

County of Hillsdale, Michigan

BASIC FINANCIAL STATEMENTS

December 31, 2012

COUNTY OF HILLSDALE, MICHIGAN

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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, Michigan, as of and for the year ending December 31, 2012, 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 95 percent, 96 percent, and 95 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, 81 percent, and 90 percent, respectively, of the assets, net position, and revenue of the business-type activities; and the Hillsdale County Park Commission, which represents .14 percent, .25 percent, and .24 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, is based solely on the report 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including 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 unit, each major fund, and the aggregate remaining fund information of the County of Hillsdale Michigan, Michigan, as of December 31 2012, 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 relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 June 20, 2013 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

June 20, 2013

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, 2012. Please read it in conjunction with the County's financial statements which follow this section.

Financial Highlights

- Lower interest rates prompted the refunding of the 1996 Building Authority Bonds, saving residents approximately \$66,000 over the remaining life of the bonds.
- Medical Care Facility increased revenue due to higher occupancy and having the new wing open for the entire 2012 fiscal year.
- The loss in the general fund relates to reduced property tax revenue related to reductions in taxable values as well as an additional \$170,000 appropriation to LifeWays, the mental health agency serving both Jackson and Hillsdale counties.

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 three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the 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 and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the 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	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	\$ 8,539,421	\$ 8,393,477	\$ 10,483,453	\$ 11,247,580	\$ 19,022,874	\$ 19,641,057
Capital assets, net	5,499,996	5,162,768	12,454,985	12,781,735	17,954,981	17,944,503
Total assets	14,039,417	13,556,245	22,938,438	24,029,315	36,977,855	37,585,560
Deferred outflows						
Deferred loss on advance refunding	21,165	-	-	-	21,165	-
Liabilities						
Long-term liabilities	10,480,684	10,348,634	6,155,000	7,575,000	16,635,684	17,923,634
Other liabilities	2,901,615	4,741,741	3,386,796	4,802,873	6,288,411	9,544,614
Total liabilities	13,382,299	15,090,375	9,541,796	12,377,873	22,924,095	27,468,248
Deferred inflows	2,131,274	-	757,827	-	2,889,101	-
Net position:						
Net investment in capital assets	(4,611,031)	3,679,157	9,864,985	9,796,735	5,253,954	13,475,892
Restricted	2,076,208	1,295,547	428,353	302,820	2,504,561	1,598,367
Unrestricted	1,081,832	(6,508,834)	2,345,477	1,551,887	3,427,309	(4,956,947)
Total net position	\$ (1,452,991)	\$ (1,534,130)	\$ 12,638,815	\$ 11,651,442	\$ 11,185,824	\$ 10,117,312

The County's combined net position increased 10.6% from a year ago - increasing from \$10,117,312 to \$11,185,824. Governmental activities experienced an increase in net position of \$81,139 (5%). Business-type activities experienced a \$987,373 increase in net position (8.5%), mainly due to favorable financial results at the Medical Care Facility.

COUNTY OF HILLSDALE, MICHIGAN

Management's Discussion and Analysis

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	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	\$ 2,527,716	\$ 2,134,530	\$ 16,294,913	\$ 14,953,039	\$ 18,822,629	\$ 17,087,569
Operating grants and contributions	4,044,247	3,255,234	3,821,319	1,975,126	7,865,566	5,230,360
Capital grants and contributions	-	291,960	-	-	-	291,960
General revenues:						
Property taxes	8,173,288	8,604,016	-	595,518	8,173,288	9,199,534
State shared revenue	709,423	1,187,133	-	-	709,423	1,187,133
Unrestricted investment earnings	37,528	69,799	-	117,627	37,528	187,426
Total revenues	15,492,202	15,542,672	20,116,232	17,641,310	35,608,434	33,183,982
Expenses:						
Legislative	99,467	108,198	-	-	99,467	108,198
Judicial	1,840,522	1,913,589	-	-	1,840,522	1,913,589
General government	2,646,407	2,145,877	-	-	2,646,407	2,145,877
Public safety	4,776,059	5,053,097	-	-	4,776,059	5,053,097
Public works	36,736	24,317	-	-	36,736	24,317
Health and welfare	4,181,542	4,054,397	-	-	4,181,542	4,054,397
Recreation and cultural	61,908	63,836	-	-	61,908	63,836
Other governmental activities	2,385,453	2,189,507	-	-	2,385,453	2,189,507
Interest on long-term debt	94,969	434,147	-	-	94,969	434,147
Medical Care Facility	-	-	17,414,877	16,756,632	17,414,877	16,756,632
Delinquent tax collections/forfeitures	-	-	181,613	323,991	181,613	323,991
Building inspections	-	-	360,888	350,343	360,888	350,343
Geographic information services	-	-	20,287	11,033	20,287	11,033
Board of Public Works	-	-	439,194	38,801	439,194	38,801
Total expenses	16,123,063	15,986,965	18,416,859	17,480,800	34,539,922	33,467,765
Change in net position, before transfers	(630,861)	(444,293)	1,699,373	160,510	1,068,512	(283,783)
Transfers	712,000	685,900	(712,000)	(685,900)	-	-
Change in net position	81,139	241,607	987,373	(525,390)	1,068,512	(283,783)
Net position:						
Beginning of year, as restated	(1,534,130)	(1,775,737)	11,651,442	12,176,832	10,117,312	10,401,095
End of year	\$ (1,452,991)	\$ (1,534,130)	\$ 12,638,815	\$ 11,651,442	\$ 11,185,824	\$ 10,117,312

Governmental Activities

Total governmental revenues decreased by \$50,470 due to reduced property tax values and less revenue sharing payments. Governmental expenses increased (.7%).

Business-Type Activities

The county's business-type activities consist primarily of the medical care facility fund. medical care facility revenue increased approximately \$2,474,922 and expenses increased \$658,245. The year's surplus of \$987,373 represents a tremendous improvement over the \$525,390 decrease in the prior year. The improvement is the result of full occupancy levels at the facility.

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 2012 include the general fund, the E-911 emergency, and the senior center debt service fund.

COUNTY OF HILLSDALE, MICHIGAN

Management's Discussion and Analysis

The general fund pays for most of the county's governmental services. The most significant are public safety, general government, judicial, and health and welfare, which incurred expenses of \$4,776,059, \$2,646,407, \$1,840,522, and \$4,181,542, 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 2006 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, 2010 delinquent tax revolving fund and the 2011 delinquent tax revolving fund.

General Fund Budgetary Highlights

The decrease in property taxes was anticipated during the preparation of the 2012 budget and State Revenue Sharing was budgeted conservatively at \$618,612 (actual was \$709,423). Expenditures were comparable to 2011 original budgets except for the appropriation for Mental Health services where the actual amount exceeded the original budget by \$170,643.

Over the course of the year, the Board of Commissioners amended the 2012 budget to take into account various unexpected events during the year. All of these amendments were fairly minor except for the increase for the Mental Health appropriation.

Capital Asset and Debt Administration

At the end of the fiscal year 2012, the County had approximately \$17,954,981 (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, although there was \$680,000 in new debt added during 2012 for the Courthouse Annex project. At December 31, 2012, debt related to capital assets of governmental activities totaled \$10,104,142. Debt related to business-type activities totaled \$6,155,000, of this \$2,590,000 relates to Medical Care Facility capital assets, \$165,000 relates to the City of Litchfield and the money to service the debt is expected to be received by the city, and \$3,400,000 relates to tax anticipation notes for 2011 and 2012.

Economic Factors and Next Year's Budgets and Rates

The County's 2012 taxable Value was down 1.7% from 2011 values and another 0.6% reduction is expected in 2013. The residential housing market is improving slowly. 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, 2012

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments	\$ 3,160,967	\$ 4,303,244	\$ 7,464,211	\$ 1,203,156
Receivables, net	5,250,987	5,910,624	11,161,611	1,110,059
Prepaid items and other assets	127,467	269,585	397,052	734,773
Capital assets not being depreciated	446,753	-	446,753	5,340,756
Capital assets being depreciated, net	5,053,243	12,454,985	17,508,228	20,961,786
Total assets	14,039,417	22,938,438	36,977,855	29,350,530
Deferred outflow of resources				
Loss on advance refunding	21,165	-	21,165	-
Liabilities				
Accounts payable and accrued expenses	1,071,401	1,562,796	2,634,197	689,569
Unearned revenue	99,701	-	99,701	-
Other post employment benefits	1,730,513	1,824,000	3,554,513	-
Long-term liabilities:				
Due within one year	838,881	3,073,000	3,911,881	95,043
Due in more than one year	9,641,803	3,082,000	12,723,803	422,123
Total liabilities	13,382,299	9,541,796	22,924,095	1,206,735
Deferred inflow of resources				
	2,131,274	757,827	2,889,101	-
Net position				
Net investment in capital assets	(4,611,031)	9,864,985	5,253,954	25,190,537
Restricted for:				
Debt service	1,307	-	1,307	-
Endowments and trusts	3,491	-	3,491	-
Other purposes	2,071,410	428,353	2,499,763	-
Unrestricted (deficit)	1,081,832	2,345,477	3,427,309	2,953,258
Total net position	\$ (1,452,991)	\$ 12,638,815	\$ 11,185,824	\$ 28,143,795

COUNTY OF HILLSDALE, MICHIGAN

Statement of Activities

Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 99,467	\$ -	\$ -	\$ -	\$ (99,467)
Judicial	1,840,522	592,974	1,346,446	-	98,898
General government	2,646,407	454,874	336,963	-	(1,854,570)
Public safety	4,776,059	1,185,107	512,347	-	(3,078,605)
Public works	36,736	-	-	-	(36,736)
Health and welfare	4,181,542	255,357	971,319	-	(2,954,866)
Recreation and cultural	61,908	32,663	5,880	-	(23,365)
Other governmental activities	2,385,453	6,741	871,292	-	(1,507,420)
Interest on long-term debt	94,969	-	-	-	(94,969)
Total governmental activities	<u>16,123,063</u>	<u>2,527,716</u>	<u>4,044,247</u>	<u>-</u>	<u>(9,551,100)</u>
Business-type activities:					
Medical Care Facility	17,414,877	15,401,981	2,791,785	-	778,889
Delinquent tax collections/forfeitures	181,613	460,521	578,389	-	857,297
Building inspections	360,888	426,595	8,435	-	74,142
Geographic information services	20,287	5,815	-	-	(14,472)
Board of Public Works	439,194	1	442,710	-	3,517
Total business-type activities	<u>18,416,859</u>	<u>16,294,913</u>	<u>3,821,319</u>	<u>-</u>	<u>1,699,373</u>
Total primary government	<u>\$ 34,539,922</u>	<u>\$ 18,822,629</u>	<u>\$ 7,865,566</u>	<u>\$ -</u>	<u>\$ (7,851,727)</u>
Component units					
County Drains	\$ 256,157	\$ 84,753	\$ 219,597	\$ -	\$ 48,193
County Roads	7,558,540	1,765,156	4,516,354	-	(1,277,030)
Total component units	<u>\$ 7,814,697</u>	<u>\$ 1,849,909</u>	<u>\$ 4,735,951</u>	<u>\$ -</u>	<u>\$ (1,228,837)</u>

continued...

COUNTY OF HILLSDALE, MICHIGAN

Statement of Activities (Continued)

Year Ended December 31, 2012

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net position				
Net (expense) revenue	\$ (9,551,100)	\$ 1,699,373	\$ (7,851,727)	\$ (1,228,837)
General revenues:				
Property taxes	8,173,288	-	8,173,288	-
State shared revenue	709,423	-	709,423	-
Unrestricted investment earnings	37,528	-	37,528	8,551
Transfers - internal activities	712,000	(712,000)	-	-
Total general revenues and transfers	9,632,239	(712,000)	8,920,239	8,551
Change in net position	81,139	987,373	1,068,512	(1,220,286)
Net position (deficit), beginning of year	(1,534,130)	11,651,442	10,117,312	29,364,081
Net position, end of year	<u>\$ (1,452,991)</u>	<u>\$ 12,638,815</u>	<u>\$ 11,185,824</u>	<u>\$ 28,143,795</u>

COUNTY OF HILLSDALE, MICHIGAN

Balance Sheet - Governmental Funds

December 31, 2012

	General	Senior Citizen	Senior Center Debt Service	Nonmajor Funds	Totals
Assets					
Cash and investments	\$ 567,470	\$ 46,268	\$ 705	\$ 2,494,972	\$ 3,109,415
Taxes receivable	595,878	1,216,198	-	915,076	2,727,152
Accounts receivable	257,307	-	-	295,886	553,193
Leases receivable	-	-	1,580,000	-	1,580,000
Interfund receivable	459	-	-	-	459
Due from other governments	1,680	-	-	72,747	74,427
Prepaid expenditures	112,698	-	-	14,769	127,467
Advance to component unit	307,968	-	-	-	307,968
Interest receivable	7,908	-	-	339	8,247
Total assets	\$ 1,851,368	\$ 1,262,466	\$ 1,580,705	\$ 3,793,789	\$ 8,488,328
Liabilities					
Accounts payable	\$ 257,798	\$ -	\$ -	\$ 405,205	\$ 663,003
Unearned revenue	96,409	-	-	3,292	99,701
Accrued expenditures	171,728	-	-	46,458	218,186
Interfund payable	-	-	-	459	459
Due to other governments	-	-	-	54,000	54,000
Total liabilities	525,935	-	-	509,414	1,035,349
Deferred inflows of resources	409,809	1,216,198	1,580,000	915,076	4,121,083
Fund balances					
Nonspendable	420,666	-	-	18,260	438,926
Restricted	-	46,268	705	2,025,744	2,072,717
Assigned	-	-	-	325,295	325,295
Unassigned	494,958	-	-	-	494,958
Total fund balances	915,624	46,268	705	2,369,299	3,331,896
Total liabilities, deferred inflows of resources and fund balances	\$ 1,851,368	\$ 1,262,466	\$ 1,580,705	\$ 3,793,789	\$ 8,488,328

COUNTY OF HILLSDALE, MICHIGAN

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
December 31, 2012

Fund balances - total governmental funds	\$ 3,331,896
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	446,753
Capital assets being depreciated, net	5,053,243
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	(18,066)
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	(10,104,142)
Compensated absences	(376,542)
Deferred loss on advance refunding	21,165
Other post employment benefits	(1,730,513)
Accrued interest on long-term liabilities	(66,594)
Net position of governmental activities	<u>\$ (1,452,991)</u>

COUNTY OF HILLSDALE, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year Ended December 31, 2012

	General	Senior Citizen	Senior Center Debt Service	Nonmajor Funds	Totals
Revenues					
Taxes and special assessments	\$ 5,930,992	\$ 1,256,820	\$ -	\$ 985,476	\$ 8,173,288
Intergovernmental	1,963,417	-	-	268,137	2,231,554
Licenses and permits	79,902	-	-	-	79,902
Contributions	-	-	153,101	174,006	327,107
Fines and forfeits	246,611	-	-	22,797	269,408
Charges for services	769,462	-	-	1,152,037	1,921,499
Reimbursements and refunds	738,791	-	-	129,111	867,902
Interest and rentals	292,885	-	-	3,608	296,493
Other revenue	-	-	-	1,293,049	1,293,049
Total revenues	10,022,060	1,256,820	153,101	4,028,221	15,460,202
Expenditures					
Current:					
Legislative	99,467	-	-	-	99,467
Judicial	1,806,234	-	-	16,436	1,822,670
General government	2,419,848	-	-	39,532	2,459,380
Public safety	3,003,144	-	-	1,124,986	4,128,130
Public works	20,652	-	-	-	20,652
Health and welfare	632,260	1,231,972	-	2,126,799	3,991,031
Recreation and cultural	-	-	-	61,908	61,908
Other	2,179,954	-	-	-	2,179,954
Capital outlay	81,002	-	-	582,269	663,271
Capital lease	51,142	-	-	5,062	56,204
Debt service:					
Principal	14,552	-	85,000	503,662	603,214
Interest	3,238	-	67,421	308,893	379,552
Issuance costs	-	-	-	16,000	16,000
Total expenditures	10,311,493	1,231,972	152,421	4,785,547	16,481,433
Revenue over (under) expenditures	(289,433)	24,848	680	(757,326)	(1,021,231)
Other financing sources (uses)					
Payment to escrow agent	-	-	-	(771,165)	(771,165)
Proceeds from issuance of debt	52,187	-	-	1,446,000	1,498,187
Transfers in	712,000	-	-	1,505,968	2,217,968
Transfers out	(779,717)	-	-	(726,251)	(1,505,968)
Total other financing sources (uses)	(15,530)	-	-	1,454,552	1,439,022
Net change in fund balances	(304,963)	24,848	680	697,226	417,791
Fund balances, beginning of year	1,220,587	21,420	25	1,672,073	2,914,105
Fund balances, end of year	\$ 915,624	\$ 46,268	\$ 705	\$ 2,369,299	\$ 3,331,896

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, 2012

Net change in fund balances - total governmental funds \$ 417,791

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	663,271
Depreciation expense	(326,043)

The receipt of a long-term receivable represents revenue in the fund financial statements, but is reported as a reduction of the receivable in the statement of activities.

Payments received on deferred long-term receivables	50,944
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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 and installment purchase proceeds	(1,498,187)
Principal payments on bonds	603,214
Payment to escrow agent for refunded bonds	771,165
Principal payments on capital leases	56,204

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	6,645
Change in the accrual of compensated absences	(43,281)
Change in the accrual of other post employment benefits	(518,571)

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	(102,013)
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Change in net position of governmental activities \$ 81,139

COUNTY OF HILLSDALE, MICHIGAN

Statement of Net Position

Proprietary Funds
December 31, 2012

	Business-type Activities - Enterprise Funds				Internal Service
	Medical Care Facility	2011 Delinquent Tax Revolving	Nonmajor Funds	Totals	Self Insurance
Assets					
Current assets:					
Cash and cash investments	\$ 1,541,791	\$ 1,037,167	\$ 1,724,286	\$ 4,303,244	\$ 51,552
Taxes receivable	757,827	1,490,195	812,707	3,060,729	-
Accounts receivable	1,905,221	-	9,373	1,914,594	-
Interfund receivable	-	-	-	-	-
Interest receivable	-	221,510	548,791	770,301	-
Leases receivable, current portion	-	-	135,000	135,000	-
Prepays	-	-	6,098	6,098	-
Other assets	263,487	-	-	263,487	-
Total current assets	4,468,326	2,748,872	3,236,255	10,453,453	51,552
Noncurrent assets:					
Leases receivable, net of current portion	-	-	30,000	30,000	-
Capital assets being depreciated, net	12,448,270	-	6,715	12,454,985	-
Total noncurrent assets	12,448,270	-	36,715	12,484,985	-
Total assets	16,916,596	2,748,872	3,272,970	22,938,438	51,552
Liabilities					
Current liabilities:					
Accounts payable	348,719	-	2,886	351,605	69,618
Accrued liabilities	1,182,458	13,725	7,848	1,204,031	-
Interfund payable	-	-	-	-	-
Due to other governments	-	-	7,160	7,160	-
Unearned revenue	757,827	-	-	757,827	-
Current portion of long-term debt	438,000	-	1,135,000	1,573,000	-
Total current liabilities	2,727,004	13,725	1,152,894	3,893,623	69,618
Long-term liabilities:					
Due in more than one year	2,152,000	2,400,000	30,000	4,582,000	-
Other post employment benefits	1,824,000	-	-	1,824,000	-
Total long-term liabilities	3,976,000	2,400,000	30,000	6,406,000	-
Total liabilities	6,703,004	2,413,725	1,182,894	10,299,623	69,618
Net position					
Net investment in capital assets	9,858,270	-	6,715	9,864,985	-
Restricted by statute	-	-	428,353	428,353	-
Unrestricted (deficit)	355,322	335,147	1,655,008	2,345,477	(18,066)
Total net position	\$ 10,213,592	\$ 335,147	\$ 2,090,076	\$ 12,638,815	\$ (18,066)

COUNTY OF HILLSDALE, MICHIGAN

Statement of Revenues, Expenses and Changes in Net Position

Proprietary Funds

Year Ended December 31, 2012

	Business-type Activities - Enterprise Funds				Internal Service
	Medical Care Facility	2011 Delinquent Tax Revolving	Nonmajor Funds	Totals	Self Insurance
Operating revenues					
Charges for services	\$ 15,401,981	\$ 127,924	\$ 433,633	\$ 15,963,538	\$ -
Refunds and reimbursements	-	-	8,435	8,435	-
Other operating revenue	2,085,185	24,803	867,885	2,977,873	32,000
Total operating revenues	<u>17,487,166</u>	<u>152,727</u>	<u>1,309,953</u>	<u>18,949,846</u>	<u>32,000</u>
Operating expenses					
Depreciation expense	546,561	-	1,492	548,053	-
Cost of services	16,759,043	13,126	910,413	17,682,582	134,013
Total operating expenses	<u>17,305,604</u>	<u>13,126</u>	<u>911,905</u>	<u>18,230,635</u>	<u>134,013</u>
Operating income (loss)	<u>181,562</u>	<u>139,601</u>	<u>398,048</u>	<u>719,211</u>	<u>(102,013)</u>
Nonoperating revenues (expenses)					
Property tax revenue	699,578	-	-	699,578	-
Gain (loss) on disposal of capital assets	(7,265)	-	-	(7,265)	-
Contributions	2,419	-	-	2,419	-
Interest and rentals	4,603	223,468	236,318	464,389	-
Interest expense	(102,008)	(27,922)	(49,029)	(178,959)	-
Total nonoperating revenues	<u>597,327</u>	<u>195,546</u>	<u>187,289</u>	<u>980,162</u>	<u>-</u>
Income (loss) before transfers	<u>778,889</u>	<u>335,147</u>	<u>585,337</u>	<u>1,699,373</u>	<u>(102,013)</u>
Transfers in (out)					
Transfers out	-	-	(712,000)	(712,000)	-
Change in net position	<u>778,889</u>	<u>335,147</u>	<u>(126,663)</u>	<u>987,373</u>	<u>(102,013)</u>
Net position, beginning of year	<u>9,434,703</u>	<u>-</u>	<u>2,216,739</u>	<u>11,651,442</u>	<u>83,947</u>
Net position, end of year	<u>\$ 10,213,592</u>	<u>\$ 335,147</u>	<u>\$ 2,090,076</u>	<u>\$ 12,638,815</u>	<u>\$ (18,066)</u>

COUNTY OF HILLSDALE, MICHIGAN

Statement of Cash Flows

Proprietary Funds

Year Ended December 31, 2012

	Business-type Activities - Enterprise Funds				Internal Service
	Medical Care Facility	2011 Delinquent Tax Revolving	Nonmajor Funds	Totals	Self Insurance
Cash flows from operating activities					
Cash received from customers	\$ 14,444,440	\$ 152,727	\$ 2,879,379	\$ 17,476,546	\$ 32,000
Cash received from quality assurance supplement	2,036,803	-	-	2,036,803	-
Other operating receipts	48,382	-	-	48,382	-
Cash payments to suppliers and employees for goods and services	(16,462,060)	(1,711,106)	(959,713)	(19,132,879)	(71,376)
Net cash provided by (used in) operating activities	<u>67,565</u>	<u>(1,558,379)</u>	<u>1,919,666</u>	<u>428,852</u>	<u>(39,376)</u>
Cash flows from noncapital financing activities					
Property tax revenue	654,719	-	-	654,719	-
Proceeds from tax notes	-	2,900,000	-	2,900,000	-
Tax notes redeemed	-	(500,000)	(3,000,000)	(3,500,000)	-
Transfers out	-	-	(712,000)	(712,000)	-
Net cash provided by (used in) non-capital financing activities	<u>654,719</u>	<u>2,400,000</u>	<u>(3,712,000)</u>	<u>(657,281)</u>	<u>-</u>
Cash flows from capital and related financing activities					
Purchase of capital assets	(228,568)	-	-	(228,568)	-
Interest payments	(102,008)	(27,922)	(49,029)	(178,959)	-
Principal payments	(1,390,000)	-	(425,000)	(1,815,000)	-
Proceeds from long-term debt	995,000	-	198,120	1,193,120	-
Bond issuance costs	(20,000)	-	-	(20,000)	-
Net cash used in capital and related financing activities	<u>(745,576)</u>	<u>(27,922)</u>	<u>(275,909)</u>	<u>(1,049,407)</u>	<u>-</u>
Cash flows from investing activities					
Interest and rental earnings	4,603	223,468	236,338	464,409	-
Amounts collected on leases receivable	-	-	425,000	425,000	-
Net cash provided by (used in) investing activities	<u>4,603</u>	<u>223,468</u>	<u>661,338</u>	<u>889,409</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	<u>(18,689)</u>	<u>1,037,167</u>	<u>(1,406,905)</u>	<u>(388,427)</u>	<u>(39,376)</u>
Cash and cash equivalents, beginning of year	<u>1,560,480</u>	<u>-</u>	<u>3,131,191</u>	<u>4,691,671</u>	<u>90,928</u>
Cash and cash equivalents, end of year	<u>\$ 1,541,791</u>	<u>\$ 1,037,167</u>	<u>\$ 1,724,286</u>	<u>\$ 4,303,244</u>	<u>\$ 51,552</u>

COUNTY OF HILLSDALE, MICHIGAN

Statement of Cash Flows

Proprietary Funds

Year Ended December 31, 2012

	Business-type Activities - Enterprise Funds				Internal Service
	Medical Care Facility	2011 Delinquent Tax Revolving	Nonmajor Funds	Totals	Self Insurance
Cash flows from operating activities					
Operating income (loss)	\$ 181,562	\$ 139,601	\$ 398,048	\$ 719,211	\$ (102,013)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	546,561	-	1,492	548,053	-
Changes in assets and liabilities:					
Taxes receivable	-	(1,490,195)	1,525,839	35,644	-
Accounts receivable	321,931	-	574,981	896,912	-
Lease receivable	42,082	-	-	42,082	-
Interest receivable	-	(221,510)	(529,039)	(750,549)	-
Interfund receivable	-	-	-	-	-
Prepays	73,395	-	(2,062)	71,333	-
Accounts payable	(1,246,284)	-	(49,593)	(1,295,877)	62,637
Accrued expenses	148,318	13,725	-	162,043	-
Interfund payable	-	-	-	-	-
Due to other governments	-	-	-	-	-
Net cash provided by (used in) operating activities	<u>\$ 67,565</u>	<u>\$ (1,558,379)</u>	<u>\$ 1,919,666</u>	<u>\$ 428,852</u>	<u>\$ (39,376)</u>

Non-cash transactions

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

COUNTY OF HILLSDALE, MICHIGAN

Statement of Fiduciary Net Position

December 31, 2012

	Agency Funds
Assets	
Cash and investments	<u>\$ 1,115,073</u>
Liabilities	
Due to other governments	364,566
Undistributed receipts	<u>750,507</u>
Total liabilities	<u>\$ 1,115,073</u>

Component Units

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Net Position

Discretely Presented Component Units

December 31, 2012

	Drain Commission	Road Commission	Total
Assets			
Cash and investments	\$ 453,661	\$ 749,495	\$ 1,203,156
Special assessments receivable	321,742	-	321,742
Receivables, net	-	788,317	788,317
Prepaid items and other assets	100	734,673	734,773
Capital assets:			
Capital assets not being depreciated	-	5,340,756	5,340,756
Capital assets being depreciated, net	769,550	20,192,236	20,961,786
Total assets	<u>1,545,053</u>	<u>27,805,477</u>	<u>29,350,530</u>
Liabilities			
Accounts payable and accrued expenses	-	245,856	245,856
Notes payable (short term)	-	135,745	135,745
Advances from primary government	307,968	-	307,968
Long-term liabilities:			
Due within one year	-	95,043	95,043
Due in more than one year	-	422,123	422,123
Total liabilities	<u>307,968</u>	<u>898,767</u>	<u>1,206,735</u>
Net position			
Net investment in capital assets	769,550	24,420,987	25,190,537
Unrestricted	467,535	2,485,723	2,953,258
Total net position	<u>\$ 1,237,085</u>	<u>\$ 26,906,710</u>	<u>\$ 28,143,795</u>

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Activities

Discretely Presented Component Units

Year Ended December 31, 2012

	Drain Commission	Road Commission	Total
Expenses			
County Drains	\$ 256,157	\$ -	\$ 256,157
County Roads	-	7,558,540	7,558,540
Total expenses	<u>256,157</u>	<u>7,558,540</u>	<u>7,814,697</u>
Program revenues			
Charges for services	84,753	1,765,156	1,849,909
Operating grants and contributions	219,597	4,516,354	4,735,951
Total program revenues	<u>304,350</u>	<u>6,281,510</u>	<u>6,585,860</u>
Net expense	<u>48,193</u>	<u>(1,277,030)</u>	<u>(1,228,837)</u>
General revenues			
Unrestricted investment earnings	<u>1,821</u>	<u>6,730</u>	<u>8,551</u>
Change in net position	50,014	(1,270,300)	(1,220,286)
Net position, beginning of year	<u>1,187,071</u>	<u>28,177,010</u>	<u>29,364,081</u>
Net position, end of year	<u>\$ 1,237,085</u>	<u>\$ 26,906,710</u>	<u>\$ 28,143,795</u>

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2012, 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, 2012, was \$240,443.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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 2011 *delinquent tax revolving fund* 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

Deposits 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.

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".

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2012, the County incurred expenditures in excess of the amount appropriated as follows:

	Amended Budget	Actual	Variance
General fund -			
Judicial:			
Circuit court	\$ 173,197	\$ 175,988	\$ 2,791
Law library	5,000	5,017	17
Jury commission	2,733	2,861	128
General government:			
Elections	112,527	118,050	5,523
Equalization	206,680	208,576	1,896
Treasurer	225,283	227,451	2,168
Public safety:			
Universal hiring	201,212	205,825	4,613
Jail operation	844,399	862,162	17,763
Emergency preparedness	42,050	44,578	2,528
Lifescan	17,928	19,371	1,443
Health and welfare			
Veteran's affair office	55,678	56,699	1,021
District health department	240,340	240,443	103
Capital lease	-	51,142	51,142
Debt service:			
Principal	-	14,552	14,552
Interest	-	3,238	3,238

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

4. FUND DEFICITS

At December 30, 2012, there is a deficit in the Department of Human Services Child Care fund in the amount of \$23,636 and Self Insurance fund in the amount of \$18,066.

5. DEPOSITS AND INVESTMENTS

Summary of Deposit and Investment Balances

Following is a reconciliation of deposit and investment balances as of December 31, 2012:

	Primary Government	Component Units	Totals
Financial statements			
Statement of net assets -			
Cash and investments	\$ 7,464,211	\$ 1,203,156	\$ 8,667,367
Statement of fiduciary assets and liabilities -			
Cash and investments	1,115,073	-	1,115,073
Total	\$ 8,579,284	\$ 1,203,156	\$ 9,782,440
Deposits and investments			
Bank deposits (checking accounts, savings accounts and certificates of deposits)			\$ 4,186,226
Investments in securities, mutual funds and similar vehicles:			
Treasurer's pool			5,557,333
Cash on hand			38,881
Total			\$ 9,782,440

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	603,272	-	-	-	603,272
Municipal bonds	266,963	-	266,963	-	-
Total	870,235	-	266,963	-	603,272

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, 2012, \$521,407 of the County's total bank balance of \$4,372,102 (total book balance was \$4,186,226) was exposed to custodial credit risk as it was uninsured and uncollateralized.

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.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

5. DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk - Investments. Following is a summary of the Treasurer's investment pool holdings as of December 31, 2012:

U.S. agencies	\$ 603,272
Michigan municipal bonds and notes	266,963
Money market funds	<u>4,687,098</u>
Total	<u><u>\$ 5,557,333</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, 2012, 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.

6. RECEIVABLES

Receivables as of December 31, 2012 are summarized as follows:

	Governmental Activities	Business-type Activities	Component Units
Property taxes	\$ 2,727,152	\$ 3,060,729	\$ -
Accounts receivable	553,193	1,914,594	788,317
Special assessments	-	-	321,742
Due from other governments	74,427	-	-
Advances to component unit	307,968	-	-
Leases receivable	1,580,000	165,000	-
Interest receivable	8,247	770,301	-
	<u>\$ 5,250,987</u>	<u>\$ 5,910,624</u>	<u>\$ 1,110,059</u>

Of the amounts reported for receivables above, leases receivable in the amount of \$1,490,000 are not expected to be collected within one year.

7. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund receivables and payables at December 31, 2012 is as follows:

	Receivable	Payable
General fund	\$ 459	\$ -
Nonmajor governmental funds	-	459
	<u>\$ 459</u>	<u>\$ 459</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.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

7. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)

For the year ended December 31, 2012, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General fund	\$ 712,000	\$ 779,717
Nonmajor governmental funds	1,505,968	726,251
Nonmajor enterprise funds	-	712,000
	<u>\$ 2,217,968</u>	<u>\$ 2,217,968</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.

8. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 130,005	\$ -	\$ -	\$ 130,005
Construction in progress	-	316,748	-	316,748
Equipment	55,881	169,763	(225,644)	-
Total capital assets not being depreciated	<u>185,886</u>	<u>486,511</u>	<u>(225,644)</u>	<u>446,753</u>
Capital assets being depreciated:				
Buildings and improvements	7,522,176	-	-	7,522,176
Vehicles and equipment	2,590,021	402,404	-	2,992,425
Total capital assets being depreciated	<u>10,112,197</u>	<u>402,404</u>	<u>-</u>	<u>10,514,601</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,956,613)	(166,929)	-	(4,123,542)
Vehicles and equipment	(1,178,702)	(159,114)	-	(1,337,816)
Total accumulated depreciation	<u>(5,135,315)</u>	<u>(326,043)</u>	<u>-</u>	<u>(5,461,358)</u>
Total capital assets being depreciated, net	<u>4,976,882</u>	<u>76,361</u>	<u>-</u>	<u>5,053,243</u>
Governmental activities capital assets, net	<u>\$ 5,162,768</u>	<u>\$ 562,872</u>	<u>\$ (225,644)</u>	<u>\$ 5,499,996</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

8. CAPITAL ASSETS (Continued)

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type activities				
Capital assets being depreciated:				
Land improvements	29,524	-	-	29,524
Buildings and improvements	17,225,468	66,290	(186,111)	17,105,647
Vehicles and equipment	1,370,545	162,278	(163,046)	1,369,777
Total capital assets being depreciated	18,625,537	228,568	(349,157)	18,504,948
Less accumulated depreciation for:				
Land improvements	(29,524)	-	-	(29,524)
Buildings and improvements	(4,970,392)	(454,775)	185,875	(5,239,292)
Vehicles and equipment	(843,886)	(93,278)	156,017	(781,147)
Total accumulated depreciation	(5,843,802)	(548,053)	341,892	(6,049,963)
Total capital assets being depreciated, net	12,781,735	(319,485)	(7,265)	12,454,985
Business-type activities capital assets, net	\$ 12,781,735	\$ (319,485)	\$ (7,265)	\$ 12,454,985

Depreciation expense in governmental activities is not allocated by function.

	Beginning Balance	Additions	Disposals	Ending Balance
Component unit - Road Commission				
Capital assets not being depreciated:				
Land	\$ 68,434	\$ -	\$ -	\$ 68,434
Land improvements	5,258,436	13,886	-	5,272,322
Total capital assets not being depreciated	5,326,870	13,886	-	5,340,756
Capital assets being depreciated:				
Buildings and improvements	2,097,182	504	-	2,097,686
Equipment	6,756,011	269,305	(216,882)	6,808,434
Infrastructure	49,414,321	237,900	-	49,652,221
Depletable assets	65,400	-	-	65,400
Total capital assets being depreciated	58,332,914	507,709	(216,882)	58,623,741
Less accumulated depreciation for:				
Buildings and improvements	(842,570)	(63,376)	-	(905,946)
Equipment	(5,887,282)	(334,757)	185,291	(6,036,748)
Infrastructure	(29,924,920)	(1,501,082)	-	(31,426,002)
Depletable assets	(62,795)	(14)	-	(62,809)
Total accumulated depreciation	(36,717,567)	(1,899,229)	185,291	(38,431,505)
Total capital assets being depreciated, net	21,615,347	(1,391,520)	(31,591)	20,192,236
Capital assets, net	\$ 26,942,217	\$ (1,377,634)	\$ (31,591)	\$ 25,532,992

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

8. CAPITAL ASSETS (Continued)

	Beginning Balance	Additions	Disposals	Ending Balance
Component unit - Drainage District				
Capital assets being depreciated -				
Buildings	\$ 135,000	\$ -	\$ -	\$ 135,000
Equipment	932,209	-	-	932,209
Infrastructure	458,635	-	-	458,635
Total capital assets being depreciated	1,525,844	-	-	1,525,844
Less accumulated depreciation for -				
Buildings	(70,200)	(5,400)	-	(75,600)
Equipment	(551,262)	(50,032)	-	(601,294)
Infrastructure	(70,227)	(9,173)	-	(79,400)
Total accumulated depreciation	(691,689)	(64,605)	-	(756,294)
Capital assets, net	\$ 834,155	\$ (64,605)	\$ -	\$ 769,550

9. PAYABLES

Accounts payable and accrued liabilities as of December 31, 2012 are summarized as follows:

	Governmental Activities	Business-type Activities	Components Units
Accounts payable	\$ 732,621	\$ 351,605	\$ 245,856
Accrued liabilities	218,186	1,204,031	135,745
Due to other governments	54,000	7,160	-
Advances from primary government	-	-	307,968
Accrued interest payable	66,594	-	-
	<u>\$ 1,071,401</u>	<u>\$ 1,562,796</u>	<u>\$ 689,569</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	\$ 1,580,000
2006 Medical Care Facility	4.00%	2026	8,000,000	6,660,000
2012 Building Authority - Refunding	0.85%-1.50%	2016	766,000	619,000
				<u>\$ 8,859,000</u>
Business-type activities				
2012 Building Authority - MCF Refunding	1.00%-1.70%	2018	\$ 995,000	\$ 995,000
2010 Medical Care Facility	3.50%-4.25%	2017	2,100,000	1,595,000
Sanitary Sewer - City of Litchfield	2.00%	2014	2,183,236	165,000
				<u>\$ 2,755,000</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

10. LONG-TERM DEBT (Continued)

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
2013	\$ 536,000	\$ 274,639	\$ 573,000	\$ 81,721
2014	572,000	324,381	493,000	66,783
2015	603,000	305,757	486,000	51,716
2016	633,000	286,088	503,000	35,854
2017	500,000	260,503	519,000	19,132
2018-2022	3,020,000	970,731	181,000	1,539
2023-2026	2,995,000	291,946	-	-
	<u>\$ 8,859,000</u>	<u>\$ 2,714,045</u>	<u>\$ 2,755,000</u>	<u>\$ 256,745</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, 2012, the County's legal debt limit was \$128,184,894.

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	4.38%	2018	\$ 774,200	\$ 489,602
BS&A	0.00%	2013	43,655	14,764
Annex Project	1.50%	2020	680,000	680,000
				<u>\$ 1,184,366</u>

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

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2013	\$ 169,821	\$ 31,634
2014	163,602	27,049
2015	167,304	22,147
2016	176,169	17,081
2017	180,206	11,769
2018 - 2022	327,264	9,940
	<u>\$ 1,184,366</u>	<u>\$ 119,620</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

10. LONG-TERM DEBT (Continued)

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, 2012 were as follows:

	Year Ending December 31,	Governmental Activities
	2013	\$ 41,975
	2014	22,783
Total minimum lease payments		64,758
Less amount representing interest		(3,982)
Present value of minimum lease payments		<u>\$ 60,776</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, 2012, are as follows:

Purpose	Interest Rates	Maturity Date	Amount of Original Issue	Amount Outstanding
Business-type activities				
2011 Delinquent Tax Revolving Notes	1.55%-2.70%	2013	\$ 3,200,000	\$ 1,000,000
2012 Delinquent Tax Revolving Notes	0.80%-1.60%	2014	2,900,000	2,400,000
				<u>\$ 3,400,000</u>

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

Year Ending December 31,	Business-type Activities	
	Principal	Interest
2013	\$ 2,500,000	\$ 43,900
2014	900,000	9,900
	<u>\$ 3,400,000</u>	<u>\$ 53,800</u>

Changes in long-term debt. Long-term debt activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Primary Government:					
Governmental activities					
General obligation bonds	\$ 9,355,000	\$ 766,000	\$ (1,262,000)	\$ 8,859,000	\$ 536,000
Capital leases	64,793	52,187	(56,204)	60,776	38,924
Installment contracts	595,580	680,000	(91,214)	1,184,366	169,821
Compensated absences	333,261	117,342	(74,061)	376,542	94,136
	<u>\$ 10,348,634</u>	<u>\$ 1,615,529</u>	<u>\$ (1,483,479)</u>	<u>\$ 10,480,684</u>	<u>\$ 838,881</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

10. LONG-TERM DEBT (Continued)

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Business-type activities					
General obligation bonds	\$ 3,575,000	\$ 995,000	\$ (1,815,000)	\$ 2,755,000	\$ 573,000
Delinquent tax notes	4,000,000	2,900,000	(3,500,000)	3,400,000	2,500,000
	<u>\$ 7,575,000</u>	<u>\$ 3,895,000</u>	<u>\$ (5,315,000)</u>	<u>\$ 6,155,000</u>	<u>\$ 3,073,000</u>
Component Units:					
Road Commission					
Installment lease payable	\$ 107,172	\$ 148,125	\$ (143,292)	\$ 112,005	\$ 74,052
Compensated absences	416,274	9,878	(20,991)	405,161	20,991
	<u>\$ 523,446</u>	<u>\$ 158,003</u>	<u>\$ (164,283)</u>	<u>\$ 517,166</u>	<u>\$ 95,043</u>
Drain Commission					
Installment loan	\$ 79,340	\$ -	\$ (79,340)	\$ -	\$ -
	<u>\$ 79,340</u>	<u>\$ -</u>	<u>\$ (79,340)</u>	<u>\$ -</u>	<u>\$ -</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.

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, 2012, 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:

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

11. RISK MANAGEMENT / SELF-INSURANCE PROGRAMS (Continued)

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

	2012	2011
Workers compensation		
Estimated liability, January 1	\$ 6,981	\$ 14,108
Estimated claims incurred, including changes in estimates	78,728	14,531
Claim payments	<u>(30,424)</u>	<u>(21,658)</u>
Estimated liability, December 31	<u>\$ 55,285</u>	<u>\$ 6,981</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.

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.

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.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

13. PROPERTY TAXES (Continued)

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, 2011 levy, for which revenue was recognized in fiscal 2012, was \$1,284,884,411. For the general fund, the assessed and taxable value of real and personal property for the July 1, 2012 levy, for which revenue was recognized in fiscal 2012, was \$1,263,045,598. 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, .5500 for Medical Care Facility operating, and .3500 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.

For the year ended December 31, 2012, the annual pension cost of \$145,110 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.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

14. DEFINED BENEFIT PENSION PLANS - Primary Government (Continued)

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
2010	\$ 148,325	100%	\$ -
2011	142,511	100%	-
2012	145,110	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, 2011, 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 \$1,846,043 and the ratio of the UAAL to the covered payroll was 157.1 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.

The Road Commission is required to contribute at an actuarially determined rate; the current employer's contribution rate of annual covered payroll is 6.47% for Association members and 16.35% 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, 2012, the Road Commission's annual pension cost of \$177,854 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, 2011, the date of the latest actuarial valuation, is being amortized as a level percentage of projected payroll on an open basis over 26 years.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

15. DEFINED BENEFIT PENSION PLANS - Road Commission (Continue)

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
2010	\$ 160,479	100%	\$ -
2011	155,124	100%	-
2012	177,854	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, 2011, the date of the most recent actuarial valuation, the Plan was 71.5 percent funded. The actuarial accrued liability for benefits was \$8,330,567, and the actuarial value of assets was \$5,959,968, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,370,599. The covered payroll (annual payroll of the active employees covered by the Plan) was \$1,786,673 and the ratio of the UAAL to the covered payroll was 132.7 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.

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 \$143,930 for the year ended December 31, 2012 and employees contributed \$145,410.

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.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

17. POSTEMPLOYMENT HEALTH CARE BENEFITS - Primary Government (Continued)

Funding Progress. For the year ended December 31, 2012, 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, 2012:

Annual OPEB Cost and Net OPEB Obligation. For the year ended December 31, 2012, 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	\$ 552,523
Interest on net OPEB obligation	48,478
Adjustment to annual required contribution	<u>(71,363)</u>
Annual OPEB cost	529,638
Contributions made	<u>(11,067)</u>
Increase in net OPEB obligation	518,571
Net OPEB obligation, beginning of year	<u>1,211,942</u>
Net OPEB obligation, end of year	<u><u>\$ 1,730,513</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, 2012, 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
2010	\$ 401,861	6.0%	\$ 726,680
2011	499,594	3.2%	1,211,942
2012	529,638	2.1%	1,730,513

Funded Status and Funding Progress. As of December 31, 2010, 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.

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

17. POSTEMPLOYMENT HEALTH CARE BENEFITS - Primary Government (Continued)

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, 2010
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

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, 2012, 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, 2012:

Annual OPEB cost	\$ 122,284
Contributions made	<u>(105,819)</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, 2012, 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
2010	\$ 838,427	20.1%	\$ 1,307,000
2011	711,756	27.4%	1,824,000
2012	122,284	87.0%	1,824,000

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

18. POSTEMPLOYMENT HEALTH CARE BENEFITS - Medical Care Facility (Continued)

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.

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 Medical Care Facility 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	5.0% initially; 0.0% ultimately

19. NET INVESTMENT IN CAPITAL ASSETS

	Governmental activities	Business-type activities
Capital assets not being depreciated	\$ 446,753	\$ -
Capital assets being depreciated, net	5,053,243	12,454,985
Total capital assets	<u>5,499,996</u>	<u>12,454,985</u>
Capital related bonds	(8,859,000)	(2,590,000)
Installment contracts	(1,184,366)	-
Capital leases	(60,776)	-
Unamortized premium on bonds	(6,885)	-
Total net investment in capital assets	<u>\$ (4,611,031)</u>	<u>\$ 9,864,985</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to Financial Statements

20. CHANGE IN PRESENTATION

During 2012, the entity implemented Governmental Accounting Standards Board (GASB) Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that was included in Financial Accounting Standards Board and predecessor organization's pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements, GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which provides guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. There were no significant changes to the financial statements as a result of adopting these Statements. The County did not adopt provisions of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Effects on the financial statements as a result of adopting this standard are limited to financial presentation.

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%

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%

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%

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%

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 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%

Retiree Health Care Plan - Medical Care Facility

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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

COUNTY OF HILLSDALE, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenues				
Property taxes	\$ 6,269,000	\$ 6,269,000	\$ 5,930,992	\$ (338,008)
Intergovernmental:				
State revenue sharing	618,612	709,312	709,423	111
Juvenile Officer's Grant	28,000	28,000	20,488	(7,512)
Judges Salaries Grant	231,367	231,367	238,196	6,829
Juror Compensation Grant	3,000	3,000	4,375	1,375
Liquor Tax	104,200	130,600	150,830	20,230
Secondary Road Patrol Grant	68,220	68,220	68,220	-
Marine Safety Grant	23,000	23,000	14,630	(8,370)
Emergency Management Grant	5,500	5,500	7,704	2,204
Drunk Driving Grant	13,000	13,000	11,987	(1,013)
Cigarette Tax Distribution	20,000	20,000	2,470	(17,530)
Prosecutor - Cooperative Reimbursement Program	60,000	60,000	48,329	(11,671)
FOC - Cooperative Reimbursement Program	380,000	380,000	322,957	(57,043)
FOC - Other	64,000	95,500	75,594	(19,906)
Survey and Remonumentation Grant	38,894	38,894	39,052	158
State court equity funding	230,000	230,000	187,985	(42,015)
Elections	30,000	60,000	60,666	666
Other intergovernmental revenue	200	200	511	311
Total intergovernmental	1,917,993	2,096,593	1,963,417	(133,176)
Licenses and permits:				
Dog licenses	60,000	60,000	55,990	(4,010)
Other licenses and permits	26,000	26,000	23,912	(2,088)
Total licenses and permits	86,000	86,000	79,902	(6,098)
Fines and forfeits:				
Ordinance fines and costs	\$ 248,000	\$ 248,000	\$ 232,466	\$ (15,534)
Bond forfeitures	13,200	13,200	14,145	945
Total fines and forfeits	261,200	261,200	246,611	(14,589)
Charges for services:				
Circuit Court	42,300	42,300	35,409	(6,891)
District Court	110,300	110,300	104,556	(5,744)
Friend of the Court	92,200	92,200	106,803	14,603
Probate/Family Court	17,100	17,100	14,822	(2,278)
Clerk	56,000	56,000	57,034	1,034
Register of deeds	248,000	267,000	280,387	13,387
Sheriff	72,250	72,250	59,452	(12,798)
Equalization	61,000	61,000	34,421	(26,579)
Other charges for services	83,700	83,700	76,578	(7,122)
Total charges for services	782,850	801,850	769,462	(32,388)
Interest and rentals:				
Interest revenue	50,000	50,000	37,528	(12,472)
Rents	278,004	278,004	255,357	(22,647)
Total interest and rentals	328,004	328,004	292,885	(35,119)
Other revenue/reimbursements - Reimbursements and refunds	994,154	845,579	738,791	(106,788)
Total revenues	10,639,201	10,688,226	10,022,060	(666,166)
Expenditures				
Legislative - Board of Commissioners	119,735	119,735	99,467	(20,268)

COUNTY OF HILLSDALE, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Judicial:				
Circuit Court	173,197	173,197	175,988	2,791
District Court	489,112	511,112	508,075	(3,037)
Friend of the Court	420,000	420,000	392,603	(27,397)
Law Library	5,000	5,000	5,017	17
Jury Commission	2,733	2,733	2,861	128
Probate Court	628,010	530,252	523,365	(6,887)
Family/Juvenile Court	205,000	210,000	198,325	(11,675)
Total judicial	1,923,052	1,852,294	1,806,234	(46,060)
General government:				
Elections	89,527	112,527	118,050	5,523
Clerk	225,002	247,787	243,076	(4,711)
Register of deeds	137,141	137,141	136,321	(820)
Planning	1,020	1,020	120	(900)
Equalization	206,680	206,680	208,576	1,896
Information technology	234,000	285,900	259,716	(26,184)
Prosecutor	381,983	381,983	381,269	(714)
Survey & Remonumentation	39,158	38,894	38,834	(60)
Treasurer	202,310	225,283	227,451	2,168
MSU Extension	188,740	188,740	168,873	(19,867)
Courthouse and grounds	301,930	301,930	292,299	(9,631)
FOC Building	30,699	30,699	22,052	(8,647)
DHS Building	146,875	146,875	130,120	(16,755)
Drain Commissioner	199,624	199,624	185,005	(14,619)
Bus Garage	10,000	10,000	8,086	(1,914)
Total general government	2,394,689	2,515,083	2,419,848	(95,235)
Public safety:				
Sheriff's Department	1,645,386	1,645,386	1,601,350	(44,036)
Secondary Road Patrol Grant	146,272	146,272	141,517	(4,755)
Marine Patrol	21,994	21,994	14,847	(7,147)
Narcotics enforcement	77,134	77,134	66,321	(10,813)
Universal hiring	201,212	201,212	205,825	4,613
Jail Operation	844,399	844,399	862,162	17,763
Emergency Preparedness	40,550	42,050	44,578	2,528
Animal control	55,672	55,672	47,173	(8,499)
Lifescan	17,928	17,928	19,371	1,443
Total public safety	3,050,547	3,052,047	3,003,144	(48,903)
Public works -				
Board of Public Works	22,548	22,548	20,652	(1,896)
Health and welfare:				
Health Department	62,485	107,285	88,809	(18,476)
Medical Examiner	47,645	47,645	43,066	(4,579)
Veteran's Burial	14,000	14,000	9,243	(4,757)
Veteran's Affairs Office	55,678	55,678	56,699	1,021
District Health Department	240,340	240,340	240,443	103
Mental Health Authority	23,357	194,000	194,000	-
Total health and welfare	443,505	658,948	632,260	(26,688)
Other:				
Employee Benefits	1,871,700	1,657,625	1,519,750	(137,875)
Property/Liability Insurance	244,600	244,600	215,962	(28,638)
Other	328,421	344,051	322,981	(21,070)
Appropriations	96,139	104,339	121,261	16,922
Total other	2,540,860	2,350,615	2,179,954	(170,661)

COUNTY OF HILLSDALE, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Capital outlay	116,128	116,128	81,002	(35,126)
Capital lease	-	-	51,142	51,142
Debt service:				
Principal	-	-	14,552	14,552
Interest	-	-	3,238	3,238
	-	-	17,790	17,790
Total expenditures	10,611,064	10,687,398	10,311,493	(375,905)
Revenues over (under) expenditures	28,137	828	(289,433)	(290,261)
Other financing sources (uses)				
Proceeds from capital lease	-	-	52,187	52,187
Transfers in	721,620	721,620	712,000	(9,620)
Transfers out	(767,685)	(779,685)	(779,717)	32
Total other financing sources (uses)	(46,065)	(58,065)	(15,530)	42,535
Net change in fund balances	(17,928)	(57,237)	(304,963)	(247,726)
Fund balances, beginning of year	1,220,587	1,220,587	1,220,587	-
Fund balances, end of year	\$ 1,202,659	\$ 1,163,350	\$ 915,624	\$ (247,726)

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, 2012

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenues				
Property tax revenue	\$ 1,230,000	\$ 1,230,000	\$ 1,256,820	\$ 26,820
Expenditures				
Health and welfare	1,249,000	1,249,000	1,231,972	(17,028)
Revenues over expenditures	(19,000)	(19,000)	24,848	43,848
Fund balances, beginning of year	21,420	21,420	21,420	-
Fund balances, end of year	<u>\$ 2,420</u>	<u>\$ 2,420</u>	<u>\$ 46,268</u>	<u>\$ 43,848</u>

Other Information

COUNTY OF HILLSDALE, MICHIGAN

Combining Balance Sheet - Nonmajor Governmental Funds

December 31, 2012

	Special Revenue							
	Parks	Ambulance	Tobacco and Alcohol Diversion	E-911 Emergency	Friend of the Court	Register of Deeds Automation	Drug Forfeiture	Law Enforcement Training
Assets								
Cash and investments	\$ 21,645	\$ 39,547	\$ 1,879	\$ 651,077	\$ 54,854	\$ 324,436	\$ 2,816	\$ 6,658
Taxes receivable	-	488,040	-	-	-	-	-	-
Accounts receivable	-	-	-	248,093	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-	-	-
Prepaid expenditures	-	-	-	11,304	-	-	-	-
Interest receivable	8	-	-	315	-	-	-	-
Total assets	<u>\$ 21,653</u>	<u>\$ 527,587</u>	<u>\$ 1,879</u>	<u>\$ 910,789</u>	<u>\$ 54,854</u>	<u>\$ 324,436</u>	<u>\$ 2,816</u>	<u>\$ 6,658</u>
Liabilities								
Accounts payable	\$ 8,673	\$ -	\$ -	\$ 6,181	\$ -	\$ -	\$ -	\$ -
Unearned revenue	3,292	-	-	-	-	-	-	-
Accrued liabilities	1,366	-	-	25,988	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-
Interfund payable	-	-	-	-	-	-	-	-
Due to other governments	-	-	-	-	-	-	-	-
Total liabilities	<u>13,331</u>	<u>-</u>	<u>-</u>	<u>32,169</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources								
Taxes levied for subsequent periods	-	488,040	-	-	-	-	-	-
Fund balances								
Nonspendable	-	-	-	11,304	-	-	-	-
Restricted	-	39,547	-	867,316	54,854	324,436	2,816	6,658
Assigned	8,322	-	1,879	-	-	-	-	-
Total fund balances	<u>8,322</u>	<u>39,547</u>	<u>1,879</u>	<u>878,620</u>	<u>54,854</u>	<u>324,436</u>	<u>2,816</u>	<u>6,658</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 21,653</u>	<u>\$ 527,587</u>	<u>\$ 1,879</u>	<u>\$ 910,789</u>	<u>\$ 54,854</u>	<u>\$ 324,436</u>	<u>\$ 2,816</u>	<u>\$ 6,658</u>

COUNTY OF HILLSDALE, MICHIGAN

Combining Balance Sheet - Nonmajor Governmental Funds

December 31, 2012

	Special Revenue							
	County Law Library	Child Abuse	Department of Human Services	Department of Human Services Child Care	Probate Child Care	Soldiers' and Sailors' Relief	Veterans' Trust	Homeland Security
Assets								
Cash and investments	\$ 7,504	\$ 47,150	\$ 59,007	\$ 19,732	\$ 129,043	\$ 42,276	\$ 749	\$ -
Taxes receivable	-	-	-	-	-	-	-	-
Accounts receivable	-	4,880	-	-	42,913	-	-	-
Due from other funds	-	-	-	-	28,378	-	-	-
Due from other governments	-	4,031	37,130	-	-	-	-	639
Prepaid expenditures	122	-	-	-	2,951	-	-	-
Interest receivable	-	-	-	-	-	-	-	-
Total assets	<u>\$ 7,626</u>	<u>\$ 56,061</u>	<u>\$ 96,137</u>	<u>\$ 19,732</u>	<u>\$ 203,285</u>	<u>\$ 42,276</u>	<u>\$ 749</u>	<u>\$ 639</u>
Liabilities								
Accounts payable	\$ 1,636	\$ -	\$ 13,073	\$ 14,990	\$ 99,845	\$ 447	\$ -	\$ 180
Unearned revenue	-	-	-	-	-	-	-	-
Accrued liabilities	-	-	-	-	16,982	-	-	-
Due to other funds	-	-	-	28,378	-	-	-	-
Interfund payable	-	-	-	-	-	-	-	459
Due to other governments	-	-	54,000	-	-	-	-	-
Total liabilities	<u>1,636</u>	<u>-</u>	<u>67,073</u>	<u>43,368</u>	<u>116,827</u>	<u>447</u>	<u>-</u>	<u>639</u>
Deferred inflows of resources								
Taxes levied for subsequent periods	-	-	-	-	-	-	-	-
Fund balances								
Nonspendable	122	-	-	-	2,951	-	-	-
Restricted	5,868	56,061	29,064	(23,636)	83,507	41,829	749	-
Assigned	-	-	-	-	-	-	-	-
Total fund balances	<u>5,990</u>	<u>56,061</u>	<u>29,064</u>	<u>(23,636)</u>	<u>86,458</u>	<u>41,829</u>	<u>749</u>	<u>-</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 7,626</u>	<u>\$ 56,061</u>	<u>\$ 96,137</u>	<u>\$ 19,732</u>	<u>\$ 203,285</u>	<u>\$ 42,276</u>	<u>\$ 749</u>	<u>\$ 639</u>

COUNTY OF HILLSDALE, MICHIGAN

Combining Balance Sheet - Nonmajor Governmental Funds

December 31, 2012

	Special Revenue		Debt Service				Capital Projects	
	GIS/Mapping Technology	Drug Offender	Court House	Court House Annex	Medical Care Facility Debt Service	DHS Building Authority Debt Service	Improvement	Medical Care Facility
Assets								
Cash and investments	\$ 7,438	\$ 79,450	\$ -	\$ -	\$ 20,857	\$ 602	\$ 299,952	\$ 984
Taxes receivable	-	-	-	-	427,036	-	-	-
Accounts receivable	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-
Due from other governments	-	30,947	-	-	-	-	-	-
Prepaid expenditures	-	392	-	-	-	-	-	-
Interest receivable	-	-	-	-	-	-	11	-
Total assets	<u>\$ 7,438</u>	<u>\$ 110,789</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 447,893</u>	<u>\$ 602</u>	<u>\$ 299,963</u>	<u>\$ 984</u>
Liabilities								
Accounts payable	\$ -	\$ 10,580	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unearned revenue	-	-	-	-	-	-	-	-
Accrued liabilities	-	2,122	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-
Interfund payable	-	-	-	-	-	-	-	-
Due to other governments	-	-	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>12,702</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources								
Taxes levied for subsequent periods	-	-	-	-	427,036	-	-	-
Fund balances								
Nonspendable	-	392	-	-	-	-	-	-
Restricted	-	97,695	-	-	20,857	602	-	-
Assigned	7,438	-	-	-	-	-	299,963	984
Total fund balances	<u>7,438</u>	<u>98,087</u>	<u>-</u>	<u>-</u>	<u>20,857</u>	<u>602</u>	<u>299,963</u>	<u>984</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 7,438</u>	<u>\$ 110,789</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 447,893</u>	<u>\$ 602</u>	<u>\$ 299,963</u>	<u>\$ 984</u>

COUNTY OF HILLSDALE, MICHIGAN

Combining Balance Sheet - Nonmajor Governmental Funds

December 31, 2012

	Capital Project		Permanent Funds			Total
	DHS Building Authority	CH Building Authority	Cemetery Trust	MCF Endowment	Carl Gilmore Trust	
Assets						
Cash and investments	\$ 6,709	\$ 667,121	\$ 240	\$ 3,199	\$ 47	\$ 2,494,972
Taxes receivable	-	-	-	-	-	915,076
Accounts receivable	-	-	-	-	-	295,886
Due from other funds	-	-	-	-	-	28,378
Due from other governments	-	-	-	-	-	72,747
Prepaid expenditures	-	-	-	-	-	14,769
Interest receivable	-	-	-	5	-	339
Total assets	<u>\$ 6,709</u>	<u>\$ 667,121</u>	<u>\$ 240</u>	<u>\$ 3,204</u>	<u>\$ 47</u>	<u>\$ 3,822,167</u>
Liabilities						
Accounts payable	\$ -	\$ 249,600	\$ -	\$ -	\$ -	\$ 405,205
Unearned revenue	-	-	-	-	-	3,292
Accrued liabilities	-	-	-	-	-	46,458
Due to other funds	-	-	-	-	-	28,378
Interfund payable	-	-	-	-	-	459
Due to other governments	-	-	-	-	-	54,000
Total liabilities	<u>-</u>	<u>249,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>537,792</u>
Deferred inflows of resources						
Taxes levied for subsequent periods	-	-	-	-	-	915,076
Fund balances						
Nonspendable	-	-	240	3,204	47	18,260
Restricted	-	417,521	-	-	-	2,025,744
Assigned	6,709	-	-	-	-	325,295
Total fund balances	<u>6,709</u>	<u>417,521</u>	<u>240</u>	<u>3,204</u>	<u>47</u>	<u>2,369,299</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 6,709</u>	<u>\$ 667,121</u>	<u>\$ 240</u>	<u>\$ 3,204</u>	<u>\$ 47</u>	<u>\$ 3,822,167</u>

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds
Year Ended December 31, 2012

	Special Revenue							
	Parks	Ambulance	Tobacco and Alcohol Diversion	E-911 Emergency	Friend of the Court	Register of Deeds Automation	Drug Forfeiture	Law Enforcement Training
Revenues								
Property taxes	\$ -	\$ 502,796	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	5,497	-	-	-	-	-	-
Contributions	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	4,977	-	17,820	-	-	-
Charges for services	32,663	-	-	1,119,374	-	-	-	-
Refunds and reimbursements	-	-	-	35,331	-	-	-	-
Interest and rentals	120	-	-	1,304	-	-	-	-
Other revenue	5,760	-	-	8,719	-	52,309	3,771	5,086
Total revenues	38,543	508,293	4,977	1,164,728	17,820	52,309	3,771	5,086
Expenditures								
Current:								
Judicial	-	-	-	-	5,850	-	-	-
General government	-	-	-	-	-	39,071	-	-
Public safety	-	-	-	767,925	-	-	4,041	5,072
Health and welfare	-	488,663	-	-	-	-	-	-
Recreation and culture	61,861	47	-	-	-	-	-	-
Capital outlay	-	-	-	188,761	-	-	-	-
Capital lease	-	-	-	-	-	-	-	-
Debt service								
Principal	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Issuance costs	-	-	-	-	-	-	-	-
Total expenditures	61,861	488,710	-	956,686	5,850	39,071	4,041	5,072
Revenues over (under) expenditures	(23,318)	19,583	4,977	208,042	11,970	13,238	(270)	14
Other financing sources (uses)								
Payment to escrow agent	-	-	-	-	-	-	-	-
Proceeds from debt issuance	-	-	-	-	-	-	-	-
Transfers in	22,775	-	-	-	-	-	-	-
Transfers out	-	-	(46,251)	-	-	-	-	-
Total other financing sources (uses)	22,775	-	(46,251)	-	-	-	-	-
Net changes in fund balances	(543)	19,583	(41,274)	208,042	11,970	13,238	(270)	14
Fund balances (deficit), beginning of year	8,865	19,964	43,153	670,578	42,884	311,198	3,086	6,644
Fund balances, end of year	\$ 8,322	\$ 39,547	\$ 1,879	\$ 878,620	\$ 54,854	\$ 324,436	\$ 2,816	\$ 6,658

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds
Year Ended December 31, 2012

	Special Revenue							
	County Law Library	Child Abuse	Department of Human Services	Department of Human Services Child Care	Probate Child Care	Soldiers' and Sailors' Relief	Veterans' Trust	Homeland Security
Revenues								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-	-	-	87,226
Contributions	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Refunds and reimbursements	-	-	-	-	93,780	-	-	-
Interest and rentals	-	-	-	-	130	-	-	-
Other revenue	4,500	15,932	326,123	110,506	364,768	-	8,364	295,076
Total revenues	4,500	15,932	326,123	110,506	458,678	-	8,364	382,302
Expenditures								
Current:								
Judicial	10,586	-	-	-	-	-	-	-
General government	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	165,825
Health and welfare	-	-	390,466	241,469	959,524	38,929	7,748	-
Recreation and culture	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Capital lease	-	-	-	-	5,062	-	-	-
Debt service								
Principal	-	-	-	-	-	-	-	-
Interest	-	-	-	-	373	-	-	-
Issuance costs	-	-	-	-	-	-	-	-
Total expenditures	10,586	-	390,466	241,469	964,959	38,929	7,748	165,825
Revenues over (under) expenditures	(6,086)	15,932	(64,343)	(130,963)	(506,281)	(38,929)	616	216,477
Other financing sources (uses)								
Payment to escrow agent	-	-	-	-	-	-	-	-
Proceeds from debt issuance	-	-	-	-	-	-	-	-
Transfers in	3,000	-	60,000	50,036	450,000	80,290	-	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	3,000	-	60,000	50,036	450,000	80,290	-	-
Net changes in fund balances	(3,086)	15,932	(4,343)	(80,927)	(56,281)	41,361	616	216,477
Fund balances (deficit), beginning of year	9,076	40,129	33,407	57,291	142,739	468	133	(216,477)
Fund balances, end of year	\$ 5,990	\$ 56,061	\$ 29,064	\$ (23,636)	\$ 86,458	\$ 41,829	\$ 749	\$ -

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds
Year Ended December 31, 2012

	Special Revenue		Debt Service				Capital Projects	
	GIS/Mapping Technology	Drug Offender	Court House	Court House Annex	Medical Care Facility Debt Service	DHS Building Authority Debt Service	Improvement	Medical Care Facility
Revenues								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 482,680	\$ -	\$ -	\$ -
Intergovernmental	-	175,414	-	-	-	-	-	-
Contributions	-	-	-	-	-	174,006	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Refunds and reimbursements	-	-	-	-	-	-	-	-
Interest and rentals	-	-	-	-	668	3	1,107	-
Other revenue	416	1,115	-	-	-	-	90,604	-
Total revenues	416	176,529	-	-	483,348	174,009	91,711	-
Expenditures								
Current:								
Judicial	-	-	-	-	-	-	-	-
General government	-	-	-	-	-	-	461	-
Public safety	-	182,123	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-	-	-
Recreation and culture	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	130,783	-
Capital lease	-	-	-	-	-	-	-	-
Debt service								
Principal	-	-	76,662	-	280,000	147,000	-	-
Interest	-	-	24,954	-	277,938	5,628	-	-
Issuance costs	-	-	-	-	-	16,000	-	-
Total expenditures	-	182,123	101,616	-	557,938	168,628	131,244	-
Revenues over (under) expenditures	416	(5,594)	(101,616)	-	(74,590)	5,381	(39,533)	-
Other financing sources (uses)								
Payment to escrow agent	-	-	-	-	-	(771,165)	-	-
Proceeds from debt issuance	-	-	-	680,000	-	766,000	-	-
Transfers in	-	58,251	101,616	-	-	-	-	-
Transfers out	-	-	-	(680,000)	-	-	-	-
Total other financing sources (uses)	-	58,251	101,616	-	-	(5,165)	-	-
Net changes in fund balances	416	52,657	-	-	(74,590)	216	(39,533)	-
Fund balances (deficit), beginning of year	7,022	45,430	-	-	95,447	386	339,496	984
Fund balances, end of year	\$ 7,438	\$ 98,087	\$ -	\$ -	\$ 20,857	\$ 602	\$ 299,963	\$ 984

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds
Year Ended December 31, 2012

	Capital Projects		Permanent Funds			Total
	DHS Building Authority	CH Building Authority	Cemetery Trust	MCF Endowment	Carl Gilmore Trust	
Revenues						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 985,476
Intergovernmental	-	-	-	-	-	268,137
Contributions	-	-	-	-	-	174,006
Fines and forfeits	-	-	-	-	-	22,797
Charges for services	-	-	-	-	-	1,152,037
Refunds and reimbursements	-	-	-	-	-	129,111
Interest and rentals	7	246	-	23	-	3,608
Other revenue	-	-	-	-	-	1,293,049
Total revenues	<u>7</u>	<u>246</u>	<u>-</u>	<u>23</u>	<u>-</u>	<u>4,028,221</u>
Expenditures						
Current:						
Judicial	-	-	-	-	-	16,436
General government	-	-	-	-	-	39,532
Public safety	-	-	-	-	-	1,124,986
Health and welfare	-	-	-	-	-	2,126,799
Recreation and culture	-	-	-	-	-	61,908
Capital outlay	-	262,725	-	-	-	582,269
Capital lease	-	-	-	-	-	5,062
Debt service						
Principal	-	-	-	-	-	503,662
Interest	-	-	-	-	-	308,893
Issuance costs	-	-	-	-	-	16,000
Total expenditures	<u>-</u>	<u>262,725</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,785,547</u>
Revenues over (under) expenditures	<u>7</u>	<u>(262,479)</u>	<u>-</u>	<u>23</u>	<u>-</u>	<u>(757,326)</u>
Other financing sources (uses)						
Payment to escrow agent	-	-	-	-	-	(771,165)
Proceeds from debt issuance	-	-	-	-	-	1,446,000
Transfers in	-	680,000	-	-	-	1,505,968
Transfers out	-	-	-	-	-	(726,251)
Total other financing sources (uses)	<u>-</u>	<u>680,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,454,552</u>
Net changes in fund balances	<u>7</u>	<u>417,521</u>	<u>-</u>	<u>23</u>	<u>-</u>	<u>697,226</u>
Fund balances (deficit), beginning of year	6,702	-	240	3,181	47	1,672,073
Fund balances, end of year	<u>\$ 6,709</u>	<u>\$ 417,521</u>	<u>\$ 240</u>	<u>\$ 3,204</u>	<u>\$ 47</u>	<u>\$ 2,369,299</u>

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Net Position

Nonmajor Enterprise Funds

December 31, 2012

	2003 Delinquent Tax Revolving	2004 Delinquent Tax Revolving	2005 Delinquent Tax Revolving	2006 Delinquent Tax Revolving	2007 Delinquent Tax Revolving	2008 Delinquent Tax Revolving	2009 Delinquent Tax Revolving
Assets							
Current assets:							
Cash and investments	\$ 582	\$ 355	\$ 97	\$ 79	\$ 95	\$ 231,071	\$ 204,903
Taxes receivable	3,465	560	4,041	16,037	44,675	98,805	148,432
Accounts receivable	-	-	-	-	-	1,100	2,810
Current portion of leases receivable	-	-	-	-	-	-	-
Interest receivable	-	-	-	14,814	35,512	71,139	94,711
Prepays	-	-	-	-	-	-	-
Total current assets	4,047	915	4,138	30,930	80,282	402,115	450,856
Noncurrent assets:							
Leases receivable, net of current portion	-	-	-	-	-	-	-
Capital assets	-	-	-	-	-	-	-
Total noncurrent assets	-	-	-	-	-	-	-
Total assets	4,047	915	4,138	30,930	80,282	402,115	450,856
Liabilities							
Accounts payable	-	-	-	-	420	-	-
Accrued liabilities	-	-	-	430	-	-	-
Interfund payable	-	-	-	-	-	-	-
Due to other governments	-	-	140	-	540	930	2,060
Current portion of long-term debt	-	-	-	-	-	-	-
Total current liabilities	-	-	140	430	960	930	2,060
Long-term liabilities:							
Due in more than one year	-	-	-	-	-	-	-
Total liabilities	-	-	140	430	960	930	2,060
Net position							
Net investment in capital assets	-	-	-	-	-	-	-
Restricted by statute	-	-	-	-	-	224,898	203,455
Unrestricted	4,047	915	3,998	30,500	79,322	176,287	245,341
Total net position	\$ 4,047	\$ 915	\$ 3,998	\$ 30,500	\$ 79,322	\$ 401,185	\$ 448,796

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Net Position

Nonmajor Enterprise Funds

December 31, 2012

	2010 Delinquent Tax Revolving	Building Inspection	Geographic Information Systems	BPW #2 Townships of Jefferson and Pittsford	BPW #1 City of Litchfield	BPW #6 Village of Jonesville	Total
Assets							
Current assets:							
Cash and investments	\$ 900,540	\$ 351,799	\$ 33,962	\$ -	\$ 767	\$ 36	\$ 1,724,286
Taxes receivable	496,692	-	-	-	-	-	812,707
Accounts receivable	5,463	-	-	-	-	-	9,373
Current portion of leases receivable	-	-	-	-	135,000	-	135,000
Interest receivable	331,790	-	-	-	825	-	548,791
Prepays	1,500	2,243	2,355	-	-	-	6,098
Total current assets	1,735,985	354,042	36,317	-	136,592	36	3,236,255
Noncurrent assets:							
Leases receivable, net of current portion	-	-	-	-	30,000	-	30,000
Capital assets	-	6,715	-	-	-	-	6,715
Total noncurrent assets	-	6,715	-	-	30,000	-	36,715
Total assets	1,735,985	360,757	36,317	-	166,592	36	3,272,970
Liabilities							
Accounts payable	-	2,466	-	-	-	-	2,886
Accrued liabilities	-	6,593	-	-	825	-	7,848
Interfund payable	-	-	-	-	-	-	-
Due to other governments	3,490	-	-	-	-	-	7,160
Current portion of bonds payable	1,000,000	-	-	-	135,000	-	1,135,000
Total current liabilities	1,003,490	9,059	-	-	135,825	-	1,152,894
Long-term liabilities -							
Bonds payable	-	-	-	-	30,000	-	30,000
Total liabilities	1,003,490	9,059	-	-	165,825	-	1,182,894
Net position							
Net investment in capital assets	-	6,715	-	-	-	-	6,715
Restricted by statute	-	-	-	-	-	-	428,353
Unrestricted	732,495	344,983	36,317	-	767	36	1,655,008
Total net position	\$ 732,495	\$ 351,698	\$ 36,317	\$ -	\$ 767	\$ 36	\$ 2,090,076

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Revenues, Expenses and Changes in Net Position

Nonmajor Enterprise Funds

Year Ended December 31, 2012

	2003 Delinquent Tax Revolving	2004 Delinquent Tax Revolving	2005 Delinquent Tax Revolving	2006 Delinquent Tax Revolving	2007 Delinquent Tax Revolving	2008 Delinquent Tax Revolving	2009 Delinquent Tax Revolving
Operating revenues							
Charges for services	\$ -	\$ -	\$ 631	\$ 15	\$ 90	\$ -	\$ 487
Refunds and reimbursements	-	-	-	-	-	-	-
Other operating revenue	-	-	-	-	-	300	197,338
Total operating revenues	<u>-</u>	<u>-</u>	<u>631</u>	<u>15</u>	<u>90</u>	<u>300</u>	<u>197,825</u>
Operating expenses							
Depreciation	-	-	-	-	-	-	-
Cost of services	-	-	-	554	5,062	6,526	75,589
Total operating expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>554</u>	<u>5,062</u>	<u>6,526</u>	<u>75,589</u>
Operating income (loss)	<u>-</u>	<u>-</u>	<u>631</u>	<u>(539)</u>	<u>(4,972)</u>	<u>(6,226)</u>	<u>122,236</u>
Non-operating revenues (expenses)							
Interest revenue	-	-	288	-	-	10,607	36,714
Interest expense	-	-	-	(639)	(2,343)	-	(11,796)
Total non-operating revenues (expenses)	<u>-</u>	<u>-</u>	<u>288</u>	<u>(639)</u>	<u>(2,343)</u>	<u>10,607</u>	<u>24,918</u>
Income (loss) before transfers	-	-	919	(1,178)	(7,315)	4,381	147,154
Transfers							
Transfers out	-	-	(1,200)	(2,700)	(115,700)	(76,400)	(516,000)
Change in net position	<u>-</u>	<u>-</u>	<u>(281)</u>	<u>(3,878)</u>	<u>(123,015)</u>	<u>(72,019)</u>	<u>(368,846)</u>
Net position (deficit), beginning of year	4,047	915	4,279	34,378	202,337	473,204	817,642
Net position (deficit), end of year	<u>\$ 4,047</u>	<u>\$ 915</u>	<u>\$ 3,998</u>	<u>\$ 30,500</u>	<u>\$ 79,322</u>	<u>\$ 401,185</u>	<u>\$ 448,796</u>

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Revenues, Expenses and Changes in Net Position

Nonmajor Enterprise Funds
Year Ended December 31, 2012

	2010 Delinquent Tax Revolving	Building Inspection	Geographic Information Systems	BPW #2 Townships of Jefferson and Pittsford	BPW #1 City of Litchfield	BPW #6 Village of Jonesville	Total
Operating revenues							
Charges for services	\$ -	\$ 426,595	\$ 5,815	\$ -	\$ -	\$ -	\$ 433,633
Refunds and reimbursements	-	8,435	-	-	-	-	8,435
Other operating revenue	227,537	-	-	-	135,465	307,245	867,885
Total operating revenues	<u>227,537</u>	<u>435,030</u>	<u>5,815</u>	<u>-</u>	<u>135,465</u>	<u>307,245</u>	<u>1,309,953</u>
Operating expenses							
Depreciation	-	1,492	-	-	-	-	1,492
Cost of services	4,630	359,396	20,287	-	133,165	305,204	910,413
Total operating expenses	<u>4,630</u>	<u>360,888</u>	<u>20,287</u>	<u>-</u>	<u>133,165</u>	<u>305,204</u>	<u>911,905</u>
Operating income (loss)	<u>222,907</u>	<u>74,142</u>	<u>(14,472)</u>	<u>-</u>	<u>2,300</u>	<u>2,041</u>	<u>398,048</u>
Non-operating revenues (expenses)							
Interest revenue	188,708	-	-	-	1	-	236,318
Interest expense	(33,426)	-	-	-	(825)	-	(49,029)
Total non-operating revenues (expenses)	<u>155,282</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(824)</u>	<u>-</u>	<u>187,289</u>
Income (loss) before transfers	378,189	74,142	(14,472)	-	1,476	2,041	585,337
Transfers							
Transfers out	-	-	-	-	-	-	(712,000)
Change in net position	<u>378,189</u>	<u>74,142</u>	<u>(14,472)</u>	<u>-</u>	<u>1,476</u>	<u>2,041</u>	<u>(126,663)</u>
Net position, beginning of year	354,306	277,556	50,789	-	(709)	(2,005)	2,216,739
Net position, end of year	<u>\$ 732,495</u>	<u>\$ 351,698</u>	<u>\$ 36,317</u>	<u>\$ -</u>	<u>\$ 767</u>	<u>\$ 36</u>	<u>\$ 2,090,076</u>

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

Year Ended December 31, 2012

	2003 Delinquent Tax Revolving	2004 Delinquent Tax Revolving	2005 Delinquent Tax Revolving	2006 Delinquent Tax Revolving	2007 Delinquent Tax Revolving	2008 Delinquent Tax Revolving	2009 Delinquent Tax Revolving
Cash flows from operating activities							
Cash received from customers	\$ -	\$ -	\$ 826	\$ 3,553	\$ 45,673	\$ (119,303)	\$ 948,706
Cash payments to suppliers for goods and services	-	-	110	(434)	(4,492)	(17,968)	(105,193)
Net cash provided by (used in) operating activities	-	-	936	3,119	41,181	(137,271)	843,513
Cash flows from non-capital financing activities							
Tax notes redeemed	-	-	-	-	-	-	(1,300,000)
Transfers out	-	-	(1,200)	(2,700)	(115,700)	(76,400)	(516,000)
Net cash provided by (used in) operating activities	-	-	(1,200)	(2,700)	(115,700)	(76,400)	(1,816,000)
Cash flows from capital and related financing activities							
Interest payments	-	-	-	(639)	(2,343)	-	(11,796)
Proceeds from long-term debt	-	-	-	-	-	198,120	-
Principal payments	-	-	-	-	-	-	-
Net cash provided by (used in) capital and related financing activities	-	-	-	(639)	(2,343)	198,120	(11,796)
Cash flows from investing activities							
Interest received	-	-	288	-	-	10,607	36,714
Amounts collected on leases receivable	-	-	-	-	-	-	-
Total cash provided by (used in) investing activities	-	-	288	-	-	10,607	36,714
Net change in cash and cash equivalents	-	-	24	(220)	(76,862)	(4,944)	(947,569)
Cash and cash equivalents, beginning of year	582	355	73	299	76,957	236,015	1,152,472
Cash and cash equivalents, end of year	\$ 582	\$ 355	\$ 97	\$ 79	\$ 95	\$ 231,071	\$ 204,903

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Cash Flows

Nonmajor Enterprise Funds
Year Ended December 31, 2012

	2010 Delinquent Tax Revolving	Building Inspection	Geographic Information Systems	BPW #2 Townships of Jefferson and Pittsford	BPW #1 City of Litchfield	BPW #6 Village of Jonesville	Total
Cash flows from operating activities							
Cash received from customers	\$ 1,119,549	\$ 435,030	\$ 3,460	\$ -	\$ 134,640	\$ 307,245	\$ 2,879,379
Cash payments to suppliers for goods and services	(15,477)	(354,912)	(20,287)	-	(133,815)	(307,245)	(959,713)
Net cash provided by (used in) operating activities	<u>1,104,072</u>	<u>80,118</u>	<u>(16,827)</u>	<u>-</u>	<u>825</u>	<u>-</u>	<u>1,919,666</u>
Cash flows from non-capital financing activities							
Tax notes redeemed	(1,700,000)	-	-	-	-	-	(3,000,000)
Transfers out	-	-	-	-	-	-	(712,000)
Net cash provided by (used in) operating activities	<u>(1,700,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,712,000)</u>
Cash flows from capital and related financing activities							
Interest payments	(33,426)	-	-	-	(825)	-	(49,029)
Proceeds from long-term debt	-	-	-	-	-	-	198,120
Principal payments	-	-	-	-	(130,000)	(295,000)	(425,000)
Net cash provided by (used in) capital and related financing activities	<u>(33,426)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(130,825)</u>	<u>(295,000)</u>	<u>(275,909)</u>
Cash flows from investing activities							
Interest received	188,708	-	-	-	17	4	236,338
Amounts collected on leases receivable	-	-	-	-	130,000	295,000	425,000
Total cash provided from investing activities	<u>188,708</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>130,017</u>	<u>295,004</u>	<u>661,338</u>
Net change in cash and cash equivalents	(440,646)	80,118	(16,827)	-	17	4	(1,406,905)
Cash and cash equivalents, beginning of year	<u>1,341,186</u>	<u>271,681</u>	<u>50,789</u>	<u>-</u>	<u>750</u>	<u>32</u>	<u>3,131,191</u>
Cash and cash equivalents, end of year	<u>\$ 900,540</u>	<u>\$ 351,799</u>	<u>\$ 33,962</u>	<u>\$ -</u>	<u>\$ 767</u>	<u>\$ 36</u>	<u>\$ 1,724,286</u>

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Cash Flows

Nonmajor Enterprise Funds
Year Ended December 31, 2012

	2003	2004	2005	2006	2007	2008	2009
	Delinquent	Delinquent	Delinquent	Delinquent	Delinquent	Delinquent	Delinquent
	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving
Cash flows from operating activities							
Operating income (loss)	\$ -	\$ -	\$ 631	\$ (539)	\$ (4,972)	\$ (6,226)	\$ 122,236
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation	-	-	-	-	-	-	-
(Increase) decrease in:							
Taxes receivable	-	-	195	1,118	21,505	50,596	459,731
Accounts receivable	-	-	-	-	59,590	(99,060)	384,906
Interest receivable	-	-	-	2,420	(35,512)	(71,139)	(93,756)
Prepays	-	-	-	-	-	-	-
Accounts payable and accrued expenses	-	-	110	120	570	(11,442)	(29,604)
Interfund payable	-	-	-	-	-	-	-
Net cash provided by (used in) operating activities	\$ -	\$ -	\$ 936	\$ 3,119	\$ 41,181	\$ (137,271)	\$ 843,513

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Cash Flows

Nonmajor Enterprise Funds
Year Ended December 31, 2012

	2010 Delinquent Tax Revolving	Building Inspection	Geographic Information Systems	BPW #2 Townships of Jefferson and Pittsford	BPW #1 City of Litchfield	BPW #6 Village of Jonesville	Total
Cash flows from operating activities							
Operating income (loss)	\$ 222,907	\$ 74,142	\$ (14,472)	\$ -	\$ 2,300	\$ 2,041	\$ 398,048
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation	-	1,492	-	-	-	-	1,492
(Increase) decrease in:							
Taxes receivable	992,694	-	-	-	-	-	1,525,839
Accounts receivable	229,545	-	-	-	-	-	574,981
Interest receivable	(330,227)	-	-	-	(825)	-	(529,039)
Prepays	-	293	(2,355)	-	-	-	(2,062)
Accounts payable and accrued expenses	(10,847)	4,191	-	-	(650)	(2,041)	(49,593)
Interfund payable	-	-	-	-	-	-	-
Net cash provided by (used in) operating activities	\$ 1,104,072	\$ 80,118	\$ (16,827)	\$ -	\$ 825	\$ -	\$ 1,919,666

COUNTY OF HILLSDALE, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

December 31, 2012

	Trust & Agency	Land Policy Education	Library Penal Fines	Employee Benefit Trust	Sheriff Department Retirement	District Court	Total
Assets							
Cash and investments	\$ 899,065	\$ 14,956	\$ 82,699	\$ 100	\$ 23,571	\$ 94,682	\$ 1,115,073
Liabilities							
Due to other governments	364,566	-	-	-	-	-	364,566
Undistributed receipts	534,499	14,956	82,699	100	23,571	94,682	750,507
Total liabilities	\$ 899,065	\$ 14,956	\$ 82,699	\$ 100	\$ 23,571	\$ 94,682	\$ 1,115,073

COUNTY OF HILLSDALE, MICHIGAN

Statement of Net Position / Governmental Funds Balance Sheet

Drain Commission Component Unit

December 31, 2012

	Debt Service	Capital Projects				Capital Projects	Total
	Drain Construction Debt	Drain Special Assessment	Drain Revolving	Lake Level Special Assessment	Lake Level Revolving	Drain Construction	
Assets							
Cash and investments	\$ 317	\$ 282,445	\$ 28,750	\$ 69,795	\$ 15,994	\$ 314	\$ 397,615
Special assessments receivable	-	316,742	-	5,000	-	-	321,742
Prepays	-	-	-	-	-	-	-
Due from other funds	-	-	260,739	-	2,485	-	263,224
Capital assets, net	-	-	-	-	-	-	-
Total assets	<u>\$ 317</u>	<u>\$ 599,187</u>	<u>\$ 289,489</u>	<u>\$ 74,795</u>	<u>\$ 18,479</u>	<u>\$ 314</u>	<u>\$ 982,581</u>
Liabilities							
Due to other funds	\$ -	\$ 261,891	\$ -	\$ 1,333	\$ -	\$ -	\$ 263,224
Advances from primary government	-	-	289,489	-	18,479	-	307,968
Total liabilities	<u>-</u>	<u>261,891</u>	<u>289,489</u>	<u>1,333</u>	<u>18,479</u>	<u>-</u>	<u>571,192</u>
Deferred inflows of resources							
Unavailable revenue - special assessments	-	316,742	-	5,000	-	-	321,742
Fund balances							
Unassigned	317	20,554	-	68,462	-	314	89,647
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 317</u>	<u>\$ 599,187</u>	<u>\$ 289,489</u>	<u>\$ 74,795</u>	<u>\$ 18,479</u>	<u>\$ 314</u>	<u>\$ 982,581</u>
Net position							
Net investment in capital assets							
Unrestricted							
Total net position							

COUNTY OF HILLSDALE, MICHIGAN

Statement of Net Position / Governmental Funds Balance Sheet

Drain Commission Component Unit

December 31, 2012

	Internal Service		
	Drain Equipment Revolving	Adjustments	Statement of Net Position
Assets			
Cash and investments	\$ 56,046	\$ -	\$ 453,661
Special assessments receivable	-	-	321,742
Prepays	100	-	100
Due from other funds	-	(263,224)	-
Capital assets, net	390,315	379,235	769,550
Total assets	\$ 446,461	116,011	1,545,053
Liabilities			
Due to other funds	\$ -	(263,224)	-
Advances from primary government	-	-	307,968
Total liabilities	-	(263,224)	307,968
Deferred inflows of resources			
Unavailable revenue - special assessments	-	(321,742)	-
Fund balances			
Unassigned	446,461	(536,108)	-
Total liabilities, deferred inflows of resources and fund balances	\$ 446,461		
Net position			
Net investment in capital assets		769,550	769,550
Unrestricted		467,535	467,535
Total net position		\$ 1,237,085	\$ 1,237,085

COUNTY OF HILLSDALE, MICHIGAN

Reconciliation

Fund Balances for Governmental Funds
To Net Position of Governmental Activities
Drain Commission Component Unit
December 31, 2012

Fund balances - governmental funds	\$ 536,108
 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 are not reported in the funds.	379,235
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	<u>321,742</u>
Net position of governmental activities	<u><u>\$ 1,237,085</u></u>

COUNTY OF HILLSDALE, MICHIGAN

Statement of Activities / Governmental Funds Revenues,

Expenditures, and Changes in Fund Balances

Drain Commission Component Unit

Year Ended December 31, 2012

	Debt Service		Capital Projects			Capital Projects		
	Drain Construction Debt	Drain Special Assessment	Drain Revolving	Lake Level Special Assessment	Lake Level Revolving	Drain Construction	Total	
Revenues								
Interest revenue	\$ -	\$ 1,253	\$ -	\$ 250	\$ -	\$ -	\$ 1,503	
Equipment rentals	-	-	-	-	-	-	-	
Other revenue	-	137,568	-	3,000	-	-	140,568	
Total revenues	-	138,821	-	3,250	-	-	142,071	
Expenditures/Expenses								
Debt service:								
Interest and fiscal charges	-	-	-	-	-	-	-	
Public works	-	126,654	-	6,754	-	-	133,408	
Depreciation	-	-	-	-	-	-	-	
Total expenditures/expenses	-	126,654	-	6,754	-	-	133,408	
Net change in fund balances/ change in net position	-	12,167	-	(3,504)	-	-	8,663	
Fund balances / net position, beginning of year	317	8,387	-	71,966	-	314	80,984	
Fund balances / net position, end of year	\$ 317	\$ 20,554	\$ -	\$ 68,462	\$ -	\$ 314	\$ 89,647	

COUNTY OF HILLSDALE, MICHIGAN

Statement of Activities /

Expenditures, and Changes in Fund Balances

Drain Commission Component Unit

Year Ended December 31, 2012

	Internal Service		Statement of Activities
	Drain Equipment Revolving	Adjustments	
Revenues			
Interest revenue	\$ 318	\$ -	\$ 1,821
Equipment rentals	84,753	-	84,753
Other revenue	-	79,029	219,597
Total revenues	<u>85,071</u>	<u>79,029</u>	<u>306,171</u>
Expenditures/Expenses			
Debt service:			
Interest and fiscal charges	9,797	-	9,797
Public works	-	-	133,408
Depreciation	103,779	9,173	112,952
Total expenditures/expenses	<u>113,576</u>	<u>9,173</u>	<u>256,157</u>
Net change in fund balances/ change in net position	(28,505)	69,856	50,014
Fund balances / net position, beginning of year	<u>474,966</u>	<u>631,121</u>	<u>1,187,071</u>
Fund balances / net position, end of year	<u>\$ 446,461</u>	<u>\$ 700,977</u>	<u>\$ 1,237,085</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, 2012

Net change in fund balance - Governmental funds	\$	8,663
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.		79,029
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 income from governmental activities accounted for in the internal service fund		<u>(28,505)</u>
Change in net position of governmental activities	\$	<u><u>50,014</u></u>

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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**MEMBER AICPA
DIVISION FOR CPA FIRMS**

MEMBER MACPA

**OFFICES IN
MICHIGAN & WISCONSIN**

**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, Michigan as of and for the year ended December 31, 2012, 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 June 20, 2013. 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.

Members of the Board
County of Hillsdale, Michigan

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 12-1, 12-2, 12-3 and 12-4.

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 12-3 and 12-4.

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.

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

June 20, 2013



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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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, 2012. 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, Michigan's basic financial statements include the operations of the Hillsdale County Road Commission which received \$268,063 in federal awards which is not included in this schedule during the year ended December 31, 2012. 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.

Members of the Board
County of Hillsdale, Michigan

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, 2012.

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.

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

June 20, 2013

County of Hillsdale, Michigan

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Commerce:			
<i>Passed through the City of Lansing</i>			
Interoperable Equipment Grant	11.555	2007-GS-H7-0043	\$ 79,111
U.S. Department of Housing & Urban Development:			
<i>Pass-through Michigan State Housing Development Authority</i>			
Community Development Block Grant	14.228	MSC-2010-0764-HOA	137,755
U.S. Department of Homeland Security:			
<i>Pass-through from the Michigan Department of State Police</i>			
2009 State Homeland Security Program Grant	97.067	N/A	86,714
Emergency Management Grant 10/01/11 to 9/30/12	97.042	EMW-2012-EP-00044-501	7,704
Subtotal - Michigan Department of State Police			94,418
<i>Pass-through from the Michigan Department of Natural Resources and Environment</i>			
Marine Safety	97.012	N/A	14,630
Total U.S. Department of Homeland Security			109,048
U.S. Department of Health & Human Services:			
<i>Pass-through from Michigan Department of Human Services</i>			
Friend of Court - Incentive	93.563	N/A	59,761
Friend of Court - Child Support	93.563	CS/FOC-10-67001	241,339
Prosecuting Attorney - Child Support	93.563	CS/PA-10-67002	49,374
Subtotal - Child Support Enforcement			350,474
Child Abuse & Neglect - Title IV-E Funding	93.658	N/A	11,204
Total U.S. Department of Health & Human Services			361,678
Total Expenditures of Federal Awards			\$ 687,592

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 2012.

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

CFDA NUMBERS

Name of Federal Program or Cluster

11.555	Interoperable Equipment Grant
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 12-1

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)

SIGNIFICANT DEFICIENCY – INTERNAL CONTROL

Centralized Management of Grant Documents and Internal Control over Compliance

Finding 12-2

Criteria: Federal and State grantor agencies require grants to be monitored by the local government that receives them. As a result the County is responsible for developing and implementing an internal control system over federal programs to assure proper recording, accounting and compliance with those programs.

Condition: The County does not have a centralized location/management or an internal control system in place to achieve accurate and timely accounting for federal programs and monitoring of grant related documents. Furthermore, the County does not employ an individual with experience or a working knowledge of the federal compliance requirements; however, the County contracts with a third party service provider that oversees compliance with federal monies received and expended relating specifically to the Department of Human Services Child Support Enforcement funding. Additionally, the County does not have written procedures outlining how the federal compliance requirements are required to be administered.

Effect: Lack of monitoring, decentralized record keeping, and inexperience with the federal compliance requirements increases the risk to the County of not complying with grant requirements and omitting federal expenditures on the Schedule of Expenditures of Federal Awards.

Cause: The County has not designed internal controls to mitigate the existing conditions. Furthermore, it appears that communication between departments relating to grant activities is absent from the internal control environment.

Recommendation: We recommend the County develop a centralized area where grant documents are monitored and maintained by an individual that is trained in the application of federal compliance requirements. Furthermore, procedures should be developed and written that outline how the federal compliance requirements are to be administered.

- *Corrective Action Planned:*
Until such time a controller or equivalent is hired, the County staff will continue to do their best in managing federal and state grants.
- *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

Excess Expenditures Over Appropriations

Finding 12-3

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 12-4

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 accumulated fund balance deficits. (See Note 4).

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

SIGNIFICANT DEFICIENCY AND MATERIAL NONCOMPLIANCE

Accounting for Equipment (Equipment and Real Property Management)

Finding 11-12

Program Award: Interoperable Equipment Grant CFDA No. 11.555.

Criteria: Equipment purchased with federal grant funds are subject to certain compliance requirements in accordance with the OMB Circular A-133 Compliance Supplement. These requirements include, but are not limited to: (a) tracking such purchases in the entity’s capital asset records along with the item’s cost, identification number, location, and percentage of item costs provide by the federal grant; (b) ensuring that these records are available to the appropriate individuals such that, upon sale or disposal of the item, the proceeds (if any) are handled properly, and (c) conducting a physical inventory of federally-funded equipment no less than ever two years and making appropriate adjustments to the accounting records.

Condition: The County purchased approximately \$330,000 of equipment with federal funds, representing 80% of the total equipment cost. These equipment purchases were not included on the County’s capital asset records. Therefore, there is not record of them, its location, or percentage of cost provided by the federal grant.

Effect: As a result of this condition, the County’s capital asset records were incomplete.

Cause: this condition appears to be the result of decentralized grant administration in addition to lack of subrecipient monitoring by the City of Lansing (pass through entity). The program’s management was unaware of their duty to inform the Treasurer’s office (who maintains capital asset records).

Recommendation: We recommend that all employees administering federal grants and having primary responsibility for compliance with grant requirements be provided with the necessary training and supervision to be able to identify and comply with such requirements.

- *Corrective Action Planned:*
The recommendation will be implemented.
- *Contact Person(s) Responsible for Correction:*
Doug Sanford, Emergency Management Director
- *Anticipated Completion Date:*
Immediately

Status: Corrected.

Section III – Federal Award Findings and Questioned Costs (Continued)

SIGNIFICANT DEFICIENCY AND NONCOMPLIANCE

Capitalization Policy (Equipment and Real Property Management)

Finding 11-13

Program Award: Interoperable Equipment Grant CFDA No. 11.555.

Criteria: In accordance with OMB Circular A-133 Compliance Supplement, a non-federal entity must maintain equipment records for equipment charged to a grant award having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. However, the non-federal entity may establish lower units.

Condition: The County’s capitalization policy established the criteria of equipment having a useful life of more than two years and an acquisition cost of \$5,000 or more per unit, which is less stringent than the requirements.

Effect: There is no direct result of this condition, due to the fact that as stated in finding 2011-12, the County did not properly account for the equipment purchased with grant funds.

Cause: this condition appears to be the result of establishing a policy for the government as a whole and not considering, or unaware of the compliance requirement.

Recommendation: We recommend the County amend the capitalization policy to adhere to the compliance requirement.

- *Corrective Action Planned:*
The recommendation will be implemented.
- *Contact Person(s) Responsible for Correction:*
Doug Sanford, Emergency Management Director
- *Anticipated Completion Date:*
Immediately

Status: Corrected.



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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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, 2012, and have issued our report thereon dated June 20, 2013. 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 February 26, 2013, 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.

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 will perform 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 February 26, 2013.

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. Two new accounting policies were adopted regarding the implementation of GASB Statements 63 and 65 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 June 20, 2013.

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

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.

Policies

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.

Accrued Payroll

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.

Compensated Absences

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.

Uniform Chart of Accounts

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).

Fraud Policy

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.

Inmate Trust Account

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

Delinquent Tax Revolving Funds

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.

Reporting Employer Provided Health Coverage on Form W-2

The Affordable Care Act requires employers to report the cost of coverage under an employer-sponsored group health plan on an employee's Form W-2, Wage and Tax Statement. Many employers are eligible for transition relief for tax year 2013 and beyond, until the IRS issues final guidance for this reporting requirement.

The amount reported does not affect tax liability, as the value of the employer excludible contribution to health coverage continues to be excludible from an employee's income, and it is not taxable. This reporting is for informational purposes only, to show employees the value of their health care benefits so they can be informed consumers. More information about the reporting can be found at [Form W-2 Reporting of Employer-Sponsored Health Coverage](#).

Medical Benefit Plans

Michigan Compiled 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.

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.

Indigent Veteran's Millage

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.

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.



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

June 20, 2013