

County of Hillsdale, Michigan

BASIC FINANCIAL STATEMENTS

December 31, 2013

COUNTY OF HILLSDALE, MICHIGAN

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
County of Hillsdale, Michigan
Courthouse, 29 N. Howell Street
Hillsdale, Michigan 49242

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, of the County of Hillsdale, Michigan, as of and for the year ending December 31, 2013, and the related notes to the financial statements which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Hillsdale County Road Commission, which represents 94 percent, 95 percent, and 92 percent, respectively, of the assets, net position, and revenue of the discretely presented component units; the Hillsdale County Medical Care Facility, which represents 74 percent, 78 percent, and 92 percent, respectively, of the assets, net position, and revenue of the business-type activities; and the Hillsdale County Park Commission, which represents .1 percent, 0 percent, and .2 percent, respectively, of the assets, fund balance, and revenue of the governmental activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Road Commission, Medical Care Facility, and Park Commission, is based solely on the reports of the other auditors. 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. The financial statements of the Hillsdale County Park Commission and Hillsdale County Medical Care Facility were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Hillsdale, Michigan, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 4 through 7, page 45 through 46, and pages 47 through 50 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 and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Hillsdale, Michigan's basic financial statements. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2014 on our consideration of the County of Hillsdale, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering the County of Hillsdale, Michigan's internal control over financial reporting and compliance.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

July 10, 2014

Management's Discussion and Analysis

COUNTY OF HILLSDALE, MICHIGAN

Management's Discussion and Analysis

Using this Annual Report

The following discussion and analysis of the financial performance for County of Hillsdale ("County") provides an overview of the County's financial activities for the fiscal year ended December 31, 2013. Please read it in conjunction with the County's financial statements which follow this section.

Financial Highlights

- The general fund reported an increase in fund balance of \$367,938 over 2012 mainly due to reduced expenditures, including a reduction in employee health insurance expense of more than \$230,000.
- Property tax revenue remained relatively flat from 2012 to 2013, the first year since 2010 there was not a significant decrease.
- The Medical Care Facility reported a decrease in net position of \$622,148. This was mainly due to a decrease in revenue resulting from a decrease in Medicaid patient days.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County of Hillsdale's basic financial statements. These statements are comprised of five components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements, 4) required supplementary information, 5) other information.

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

The *statement of net position* presents information on all of the County of Hillsdale's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the two reported as *net position*. Over time, changes in net position may serve as a useful indicator of whether the financial position of the County of Hillsdale is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position 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., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the County 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).

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 County of Hillsdale, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the County's operations in more detail than the government-wide financial statements. These statements present a short-term view and tell how taxpayer resources were spent during the year. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the County's general governmental operations and the basic services it provides.

COUNTY OF HILLSDALE, MICHIGAN

Management's Discussion and Analysis

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

Proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds are an accounting device used to accumulate and allocate workers compensation costs internally among the County's various functions. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

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 County of Hillsdale's own programs. The basis of accounting used for fiduciary funds is much like that used for proprietary funds.

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.

Government-Wide Financial Analysis

The Statement of Net Position and the Statement of Activities report information about the County as a whole and about its activities in a way that helps explain the condition of the County. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. In a condensed format, the table below shows a comparison of the net position of the County as of the end of the current and prior year.

	Hillsdale County Net Position					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets						
Current and other assets	\$ 8,074,938	\$ 8,539,421	\$ 9,860,724	\$ 10,483,453	\$ 17,935,662	\$ 19,022,874
Capital assets, net	5,768,437	5,499,996	12,284,325	12,454,985	18,052,762	17,954,981
Total assets	13,843,375	14,039,417	22,145,049	22,938,438	35,988,424	36,977,855
Deferred outflows						
Deferred loss on advance refunding	12,699	21,165	-	-	12,699	21,165
Liabilities						
Long-term liabilities	9,875,741	10,480,684	5,332,000	6,155,000	15,207,741	16,635,684
Other liabilities	2,863,915	2,901,615	3,838,083	3,386,796	6,701,998	6,288,411
Total liabilities	12,739,656	13,382,299	9,170,083	9,541,796	21,909,739	22,924,095
Deferred inflows	2,358,806	2,131,274	753,205	757,827	3,112,011	2,889,101
Net position:						
Net investment in capital assets	(3,627,330)	(4,611,031)	10,132,325	9,864,985	6,504,995	5,253,954
Restricted	1,769,726	2,076,208	360,424	428,353	2,130,150	2,504,561
Unrestricted	615,216	1,081,832	1,729,012	2,345,477	2,344,228	3,427,309
Total net position	\$ (1,242,388)	\$ (1,452,991)	\$ 12,221,761	\$ 12,638,815	\$ 10,979,373	\$ 11,185,824

COUNTY OF HILLSDALE, MICHIGAN

Management's Discussion and Analysis

The County's combined net position decreased 1.8% from a year ago - decreasing from \$11,185,824 to \$10,979,373. Governmental activities experienced an increase in net position of \$210,603 (14%). Business-type activities experienced a \$417,054 decrease in net position (3.3%), mainly due to unfavorable financial results at the Medical Care Facility.

The following table shows the changes in net position of the County during the current and prior year:

	Hillsdale County Changes in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program revenues:						
Charges for services	\$ 2,630,663	\$ 2,527,716	\$ 16,194,768	\$ 16,294,913	\$ 18,825,431	\$ 18,822,629
Operating grants and contributions	3,143,352	4,044,247	3,421,885	3,821,319	6,565,237	7,865,566
General revenues:						
Property taxes	8,348,353	8,173,288	-	-	8,348,353	8,173,288
State shared revenue	710,594	709,423	-	-	710,594	709,423
Unrestricted investment earnings	123,928	37,528	-	-	123,928	37,528
Total revenues	14,956,890	15,492,202	19,616,653	20,116,232	34,573,543	35,608,434
Expenses:						
Legislative	84,603	99,467	-	-	84,603	99,467
Judicial	1,808,311	1,840,522	-	-	1,808,311	1,840,522
General government	2,895,311	2,646,407	-	-	2,895,311	2,646,407
Public safety	4,718,616	4,776,059	-	-	4,718,616	4,776,059
Public works	24,224	36,736	-	-	24,224	36,736
Health and welfare	3,777,619	4,181,542	-	-	3,777,619	4,181,542
Recreation and cultural	67,831	61,908	-	-	67,831	61,908
Other governmental activities	2,113,799	2,385,453	-	-	2,113,799	2,385,453
Interest on long-term debt	113,802	94,969	-	-	113,802	94,969
Medical Care Facility	-	-	18,489,165	17,414,877	18,489,165	17,414,877
Delinquent tax collections/forfeitures	-	-	203,963	181,613	203,963	181,613
Building inspections	-	-	329,020	360,888	329,020	360,888
Geographic information services	-	-	16,740	20,287	16,740	20,287
Board of Public Works	-	-	136,990	439,194	136,990	439,194
Total expenses	15,604,116	16,123,063	19,175,878	18,416,859	34,779,994	34,539,922
Change in net position, before transfers	(647,226)	(630,861)	440,775	1,699,373	(206,451)	1,068,512
Transfers	857,829	712,000	(857,829)	(712,000)	-	-
Change in net position	210,603	81,139	(417,054)	987,373	(206,451)	1,068,512
Net position:						
Beginning of year, as restated	(1,452,991)	(1,534,130)	12,638,815	11,651,442	11,185,824	10,117,312
End of year	\$ (1,242,388)	\$ (1,452,991)	\$ 12,221,761	\$ 12,638,815	\$ 10,979,373	\$ 11,185,824

Governmental Activities

Total governmental revenues decreased by \$535,312, the largest contributing factor was the decrease in federal awards received by the County. Governmental expenses decreased (3.2%), largely due to the decrease in employee health insurance expenditures.

COUNTY OF HILLSDALE, MICHIGAN

Management's Discussion and Analysis

Business-Type Activities

The county's business-type activities consist primarily of the medical care facility fund. Medical care facility revenue decreased \$333,481 and expenses increased \$1,187,570. The year's deficit of \$622,148 represents a decrease over the \$778,889 increase in the prior year. The decrease is the result of higher labor costs, increased employee health insurance expense and a decrease in the Medicaid patient days.

Financial Analysis of the County's Funds

The fund financial statements provide detailed information about the most significant funds, not the county as a whole. The county board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The county's major governmental funds for 2013 include the general fund, the E-911 emergency, and the senior center debt service fund.

The general fund pays for most of the county's governmental services. The most significant are public safety, general government, and judicial, which incurred expenses of \$2,922,328, \$2,375,401, and \$1,763,469, respectively. Some of these services are partially supported by state and federal grants, with the remaining cost funded by general revenue sources of the general fund.

The senior citizens fund is used to account for the collection of property tax collections and disbursements for county-wide senior services pursuant to contractual arrangement.

The senior center debt service fund was used to account for principal and interest payments on the 2005 senior center bond issue. Lease payments received from the senior center cover these bond payments.

Major proprietary funds for the year include the medical care facility fund, 2011 delinquent tax revolving fund and the 2012 delinquent tax revolving fund.

General Fund Budgetary Highlights

The decrease in property taxes was anticipated during the preparation of the 2013 budget and Federal grant revenue was less than anticipated. Expenditures were comparable to 2013 amended budgets with the exception of the cost of employee benefits which was approximately \$130,000 less than budgeted.

Over the course of the year, the Board of Commissioners amended the 2013 budget to take into account various unexpected events during the year. All of these amendments were fairly minor.

Capital Asset and Debt Administration

At the end of the fiscal year 2013, the County had approximately \$18,052,762 (net of depreciation) invested in a broad range of capital assets, including land, buildings, vehicles, equipment, etc. Details of the County's capital assets are contained in the notes to the financial statements. Major increases for the year included the radio equipment system purchased with E-911 funds and construction in progress on the courthouse annex.

The County continues to pay down debt obligations related to capital investments. At December 31, 2013, debt related to capital assets of governmental activities totaled \$9,395,767. Debt related to business-type activities totaled \$5,332,000, of this \$2,152,000 relates to Medical Care Facility capital assets, \$30,000 relates to the City of Litchfield and the money to service the debt is expected to be received by the city, and \$3,150,000 relates to delinquent tax notes for 2012 and 2013.

COUNTY OF HILLSDALE, MICHIGAN

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

The County's 2013 taxable value was down 0.6% from 2012 values; however, a 0.6% increase is expected in 2014. The residential housing market continues to improve and agricultural land values continue to increase. Unemployment locally and statewide continues to decline. Although there are signs the Michigan economy is improving, the County must continue to be prudent in its revenue estimates and spending decisions.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the County Treasurer's office at 29 North Howell Street, Hillsdale.

Basic Financial Statements

COUNTY OF HILLSDALE, MICHIGAN

Statement of Net Position

December 31, 2013

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments	\$ 2,985,268	\$ 3,987,299	\$ 6,972,567	\$ 1,485,663
Receivables, net	5,057,662	5,599,690	10,657,352	1,108,468
Prepaid items and other assets	32,008	273,735	305,743	822,069
Capital assets not being depreciated	130,005	-	130,005	5,385,296
Capital assets being depreciated, net	5,638,432	12,284,325	17,922,757	20,664,421
Total assets	13,843,375	22,145,049	35,988,424	29,465,917
Deferred outflow of resources				
Loss on advance refunding	12,699	-	12,699	-
Liabilities				
Accounts payable and accrued expenses	607,645	2,014,083	2,621,728	777,147
Unearned revenue	1,866	-	1,866	-
Other post employment benefits	2,254,404	1,824,000	4,078,404	-
Long-term liabilities:				
Due within one year	869,288	2,893,000	3,762,288	57,424
Due in more than one year	9,006,453	2,439,000	11,445,453	369,953
Total liabilities	12,739,656	9,170,083	21,909,739	1,204,524
Deferred inflow of resources	2,358,806	753,205	3,112,011	-
Net position				
Net investment in capital assets	(3,627,330)	10,132,325	6,504,995	26,011,764
Restricted for:				
Debt service	604	-	604	-
Endowments and trusts	3,508	-	3,508	-
Other purposes	1,765,614	360,424	2,126,038	-
Unrestricted	615,216	1,729,012	2,344,228	2,249,629
Total net position	\$ (1,242,388)	\$ 12,221,761	\$ 10,979,373	\$ 28,261,393

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN

Statement of Activities

Year Ended December 31, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 84,603	\$ -	\$ -	\$ -	\$ (84,603)
Judicial	1,808,311	601,305	943,805	-	(263,201)
General government	2,895,311	535,679	216,323	-	(2,143,309)
Public safety	4,718,616	1,114,834	535,992	-	(3,067,790)
Public works	24,224	-	-	-	(24,224)
Health and welfare	3,777,619	363,262	564,573	-	(2,849,784)
Recreation and cultural	67,831	6,652	31,209	-	(29,970)
Other governmental activities	2,113,799	8,931	851,450	-	(1,253,418)
Interest on long-term debt	113,802	-	-	-	(113,802)
Total governmental activities	15,604,116	2,630,663	3,143,352	-	(9,830,101)
Business-type activities:					
Medical Care Facility	18,489,165	15,022,983	2,924,132	-	(542,050)
Delinquent tax collections/forfeitures	203,963	723,498	357,153	-	876,688
Building inspections	329,020	440,694	3,610	-	115,284
Geographic information services	16,740	6,915	-	-	(9,825)
Board of Public Works	136,990	678	136,990	-	678
Total business-type activities	19,175,878	16,194,768	3,421,885	-	440,775
Total primary government	\$ 34,779,994	\$ 18,825,431	\$ 6,565,237	\$ -	\$ (9,389,326)
Component units					
County Drains	\$ 525,886	\$ -	\$ 632,904	\$ -	\$ 107,018
County Roads	7,272,320	1,354,203	5,023,026	899,543	4,452
Total component units	\$ 7,798,206	\$ 1,354,203	\$ 5,655,930	\$ 899,543	\$ 111,470

continued...

COUNTY OF HILLSDALE, MICHIGAN

Statement of Activities (Continued)

Year Ended December 31, 2013

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net position				
Net (expense) revenue	\$ (9,830,101)	\$ 440,775	\$ (9,389,326)	\$ 111,470
General revenues:				
Property taxes	8,348,353	-	8,348,353	-
State shared revenue	710,594	-	710,594	-
Unrestricted investment earnings	123,928	-	123,928	6,128
Transfers - internal activities	857,829	(857,829)	-	-
Total general revenues and transfers	<u>10,040,704</u>	<u>(857,829)</u>	<u>9,182,875</u>	<u>6,128</u>
Change in net position	210,603	(417,054)	(206,451)	117,598
Net position (deficit), beginning of year	<u>(1,452,991)</u>	<u>12,638,815</u>	<u>11,185,824</u>	<u>28,143,795</u>
Net position (deficit), end of year	<u>\$ (1,242,388)</u>	<u>\$ 12,221,761</u>	<u>\$ 10,979,373</u>	<u>\$ 28,261,393</u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN

Balance Sheet - Governmental Funds

December 31, 2013

	General	Senior Citizen	Senior Center Debt Service	Nonmajor Funds	Totals
Assets					
Cash and investments	\$ 1,089,906	\$ 31,076	\$ -	\$ 1,839,870	\$ 2,960,852
Taxes receivable	642,554	1,207,527	-	1,006,533	2,856,614
Accounts receivable	157,710	-	-	248,300	406,010
Leases receivable	-	-	1,490,000	-	1,490,000
Interfund receivable	9,820	-	-	-	9,820
Due from other governments	355	-	-	10,812	11,167
Prepaid expenditures	25,731	-	-	6,277	32,008
Advance to component unit	282,968	-	-	-	282,968
Interest receivable	10,569	-	-	334	10,903
Total assets	\$ 2,219,613	\$ 1,238,603	\$ 1,490,000	\$ 3,112,126	\$ 8,060,342
Liabilities					
Accounts payable	\$ 87,855	\$ -	\$ -	\$ 94,312	\$ 182,167
Unearned revenue	-	-	-	1,866	1,866
Accrued expenditures	203,641	-	-	52,912	256,553
Interfund payable	-	-	-	9,820	9,820
Total liabilities	291,496	-	-	158,910	450,406
Deferred inflows of resources	644,555	1,207,527	1,490,000	1,006,533	4,348,615
Fund balances					
Nonspendable	308,699	-	-	9,535	318,234
Restricted	-	31,076	-	1,735,142	1,766,218
Assigned	-	-	-	202,006	202,006
Unassigned	974,863	-	-	-	974,863
Total fund balances	1,283,562	31,076	-	1,946,683	3,261,321
Total liabilities, deferred inflows of resources and fund balances	\$ 2,219,613	\$ 1,238,603	\$ 1,490,000	\$ 3,112,126	\$ 8,060,342

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
December 31, 2013

Fund balances - total governmental funds	\$ 3,261,321
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.	
Capital assets not being depreciated	130,005
Capital assets being depreciated, net	5,638,432
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 inflows in the governmental funds.	
Long-term receivables included in deferred inflows of resources	1,989,809
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	
Net position of governmental activities accounted for in the internal service fund	(82,680)
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Bonds and leases payable	(9,395,767)
Compensated absences	(479,974)
Deferred loss on advance refunding	12,699
Other post employment benefits	(2,254,404)
Accrued interest on long-term liabilities	(61,829)
Net position (deficit) of governmental activities	\$ (1,242,388)

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds
Year Ended December 31, 2013

	General	Senior Citizen	Senior Center Debt Service	Nonmajor Funds	Totals
Revenues					
Taxes and special assessments	\$ 6,123,516	\$ 1,240,990	\$ -	\$ 983,847	\$ 8,348,353
Intergovernmental	1,788,732	-	-	265,506	2,054,238
Licenses and permits	88,204	-	-	-	88,204
Contributions	-	-	153,588	239,394	392,982
Fines and forfeits	268,160	-	-	28,232	296,392
Charges for services	821,956	-	-	1,058,955	1,880,911
Reimbursements and refunds	650,309	-	-	150,951	801,260
Interest and rentals	487,190	-	-	2,966	490,156
Other revenue	-	-	-	605,720	605,720
Total revenues	10,228,067	1,240,990	153,588	3,335,571	14,958,216
Expenditures					
Current:					
Legislative	84,603	-	-	-	84,603
Judicial	1,763,469	-	-	15,193	1,778,662
General government	2,375,401	-	-	177,018	2,552,419
Public safety	2,922,328	-	-	1,223,592	4,145,920
Public works	22,827	-	-	-	22,827
Health and welfare	571,125	1,256,182	-	1,771,069	3,598,376
Recreation and cultural	-	-	-	67,831	67,831
Other	1,900,606	-	-	-	1,900,606
Capital outlay	118,970	-	-	471,305	590,275
Capital lease	53,407	-	-	5,216	58,623
Debt service:					
Principal	14,764	-	90,000	601,057	705,821
Interest	5,816	-	63,613	307,297	376,726
Total expenditures	9,833,316	1,256,182	153,613	4,639,578	15,882,689
Revenue over (under) expenditures	394,751	(15,192)	(25)	(1,304,007)	(924,473)
Other financing sources (uses)					
Proceeds from issuance of debt	56,069	-	-	-	56,069
Transfers in	802,598	-	-	905,578	1,708,176
Transfers out	(885,480)	-	-	(24,867)	(910,347)
Total other financing sources (uses)	(26,813)	-	-	880,711	853,898
Net change in fund balances	367,938	(15,192)	(25)	(423,296)	(70,575)
Fund balances, beginning of year	915,624	46,268	25	2,369,979	3,331,896
Fund balances, end of year	\$ 1,283,562	\$ 31,076	\$ -	\$ 1,946,683	\$ 3,261,321

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
Year Ended December 31, 2013

Net change in fund balances - total governmental funds \$ (70,575)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	590,275
Depreciation expense	(321,834)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long term-liabilities.

Capital lease proceeds	(56,069)
Principal payments on bonds	705,821
Principal payments on capital leases	58,623

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 governmental funds.

Change in accrued interest on bonds and refunding loss	(3,701)
Change in the accrual of compensated absences	(103,432)
Change in the accrual of other post employment benefits	(523,891)

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities:

Net operating income from governmental activities accounted for in the internal service fund	(124,614)
Transfers received in governmental internal service funds	60,000

Change in net position of governmental activities \$ 210,603

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN

Statement of Net Position
 Proprietary Funds
 December 31, 2013

	Business-type Activities - Enterprise Funds					Internal Service
	Medical Care Facility	2011 Delinquent Tax Revolving	2012 Delinquent Tax Revolving	Nonmajor Funds	Totals	Self Insurance
Assets						
Cash and investments	\$ 1,456,694	\$ 854,634	\$ 1,091,088	\$ 584,883	\$ 3,987,299	\$ 24,416
Taxes receivable	753,205	468,223	1,293,582	380,839	2,895,849	-
Accounts receivable	1,564,658	6,490	-	5,693	1,576,841	-
Advances to other funds	-	-	-	215,450	215,450	-
Interfund receivable	-	-	-	11,966	11,966	-
Interest receivable	-	318,020	205,953	357,577	881,550	-
Leases receivable	-	-	-	30,000	30,000	-
Prepays	-	-	368	1,700	2,068	-
Other assets	271,667	-	-	-	271,667	-
Capital assets being depreciated, net	12,255,959	-	-	28,366	12,284,325	-
Total assets	16,302,183	1,647,367	2,590,991	1,616,474	22,157,015	24,416
Liabilities						
Accounts payable	415,524	10,600	2,500	1,678	430,302	107,096
Accrued liabilities	1,350,560	-	7,175	5,269	1,363,004	-
Advances from other funds	215,450	-	-	-	215,450	-
Interfund payable	-	-	-	11,966	11,966	-
Due to other governments	-	1,580	-	3,747	5,327	-
Long-term debt - due within one year	462,999	900,000	1,500,000	30,000	2,892,999	-
Long-term debt - due in more than one year	1,689,001	-	750,000	-	2,439,001	-
OPEB - due in more than one year	1,824,000	-	-	-	1,824,000	-
Total liabilities	5,957,534	912,180	2,259,675	52,660	9,182,049	107,096
Deferred inflows of resources						
Property taxes levied for the subsequent year	753,205	-	-	-	753,205	-
Net position						
Net investment in capital assets	10,103,959	-	-	28,366	10,132,325	-
Restricted by statute	-	-	-	360,424	360,424	-
Unrestricted (deficit)	(512,515)	735,187	331,316	1,175,024	1,729,012	(82,680)
Total net position (deficit)	\$ 9,591,444	\$ 735,187	\$ 331,316	\$ 1,563,814	\$ 12,221,761	\$ (82,680)

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN

Statement of Revenues, Expenses and Changes in Net Position
 Proprietary Funds
 Year Ended December 31, 2013

	Business-type Activities - Enterprise Funds					Internal Service
	Medical Care Facility	2011 Delinquent Tax Revolving	2012 Delinquent Tax Revolving	Nonmajor Funds	Totals	Self Insurance
Operating revenues						
Charges for services	\$ 15,022,983	\$ 3,122	\$ 152,801	\$ 448,893	\$ 15,627,799	\$ -
Refunds and reimbursements	-	-	-	3,610	3,610	-
Other operating revenue	2,130,702	216,370	6,108	298,634	2,651,814	-
Total operating revenues	17,153,685	219,492	158,909	751,137	18,283,223	-
Operating expenses						
Depreciation expense	561,675	-	-	5,543	567,218	-
Cost of services	17,851,401	9,259	24,095	608,969	18,493,724	124,614
Total operating expenses	18,413,076	9,259	24,095	614,512	19,060,942	124,614
Operating income (loss)	(1,259,391)	210,233	134,814	136,625	(777,719)	(124,614)
Nonoperating revenues (expenses)						
Property tax revenue	742,486	-	-	-	742,486	-
Gain (loss) on disposal of capital assets	2,151	-	-	-	2,151	-
Contributions	47,363	-	-	-	47,363	-
Interest and rentals	3,581	200,771	211,612	127,617	543,581	-
Interest expense	(78,240)	(18,314)	(7,760)	(12,773)	(117,087)	-
Total nonoperating revenues	717,341	182,457	203,852	114,844	1,218,494	-
Income (loss) before transfers	(542,050)	392,690	338,666	251,469	440,775	(124,614)
Transfers in (out)						
Transfers in	-	-	-	-	-	60,000
Transfers out	(80,098)	-	-	(777,731)	(857,829)	-
Total transfers	(80,098)	-	-	(777,731)	(857,829)	60,000
Change in net position	(622,148)	392,690	338,666	(526,262)	(417,054)	(64,614)
Net position (deficit), beginning of year	10,213,592	342,497	(7,350)	2,090,076	12,638,815	(18,066)
Net position (deficit), end of year	\$ 9,591,444	\$ 735,187	\$ 331,316	\$ 1,563,814	\$ 12,221,761	\$ (82,680)

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN

Statement of Cash Flows
 Proprietary Funds
 Year Ended December 31, 2013

	Business-type Activities - Enterprise Funds					Internal Service
	Medical Care Facility	2011 Delinquent Tax Revolving	2012 Delinquent Tax Revolving	Nonmajor Funds	Totals	Self Insurance
Cash flows from operating activities						
Cash received from customers	\$ 15,365,059	\$ 219,492	\$ 158,909	\$ 1,152,763	\$ 16,896,223	\$ -
Cash received from quality assurance supplement	2,083,883	-	-	-	2,083,883	-
Other operating receipts	262,269	-	-	-	262,269	-
Cash payments to suppliers and employees for goods and services	(17,642,211)	915,518	(1,521,673)	(602,085)	(18,850,451)	(87,136)
Net cash provided by (used in) operating activities	69,000	1,135,010	(1,362,764)	550,678	391,924	(87,136)
Cash flows from noncapital financing activities						
Property tax and other nonoperating revenue	805,872	-	-	-	805,872	-
Proceeds from tax notes	-	-	-	-	-	-
Transfers in	-	-	-	-	-	60,000
Transfers out	(80,098)	-	-	(777,731)	(857,829)	-
Net cash provided by (used in) non-capital financing activities	725,774	-	-	(777,731)	(51,957)	60,000
Cash flows from capital and related financing activities						
Purchase of capital assets	(374,764)	-	-	(27,194)	(401,958)	-
Interest payments	(78,240)	(18,314)	(7,760)	(12,773)	(117,087)	-
Principal payments	(438,000)	(1,500,000)	(500,000)	(1,135,000)	(3,573,000)	-
Proceeds from long-term debt	-	-	2,750,000	-	2,750,000	-
Proceeds from sale of property and equipment	7,552	-	-	-	7,552	-
Net cash provided by (used in) capital and related financing activities	(883,452)	(1,518,314)	2,242,240	(1,174,967)	(1,334,493)	-
Cash flows from investing activities						
Interest and rental earnings	3,581	200,771	211,612	127,617	543,581	-
Amounts collected on leases receivable	-	-	-	135,000	135,000	-
Net cash provided by investing activities	3,581	200,771	211,612	262,617	678,581	-
Net increase (decrease) in cash and cash equivalents	(85,097)	(182,533)	1,091,088	(1,139,403)	(315,945)	(27,136)
Cash equivalents, beginning of year	1,541,791	1,037,167	-	1,724,286	4,303,244	51,552
Cash equivalents, end of year	\$ 1,456,694	\$ 854,634	\$ 1,091,088	\$ 584,883	\$ 3,987,299	\$ 24,416
Cash flows from operating activities						
Operating income (loss)	\$ (1,259,391)	\$ 210,233	\$ 134,814	\$ 136,625	\$ (777,719)	\$ (124,614)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	561,675	-	-	5,543	567,218	-
Changes in assets and liabilities:						
Taxes receivable	-	1,035,012	(1,293,582)	431,868	173,298	-
Accounts receivable	(286,161)	-	-	(8,286)	(294,447)	-
Advances to other funds	-	-	-	(215,450)	(215,450)	-
Lease receivable	155,718	-	-	-	155,718	-
Interest receivable	-	(96,510)	(205,953)	191,214	(111,249)	-
Interfund receivable	-	-	-	-	-	-
Prepays	(11,037)	-	(368)	4,398	(7,007)	-
Accounts payable	540,667	-	2,500	4,766	547,933	37,478
Accrued expenses	152,079	(13,725)	(175)	-	138,179	-
Advances from other funds	215,450	-	-	-	215,450	-
Net cash provided by (used in) operating activities	\$ 69,000	\$ 1,135,010	\$ (1,362,764)	\$ 550,678	\$ 391,924	\$ (87,136)

Non-cash transactions

There were no non-cash transactions during the fiscal year.

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN

Statement of Fiduciary Net Position

December 31, 2013

	Agency Funds
Assets	
Cash and investments	\$ 991,170
Liabilities	
Due to other governments	193,970
Undistributed receipts	797,200
Total liabilities	\$ 991,170

The accompanying notes are an integral part of these financial statements.

Component Units

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Net Position

Discretely Presented Component Units

December 31, 2013

	Drain Commission	Road Commission	Total
Assets			
Cash and investments	\$ 601,141	\$ 884,522	\$ 1,485,663
Special assessments receivable	302,377	-	302,377
Receivables, net	3,630	802,461	806,091
Prepaid items and other assets	307	821,762	822,069
Capital assets:			
Capital assets not being depreciated	-	5,385,296	5,385,296
Capital assets being depreciated, net	720,288	19,944,133	20,664,421
Total assets	<u>1,627,743</u>	<u>27,838,174</u>	<u>29,465,917</u>
Liabilities			
Accounts payable and accrued expenses	-	364,877	364,877
Notes payable (short term)	-	129,302	129,302
Advances from primary government	282,968	-	282,968
Long-term liabilities:			
Due within one year	-	57,424	57,424
Due in more than one year	-	369,953	369,953
Total liabilities	<u>282,968</u>	<u>921,556</u>	<u>1,204,524</u>
Net position			
Net investment in capital assets	720,288	25,291,476	26,011,764
Unrestricted	624,487	1,625,142	2,249,629
Total net position	<u>\$ 1,344,775</u>	<u>\$ 26,916,618</u>	<u>\$ 28,261,393</u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Activities

Discretely Presented Component Units
Year Ended December 31, 2013

	Drain Commission	Road Commission	Total
Expenses			
County Drains	\$ 525,886	\$ -	\$ 525,886
County Roads	-	7,272,320	7,272,320
Total expenses	<u>525,886</u>	<u>7,272,320</u>	<u>7,798,206</u>
Program revenues			
Charges for services	-	1,354,203	1,354,203
Capital grants and contributions	-	899,543	899,543
Operating grants and contributions	632,904	5,023,026	5,655,930
Total program revenues	<u>632,904</u>	<u>7,276,772</u>	<u>7,909,676</u>
Net revenue (expense)	<u>107,018</u>	<u>4,452</u>	<u>111,470</u>
General revenues			
Unrestricted investment earnings	672	5,456	6,128
Change in net position	<u>107,690</u>	<u>9,908</u>	<u>117,598</u>
Net position, beginning of year	<u>1,237,085</u>	<u>26,906,710</u>	<u>28,143,795</u>
Net position, end of year	<u>\$ 1,344,775</u>	<u>\$ 26,916,618</u>	<u>\$ 28,261,393</u>

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

Blended Component Unit

Hillsdale County Medical Care Facility - provides skilled long term care to residents of the County and is not considered legally separate from the County; therefore, it has been included in the County's basic financial statements as an Enterprise Fund. The complete financial statements may be obtained by contacting:

Hillsdale County Medical Care Facility
140 W. Mechanic Street
Hillsdale, MI 49242
(517) 439 9341

Hillsdale County Building Authority - is governed by a five-member board appointed by the Hillsdale County Board of Commissioners. Although it is legally separate from Hillsdale County, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the County's public buildings.

Hillsdale Department of Public Works - Pursuant to Act 185 of 1957 (MCL 123.732, as amended) the County entered into a program of water supply and sanitary sewer facility construction. The Department of Public Works is under the general control of the County Board of Commissioners and under the immediate control of a Board of Public Works which includes the County Drain Commissioner. The Board of Public Works is considered an agency of the County. The Board manages water supply and sanitary sewer system construction projects that are bonded by the County. Bonds issued are authorized by an ordinance or a resolution approved by the Board of Public Works and adopted by the County Board of Commissioners.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

Discretely Presented Component Units

Hillsdale County Road Commission - is established pursuant to the County Road Law (MCL 224.1), is governed by an elected three member Board of County Road Commissioners. The Road Commission may not issue debt or levy a tax without the approval of the County Board of Commissioners. If approval is granted, Road Commission taxes are levied under the taxing authority of the County, as approved by the County electors, and would be included as a part of the County total tax levy as well as reported in the County Road Fund.

The Hillsdale County Road Commission has a separately issued audit report. Complete financial statements of the component unit can be obtained from its respective administrative offices or from the Clerk's Office:

Hillsdale County Road Commission
1919 Hudson Road
Hillsdale, Michigan 49242

Hillsdale County Drain Commission - Each of the Drain Commission established pursuant to the Drain Code of 1956 are separate legal entities, with the power to contract, to sue and be sued, to hold, manage and dispose of real and personal property, etc. The statutory drainage board of Chapter 20 (MCL 280.461 et seq.) Drain Commission consists of the drain commissioners, the chairperson of the county board of commissioners, and one other member of the board of commissioners. The statutory drainage board of Chapter 5 (MCL 280.101 et seq.) and Chapter 6 (MCL 280.121 et seq.) Drain Commission consists of the State Director of Agriculture and the drain commissioners of each county involved in the project. The county drain commissioner has sole responsibility to administer the drainage district established pursuant to Chapter 3 (MCL 280.51 et seq.) and Chapter 4 (MCL 280.71 et seq.) of the Drain Code. The drainage board or drain commissioners, on behalf of the drainage district, may issue debt and levy special assessments authorized by the Drain Code without the prior approval of the county board of commissioners. The full faith and credit of the County may be given for the debt of the drainage district. There is created for each project petitioned for under the provisions of the Chapter 21 (MCL 280.511 et seq.) Drain Commission, an augmented drainage board to consist of the members of the drainage board together with the chairman of the board of supervisors and the chairman of the board of county auditors of each county involved. The statutory drainage board of Chapter 8 (MCL 280.191 et seq.) Drain Commission consists of the Drain Commissioner, the State Director of Agriculture, and the commissioners of each county involved.

Related Organization

A related organization is a legal entity for which the government appoints a voting majority of the governing body, but for which it is not financially accountable.

LifeWays - Hillsdale County and Jackson County entered into an agreement pursuant to Section 205 of Act 258 of 1974, as amended (MCL 330.1205), to create the Jackson Hillsdale Mental Health Authority, which later became known as "LifeWays". LifeWays is a legally separate organization established to provide mental health services to residents of the counties.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

It is governed by a twelve (12) member board, including four (4) from Hillsdale County and eight (8) from Jackson County. The County's accountability does not extend beyond this representation and making these appointments. The board may borrow money and issue bonds pursuant to Section 205 of Act 258 of 1974, as amended (MCL 330.1205). LifeWays indemnifies and holds harmless the participating counties from all claims and liabilities. Hillsdale County's appropriation to LifeWays for the calendar year ended December 31, 2013, was \$194,000.

Branch Hillsdale St Joseph District I Health Department - Hillsdale County participates jointly with Branch and St. Joseph Counties in the operation of the Branch, Hillsdale, St. Joseph District I Health Department. All of the financial operations of the District Health Department are recorded in the records of Branch County. It is governed by a seven (7) member board, two (2) from Hillsdale County, two (2) from Branch County, and three (3) from St. Joseph County. The funding formula approved by the members of the county boards of commissioners is based pro rata on each county's population. The current funding formula approved by the District Health Board requires Hillsdale, Branch and St. Joseph Counties to provide 30.1, 29.6, and 40.3 percent, respectively. Hillsdale County's appropriation to the District Health Department for the calendar year ended December 31, 2013, was \$213,193.

Government-wide and Fund Financial Statements

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

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

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 when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement-based grants. 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 and claims and judgments, are recorded only when payment is due.

Property taxes, state shared revenues, 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 County reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all the financial resources of the general government, except those accounted for and reported in another fund.

The *senior citizens special revenue fund* is used to account for the collection of property tax and disbursements for county-wide senior services pursuant to contractual services.

The *Senior Center debt service fund* is used to account for financial resources to refund the debt of the Senior Citizens Center.

The County reports the following major proprietary funds:

The medical care *facility fund* accounts for the operation of the County's long-term adult care facility.

The 2012 and 2011 *delinquent tax revolving funds* accounts for the annual purchase of delinquent real property taxes from each of the local taxing units within the county, and the ultimate collection from the property owners of the delinquent taxes with penalty and interest.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

Additionally, the County reports the following fund types:

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

Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Permanent funds are used to account for resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the County's programs.

Enterprise funds account for those operations that are financed and operated in a manner similar to private business or where the County has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Internal service funds account for the insurance activity of the County provided to other departments and funds on a cost reimbursement basis.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

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 various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 enterprise funds and of the County's internal service fund are charges to customers for sales and services. 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.

Assets, Liabilities and Equity

Cash and Investments

The government'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.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

Investments are stated at fair value and consist of commercial paper and certificates of deposit with original maturities of greater than 90 days.

State statutes authorize the County to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "interfund receivables/payable". Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Receivables consist of accounts receivable related to charges for services and amounts due from governmental units for various financial assistance programs and State shared revenues. The County has established allowances for doubtful accounts to estimate uncollectible accounts receivable in the child care, health and rehabilitation services facility funds and district health department component unit. The County utilizes the direct write-off method for all other funds as past experience indicates the write-off of accounts receivable for these funds are immaterial and do not warrant the use of allowance accounts.

Advances between funds or component units are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

Inventories

The cost of inventory items in the primary government for all funds is recorded as an expenditure at the time of purchase. Inventories of the health and rehabilitation services facility and jail commissary funds consist of medical supplies and miscellaneous hygiene and consumer products, respectively, which are stated at the lower of first-in, first-out (FIFO) or market.

Prepays

Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Infrastructure for the Road Commission and Drain Commission component units has been capitalized back to 1980.

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

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

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 and Drain Commission component unit are depreciated using the straight-line method over the following estimated useful lives:

	Years
Building and improvements	10-50
Equipment	10-25
Vehicles	5-10
Infrastructure - drains	50

Capital assets of the Road Commission component unit are depreciated as follows:

	Years
Buildings and improvements	40
Equipment	4-8
Infrastructure	8-50

Compensated Absences

In accordance with County personnel policies and/or contracts negotiated with the various employee groups of the County, upon termination of employment, individual employees have vested rights to receive payment or unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts. Vacation pay that has matured, such as due to employee resignations or retirements, is reported as an expenditure and a fund liability of the governmental fund that will pay it for employees retiring.

Long-term Obligations

In the government wide financial statements 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 type statement of net assets. Bond premiums and discounts 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.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

Deferred inflows of resources

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The government has two types of items that qualify for reporting in this category. The governmental funds report unavailable revenues, which arises only under a modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In addition, deferred inflows of resources are reported in the government-wide and governmental fund financial statements for property taxes levied during the year that were intended to finance future periods.

Fund Equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the County Commissioners. A formal resolution of the County Commissioners is required to establish, modify, or rescind a fund balance commitment.

The County Commissioners can also give authority to management to assign fund balance but has not yet done so; assigned fund balances are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund.

When the government incurs expenditures for purposes for which various fund balances classifications can be used, it is the government's policy to use restricted fund balance first, then committed, assigned and finally unassigned fund balance.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

2. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year-end.

The Finance Committee receives the preliminary budget requests from departmental heads in September. A proposed operating budget for the fiscal year beginning the following January 1 is submitted to the Board of Commissioners in October. Public hearings are conducted to obtain taxpayer comments. The budget is formally adopted by resolution at the December Board of Commissioners' meeting. Any revisions to the budget must be approved by the Board of Commissioners. Formal budgetary integration is employed as a management control device for the General and Special Revenue Funds. Budgeted amounts are as originally adopted or as amended by the Board of Commissioners during the year.

The legal level of budgetary control is the activity level for the General Fund and the function level for the special revenue funds. The Board of Commissioners made several supplemental budgetary appropriations during the year which were not considered material.

Encumbrance accounting is not employed by the County because it is presently considered unnecessary to reasonably assure budgetary control.

3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended December 31, 2013, the County incurred expenditures in excess of the amount appropriated as follows:

	Amended Budget	Actual	Variance
General fund:			
Judicial:			
Circuit court	\$ 166,270	\$ 174,755	\$ 8,485
District court	489,112	491,633	2,521
Law library	5,000	5,294	294
General government:			
Prosecutor	380,826	380,884	58
Courthouse and grounds	305,848	312,175	6,327
Public safety:			
Narcotics enforcement	67,898	68,106	208
Universal hiring	204,934	205,135	201
Jail operation	861,635	878,845	17,210
Emergency preparedness	43,930	44,254	324
Other -			
Capital lease	-	53,407	53,407
Debt service:			
Principal	-	14,764	14,764
Interest	-	5,816	5,816
Other financing sources -			
Transfers out	848,484	885,480	36,996
Senior citizens special revenue fund -			
Health and welfare	1,249,000	1,256,182	7,182

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

4. CASH AND INVESTMENTS

Summary of Deposit and Investment Balances

Following is a reconciliation of deposit and investment balances as of December 31, 2013:

	Primary Government	Component Units	Totals
Financial statements			
Statement of net assets -			
Cash and investments	\$ 6,972,567	\$ 1,485,663	\$ 8,458,230
Statement of fiduciary assets and liabilities -			
Cash and investments	991,170	-	991,170
Total	\$ 7,963,737	\$ 1,485,663	\$ 9,449,400
Cash and investments			
Bank deposits (checking accounts, savings accounts and certificates of deposits)			\$ 5,844,159
Investments in securities, mutual funds and similar vehicles:			
Treasurer's pool			3,566,360
Cash on hand			38,881
Total			\$ 9,449,400

County's Cash and Investment Pool

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The County'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. At year end, maturities of the County's debt securities were as follows:

	Investment Maturities (fair value by years)				
	Total Fair	Less than 1	1-5	6-10	More than 10
U.S. Agencies	543,257	-	-	-	543,257
Municipal bonds	923,583	-	923,583	-	-
Total	1,466,840	-	923,583	-	543,257

Custodial Credit Risk - Deposits. For deposits, custodial credit risk is the risk, that in the event of a bank failure, the County's deposits may not be returned to the government. As of December 31, 2013, \$747,875 of the County's total bank balance of \$5,050,564 (total book balance was \$5,844,159) was exposed to custodial credit risk as it was uninsured and uncollateralized.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

The County's investment policy requires that only those banks or savings and loan institutions that are members of the FDIC or FSLIC will be considered for depository purposes, but recognizes that it is impractical to insure all bank deposits due to the limitations of depository insurance. As a result, the County evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk - Investments. Following is a summary of the Treasurer's investment pool holdings as of December 31, 2013:

U.S. agencies	\$ 543,257
Michigan municipal bonds and notes	923,583
Money market funds	<u>2,099,520</u>
Total	<u><u>\$ 3,566,360</u></u>

Investments are exposed to custodial credit risk if the securities are uninsured, unregistered or held by a counterparty or its agent but not in the government's name. In accordance with the County's investment policy, all investments are held in the name of the County and are evidenced by a safekeeping receipt confirmation, and thus not exposed to custodial credit risk.

Credit Risk. As of December 31, 2013, all of the County's investments in securities of U.S. agencies were rated AAA by Standard & Poor's (S&P). All of the County's investments in money market funds are rated AAA by S&P. The County's investment in Michigan municipal bonds and notes are rated in the top tier by at least one rating agency.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The County's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

5. RECEIVABLES

Receivables as of December 31, 2013 are summarized as follows:

	Governmental Activities	Business-type Activities	Component Units
Property taxes	\$ 2,856,614	\$ 2,895,849	\$ -
Accounts receivable	406,010	1,576,841	806,091
Advances from other funds	-	215,450	
Special assessments	-	-	302,377
Due from other governments	11,167	-	-
Advances to component unit	282,968	-	-
Leases receivable	1,490,000	30,000	-
Interest receivable	10,903	881,550	-
	<u>\$ 5,057,662</u>	<u>\$ 5,599,690</u>	<u>\$ 1,108,468</u>

Of the amounts reported for receivables above, leases receivable in the amount of \$1,395,000 are not expected to be collected within one year.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

6. FUND DEFICITS

At December 30, 2013, there is a deficit in the Self Insurance fund in the amount of \$82,680.

7. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund receivables and payables at December 31, 2013 is as follows:

	Receivable	Payable
General fund	\$ 9,820	\$ -
Nonmajor governmental funds	-	9,820
	<u>\$ 9,820</u>	<u>\$ 9,820</u>

Interfund receivables/payables represent short-term working capital loans for funds with negative balances in the County's cash and investment pool at year-end.

For the year ended December 31, 2013, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General fund	\$ 802,598	\$ 885,480
Senior Citizens debt service	-	-
Nonmajor governmental funds	905,578	24,867
Internal service fund	60,000	-
Medical Care Facility	-	80,098
Nonmajor enterprise funds	-	777,731
	<u>\$ 1,768,176</u>	<u>\$ 1,768,176</u>

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

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

8. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Additions	Transfers	Disposals	Ending Balance
Governmental activities					
Capital assets not being depreciated					
Land	\$ 130,005	\$ -	\$ -	\$ -	\$ 130,005
Construction in progress	316,748	410,682	-	(727,430)	-
Total capital assets not being depreciated	446,753	410,682	-	(727,430)	130,005
Capital assets being depreciated:					
Buildings and improvements	7,522,176	727,430	-	-	8,249,606
Vehicles and equipment	2,992,425	179,593	-	(147,763)	3,024,255
Total capital assets being depreciated	10,514,601	907,023	-	(147,763)	11,273,861
Less accumulated depreciation for:					
Buildings and improvements	(3,503,414)	(176,058)	-	-	(3,679,472)
Vehicles and equipment	(1,957,944)	(145,776)	-	147,763	(1,955,957)
Total accumulated depreciation	(5,461,358)	(321,834)	-	147,763	(5,635,429)
Total capital assets being depreciated, net	5,053,243	585,189	-	-	5,638,432
Governmental activities capital assets, net	\$ 5,499,996	\$ 995,871	\$ -	\$ (727,430)	\$ 5,768,437

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Transfers	Disposals	Ending Balance
Business-type activities					
Capital assets being depreciated:					
Land improvements	\$ 29,524	\$ -	\$ -	\$ -	\$ 29,524
Buildings and improvements	17,105,647	297,186	142,590	(82,064)	17,463,359
Vehicles and equipment	1,369,777	104,772	(142,590)	(165,482)	1,166,477
Total capital assets being depreciated	18,504,948	401,958	-	(247,546)	18,659,360
Less accumulated depreciation for:					
Land improvements	(29,524)	-	-	-	(29,524)
Buildings and improvements	(5,239,292)	(468,580)	95,145	82,064	(5,530,663)
Vehicles and equipment	(781,147)	(98,638)	(95,145)	160,082	(814,848)
Total accumulated depreciation	(6,049,963)	(567,218)	-	242,146	(6,375,035)
Total capital assets being depreciated, net	12,454,985	(165,260)	-	(5,400)	12,284,325
Business-type activities capital assets, net	\$ 12,454,985	\$ (165,260)	\$ -	\$ (5,400)	\$ 12,284,325

Depreciation expense in governmental activities is not allocated by function.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
Component unit - Road Commission				
Capital assets not being depreciated:				
Land	\$ 68,434	\$ -	\$ (3,800)	\$ 64,634
Land improvements	5,272,322	48,340	-	5,320,662
Total capital assets not being depreciated	5,340,756	48,340	(3,800)	5,385,296
Capital assets being depreciated:				
Buildings and improvements	2,097,686	6,820	-	2,104,506
Equipment	6,808,434	192,588	(62,080)	6,938,942
Infrastructure	49,652,221	1,405,824	-	51,058,045
Depletable assets	65,400	-	(9,200)	56,200
Total capital assets being depreciated	58,623,741	1,605,232	(71,280)	60,157,693
Less accumulated depreciation for:				
Buildings and improvements	(905,946)	(60,538)	-	(966,484)
Equipment	(6,036,748)	(281,885)	60,622	(6,258,011)
Infrastructure	(31,426,002)	(1,509,418)	-	(32,935,420)
Depletable assets	(62,809)	(36)	9,200	(53,645)
Total accumulated depreciation	(38,431,505)	(1,851,877)	69,822	(40,213,560)
Total capital assets being depreciated, net	20,192,236	(246,645)	(1,458)	19,944,133
Capital assets, net	\$ 25,532,992	\$ (198,305)	\$ (5,258)	\$ 25,329,429
Component unit - Drainage District				
Capital assets being depreciated -				
Buildings	\$ 135,000	\$ -	\$ -	\$ 135,000
Equipment	932,209	17,000	-	949,209
Infrastructure	458,635	-	-	458,635
Total capital assets being depreciated	1,525,844	17,000	-	1,542,844
Less accumulated depreciation for -				
Buildings	(75,600)	(5,400)	-	(81,000)
Equipment	(601,294)	(51,689)	-	(652,983)
Infrastructure	(79,400)	(9,173)	-	(88,573)
Total accumulated depreciation	(756,294)	(66,262)	-	(822,556)
Capital assets, net	\$ 769,550	\$ (49,262)	\$ -	\$ 720,288

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

9. PAYABLES

Accounts payable and accrued liabilities as of December 31, 2013 are summarized as follows:

	Governmental Activities	Business-type Activities	Components Units
Accounts payable	\$ 289,263	\$ 430,302	\$ 364,877
Accrued liabilities	256,553	1,363,004	129,302
Due to other governments	-	5,327	-
Advances from other funds	-	215,450	-
Advances from primary government	-	-	282,968
Accrued interest payable	61,829	-	-
	<u>\$ 607,645</u>	<u>\$ 2,014,083</u>	<u>\$ 777,147</u>

10. LONG-TERM DEBT

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the County. These bonds are typically issued as 10-20 year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

Purpose	Interest Rates	Maturity Date	Amount of Original Issue	Amount Outstanding
Governmental activities				
2005 Capital Improvement - Senior Center	4.25%-4.40%	2025	\$ 2,140,000	\$ 1,490,000
2006 Medical Care Facility	4.00%	2026	8,000,000	6,360,000
2012 Building Authority - Refunding	0.85%-1.50%	2016	766,000	473,000
				<u>\$ 8,323,000</u>
Business-type activities				
2012 Building Authority - MCF Refunding	1.00%-1.70%	2018	\$ 995,000	\$ 847,000
2010 Medical Care Facility	3.50%-4.25%	2017	2,100,000	1,305,000
Sanitary Sewer - City of Litchfield	2.00%	2014	2,183,236	30,000
				<u>\$ 2,182,000</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 572,000	\$ 324,381	\$ 492,999	\$ 69,445
2015	603,000	305,757	486,000	54,140
2016	633,000	286,088	503,000	37,470
2017	500,000	260,503	519,001	19,940
2018	535,000	240,234	181,000	1,539
2019-2023	3,205,000	848,371	-	-
2024-2026	2,275,000	174,073	-	-
	<u>\$ 8,323,000</u>	<u>\$ 2,439,407</u>	<u>\$ 2,182,000</u>	<u>\$ 182,534</u>

During 2012, Hillsdale County advance refunded a portion of the 1996 Building Authority general obligations bonds by issuing \$766,000 of 2012 Building Authority refunding bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the balance sheet. This advance refunding was undertaken to reduce total debt service payments over the next 4 years by \$87,033 and to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$66,041.

By statute, the government's legal debt limit is restricted to 10% of the equalized value of property in the County. At December 31, 2013, the County's legal debt limit was \$154,221,665.

Installment obligations. The government has entered into several long-term installment payment agreements for the upgrade of its facilities and software. Installment obligations currently outstanding are as follows:

Purpose	Interest Rates	Maturity Date	Amount of Original Issue	Amount Outstanding
Governmental activities				
Energy Efficiency Improvements - Sheriff's Annex Project	4.38%	2018	\$ 774,200	\$ 409,545
	1.50%	2020	680,000	<u>605,000</u>
				<u>\$ 1,014,545</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

Annual debt service requirements to maturity for installment obligations are as follows:

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2014	\$ 163,602	\$ 27,049
2015	167,304	22,147
2016	176,169	17,081
2017	180,206	11,769
2018	142,264	5,740
2019 - 2022	185,000	4,200
	<u>\$ 1,014,545</u>	<u>\$ 87,986</u>

Capital lease. The government has entered into several lease agreements for financing the acquisition of vehicles. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2013 were as follows:

Year Ending December 31,	Governmental Activities
2014	\$ 42,481
2015	<u>19,699</u>
Total minimum lease payments	62,180
Less amount representing interest	<u>(3,958)</u>
Present value of minimum lease payments	<u>\$ 58,222</u>

Delinquent tax notes. The government issues general obligation limited tax notes to finance the purchase of delinquent real property taxes receivable from each taxing district in the County. These notes are reported in the proprietary funds (i.e., delinquent tax revolving enterprise fund) as they are expected to be repaid from proprietary fund revenues. Principal and interest payments are predicated upon actual collections of delinquent property taxes, which are subject to collection over a period not to exceed three years. Delinquent tax notes outstanding at December 31, 2013, are as follows:

Purpose	Interest Rates	Maturity Date	Amount of Original Issue	Amount Outstanding
Business-type activities				
2012 Delinquent Tax Revolving Notes	0.80%-1.60%	2014	2,900,000	\$ 900,000
2013 Delinquent Tax Revolving Notes	0.45%-.80%	2015	2,750,000	<u>2,250,000</u>
				<u>\$ 3,150,000</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

Annual debt service requirements to maturity for delinquent tax notes are as follows:

Year Ending December 31,	Business-type Activities	
	Principal	Interest
2014	\$ 2,000,000	\$ 19,000
2015	1,150,000	7,500
	<u>\$ 3,150,000</u>	<u>\$ 26,500</u>

Changes in long-term debt. Long-term debt activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Primary Government:					
Governmental activities					
General obligation bonds	\$ 8,859,000	\$ -	\$ (536,000)	\$ 8,323,000	\$ 572,000
Capital leases	60,776	56,069	(58,623)	58,222	39,550
Installment contracts	1,184,366	-	(169,821)	1,014,545	163,602
Compensated absences	376,542	313,561	(210,129)	479,974	94,136
	<u>\$ 10,480,684</u>	<u>\$ 369,630</u>	<u>\$ (974,573)</u>	<u>\$ 9,875,741</u>	<u>\$ 869,288</u>
Business-type activities					
General obligation bonds	\$ 2,755,000	\$ -	\$ (573,000)	\$ 2,182,000	\$ 493,000
Delinquent tax notes	3,400,000	2,750,000	(3,000,000)	3,150,000	2,400,000
	<u>\$ 6,155,000</u>	<u>\$ 2,750,000</u>	<u>\$ (3,573,000)</u>	<u>\$ 5,332,000</u>	<u>\$ 2,893,000</u>
Component Units:					
Road Commission					
Installment lease payable	\$ 112,005	\$ -	\$ (74,052)	\$ 37,953	\$ 37,953
Compensated absences	405,161	87,399	(103,136)	389,424	19,471
	<u>\$ 517,166</u>	<u>\$ 87,399</u>	<u>\$ (177,188)</u>	<u>\$ 427,377</u>	<u>\$ 57,424</u>

For the governmental activities, compensated absences, net pension benefit obligations and net other postemployment benefit obligations, if any, are generally liquidated by the general fund.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

11. RISK MANAGEMENT / SELF-INSURANCE PROGRAMS

The County is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The County has purchased commercial insurance for employee medical benefit claims, participates in the Michigan Municipal Risk Management Authority (risk pool) for claims relating to property loss, torts, errors and omissions, and personal injuries, and participates in a risk pool at Employer's Reinsurance Corporation for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority (risk pool) program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority, and the Authority uses the premiums to pay claims up to the retention limits, the ultimate liability for those claims remains with the County. As of December 31, 2013, the County estimates that its funds on deposit with the Authority are sufficient to cover any outstanding claims. Accordingly, no liability has been recorded.

Workers' Compensation. The government maintains a self insurance program for workers' compensation coverage which is accounted for in an internal service fund (i.e., the Self Insurance fund). The program is administered by a third party administrator who conducts safety inspections and provides claims review and processing services. Premiums are paid into the internal service fund by all other funds based on payrolls and job classifications and are available to pay claims, claim reserves, excess coverage and administrative costs.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. An excess coverage insurance policy covers individual claims in excess of \$350,000 subject to an annual aggregate limit of \$768,232. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Changes in the balances of claims liabilities during the past two years are as follows:

Changes in the balances of estimated liabilities during the past two years are as follows:

	2013	2012
Workers compensation		
Estimated liability, January 1	\$ 55,285	\$ 6,981
Estimated claims incurred, including changes in estimates	150,093	78,728
Claim payments	<u>(98,282)</u>	<u>(30,424)</u>
Estimated liability, December 31	<u><u>\$ 107,096</u></u>	<u><u>\$ 55,285</u></u>

Road Commission. The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool ("Pool") established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Hillsdale County Road Commission pays an annual premium to the Pool for property (buildings and grounds) coverage, automobile liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for workers' compensation as a member of the County Road Association Worker's Compensation Fund.

In the past three years, there have been no reductions in coverages, nor have settlements exceeded coverages. Management of the Road Commission believes that losses, if any, in excess of Insurance Pool coverages would not be material to the financial position of the Road Commission.

The Road Commission continues to carry commercial insurance for employee health and accident insurance.

12. CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the County's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the County.

LifeWays. The Michigan Department of Community Health (MDCH) has indicated that the County is partially responsible for \$3,299,285 owed to Lifeways, the mental health authority for Jackson and Hillsdale Counties. Pending approval or further action from MDCH, the outcome and amount of this matter cannot be determined at this time.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

13. PROPERTY TAXES

County General Fund property taxes are levied on July 1 of each year (the lien date) and are due in full by September 14, though they do not become delinquent until March 1 of the following year. For levies other than the General Fund, the lien date is December 1.

Property taxes are levied on the assessed taxable value of the property as established by local units, accepted by the County and equalized under State statute at approximately 50 percent of the current estimated market value. In March 1994, Michigan voters approved Proposal A, which limits annual increases in assessed values to the lesser of 5% or the rate of inflation with assessed value reverting to 50% of true cash value when the property is sold.

For the ambulance, senior services and Medical Care Facility, the assessed and taxable value of real and personal property for the December 1, 2012 levy, for which revenue was recognized in fiscal 2013, was \$1,263,045,598. For the general fund, the assessed and taxable value of real and personal property for the July 1, 2013 levy, for which revenue was recognized in fiscal 2013, was \$1,255,340,873. The general operating tax rate for this levy was at the maximum rate of 4.9552 mills, as adjusted by the Headlee Amendment to the State of Michigan Constitution. The County also had a voter approved tax of .4000 mills for ambulance services, .9968 mills for senior services, .6000 for Medical Care Facility operating, and .4200 mills for the Medical Care Facility debt service.

By agreement with various taxing authorities, the County purchases at face value the real property taxes returned delinquent each March 1 and records a corresponding delinquent taxes receivable.

14. DEFINED BENEFIT PENSION PLANS - Primary Government

Employees of the Sheriff Department, except the Sheriff and Under sheriff, are eligible to participate in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer, defined benefit pension plan. The System is administered by the MERS retirement board. MERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, MI 48917, or by calling (800) 767-6377.

The County is required to contribute at an actuarially determined rate; the current rate for the County is 7.5% to 8% of annual covered payroll for each employee group. All participating employees are required to contribute between 2% and 10% percent of their annual salary. The contribution requirements of the County are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the County Board of Commissioners, depending on the MERS contribution program adopted by the County. However, if the MERS funding requirement for the employer's portion exceeds the amount per the labor contracts then the employees are required to fund the difference.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

For the year ended December 31, 2013, the annual pension cost of \$155,967 was equal to the required and actual contributions of the County. The required contributions were determined as part of the December 31, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year after retirement for certain retirees depending on the benefit option selected. 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 County's unfunded actuarial accrued liability is being amortized over a period of 30 years as a level percentage of projected payroll on an open basis. The latest actuarial valuation was performed as of December 31, 2011.

Three-year trend information for annual pension costs is as follows:

Three-Year Trend Information			
Year Ended December 31,	Annual Pension Cost	Percentage Contributed	Net Pension Obligation
2011	\$ 142,511	100%	\$ -
2012	145,110	100%	-
2013	155,967	100%	-

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 unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis over 27 years.

Funded Status and Funding Progress. As of December 31, 2012, the date of the most recent actuarial valuation, the Plan was 53.4 percent funded. The actuarial accrued liability for benefits was \$6,221,286, and the actuarial value of assets was \$3,320,888, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,900,398. The covered payroll (annual payroll of the active employees covered by the Plan) was \$1,770,958 and the ratio of the UAAL to the covered payroll was 137 percent.

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

15. DEFINED BENEFIT PENSION PLANS - Road Commission

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. 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, 1134 Municipal Way, Lansing, Michigan 48917, or by calling (800) 767-6377.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

The Road Commission is required to contribute at an actuarially determined rate; the current employer's contribution rate of annual covered payroll is 6.40% for Association members and 11.55% for non-Association members. Certain employees are currently not required to contribute to the Plan. The contribution requirements of the Road Commission 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 Road Commission. In addition, Road Commission Association employees are currently required to contribute 5.3% of annual compensation, and non-Association employees are required to contribute 9.9% of annual compensation.

For the year ended December 31, 2013, the Road Commission's annual pension cost of \$210,524 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.5% 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 Road Commission's unfunded actuarial accrued liability as of December 31, 2012, the date of the latest actuarial valuation, is being amortized as a level percentage of projected payroll on an open basis over 30 years.

Three-year trend information for annual pension costs is as follows:

Three-Year Trend Information			
Year Ended September 30,	Annual Pension Cost	Percentage Contributed	Net Pension Obligation
2011	\$ 155,124	100%	\$ -
2012	177,854	100%	-
2013	210,524	100%	-

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 unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis over 26 years.

Funded Status and Funding Progress. As of December 31, 2012, the date of the most recent actuarial valuation, the Plan was 70 percent funded. The actuarial accrued liability for benefits was \$8,869,735, and the actuarial value of assets was \$6,187,113, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,682,622. The covered payroll (annual payroll of the active employees covered by the Plan) was \$1,724,235 and the ratio of the UAAL to the covered payroll was 156 percent.

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

16. DEFINED CONTRIBUTION PENSION PLAN - PRIMARY GOVERNMENT

The County provides pension benefits to all of its full time employees (except for the Sheriff's Department) through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Hillsdale County Retirement Fund, the County contributes 6.5 percent for all the general County employees' gross earnings and 4 percent for all Medical Care Facility employees. Employees contribute 2-10 percent of earnings. In accordance with these requirements, the County contributed \$155,969 for the year ended December 31, 2013 and employees contributed \$137,388.

The Hillsdale County Board of Commissioners established both plans and may amend them and the related contribution requirements, subject to the County's various collective bargaining agreements. The plans are administered and the assets are in the custody of third-party insurance companies

17. POSTEMPLOYMENT HEALTH CARE BENEFITS - Primary Government

Plan Description. The Hillsdale County Sheriff's Department participates in a defined benefit postretirement plan sponsored by Hillsdale County that provides postretirement medical benefits to retiree. Substantially all employees may become eligible for the benefits if they reach normal retirement age while working at the Sheriff's department. The County is required to pay 50% of the postretirement obligation to be paid from the County's General Fund.

Funding Policy. The County has no obligation to make contributions in advance until the premiums are due for payment (in other words, this may be financed on a pay as you go basis). Covered members are required to contribute 50% of their health insurance cost.

Funding Progress. For the year ended December 31, 2013, the County has estimated the cost of providing retiree healthcare benefits through actuarial valuations as of December 31, 2010. The valuation computes an annual required contribution, which represent a level funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows for the year ended December 31, 2013:

Annual OPEB Cost and Net OPEB Obligation. For the year ended December 31, 2013, the components of the County's annual OPEB (other postemployment benefit) cost for the year, the amount actually contributed to the Plan, and changes in the County's net OPEB obligation to the Plan were as follows:

Annual required contribution	\$	570,228
Interest on net OPEB obligation		68,886
Adjustment to annual required contribution		<u>(103,605)</u>
Annual OPEB cost		535,509
Contributions made		<u>(11,618)</u>
Increase in net OPEB obligation		523,891
Net OPEB obligation, beginning of year		<u>1,730,513</u>
Net OPEB obligation, end of year	\$	<u><u>2,254,404</u></u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

The County's annual OPEB costs, the percentage of annual OPEB costs contributed to the Plan, and the net OPEB obligation as of December 31, 2013, and the preceding two years, were as follows:

Three-Year Trend Information			
Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 499,594	3.2%	\$ 1,211,942
2012	529,638	2.1%	1,730,513
2013	535,509	2.2%	2,254,404

Funded Status and Funding Progress. As of December 31, 2011, the date of the most recent actuarial valuation, the Plan was 0 percent funded. The actuarial accrued liability for benefits was \$4,739,727, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,739,727. The covered payroll (annual payroll of the active employees covered by the Plan) was unavailable.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions were as follows:

Actuarial valuation date	December 31, 2011
Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Remaining amortization period	28 years
Asset valuation method	5-year smoothing
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	4.5%
Healthcare inflation rate	5.0% initially; 0.0% ultimately

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

18. POSTEMPLOYMENT HEALTH CARE BENEFITS - Medical Care Facility

Plan Description. The Facility participates in a defined benefit postretirement plan sponsored by Hillsdale County that provides postretirement medical benefits to retirees. Substantially all employees may become eligible for benefits if they reach normal retirement age while working at the Facility. The postretirement obligation is expected to be paid from the Facility's General Fund. During 2012, the plan dropped dental coverage for retirees. In addition, the required participant contribution was increased to at least 20 percent of premiums and expected deductible reimbursement.

Funding Policy. The facility has no obligation to make contributions in advance of when premiums are due for payment as this may be funded on a pay-as-you-go basis.

Funding Progress. For the year ended December 31, 2013, the Facility has estimate the cost of providing retiree healthcare benefits through actuarial valuations as of December 31, 2012. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The valuation's computed contribution and actual funding are summarized as follows for the year ended December 31, 2013:

Annual OPEB cost	\$ 158,648
Contributions made	<u>(98,663)</u>
 Net OPEB obligation, end of year	 <u><u>\$ 1,824,000</u></u>

The County's annual OPEB costs, the percentage of annual OPEB costs contributed to the Plan, and the net OPEB obligation as of December 31, 2013, and the preceding two years, were as follows:

Three-Year Trend Information			
Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 711,756	27.4%	\$ 1,824,000
2012	122,284	87.0%	1,824,000
2013	158,648	62.2%	1,824,000

Funded Status and Funding Progress. As of December 31, 2012, the date of the most recent actuarial valuation, the Plan was 0 percent funded. The actuarial accrued liability for benefits was \$2,662,056, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,662,056. The covered payroll (annual payroll of the active employees covered by the Plan) was unavailable.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements in the separately issued Road Commission report, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions were as follows:

Actuarial valuation date	December 31, 2012
Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Remaining amortization period	27 years
Asset valuation method	5-year smoothing
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	4.5%
Healthcare inflation rate	3.0% initially; 0.0% ultimately

19. NET INVESTMENT IN CAPITAL ASSETS

	Governmental activities	Business-type activities
Capital assets not being depreciated	\$ 130,005	\$ -
Capital assets being depreciated, net	5,638,432	12,284,325
Total capital assets	5,768,437	12,284,325
Capital related bonds	(8,323,000)	(2,152,000)
Installment contracts	(1,014,545)	-
Capital leases	(58,222)	-
Total net investment in capital assets	\$ (3,627,330)	\$ 10,132,325

Required Supplementary Information

COUNTY OF HILLSDALE, MICHIGAN

Required Supplementary Information

Pension Plan - Primary government

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2006	\$ 1,881,418	\$ 4,219,255	\$ 2,337,837	45%	\$ 1,785,069	131%
12/31/2007	2,178,561	4,537,379	2,358,818	48%	1,877,268	126%
12/31/2008	2,489,784	4,940,140	2,450,356	50%	1,936,111	127%
12/31/2009	2,871,817	5,108,360	2,236,543	56%	1,940,559	115%
12/31/2010	3,237,600	5,414,160	2,176,560	60%	1,911,857	114%
12/31/2011	3,320,888	6,221,286	2,900,398	53%	1,846,043	157%
12/31/2012	3,797,643	6,221,286	2,423,643	61%	1,770,958	137%

Schedule of Employer Contributions		
Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2007	\$ 142,417	100.0%
2008	152,988	100.0%
2009	155,251	100.0%
2010	148,325	100.0%
2011	142,511	100.0%
2012	145,110	100.0%
2013	155,967	100.0%

Pension Plan - Road Commission

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2006	\$ 4,507,820	\$ 6,590,191	\$ 2,082,371	68%	\$ 1,767,724	118%
12/31/2007	4,939,183	7,242,137	2,302,954	68%	1,836,131	125%
12/31/2008	5,163,465	7,574,337	2,410,872	68%	1,888,047	128%
12/31/2009	5,443,077	7,590,341	2,147,264	72%	1,772,509	121%
12/31/2010	5,714,830	7,972,096	2,257,266	72%	1,733,507	130%
12/31/2011	5,959,968	8,330,567	2,370,599	72%	1,786,673	133%
12/31/2012	6,187,113	8,869,735	2,682,622	70%	1,724,235	156%

Schedule of Employer Contributions		
Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2007	\$ 155,495	100.0%
2008	155,055	100.0%
2009	165,547	100.0%
2010	160,479	100.0%
2011	155,124	100.0%
2012	177,854	100.0%
2013	210,524	100.0%

COUNTY OF HILLSDALE, MICHIGAN

Required Supplementary Information
 Retiree Health Care Plan - Primary government

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2009	\$ -	\$ 3,954,168	\$ 3,954,168	0.0%	n/a	n/a
12/31/2011	-	4,739,727	4,739,727	0.0%	n/a	n/a

Schedule of Employer Contributions		
Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2010	\$ 407,657	5.9%
2011	512,460	3.1%
2012	552,523	2.0%
2013	570,228	2.0%

Retiree Health Care Plan - Medical Care Facility

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2009	\$ -	\$ 9,069,922	\$ 9,069,922	0.0%	n/a	n/a
12/31/2011	-	6,823,328	6,823,328	0.0%	n/a	n/a
12/31/2012	-	2,662,056	2,662,056	0.0%	n/a	n/a
12/31/2013	-	2,662,056	2,662,056	0.0%	n/a	n/a

COUNTY OF HILLSDALE, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenues				
Property taxes	\$ 6,119,000	\$ 6,119,000	\$ 6,123,516	\$ 4,516
Intergovernmental:				
State revenue sharing	723,805	723,805	710,594	(13,211)
Juvenile Officer's Grant	28,000	28,000	20,488	(7,512)
Judges Salaries Grant	231,367	231,367	231,367	-
Juror Compensation Grant	4,000	4,000	2,840	(1,160)
Liquor Tax	129,841	129,841	117,402	(12,439)
Secondary Road Patrol Grant	63,672	63,672	68,220	4,548
Marine Safety Grant	20,000	20,000	11,745	(8,255)
Emergency Management Grant	7,000	7,000	11,263	4,263
Drunk Driving Grant	13,000	13,000	11,865	(1,135)
Cigarette Tax Distribution	3,000	3,000	1,858	(1,142)
Prosecutor - Cooperative Reimbursement Program	60,000	60,000	49,355	(10,645)
FOC - Cooperative Reimbursement Program	360,000	360,000	215,597	(144,403)
FOC - Other	66,000	66,000	61,884	(4,116)
Survey and Remonumentation Grant	40,884	40,884	39,630	(1,254)
State court equity funding	210,000	210,000	184,386	(25,614)
Elections	20,000	20,000	50,111	30,111
Other intergovernmental revenue	500	500	127	(373)
Total intergovernmental	1,981,069	1,981,069	1,788,732	(192,337)
Licenses and permits:				
Dog licenses	60,000	60,000	51,060	(8,940)
Other licenses and permits	25,000	25,000	37,144	12,144
Total licenses and permits	85,000	85,000	88,204	3,204
Fines and forfeits:				
Ordinance fines and costs	238,000	238,000	255,561	17,561
Bond forfeitures	16,200	16,200	12,599	(3,601)
Total fines and forfeits	254,200	254,200	268,160	13,960
Charges for services:				
Circuit Court	43,300	43,300	38,110	(5,190)
District Court	108,500	108,500	93,111	(15,389)
Friend of the Court	94,100	94,100	109,498	15,398
Probate/Family Court	17,100	17,100	12,270	(4,830)
Clerk	59,000	59,000	56,073	(2,927)
Register of deeds	272,000	297,686	305,358	7,672
Sheriff	66,650	66,650	51,058	(15,592)
Equalization	60,000	60,000	82,991	22,991
Other charges for services	79,900	79,900	73,487	(6,413)
Total charges for services	800,550	826,236	821,956	(4,280)

continued...

COUNTY OF HILLSDALE, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenues (continued)				
Interest and rentals:				
Interest revenue	\$ 40,000	\$ 40,000	\$ 123,928	\$ 83,928
Rents	337,160	337,160	363,262	26,102
Other revenue	-	-	-	-
Total interest and rentals	<u>377,160</u>	<u>377,160</u>	<u>487,190</u>	<u>110,030</u>
Other revenue/reimbursements -				
Reimbursements and refunds	<u>605,900</u>	<u>605,900</u>	<u>650,309</u>	<u>44,409</u>
Total revenues	<u>10,222,879</u>	<u>10,248,565</u>	<u>10,228,067</u>	<u>(20,498)</u>
Expenditures				
Legislative -				
Board of Commissioners	<u>114,945</u>	<u>94,945</u>	<u>84,603</u>	<u>(10,342)</u>
Judicial:				
Circuit Court	166,270	166,270	174,755	8,485
District Court	489,112	489,112	491,633	2,521
Friend of the Court	345,842	345,842	344,690	(1,152)
Law Library	5,000	5,000	5,294	294
Jury Commission	2,624	2,624	1,773	(851)
Probate Court	619,702	582,677	546,869	(35,808)
Family/Juvenile Court	205,000	205,000	198,455	(6,545)
Total judicial	<u>1,833,550</u>	<u>1,796,525</u>	<u>1,763,469</u>	<u>(33,056)</u>
General government:				
Elections	91,512	93,512	92,314	(1,198)
Clerk	237,876	241,301	213,176	(28,125)
Register of deeds	137,550	140,975	138,970	(2,005)
Planning	970	970	120	(850)
Equalization	205,040	206,753	199,014	(7,739)
Information technology	278,704	280,417	264,669	(15,748)
Prosecutor	360,901	380,826	380,884	58
Survey & Remonumentation	40,884	40,884	40,884	-
Treasurer	216,294	219,719	214,880	(4,839)
MSU Extension	185,482	185,482	160,402	(25,080)
Courthouse and grounds	286,135	305,848	312,175	6,327
FOC Building	28,923	28,923	19,904	(9,019)
DHS Building	147,912	147,912	142,493	(5,419)
Drain Commissioner	192,039	195,036	186,943	(8,093)
Bus Garage	9,850	9,850	8,573	(1,277)
Total general government	<u>2,420,072</u>	<u>2,478,408</u>	<u>2,375,401</u>	<u>(103,007)</u>

continued...

COUNTY OF HILLSDALE, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Expenditures (continued)				
Public safety:				
Sheriff's Department	\$ 1,551,504	\$ 1,554,929	\$ 1,527,353	\$ (27,576)
Secondary Road Patrol Grant	155,926	155,926	126,656	(29,270)
Marine Patrol	17,025	17,025	14,716	(2,309)
Narcotics enforcement	63,898	67,898	68,106	208
Universal hiring	192,934	204,934	205,135	201
Jail Operation	849,635	861,635	878,845	17,210
Emergency Preparedness	38,930	43,930	44,254	324
Animal control	45,740	58,740	57,263	(1,477)
Lifescan	-	-	-	-
Total public safety	<u>2,915,592</u>	<u>2,965,017</u>	<u>2,922,328</u>	<u>(42,689)</u>
Public works -				
Board of Public Works	<u>22,538</u>	<u>22,965</u>	<u>22,827</u>	<u>(138)</u>
Health and welfare:				
Health Department	113,594	113,594	80,901	(32,693)
Medical Examiner	45,734	45,734	30,200	(15,534)
Veteran's Burial	14,000	14,000	11,338	(2,662)
Veteran's Affairs Office	36,047	51,047	41,493	(9,554)
District Health Department	206,360	213,193	213,193	-
Mental Health Authority	194,000	194,000	194,000	-
Total health and welfare	<u>609,735</u>	<u>631,568</u>	<u>571,125</u>	<u>(60,443)</u>
Other:				
Employee Benefits	1,378,500	1,286,675	1,156,667	(130,008)
Property/Liability Insurance	234,880	234,880	232,652	(2,228)
Other	396,913	434,513	391,743	(42,770)
Appropriations	106,100	124,850	119,544	(5,306)
Total other	<u>2,116,393</u>	<u>2,080,918</u>	<u>1,900,606</u>	<u>(180,312)</u>
Capital outlay	<u>142,000</u>	<u>142,000</u>	<u>118,970</u>	<u>(23,030)</u>
Capital lease	<u>-</u>	<u>-</u>	<u>53,407</u>	<u>53,407</u>
Debt service:				
Principal	-	-	14,764	14,764
Interest	-	-	5,816	5,816
	<u>-</u>	<u>-</u>	<u>20,580</u>	<u>20,580</u>
Total expenditures	<u>10,174,825</u>	<u>10,212,346</u>	<u>9,833,316</u>	<u>(379,030)</u>
Revenues over (under) expenditures	<u>48,054</u>	<u>36,219</u>	<u>394,751</u>	<u>358,532</u>

continued...

COUNTY OF HILLSDALE, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual - General Fund
 Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Other financing sources (uses)				
Proceeds from capital lease	\$ 42,000	\$ 42,000	\$ 56,069	\$ 14,069
Transfers in	856,800	856,800	802,598	(54,202)
Transfers out	(853,484)	(848,484)	(885,480)	36,996
Total other financing sources (uses)	<u>45,316</u>	<u>50,316</u>	<u>(26,813)</u>	<u>(77,129)</u>
Net change in fund balances	93,370	86,535	367,938	281,403
Fund balances, beginning of year	<u>915,624</u>	<u>915,624</u>	<u>915,624</u>	-
Fund balances, end of year	<u>\$ 1,008,994</u>	<u>\$ 1,002,159</u>	<u>\$ 1,283,562</u>	<u>\$ 281,403</u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual - Senior Citizens Special Revenue Fund
 Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenues				
Property tax revenue	\$ 1,230,000	\$ 1,230,000	\$ 1,240,990	\$ 10,990
Expenditures				
Health and welfare	1,249,000	1,249,000	1,256,182	7,182
Revenues over expenditures	(19,000)	(19,000)	(15,192)	3,808
Fund balances, beginning of year	46,268	46,268	46,268	-
Fund balances, end of year	<u>\$ 27,268</u>	<u>\$ 27,268</u>	<u>\$ 31,076</u>	<u>\$ 3,808</u>

The accompanying notes are an integral part of these financial statements.

Required Supplementary Information

Other Information

COUNTY OF HILLSDALE, MICHIGAN

Combining Balance Sheet - Nonmajor Governmental Funds

December 31, 2013

	Special Revenue				
	Parks	Ambulance	Tobacco and Alcohol Diversion	E-911 Emergency	Friend of the Court
Assets					
Cash and investments	\$ 14,144	\$ 15,776	\$ 11,911	\$ 833,236	\$ 67,378
Taxes receivable	-	484,562	-	-	-
Accounts receivable	849	-	-	238,272	-
Due from other governments	-	-	-	-	-
Prepaid expenditures	-	-	-	6,027	-
Interest receivable	3	-	-	315	-
Total assets	<u>\$ 14,996</u>	<u>\$ 500,338</u>	<u>\$ 11,911</u>	<u>\$ 1,077,850</u>	<u>\$ 67,378</u>
Liabilities					
Accounts payable	\$ 11,877	\$ 10,090	\$ -	\$ 4,921	\$ -
Unearned revenue	1,866	-	-	-	-
Accrued liabilities	1,037	-	-	31,569	-
Interfund payable	-	-	-	-	-
Total liabilities	<u>14,780</u>	<u>10,090</u>	<u>-</u>	<u>36,490</u>	<u>-</u>
Deferred inflows of resources					
Taxes levied for subsequent periods	-	484,562	-	-	-
Fund balances					
Nonspendable	-	-	-	6,027	-
Restricted	-	5,686	-	1,035,333	67,378
Assigned	216	-	11,911	-	-
Unassigned	-	-	-	-	-
Total fund balances	<u>216</u>	<u>5,686</u>	<u>11,911</u>	<u>1,041,360</u>	<u>67,378</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 14,996</u>	<u>\$ 500,338</u>	<u>\$ 11,911</u>	<u>\$ 1,077,850</u>	<u>\$ 67,378</u>

Special Revenue						
Register of Deeds Automation	Drug Forfeiture	Law Enforcement Training	County Law Library	Child Abuse	Department of Human Services	Department of Human Services Child Care
\$ 328,353	\$ 10,256	\$ 10,789	\$ 6,830	\$ 39,943	\$ 26,310	\$ 30,103
-	-	-	-	-	-	-
-	-	-	-	512	-	-
-	-	-	-	812	-	-
-	-	-	-	-	250	-
-	-	-	-	-	-	-
<u>\$ 328,353</u>	<u>\$ 10,256</u>	<u>\$ 10,789</u>	<u>\$ 6,830</u>	<u>\$ 41,267</u>	<u>\$ 26,560</u>	<u>\$ 30,103</u>
\$ 21,917	\$ -	\$ 164	\$ 730	\$ -	\$ 548	\$ 8,289
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>21,917</u>	<u>-</u>	<u>164</u>	<u>730</u>	<u>-</u>	<u>548</u>	<u>8,289</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
306,436	10,256	10,625	6,100	41,267	26,012	21,814
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>306,436</u>	<u>10,256</u>	<u>10,625</u>	<u>6,100</u>	<u>41,267</u>	<u>26,012</u>	<u>21,814</u>
<u>\$ 328,353</u>	<u>\$ 10,256</u>	<u>\$ 10,789</u>	<u>\$ 6,830</u>	<u>\$ 41,267</u>	<u>\$ 26,560</u>	<u>\$ 30,103</u>

(continued...)

COUNTY OF HILLSDALE, MICHIGAN

Combining Balance Sheet - Nonmajor Governmental Funds
December 31, 2013

	Special Revenue				
	Probate Child Care	Soldiers' and Sailors' Relief	Veterans' Trust	Homeland Security	GIS/Mapping Technology
Assets					
Cash and investments	\$ 48,893	\$ 35,376	\$ 3,862	\$ -	\$ 8,219
Taxes receivable	-	-	-	-	-
Accounts receivable	8,667	-	-	-	-
Due from other governments	-	-	-	10,000	-
Prepaid expenditures	-	-	-	-	-
Interest receivable	-	-	-	-	-
Total assets	<u>\$ 57,560</u>	<u>\$ 35,376</u>	<u>\$ 3,862</u>	<u>\$ 10,000</u>	<u>\$ 8,219</u>
Liabilities					
Accounts payable	\$ 16,063	\$ 6,073	\$ -	\$ 180	\$ -
Unearned revenue	-	-	-	-	-
Accrued liabilities	17,779	-	-	-	-
Interfund payable	-	-	-	9,820	-
Total liabilities	<u>33,842</u>	<u>6,073</u>	<u>-</u>	<u>10,000</u>	<u>-</u>
Deferred inflows of resources					
Taxes levied for subsequent periods	-	-	-	-	-
Fund balances					
Nonspendable	-	-	-	-	-
Restricted	23,718	29,303	3,862	-	-
Assigned	-	-	-	-	8,219
Unassigned	-	-	-	-	-
Total fund balances	<u>23,718</u>	<u>29,303</u>	<u>3,862</u>	<u>-</u>	<u>8,219</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 57,560</u>	<u>\$ 35,376</u>	<u>\$ 3,862</u>	<u>\$ 10,000</u>	<u>\$ 8,219</u>

Special Revenue	Debt Service					Capital Projects
Drug Offender	Court House	Court House Annex	Medical Care Facility Debt Service	Medical Care Facility Small House	DHS Building Authority Debt Service	Improvement
\$ 101,969	\$ -	\$ -	\$ 28,337	\$ 720	\$ 604	\$ 173,949
-	-	-	521,971	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	11
<u>\$ 101,969</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 550,308</u>	<u>\$ 720</u>	<u>\$ 604</u>	<u>\$ 173,960</u>
\$ 13,460	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
2,527	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>15,987</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	521,971	-	-	-
-	-	-	-	-	-	-
85,982	-	-	28,337	720	604	-
-	-	-	-	-	-	173,960
-	-	-	-	-	-	-
<u>85,982</u>	<u>-</u>	<u>-</u>	<u>28,337</u>	<u>720</u>	<u>604</u>	<u>173,960</u>
<u>\$ 101,969</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 550,308</u>	<u>\$ 720</u>	<u>\$ 604</u>	<u>\$ 173,960</u>

COUNTY OF HILLSDALE, MICHIGAN

Combining Balance Sheet - Nonmajor Governmental Funds
December 31, 2013

			Capital Projects	Permanent Funds	
	Medical Care Facility	DHS Building Authority	CH Building Authority	Cemetery Trust	MCF Endowment
Assets					
Cash and investments	\$ 984	\$ 6,716	\$ 31,709	\$ 241	\$ 3,215
Taxes receivable	-	-	-	-	-
Accounts receivable	-	-	-	-	-
Due from other governments	-	-	-	-	-
Prepaid expenditures	-	-	-	-	-
Interest receivable	-	-	-	-	5
Total assets	<u>\$ 984</u>	<u>\$ 6,716</u>	<u>\$ 31,709</u>	<u>\$ 241</u>	<u>\$ 3,220</u>
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Unearned revenue	-	-	-	-	-
Accrued liabilities	-	-	-	-	-
Interfund payable	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources					
Taxes levied for subsequent periods	-	-	-	-	-
Fund balances					
Nonspendable	-	-	-	241	3,220
Restricted	-	-	31,709	-	-
Assigned	984	6,716	-	-	-
Unassigned	-	-	-	-	-
Total fund balances	<u>984</u>	<u>6,716</u>	<u>31,709</u>	<u>241</u>	<u>3,220</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 984</u>	<u>\$ 6,716</u>	<u>\$ 31,709</u>	<u>\$ 241</u>	<u>\$ 3,220</u>

(continued...)

Permanent		
Carl Gilmore Trust		Total
\$ 47	\$	1,839,870
-		1,006,533
-		248,300
-		10,812
-		6,277
-		334
<u>\$ 47</u>	<u>\$</u>	<u>3,112,126</u>
\$ -	\$	94,312
-		1,866
-		52,912
-		9,820
<u>-</u>		<u>158,910</u>
-		1,006,533
47		9,535
-		1,735,142
-		202,006
-		-
<u>47</u>		<u>1,946,683</u>
<u>\$ 47</u>	<u>\$</u>	<u>3,112,126</u>

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended December 31, 2013

	Special Revenue				
	Parks	Ambulance	Tobacco and Alcohol Diversion	E-911 Emergency	Friend of the Court
Revenues					
Property taxes	\$ -	\$ 489,847	\$ -	\$ -	\$ -
Intergovernmental	-	7,958	-	-	-
Contributions	-	-	-	-	-
Fines and forfeits	-	-	10,032	-	18,200
Charges for services	6,652	-	-	1,052,303	-
Refunds and reimbursements	-	-	-	63,691	-
Interest and rentals	45	-	-	1,441	-
Other revenue	31,164	-	-	12,316	-
Total revenues	37,861	497,805	10,032	1,129,751	18,200
Expenditures					
Current:					
Judicial	-	-	-	-	5,676
General government	-	-	-	-	-
Public safety	-	-	-	929,688	-
Health and welfare	-	531,666	-	-	-
Recreation and culture	67,831	-	-	-	-
Capital outlay	-	-	-	37,323	-
Capital lease	-	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total expenditures	67,831	531,666	-	967,011	5,676
Revenues over (under) expenditures	(29,970)	(33,861)	10,032	162,740	12,524
Other financing sources (uses)					
Transfers in	21,864	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	21,864	-	-	-	-
Net changes in fund balances	(8,106)	(33,861)	10,032	162,740	12,524
Fund balances (deficit), beginning of year	8,322	39,547	1,879	878,620	54,854
Fund balances (deficit), end of year	\$ 216	\$ 5,686	\$ 11,911	\$ 1,041,360	\$ 67,378

Special Revenue						
Register of Deeds Automation	Drug Forfeiture	Law Enforcement Training	County Law Library	Child Abuse	Department of Human Services	Department of Human Services Child Care
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	11,322	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
54,060	16,201	4,856	9,627	-	28,508	45,040
54,060	16,201	4,856	9,627	11,322	28,508	45,040
-	-	-	9,517	-	-	-
72,060	-	-	-	-	-	-
-	3,894	889	-	6,116	-	-
-	-	-	-	-	91,560	59,590
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
72,060	3,894	889	9,517	6,116	91,560	59,590
(18,000)	12,307	3,967	110	5,206	(63,052)	(14,550)
-	-	-	-	-	60,000	60,000
-	(4,867)	-	-	(20,000)	-	-
-	(4,867)	-	-	(20,000)	60,000	60,000
(18,000)	7,440	3,967	110	(14,794)	(3,052)	45,450
324,436	2,816	6,658	5,990	56,061	29,064	(23,636)
\$ 306,436	\$ 10,256	\$ 10,625	\$ 6,100	\$ 41,267	\$ 26,012	\$ 21,814

(continued...)

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Governmental Funds
 Year Ended December 31, 2013

	Special Revenue				
	Probate Child Care	Soldiers' and Sailors' Relief	Veterans' Trust	Homeland Security	GIS/Mapping Technology
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	116,594	-
Contributions	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Charges for services	-	-	-	-	-
Refunds and reimbursements	87,260	-	-	-	-
Interest and rentals	49	-	-	-	-
Other revenue	365,086	2,871	6,769	10	2,131
Total revenues	452,395	2,871	6,769	116,604	2,131
Expenditures					
Current:					
Judicial	-	-	-	-	-
General government	-	-	-	-	1,350
Public safety	-	-	-	116,604	-
Health and welfare	984,200	100,397	3,656	-	-
Recreation and culture	-	-	-	-	-
Capital outlay	-	-	-	-	-
Capital lease	5,216	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest	719	-	-	-	-
Total expenditures	990,135	100,397	3,656	116,604	1,350
Revenues over (under) expenditures	(537,740)	(97,526)	3,113	-	781
Other financing sources (uses)					
Transfers in	475,000	85,000	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	475,000	85,000	-	-	-
Net changes in fund balances	(62,740)	(12,526)	3,113	-	781
Fund balances (deficit), beginning of year	86,458	41,829	749	-	7,438
Fund balances (deficit), end of year	\$ 23,718	\$ 29,303	\$ 3,862	\$ -	\$ 8,219

Special Revenue	Debt Service					Capital Projects
Drug Offender	Court House	Court House Annex	Medical Care Facility Debt Service	Medical Care Facility Small House	DHS Building Authority Debt Service	Improvement
\$ -	\$ -	\$ -	\$ 494,000	\$ -	\$ -	\$ -
129,632	-	-	-	-	-	-
-	-	85,115	-	-	154,279	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	7	40	2	905
2,664	-	-	-	-	-	-
<u>132,296</u>	<u>-</u>	<u>85,115</u>	<u>494,007</u>	<u>40</u>	<u>154,281</u>	<u>905</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	103,608
166,401	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	23,300
-	-	-	-	-	-	-
-	80,057	75,000	300,000	-	146,000	-
-	21,559	10,115	266,625	-	8,279	-
<u>166,401</u>	<u>101,616</u>	<u>85,115</u>	<u>566,625</u>	<u>-</u>	<u>154,279</u>	<u>126,908</u>
<u>(34,105)</u>	<u>(101,616)</u>	<u>-</u>	<u>(72,618)</u>	<u>40</u>	<u>2</u>	<u>(126,003)</u>
22,000	101,616	-	80,098	-	-	-
-	-	-	-	-	-	-
<u>22,000</u>	<u>101,616</u>	<u>-</u>	<u>80,098</u>	<u>-</u>	<u>-</u>	<u>-</u>
(12,105)	-	-	7,480	40	2	(126,003)
<u>98,087</u>	<u>-</u>	<u>-</u>	<u>20,857</u>	<u>680</u>	<u>602</u>	<u>299,963</u>
<u>\$ 85,982</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,337</u>	<u>\$ 720</u>	<u>\$ 604</u>	<u>\$ 173,960</u>

(continued...)

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds
Year Ended December 31, 2013

	Capital Projects			Permanent Funds	
	Medical Care Facility	DHS Building Authority	CH Building Authority	Cemetery Trust	MCF Endowment
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-
Contributions	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Charges for services	-	-	-	-	-
Refunds and reimbursements	-	-	-	-	-
Interest and rentals	-	7	453	1	16
Other revenue	-	-	24,417	-	-
Total revenues	-	7	24,870	1	16
Expenditures					
Current:					
Judicial	-	-	-	-	-
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Health and welfare	-	-	-	-	-
Recreation and culture	-	-	-	-	-
Capital outlay	-	-	410,682	-	-
Capital lease	-	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total expenditures	-	-	410,682	-	-
Revenues over (under) expenditures	-	7	(385,812)	1	16
Other financing sources (uses)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net changes in fund balances	-	7	(385,812)	1	16
Fund balances (deficit), beginning of year	984	6,709	417,521	240	3,204
Fund balances (deficit), end of year	\$ 984	\$ 6,716	\$ 31,709	\$ 241	\$ 3,220

Permanent	
Carl Gilmore Trust	Total
\$ -	\$ 983,847
-	265,506
-	239,394
-	28,232
-	1,058,955
-	150,951
-	2,966
-	605,720
-	<u>3,335,571</u>
-	15,193
-	177,018
-	1,223,592
-	1,771,069
-	67,831
-	471,305
-	5,216
-	601,057
-	<u>307,297</u>
-	<u>4,639,578</u>
-	<u>(1,304,007)</u>
-	905,578
-	<u>(24,867)</u>
-	<u>880,711</u>
-	(423,296)
47	<u>2,369,979</u>
<u>\$ 47</u>	<u>\$ 1,946,683</u>

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Net Position

Nonmajor Enterprise Funds

December 31, 2013

	2003 Delinquent Tax Revolving	2004 Delinquent Tax Revolving	2005 Delinquent Tax Revolving
Assets			
Current assets:			
Cash and investments	\$ 582	\$ 355	\$ 55
Taxes receivable	3,465	560	3,562
Accounts receivable	-	-	-
Advances from other funds	-	-	-
Interfund receivable	-	-	-
Current portion of leases receivable	-	-	-
Interest receivable	-	1,064	-
Prepays	-	-	-
Total current assets	<u>4,047</u>	<u>1,979</u>	<u>3,617</u>
Noncurrent assets:			
Capital assets	-	-	-
Total assets	<u>4,047</u>	<u>1,979</u>	<u>3,617</u>
Liabilities			
Accounts payable	-	-	-
Accrued liabilities	-	-	-
Interfund payable	-	-	-
Due to other governments	-	-	110
Current portion of long-term debt	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>110</u>
Net position			
Net investment in capital assets	-	-	-
Restricted by statute	-	-	-
Unrestricted (deficit)	<u>4,047</u>	<u>1,979</u>	<u>3,507</u>
Total net position	<u>\$ 4,047</u>	<u>\$ 1,979</u>	<u>\$ 3,507</u>



2006 Delinquent Tax Revolving	2007 Delinquent Tax Revolving	2008 Delinquent Tax Revolving	2009 Delinquent Tax Revolving	2010 Delinquent Tax Revolving	Building Inspection
\$ 371	\$ 44	\$ 16	\$ -	\$ 111,859	\$ 444,378
10,623	31,886	81,582	102,452	146,709	-
-	-	1,030	2,590	2,073	-
-	-	-	215,450	-	-
-	-	-	-	11,966	-
-	-	-	-	-	-
18,900	42,905	86,201	99,464	108,218	-
-	-	-	-	1,500	125
<u>29,894</u>	<u>74,835</u>	<u>168,829</u>	<u>419,956</u>	<u>382,325</u>	<u>444,503</u>
-	-	-	-	-	28,366
<u>29,894</u>	<u>74,835</u>	<u>168,829</u>	<u>419,956</u>	<u>382,325</u>	<u>472,869</u>
-	480	-	-	-	1,198
430	-	-	-	-	4,689
-	-	-	11,966	-	-
-	520	780	1,100	1,237	-
-	-	-	-	-	-
<u>430</u>	<u>1,000</u>	<u>780</u>	<u>13,066</u>	<u>1,237</u>	<u>5,887</u>
-	-	-	-	-	28,366
-	-	-	203,455	156,969	-
<u>29,464</u>	<u>73,835</u>	<u>168,049</u>	<u>203,435</u>	<u>224,119</u>	<u>438,616</u>
<u>\$ 29,464</u>	<u>\$ 73,835</u>	<u>\$ 168,049</u>	<u>\$ 406,890</u>	<u>\$ 381,088</u>	<u>\$ 466,982</u>

(continued...)

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Net Position

Nonmajor Enterprise Funds

December 31, 2013

	Geographic Information Systems	BPW #2 Townships of Jefferson and Pittsford	BPW #1 City of Litchfield
Assets			
Current assets:			
Cash and investments	\$ 26,417	\$ -	\$ 770
Taxes receivable	-	-	-
Accounts receivable	-	-	-
Advances from other funds	-	-	-
Interfund receivable	-	-	-
Current portion of leases receivable	-	-	30,000
Interest receivable	-	-	825
Prepays	75	-	-
Total current assets	26,492	-	31,595
Noncurrent assets:			
Capital assets	-	-	-
Total assets	26,492	-	31,595
Liabilities			
Accounts payable	-	-	-
Accrued liabilities	-	-	150
Interfund payable	-	-	-
Due to other governments	-	-	-
Current portion of bonds payable	-	-	30,000
Total liabilities	-	-	30,150
Net position			
Net investment in capital assets	-	-	-
Restricted by statute	-	-	-
Unrestricted (deficit)	26,492	-	1,445
Total net position	\$ 26,492	\$ -	\$ 1,445



BPW #6 Village of Jonesville	Total
------------------------------------	-------

\$ 36	\$ 584,883
-	380,839
-	5,693
-	215,450
-	11,966
-	30,000
-	357,577
-	1,700
<u>36</u>	<u>1,588,108</u>

-	<u>28,366</u>
---	---------------

<u>36</u>	<u>1,616,474</u>
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-	1,678
-	5,269
-	11,966
-	3,747
-	30,000

-	<u>52,660</u>
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-	28,366
-	360,424
<u>36</u>	<u>1,175,024</u>

<u>\$ 36</u>	<u>\$ 1,563,814</u>
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COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Revenues, Expenses and Changes in Net Position

Nonmajor Enterprise Funds

Year Ended December 31, 2013

	2003 Delinquent Tax Revolving	2004 Delinquent Tax Revolving	2005 Delinquent Tax Revolving
Operating revenues			
Charges for services	\$ -	\$ 282	\$ 268
Refunds and reimbursements	-	-	-
Other operating revenue	-	-	-
Total operating revenues	<u>-</u>	<u>282</u>	<u>268</u>
Operating expenses			
Depreciation	-	-	-
Cost of services	-	-	-
Total operating expenses	<u>-</u>	<u>-</u>	<u>-</u>
Operating income (loss)	<u>-</u>	<u>282</u>	<u>268</u>
Non-operating revenues (expenses)			
Interest revenue	-	782	242
Interest expense	-	-	(1)
Total non-operating revenues (expenses)	<u>-</u>	<u>782</u>	<u>241</u>
Income (loss) before transfers	<u>-</u>	<u>1,064</u>	<u>509</u>
Transfers			
Transfers out	-	-	(1,000)
Change in net position	<u>-</u>	<u>1,064</u>	<u>(491)</u>
Net position (deficit), beginning of year	<u>4,047</u>	<u>915</u>	<u>3,998</u>
Net position (deficit), end of year	<u>\$ 4,047</u>	<u>\$ 1,979</u>	<u>\$ 3,507</u>



2006 Delinquent Tax Revolving	2007 Delinquent Tax Revolving	2008 Delinquent Tax Revolving	2009 Delinquent Tax Revolving	2010 Delinquent Tax Revolving	Building Inspection
\$ 19	\$ 60	\$ -	\$ 655	\$ -	\$ 440,694
-	-	-	-	-	3,610
-	-	1,500	10,091	150,053	-
19	60	1,500	10,746	150,053	444,304
-	-	-	-	-	5,543
(432)	(2,530)	(24)	1,356	133,392	323,477
(432)	(2,530)	(24)	1,356	133,392	329,020
451	2,590	1,524	9,390	16,661	115,284
6,913	16,823	26,871	30,604	44,704	-
-	-	-	-	(12,772)	-
6,913	16,823	26,871	30,604	31,932	-
7,364	19,413	28,395	39,994	48,593	115,284
(8,400)	(24,900)	(261,531)	(81,900)	(400,000)	-
(1,036)	(5,487)	(233,136)	(41,906)	(351,407)	115,284
30,500	79,322	401,185	448,796	732,495	351,698
<u>\$ 29,464</u>	<u>\$ 73,835</u>	<u>\$ 168,049</u>	<u>\$ 406,890</u>	<u>\$ 381,088</u>	<u>\$ 466,982</u>

(continued...)

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Revenues, Expenses and Changes in Net Position

Nonmajor Enterprise Funds

Year Ended December 31, 2013

	Geographic Information Systems	BPW #2 Townships of Jefferson and Pittsford	BPW #1 City of Litchfield
Operating revenues			
Charges for services	\$ 6,915	\$ -	\$ -
Refunds and reimbursements	-	-	-
Other operating revenue	-	-	136,990
Total operating revenues	<u>6,915</u>	<u>-</u>	<u>136,990</u>
Operating expenses			
Depreciation	-	-	-
Cost of services	16,740	-	136,990
Total operating expenses	<u>16,740</u>	<u>-</u>	<u>136,990</u>
Operating income (loss)	<u>(9,825)</u>	<u>-</u>	<u>-</u>
Non-operating revenues (expenses)			
Interest revenue	-	-	678
Interest expense	-	-	-
Total non-operating revenues (expenses)	<u>-</u>	<u>-</u>	<u>678</u>
Income (loss) before transfers	<u>(9,825)</u>	<u>-</u>	<u>678</u>
Transfers			
Transfers out	-	-	-
Change in net position	<u>(9,825)</u>	<u>-</u>	<u>678</u>
Net position, beginning of year	<u>36,317</u>	<u>-</u>	<u>767</u>
Net position, end of year	<u>\$ 26,492</u>	<u>\$ -</u>	<u>\$ 1,445</u>



BPW #6 Village of Jonesville	Total
\$ -	\$ 448,893
-	3,610
-	298,634
<hr/>	<hr/>
-	751,137
<hr/>	<hr/>
-	5,543
-	608,969
<hr/>	<hr/>
-	614,512
<hr/>	<hr/>
-	136,625
<hr/>	<hr/>
-	127,617
-	(12,773)
<hr/>	<hr/>
-	114,844
<hr/>	<hr/>
-	251,469
<hr/>	<hr/>
-	(777,731)
<hr/>	<hr/>
-	(526,262)
<hr/>	<hr/>
36	2,090,076
<hr/>	<hr/>
\$ 36	\$ 1,563,814
<hr/> <hr/>	<hr/> <hr/>

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Cash Flows

Nonmajor Enterprise Funds
Year Ended December 31, 2013

	2003 Delinquent Tax Revolving	2004 Delinquent Tax Revolving	2005 Delinquent Tax Revolving
Cash flows from operating activities			
Cash received from customers	\$ -	\$ (782)	\$ 747
Cash payments to suppliers for goods and services	-	-	(30)
Net cash provided by (used in) operating activities	<u>-</u>	<u>(782)</u>	<u>717</u>
Cash flows from non-capital financing activities			
Transfers out	-	-	(1,000)
Cash flows from capital and related financing activities			
Purchase of capital assets	-	-	-
Interest payments	-	-	(1)
Principal payments	-	-	-
Net cash provided by (used in) capital and related financing activities	<u>-</u>	<u>-</u>	<u>(1)</u>
Cash flows from investing activities			
Interest received	-	782	242
Amounts collected on leases receivable	-	-	-
Total cash provided by (used in) investing activities	<u>-</u>	<u>782</u>	<u>242</u>
Net change in cash and cash equivalents	-	-	(42)
Cash and cash equivalents, beginning of year	582	355	97
Cash and cash equivalents, end of year	<u>\$ 582</u>	<u>\$ 355</u>	<u>\$ 55</u>
Cash flows from operating activities			
Operating income (loss)	\$ -	\$ 282	\$ 268
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	-	-	-
(Increase) decrease in:			
Taxes receivable	-	-	479
Accounts receivable	-	-	-
Advances to other funds	-	-	-
Interest receivable	-	(1,064)	-
Prepays	-	-	-
Accounts payable	-	-	(30)
Net cash provided by (used in) operating activities	<u>\$ -</u>	<u>\$ (782)</u>	<u>\$ 717</u>

2006 Delinquent Tax Revolving	2007 Delinquent Tax Revolving	2008 Delinquent Tax Revolving	2009 Delinquent Tax Revolving	2010 Delinquent Tax Revolving	Building Inspection
\$ 1,347	\$ 5,456	\$ 3,731	\$ (163,257)	\$ 715,032	\$ 444,304
432	2,570	(126)	9,650	(135,645)	(324,531)
1,779	8,026	3,605	(153,607)	579,387	119,773
(8,400)	(24,900)	(261,531)	(81,900)	(400,000)	-
-	-	-	-	-	(27,194)
-	-	-	-	(12,772)	-
-	-	-	-	(1,000,000)	-
-	-	-	-	(1,012,772)	(27,194)
6,913	16,823	26,871	30,604	44,704	-
-	-	-	-	-	-
6,913	16,823	26,871	30,604	44,704	-
292	(51)	(231,055)	(204,903)	(788,681)	92,579
79	95	231,071	204,903	900,540	351,799
\$ 371	\$ 44	\$ 16	\$ -	\$ 111,859	\$ 444,378
\$ 451	\$ 2,590	\$ 1,524	\$ 9,390	\$ 16,661	\$ 115,284
-	-	-	-	-	5,543
5,414	12,789	17,223	45,980	349,983	-
-	-	70	220	(8,576)	-
-	-	-	(215,450)	-	-
(4,086)	(7,393)	(15,062)	(4,753)	223,572	-
-	-	-	-	-	2,118
-	40	(150)	11,006	(2,253)	(3,172)
\$ 1,779	\$ 8,026	\$ 3,605	\$ (153,607)	\$ 579,387	\$ 119,773

(continued...)

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Cash Flows

Nonmajor Enterprise Funds
Year Ended December 31, 2013

	Geographic Information Systems	BPW #2 Townships of Jefferson and Pittsford	BPW #1 City of Litchfield
Cash flows from operating activities			
Cash received from customers	\$ 9,195	\$ -	\$ 136,990
Cash payments to suppliers for goods and services	(16,740)	-	(137,665)
Net cash provided by (used in) operating activities	<u>(7,545)</u>	<u>-</u>	<u>(675)</u>
Cash flows from non-capital financing activities			
Transfers out	-	-	-
Cash flows from capital and related financing activities			
Purchase of capital assets	-	-	-
Interest payments	-	-	-
Principal payments	-	-	(135,000)
Net cash provided by (used in) capital and related financing activities	<u>-</u>	<u>-</u>	<u>(135,000)</u>
Cash flows from investing activities			
Interest received	-	-	678
Amounts collected on leases receivable	-	-	135,000
Total cash provided from investing activities	<u>-</u>	<u>-</u>	<u>135,678</u>
Net change in cash and cash equivalents	(7,545)	-	3
Cash and cash equivalents, beginning of year	33,962	-	767
Cash and cash equivalents, end of year	<u>\$ 26,417</u>	<u>\$ -</u>	<u>\$ 770</u>
Cash flows from operating activities			
Operating income (loss)	\$ (9,825)	\$ -	\$ -
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	-	-	-
(Increase) decrease in:			
Taxes receivable	-	-	-
Accounts receivable	-	-	-
Advances from other funds	-	-	-
Interest receivable	-	-	-
Prepays	2,280	-	-
Accounts payable	-	-	(675)
Net cash provided by (used in) operating activities	<u>\$ (7,545)</u>	<u>\$ -</u>	<u>\$ (675)</u>

BPW #6 Village of Jonesville	Total
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\$	-	\$	1,152,763
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	-		(602,085)
--	---	--	-----------

	-		550,678
--	---	--	---------

	-		(777,731)
--	---	--	-----------

	-		(27,194)
	-		(12,773)
	-		(1,135,000)

	-		(1,174,967)
--	---	--	-------------

	-		127,617
	-		135,000

	-		262,617
--	---	--	---------

	-		(1,139,403)
--	---	--	-------------

	36		1,724,286
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\$	36	\$	584,883
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\$	-	\$	136,625
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	-		5,543
	-		431,868
	-		(8,286)
	-		(215,450)
	-		191,214
	-		4,398
	-		4,766

\$	-	\$	550,678
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COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds
December 31, 2013

	Trust & Agency	Land Policy Education	Library Penal Fines	Employee Benefit Trust	Sheriff Department Retirement	District Court	Total
Assets							
Cash and investments	\$ 785,615	\$ 14,956	\$ 85,522	\$ 100	\$ 24,710	\$ 80,267	\$ 991,170
Liabilities							
Due to other governments	193,970	-	-	-	-	-	193,970
Undistributed receipts	591,645	14,956	85,522	100	24,710	80,267	797,200
Total liabilities	\$ 785,615	\$ 14,956	\$ 85,522	\$ 100	\$ 24,710	\$ 80,267	\$ 991,170

COUNTY OF HILLSDALE, MICHIGAN

Statement of Net Position / Governmental Funds Balance Sheet

Drain Commission Component Unit

December 31, 2013

	Debt Service	Capital Projects			
	Drain Construction Debt	Drain Special Assessment	Drain Revolving	Lake Level Special Assessment	Lake Level Revolving
Assets					
Cash and investments	\$ 317	\$ 361,906	\$ 53,647	\$ 60,838	\$ 9,727
Accounts receivable	-	-	3,630	-	-
Special assessments receivable	-	287,377	-	15,000	-
Prepays	-	-	-	-	-
Due from other funds	-	-	207,211	-	8,753
Capital assets, net	-	-	-	-	-
Total assets	\$ 317	\$ 649,283	\$ 264,488	\$ 75,838	\$ 18,480
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	200,034	-	912	-
Advances from primary government	-	-	264,488	-	18,480
Total liabilities	-	200,034	264,488	912	18,480
Deferred inflows of resources					
Unavailable revenue - special assessments	-	287,377	-	15,000	-
Fund balances					
Unassigned	317	161,872	-	59,926	-
Total liabilities, deferred inflows of resources and fund balances	\$ 317	\$ 649,283	\$ 264,488	\$ 75,838	\$ 18,480
Net position					
Net investment in capital assets					
Unrestricted					
Total net position					

Capital Projects		Internal Service		Statement of Net Position
Drain Construction	Total	Drain Equipment Revolving	Adjustments	
\$ 60,794	\$ 547,229	\$ 53,912	\$ -	\$ 601,141
-	3,630	-	-	3,630
-	302,377	-	-	302,377
-	-	307	-	307
-	215,964	-	(215,964)	-
-	-	350,226	370,062	720,288
<u>\$ 60,794</u>	<u>\$ 1,069,200</u>	<u>\$ 404,445</u>	154,098	1,627,743
\$ -	\$ -	\$ -	-	-
-	200,946	15,018	(215,964)	-
-	282,968	-	-	282,968
-	483,914	15,018	(215,964)	282,968
-	302,377	-	(302,377)	-
60,794	282,909	389,427	(672,336)	-
<u>\$ 60,794</u>	<u>\$ 1,069,200</u>	<u>\$ 404,445</u>		
			720,288	720,288
			624,487	624,487
			<u>\$ 1,344,775</u>	<u>\$ 1,344,775</u>

COUNTY OF HILLSDALE, MICHIGAN

Reconciliation

Fund Balances for Governmental Funds
To Net Position of Governmental Activities
Drain Commission Component Unit
December 31, 2013

Fund balances - governmental funds \$ 672,336

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

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds. 370,062

Other long-term assets are not available to pay current year expenditures and,
therefore, are not recorded in the funds.

Deferred inflows on long-term special assessments receivable 302,377

Net position of governmental activities \$ 1,344,775

COUNTY OF HILLSDALE, MICHIGAN

Statement of Activities / Governmental Funds Revenues,
Expenditures, and Changes in Fund Balances
Drain Commission Component Unit
Year Ended December 31, 2013

	Debt Service	Capital Projects			
	Drain Construction Debt	Drain Special Assessment	Drain Revolving	Lake Level Special Assessment	Lake Level Revolving
Revenues					
Interest revenue	\$ -	\$ 525	\$ -	\$ 69	\$ -
Other revenue	-	327,269	-	5,000	-
Total revenues	-	327,794	-	5,069	-
Expenditures/Expenses					
Public works	-	186,476	-	13,605	-
Depreciation	-	-	-	-	-
Total expenditures/expenses	-	186,476	-	13,605	-
Net change in fund balances/ change in net position	-	141,318	-	(8,536)	-
Fund balances / net position, beginning of year	317	20,554	-	68,462	-
Fund balances / net position, end of year	\$ 317	\$ 161,872	\$ -	\$ 59,926	\$ -

Capital Projects		Internal Service		Statement of Activities
Drain Construction	Total	Drain Equipment Revolving	Adjustments	
\$ 23	\$ 617	\$ 55	\$ -	\$ 672
320,000	652,269	-	(19,365)	632,904
320,023	652,886	55	(19,365)	633,576
259,543	459,624	-	-	459,624
-	-	57,089	9,173	66,262
259,543	459,624	57,089	9,173	525,886
60,480	193,262	(57,034)	(28,538)	107,690
314	89,647	446,461	700,977	1,237,085
<u>\$ 60,794</u>	<u>\$ 282,909</u>	<u>\$ 389,427</u>	<u>\$ 672,439</u>	<u>\$ 1,344,775</u>

COUNTY OF HILLSDALE, MICHIGAN

Statement of Net Position / Governmental Funds Balance Sheet

Drain Commission Component Unit

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities

Year Ended December 31, 2013

Net change in fund balance - Governmental funds	\$ 193,262
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Deduct - depreciation expense	(9,173)
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.	
	(19,365)
Internal service funds are used by management to charge the costs of certain activities, such as equipment purchases, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities:	
Net operating loss from governmental activities accounted for in the internal service fund	<u>(57,034)</u>
Change in net position of governmental activities	<u>\$ 107,690</u>

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board
County of Hillsdale, Michigan
Courthouse, 29 N. Howell Street
Hillsdale, Michigan 49242

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Hillsdale, Michigan, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County of Hillsdale, Michigan's basic financial statements and have issued our report thereon dated July 10, 2014. Our report includes a reference to other auditors who audited the financial statements of the Hillsdale County Road Commission, the Hillsdale County Medical Care Facility and the Hillsdale County Park Commission as described in or report on the County of Hillsdale, Michigan's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Hillsdale County Medical Care Facility and the Hillsdale County Parks Commission were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies listed as 2013-001, 2013-002, and 2013-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Hillsdale's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2013-002 and 2013-003.

Response to Findings

The County of Hillsdale, Michigan's responses to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The County of Hillsdale, Michigan's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Members of the Board
County of Hillsdale, Michigan

Purpose of this Report

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



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

July 10, 2014



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Members of the Board
County of Hillsdale, Michigan
Courthouse, 29 N. Howell Street
Hillsdale, Michigan 49242

Report on Compliance for Each Major Federal Program

We have audited the County of Hillsdale, Michigan's, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County of Hillsdale, Michigan's major federal programs for the year ended December 31, 2013. The County of Hillsdale, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

County of Hillsdale, Michigan's basic financial statements include the operations of the Hillsdale County Road Commission which received \$899,543 in federal awards which is not included in this schedule during the year ended December 31, 2013. Our audit, described below, did not include the operations of Hillsdale County Road Commission because the component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for each of the County of Hillsdale, Michigan's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County of Hillsdale, Michigan's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County of Hillsdale, Michigan's compliance.

Opinion on Each Major Federal Program

In our opinion, the County of Hillsdale, Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance


Management of the County of Hillsdale, Michigan is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County of Hillsdale, Michigan's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County of Hillsdale, Michigan's internal control over compliance.

Members of the Board
County of Hillsdale, Michigan

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Anderson, Tackman and Company, PLC
Certified Public Accountants
Kincheloe, Michigan

July 10, 2014

HILLSDALE COUNTY, MICHIGAN

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2013

Federal/ Pass-through Grantor Program Title	Federal CFDA Number	Passed Through	Pass-through Grantor's Number	Federal Expenditures
U.S. Department of Commerce Public Safety Interoperable Communications Grant	11.555	COL		\$ 1,338
U.S. Department of Housing and Urban Development Community Development Block Grant	14.228	MSHDA		44,150
U.S. Department of Health and Human Services Child Support Enforcement:				
IV-D Support Incentive	93.563	MDHS		61,884
Friend of the Court	93.563	MDHS		215,596
Prosecuting Attorney	93.563	MDHS		49,355
				<u>326,835</u>
Child Abuse and Neglect - Title IV-E Funding	93.658	MDHS		11,322
Total U.S. Department of Health and Human Services				<u>338,157</u>
U.S. Department of Homeland Security Boating Safety Financial Assistance	97.012	DNR		14,446
Emergency Management Preparedness Grant	97.042	MSP		11,263
Homeland Security Grant Program	97.067	COL		115,256
Total U.S. Department of Homeland Security				<u>140,965</u>
Total expenditures of federal awards				<u>\$ 524,610</u>

See accompanying notes to the schedule of expenditures of federal awards.

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County of Hillsdale, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - COGNIZANT AGENCY

The County has not been assigned a cognizant agency. Therefore, the County is under the general oversight of the U.S. Department of Health and Human Services which provided the greatest amount of indirect federal funding to the County during 2013.

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of Major Programs

<u>CFDA NUMBERS</u>	<u>Name of Federal Program or Cluster</u>
93.563	Child Support
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

SIGNIFICANT DEFICIENCY - INTERNAL CONTROL

Segregation of Duties - District Court - Internal Reporting

Finding 2013-001

Criteria: The functions of authorization, recordkeeping, and custody of assets should be segregated where possible. For example, ideally the process of cash collection and depositing should be performed by an employee who is independent from check register recordkeeping and bank reconciliation. The Michigan Department of Treasury, Uniform Accounting Procedures Manual, sets forth the minimum internal controls that must be in every unit of government in Michigan.

Condition: We found that there was improper segregation of duties over cash collection, recordkeeping of receipted cash, cash depositing, and bank reconciliation in the District Court.

Effect: Increased risk of error and/or misappropriation of assets when such conditions are present.

Cause: The office work load and number of staff does not afford the level of segregation that needs to be in place.

Recommendation: The duties of collection, receipting, recordkeeping and reconciliation of cash should be segregated to the extent possible. Where this is not possible, offsetting controls should be put into place to compensate for a particular weakness. For example, cash collections should be done by someone other than that person who makes the bank deposits. Bank reconciliations should be performed by someone other than who makes the collections and the depositing. If this is not possible because of a lack of personnel, a second official must review the check register and the reconciliation for accurate recordkeeping.

- *Corrective Action Planned:*

Similar observations have been made previously. To the extent possible, this office has attempted to segregate duties as described. For example, the receipting function has been generally limited to four deputy clerks, while two others handle disbursement. Efforts to comply with audit recommendation will continue. Staffing and hours of operation, however, preclude strict compliance.

- *Contact Person(s) Responsible for Correction:*

David R. Dinkleman, Administrator

- *Anticipated Completion Date*

Immediately.

Section II - Financial Statement Findings (Continued)

Section II - Financial Statement Findings (Continued)

SIGNIFICANT DEFICIENCY AND NONCOMPLIANCE WITH STATE STATUTES

Excess Expenditures Over Appropriations

Finding 2013-002

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Public Act 621 of 1978, Section 18(1), as amended, the Uniform Budgeting and Accounting Act..

Condition: Our examination of procedures used by the County to adopt and maintain operating budgets for the County's budgetary funds revealed instance of noncompliance (See Note 3)

Effect: The County has not complied with various State Statutes.

Cause: Failure to amend the budget for the General Fund during the year.

Recommendation: We recommend that the County and personnel responsible for administering the activities of the various funds of the County, develop budgetary control procedures for the General Fund, which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act , or amendments thereof.

- *Corrective Action Planned:*
Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.
- *Contact Person(s) Responsible for Correction:*
John Burtka, Chairman of the Board
- *Anticipated Completion Date:*
Immediately

Section II - Financial Statement Findings (Continued)

SIGNIFICANT DEFICIENCY AND NONCOMPLIANCE WITH STATE STATUTES

Deficit Fund Balances

Finding 2013-003

Criteria: Public Act 275 requires that a deficit reduction plan be submitted to the State of Michigan within (90) days of the end of the fiscal year.

Condition: As of December 31, the County had an accumulated fund balance deficit. (See Note 6).

Effect: The County is not in compliance with Public Act 275.

Cause: Failure to implement a deficit reduction plan when required.

Recommendation: We recommend that the individual responsible for general ledger maintenance review the general ledger on a monthly basis to determine if any funds have a deficit fund balance and to implement a deficit reduction plan when required.

- *Corrective Action Planned:*
Management will review the deficit and prepare an appropriate deficit elimination immediately.
- *Contact Person(s) Responsible for Correction:*
John Burtka, Chairman of the Board
- *Anticipated Completion Date:*
Immediately

Section III - Federal Award Findings and Questioned Costs

NONE.

Section III - Federal Award Findings and Questioned Costs

NONE.



ANDERSON, TACKMAN & COMPANY, PLC
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MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Members of the Hillsdale County
Board of Commissioners
Courthouse, 29 N. Howell Street
Hillsdale, Michigan 49242

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Hillsdale, Michigan for the year ended December 31, 2013, and have issued our report thereon dated July 10, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards*, and OMB Circular A1-33, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated March 24, 2014, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility for the supplementary information accompanying the financial statements, as describe by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether supplementary information is fairly stated, in all material respects, in relation to the financial statements as whole.

In planning and performing our audit, we will consider the County of Hillsdale, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County of Hillsdale, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we will examine, on a test basis, evidence about the County of Hillsdale, Michigan's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the County of Hillsdale, Michigan's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it does not provide a legal determination on the County of Hillsdale, Michigan's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated on March 24, 2014.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County of Hillsdale, Michigan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible accounts receivable is based on past experience and future expectations for collection of various account balances and has been determined to be \$0.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreement with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 10, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed for the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Comments and Recommendations

Credit Cards (Prior Year)

During testing of credit cards, it was noted that sales tax is being paid on purchases (Wal-Mart, hotels, etc.) although the County is tax exempt. It was also noted that several purchases (Wal-Mart slips) were not approved. It is recommended that the County follow their credit card policy and only make purchases on the County credit card that are approved as well as ensure that they are not incorrectly charged sales tax.

Status: Uncorrected.

Policies (Prior Year)

The County does not currently have the following policies in place: Purchasing, ACH/EFT Banking, Conflict of Interest and GASB#54. It is recommended that the County adopt proper policies in order to provide the applicable guidelines to follow and ensure sound accounting procedures.

Status: Uncorrected.

Accrued Payroll (Prior Year)

During testing of accrued payroll, it was noted that the County does not currently accrue an amount for payroll taxes as part of this accrual process. It is recommended that the County begin to accrue payroll taxes as part of the payroll expense accrual to appropriately reflect the full expense of the payroll accrual.

Status: Corrected.

Compensated Absences (Prior Year)

The County does not currently factor in the employer portion of FICA taxes when preparing the amount of compensated absences. It is recommended that the County begin to factor in this expense when preparing this calculation.

It was also noted that the policy for non-union employee sick time payout is silent on whether or not these hours are paid out upon termination or retirement; however the County is using 100% of sick time in the calculation for accrued sick time liability at year end. It is recommended that the County update its policy to reflect this.

Status: Uncorrected.

Uniform Chart of Accounts (Prior Year)

During the audit, it was noted that several of the Special Revenue funds only utilize the revenue and expense control accounts. It is recommended, that the County review the State of Michigan's Uniform Chart of Accounts and update the County's chart of accounts to provide greater financial detail such as type of revenue (taxes or grants) and type of expense (personel or supplies) and capital outlay accounts.

Status: Uncorrected.

Fraud Policy (Prior Year)

With the implementation of Statement on Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks within a governmental entity. The Board does not have a "fraud policy" which would address fraud or suspected fraud and related board actions. We recommend the Board adopt a fraud policy in compliance with SAS No. 99.

Status: Uncorrected.

Inmate Trust Account (Prior Year)

Currently the inmate monies are recorded in a separate bank account; however the amounts are not recorded in a fund of the County's general ledger. We recommend that the County's general ledger be updated to include fund 764 "Inmate Trust" and that the bank account and subsidiary listing of inmate account balances be reconciled on a monthly basis

Status: Uncorrected.

Delinquent Tax Revolving Funds (Prior Year)

The County currently has nine years of delinquent revolving tax funds open. Most counties utilize a prior year delinquent tax fund to account for delinquent tax funds that have gone to tax sale. We recommend that the County review the necessity of these funds and reduce the number of delinquent tax revolving funds if practical.

Status: Uncorrected.

Medical Benefit Plans (Prior Year)

Michigan Complied Laws 15.563 sets a limit on the amount a public employer may contribute to a medical benefit plan. For plan coverages during fiscal 2013, the limit is the sum of \$5,692.50 times the number of employees with single person coverage plus \$11,385.00 times the number of employees with two person coverage plus \$15,525.00 times the number of employees with family coverage. The board should review current insurance coverages to assure compliance with the law.

Status: In compliance.

Indigent Veteran's Millage (Prior Year)

The State of Michigan statute (MCL 35.21) requires the County Board of Commissioners of each county to annually levy a tax not to exceed on tenth of a mill for the purpose of creating a fund for the relief of honorably discharged indigent members of the U.S. Military who served in war, and indigent spouses, minor children or parents of an indigent or deceased member. We recommend that the Board of Commissioners seek a legal opinion to regarding this matter and take the appropriate action necessary.

Status: Uncorrected.

Pension Reporting

In June 2012, the Governmental Accounting Standards Board (GASB) approved a pair of related Statements that implement substantial changes to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes new accounting and financial reporting requirements. These requirements include a provision for reporting net pension liabilities on the accrual based statement of net position and measuring investments at fair value as well as additional footnote and required supplementary information disclosures.

The Board and Management should review the procedures for implementation of these new standards effective in fiscal 2014 and assess the impact on the local unit of government's financial reporting.

Fund Closing

The general ledger contains a few funds which are inactive or are no longer required to maintain a separate accounting. The ledger should be reviewed for inactive funds and amounts should be transferred to the general fund. The Board should also approve all fund closings prior to transfer of any remaining balances.

Trust and Agency Funds

During testing of the trust and agency funds it was noted that there were several stale balances in various accounts. It is recommended that these accounts be reconciled.

Inmate Trust Account

During examination of the Inmate Trust account it was noted that disbursement checks written to vendors were withdrawn out of the Trust and Agency Fund, which is a violation of the State Chart of Accounts. It is recommended that the Inmate Trust funds be segregated and vendor checks should be written from a Jail Commissary fund.

Bank Reconciliations

Bank reconciliations were not performed in a timely fashion during the 2013 year. It is recommended that the County follow the monthly bank reconciliation requirement outlined in the Accounting Procedures Manual for Local Units of Government in Michigan.

Capital Assets

During testing of capital assets, several matters were encountered. One of the vehicle purchases included a trade-in; however the vehicle that was traded in was not on the capital asset listing. Two vehicle purchases were recorded net of the cash down-payment and trade-in value. The capital asset listing was incomplete; many items exceeding the capitalization threshold were found by the auditors and subsequently added to the listing. It is recommended that the County ensure that all capital asset additions are recorded at the appropriate cost, use of the Uniform Chart of Accounts 970-Capital Outlay for all capital asset additions should be used as required.

Lawful Expenditures

During the audit it was noted that purchases that fall under the category of Unlawful Expenditures by a Governmental Unit have been board approved. These expenditures include office refreshments. It is recommended that the County review the aforementioned listing and follow these guidelines.

Conclusion

We would like to express our appreciation, as well as that of our staff, for the excellent cooperation we received while performing the audit. If we can be of assistance in implementing the above recommendations, please contact us.

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



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