	14,682
550	Ineligible expenses				
55007	Ineligible depreciation	14,682	-	-	14,682
574	Ineligible expenses				
57402	Ineligible RTAP	-	-	636	636
	Total expenses				<u>\$ 365,182</u>
	Total ineligible expenses				<u>\$ 15,318</u>
	Total eligible expenses				<u>\$ 349,864</u>

City of Hillsdale, Michigan
Nonurban Regular Service Nonfinancial Report
Dial-A-Ride Enterprise Fund
Based on a September 30, 2010 Year End

<u>Code</u>	<u>Public Service</u> <u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles	<u>54,359</u>	<u>-</u>	<u>-</u>	<u>54,359</u>

City of Hillsdale, Michigan
 Operating Assistance Calculation
 Dial-A-Ride Enterprise Fund
 Based on a September 30, 2010 Year End

	<u>Nonurban</u>
Total expenses	\$ 365,182
Less ineligible expenses:	
Depreciation	14,682
RTAP	<u>636</u>
Total State eligible expenses	<u>\$ 349,864</u>
Eligible expenses for State reimbursement	\$ 349,864
Reimbursement percentage	<u>0.350931</u>
State Operating Assistance	<u>\$ 122,778</u>
Total Federal eligible expenses	\$ 349,864
Less additional Federal ineligible expenses per A-87	
Audit costs	<u>962</u>
Eligible expenses for Federal reimbursement	348,902
Reimbursement percentage	<u>0.185</u>
Section 5311 operating assistance	<u>\$ 64,547</u>

City of Hillsdale, Michigan
Combining Statement of Net Assets
Internal Service Funds
June 30, 2011

	Department of				Total
	Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	
Assets:					
Current assets:					
Cash and cash equivalents	\$ 26,215	\$ 66,273	\$ 150,897	\$ -	\$ 243,385
Investments	-	-	-	54,247	54,247
Inventory	-	185,091	-	-	185,091
Prepaid expenses	13,872	-	16,256	-	30,128
Total current assets	<u>40,087</u>	<u>251,364</u>	<u>167,153</u>	<u>54,247</u>	<u>512,851</u>
Capital assets:					
Equipment	-	-	1,827,678	-	1,827,678
Less: accumulated depreciation	-	-	(1,442,282)	-	(1,442,282)
Total capital assets, net	<u>-</u>	<u>-</u>	<u>385,396</u>	<u>-</u>	<u>385,396</u>
Total assets	<u>40,087</u>	<u>251,364</u>	<u>552,549</u>	<u>54,247</u>	<u>898,247</u>
Liabilities:					
Current liabilities:					
Accounts payable	178	9,276	15,831	-	25,285
Due to other funds	-	-	263	-	263
Accrued payroll and related liabilities	-	560	2,356	-	2,916
Total current liabilities	<u>178</u>	<u>9,836</u>	<u>18,450</u>	<u>-</u>	<u>28,464</u>
Other liabilities:					
Compensated absences	32,014	-	12,225	-	44,239
Total liabilities	<u>32,192</u>	<u>9,836</u>	<u>30,675</u>	<u>-</u>	<u>72,703</u>
Net Assets:					
Invested in capital assets, net of related debt	-	-	385,396	-	385,396
Unrestricted	7,895	241,528	136,478	54,247	440,148
Total net assets	<u>\$ 7,895</u>	<u>\$ 241,528</u>	<u>\$ 521,874</u>	<u>\$ 54,247</u>	<u>\$ 825,544</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenses
and Changes in Net Assets
Internal Service Funds
Year Ended June 30, 2011

	Department of				
	Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	Total
Operating Revenues:					
Charges for services	\$ -	\$ 99,475	\$ 383,488	\$ -	\$ 482,963
Other revenue	154,302	-	14,393	17,600	186,295
Total operating revenues	154,302	99,475	397,881	17,600	669,258
Operating Expenses:					
Salaries	52,292	2,295	64,245	-	118,832
Fringe benefits	102,010	177	42,137	-	144,324
Supplies	-	52,256	5,808	-	58,064
Contracted services	-	3,796	29,415	-	33,211
Maintenance	-	-	130,872	-	130,872
Insurance	-	-	27,852	-	27,852
Miscellaneous	-	5,511	9,333	6,823	21,667
Capital outlay	-	-	6,407	-	6,407
Depreciation	-	-	107,597	-	107,597
Total operating expenses	154,302	64,035	423,666	6,823	648,826
Operating Income (Loss)	-	35,440	(25,785)	10,777	20,432
Nonoperating Revenues:					
Interest income	-	-	1,292	59	1,351
Transfers in from other funds	-	-	3,400	-	3,400
	-	-	4,692	59	4,751
Changes in Net Assets	-	35,440	(21,093)	10,836	25,183
Net Assets - Beginning of Year	7,895	206,088	542,967	43,411	800,361
Net Assets - End of Year	\$ 7,895	\$ 241,528	\$ 521,874	\$ 54,247	\$ 825,544

City of Hillsdale, Michigan
Combining Statement of Cash Flows
Internal Service Funds
Year Ended June 30, 2011

	Department of Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	Total
Cash Flows From Operating Activities:					
Cash paid to suppliers	\$ (107,473)	\$ (87,012)	\$ (270,353)	\$ (6,823)	\$ (471,661)
Cash paid to employees	(52,292)	(2,295)	(64,245)	-	(118,832)
Receipts for interfund services provided	154,302	89,475	397,881	17,600	669,258
Net cash provided by (used by) operating activities	<u>(5,463)</u>	<u>10,168</u>	<u>63,283</u>	<u>10,777</u>	<u>78,765</u>
Cash Flows From Noncapital Financing Activities:					
Transfers from other funds	-	-	3,400	-	3,400
Cash Flows From Capital and Related Financing Activities:					
Purchase of capital assets	-	-	(52,831)	-	(52,831)
Cash Flows From Investing Activities:					
Purchase of investments	-	-	-	(10,836)	(10,836)
Interest income	-	-	1,292	59	1,351
Net cash provided by (used by) investing activities	<u>-</u>	<u>-</u>	<u>1,292</u>	<u>(10,777)</u>	<u>(9,485)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(5,463)	10,168	15,144	-	19,849
Cash and Cash Equivalents - Beginning of Year	31,678	56,105	135,753	-	223,536
Cash and Cash Equivalents - End of Year	\$ 26,215	\$ 66,273	\$ 150,897	\$ -	\$ 243,385
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating income (loss)	\$ -	\$ 35,440	\$ (25,785)	\$ 10,777	\$ 20,432
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and loss on asset disposal	-	-	107,597	-	107,597
Changes in:					
Accounts receivable	-	-	-	-	-
Inventory	-	(26,169)	-	-	(26,169)
Prepaid expenses	(101)	-	1,656	-	1,555
Accounts payable	(597)	337	(18,713)	-	(18,973)
Accrued expenses	(4,765)	560	(1,472)	-	(5,677)
Net Cash Provided by (Used In) Operating Activities	\$ (5,463)	\$ 10,168	\$ 63,283	\$ 10,777	\$ 78,765