

**COUNTY OF HILLSDALE, MICHIGAN**  
**FINANCIAL STATEMENTS**  
**AND INDEPENDENT AUDITOR'S REPORT**  
**(with supplementary information)**  
**YEAR ENDED DECEMBER 31, 2008**

COUNTY OF HILLSDALE, MICHIGAN

TABLE OF CONTENTS

For the Fiscal Year Ended December 31, 2008

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	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-vii
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>Government-Wide Financial Statements:</b>	
Statement of Net Assets	1
Statement of Activities	2
<b>Fund Financial Statements:</b>	
Balance Sheet -- Governmental Funds	3
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	4
Statement of Revenue, Expenditures and Changes in Fund Balances -- Governmental Funds	5
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Statement of Revenue, Expenditures and Changes in Fund Balance -- Budget and Actual:	
General Fund	7
Revenue Sharing Reserve Fund	8
Statement of Net Assets -- Proprietary Funds	9
Statement of Revenue, Expenses, and Changes in Fund Net Assets -- Proprietary Funds	10
Statement of Cash Flows -- Proprietary Funds	11-12
Statement of Fiduciary Net Assets -- Fiduciary Funds	13
Combined Statement of Net Assets -- Component Units	14
Combined Statement of Activities -- Component Units	15
Notes to the Financial Statements	16-47
<b>Combining and Individual Fund Financial Statements:</b>	
<b>Nonmajor Governmental Funds</b>	
Combining Balance Sheet -- Nonmajor Governmental Funds	48-49
Combining Statement of Revenue, Expenditures and Changes in Fund Balances -- Nonmajor Governmental Funds	50-51
<b>Nonmajor Enterprise Funds</b>	
Combining Statement of Net Assets	52
Combining Statement of Revenue, Expenses, and Changes in Fund Net Assets	53
Combining Statement of Cash Flows	54

COUNTY OF HILLSDALE, MICHIGAN

TABLE OF CONTENTS (Concluded)

For the Fiscal Year Ended December 31, 2008

---

	<u>PAGE</u>
<b>Fiduciary Funds</b>	
Combining Balance Sheet – Fiduciary Funds	55
<b>Drain Commission Component Unit</b>	
Statement of Net Assets and Governmental Funds Balance Sheet	56
Reconciliation of Governmental Fund Balance Sheet to Statement of Net Assets	57
Statement of Activities/Governmental Funds Revenue, Expenditures and Changes in Fund Balances	58
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	59
Statement of Revenue, Expenses and Changes in Net Assets – Internal Service Drain Equipment Revolving Fund	60
 <b>SINGLE AUDIT ACT COMPLIANCE</b>	
 Schedule of Expenditures of Federal Awards	 61
 Notes to the Schedule of Expenditures of Federal Awards	 62
 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 <i>Government Auditing Standards</i>	   63-64
 Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	   65-66
 Schedule of Findings and Questioned Costs	 67-71

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of  
Hillsdale County  
Hillsdale, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of *HILLSDALE COUNTY, MICHIGAN* as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hillsdale County's management. 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 (a discretely presented component unit), the County Park Fund (a special revenue fund type – governmental type activity), and the Hillsdale County Medical Care Facility which is a major fund (a blended component unit – business type activity), whose statements reflect total assets, net assets, and revenues that are represented as follows – 95%, 96% and 94% of total component units, 74%, 78% and 88% of total business type activities, and less than 1%, 1% and 1% of governmental type activities, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Hillsdale County Road Commission, County Park Fund, and Hillsdale County Medical Care Facility 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 Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

The County of Hillsdale has not determined the cost of its postretirement medical benefits provided to eligible employees in accordance with accounting principles generally accepted in the United States of America, which requires the cost of those employee postretirement benefits to be recognized over the employees' respective service periods and a liability to be recognized for the benefit obligation. The amount by which this departure would affect the assets, net assets and expenses of the governmental activities, business-type activities, and the Hillsdale County Medical Care Facility – a major fund, is not reasonably determinable.

In our opinion, except for the effects of not recording the costs of the postretirement medical benefits for the governmental activities, business-type activities, and the Hillsdale County Medical Care Facility, a major fund, as described in the preceding paragraph, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of *Hillsdale County, Michigan* as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, and the budgetary comparisons for the general fund and major special revenue fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages iii – viii is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated June 19, 2009, on our consideration of the County's internal controls over financial reporting and 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* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hillsdale County's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of Hillsdale County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

*Osborn, March, Condon & Co P.C.*

Certified Public Accountants

Hillsdale, Michigan

June 19, 2009

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

## COUNTY OF HILLSDALE 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, 2008. Please read it in conjunction with the County's financial statements which follow this section.

### Financial Highlights

The following represents the most significant financial highlights for the year ended December 31, 2008:

- In 2004, the State of Michigan mandated a change in the way Michigan counties are funded. Revenue sharing for counties was eliminated and replaced by a shift in the county property tax collections over the course of the subsequent 3 years. Counties were required to begin setting aside 1/3 of property tax collections each year from 2004 through 2007 to supplement the lost revenue sharing. According to projections by the State of Michigan, this alternative funding method should keep Hillsdale County at similar revenue levels through the year 2010. The County had \$1.7 million set aside as of December 31, 2008 to cover the years 2009 and 2010. Whether or not the State will restore revenue sharing after that point remains uncertain.
- Significant building renovations and improvements were made at the Sheriff's Department to extend the life of the building and greatly reduce energy costs. The \$762,000 project was financed through an installment purchase agreement over 10 years at 4.38%. The project is expected to pay for itself within 15 years through the savings on energy costs.
- As a result of the poor economic conditions, property values only increased 2.3% during 2008 as compared to 5%+ growth in past years.

### Overview of the Financial Statements

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

Government-wide financial statements - The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business and, therefore, are prepared using the accrual basis of accounting. These statements provide a longer-term view of the County's finances and whether taxpayers have funded the full cost of providing government services. The first two statements are government-wide and include the following:

- The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.
- The *statement of activities* presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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*).

## COUNTY OF HILLSDALE MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Because the focus of governmental funds is narrower than that of the government-wide financial statement, 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 County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

- **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.

### **The County as a Whole**

The Statement of Net Assets 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 assets (in thousands of dollars) of the County as of the end of the current and prior year.

**COUNTY OF HILLSDALE  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
	Current Assets	\$ 9,592	\$ 9,205	\$ 11,960	\$ 9,159	\$ 21,552
Capital Assets	4,567	4,950	9,991	11,763	14,558	16,713
Total Assets	\$ 14,159	\$ 14,155	\$ 21,951	\$ 20,922	\$ 36,110	\$ 35,077
Current Liabilities	\$ 2,147	\$ 3,216	\$ 3,122	\$ 2,249	\$ 5,269	\$ 5,465
Long-term Liabilities	4,224	4,554	13,780	13,760	18,004	18,314
Total Liabilities	\$ 6,371	\$ 7,770	\$ 16,902	\$ 16,009	\$ 23,273	\$ 23,779
Net Assets:						
Invested in Capital Assets, net of debt	\$ 2,680	\$ 2,610	\$ 221	\$ 2,383	\$ 2,901	\$ 4,993
Restricted	795	1,233	596	0	1,391	1,233
Unrestricted	4,313	2,542	4,232	2,530	8,545	5,072
Total Net Assets	\$ 7,788	\$ 6,385	\$ 5,049	\$ 4,913	\$ 12,837	\$ 11,298

The County's combined net assets decreased 12.0% from a year ago - - decreasing from \$12.8 million to \$11.3 million. Governmental activities experienced a decrease in net assets of \$1.4 million (18.0%) due to flat revenue and increased expenses. Business-type activities experienced a small decrease in net assets of \$136 thousand (2.6%).

The following table shows the changes in net assets (in thousands of dollars) of the County during the current and prior year.

	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
	Program Revenues					
Charges for Services	\$ 2,177	\$ 2,403	\$ 12,452	\$ 12,673	\$ 14,629	\$ 15,076
Operating Grants and Contributions	2,764	2,439	4,868	2,662	7,632	5,101
Capital Grants and Contributions	0	0	0	0	0	0
General Revenues						
Property Taxes - general purposes	7,473	7,616	0	818	7,473	8,434
Unrestricted Investment Earnings	331	403	0	384	331	787
Transfers and Other Revenue	666	655	(666)	(655)	0	0
Total Revenues	\$ 13,411	\$ 13,516	\$ 16,654	\$ 15,882	\$ 30,065	\$ 29,398
Program Expenses						
General Government	\$ 3,756	\$ 2,252	\$ 0	\$ 0	\$ 3,756	\$ 2,252
Legislative	133	138	0	0	133	138
Judicial	1,939	1,926	0	0	1,939	1,926
Public Safety	3,706	4,402	0	0	3,706	4,402
Public Works	20	21	0	0	20	21
Health and Welfare	2,747	3,268	0	0	2,747	3,268
Recreation and Cultural	66	86	0	0	66	86
Other governmental activities	1,332	2,096	0	0	1,332	2,096
Interest on Long-Term Debt	13	178	0	0	13	178
Special Item	0	552	0	0	0	552
Medical Care Facility Operations	0	0	13,292	14,712	13,292	14,712
Delinquent Tax Collection	0	0	1,238	211	1,238	211
Emergency Services	0	0	799	782	799	782
Geographic Information Services	0	0	30	27	30	27
Board of Public Works	0	0	307	286	307	286
Total Expenses	\$ 13,712	\$ 14,919	\$ 15,666	\$ 16,018	\$ 29,378	\$ 30,937
Change in Net Assets	\$ (301)	\$ (1,403)	\$ 916	\$ (136)	\$ 1,943	\$ (1,539)

## **COUNTY OF HILLSDALE MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Governmental Activities**

Total governmental revenues increased slightly (.8%). Governmental expenses increased 8.8% due to the transfer of the "Broad Street Market property" back to the City of Hillsdale Tax Increment Finance Authority, increased interest expense, and increases in other various expenditure areas.

### **Business-Type Activities**

The County's business-type activities consist primarily of the Medical Care Facility Fund. Medical Care Facility revenue increased approximately \$196 thousand and expenses increased approximately \$1.4 million, resulting in a small decrease in net assets (\$83 thousand). The increase in expenses was due to depreciation expense on the new addition (up \$187 thousand) and increased payroll costs.

### **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 of Commissioners 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 2008 include the General Fund, the Revenue Sharing Reserve Fund, and the Senior Center Debt Service Fund.

The General Fund pays for most of the County's governmental services. The most significant are public safety, general government, judicial, and employee benefits, which incurred expenditures of approximately \$3.8 million, \$2.1 million, \$1.9 million, and \$1.4 million, 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 Revenue Sharing Reserve Fund is used to account for the accelerated property tax collections which replaced State Revenue Sharing beginning in the year 2005. During 2008, no further transfers were made into the fund, and \$866,216 was transferred out to the General Fund (representing what would have been received in State Revenue Sharing). The remaining balance in the fund at December 31, 2008, was \$1,754,948.

The Senior Center Debt Service Fund was used to account for principal and interest payments on the 2005 Senior Center Bond Issue. Lease payments received from the Senior Center cover these bond payments.

Major Proprietary Funds for the year include the Medical Care Facility Fund and the 2007 Delinquent Tax Revolving Fund.

### **General Fund Budgetary Highlights**

The struggling local and State economy had a major impact on the 2008 actual financial results as compared to the budget. A growth rate of 4% for the taxable value of property was budgeted, but growth was only 2.3%. Service fee revenue was less than budgeted due to decreased court fees, real estate transfer tax, and various document recording fees. Despite the absence of State Revenue Sharing, there is still a fairly significant amount of funding from the State of Michigan (court equity payment, road patrol grants, etc.); however, much of this funding was reduced as a result of the State's financial problems. On the expenditure side, there was an unanticipated additional \$100,000 principal payment on the Courthouse Elevator debt service.

Over the course of the year, the Board of Commissioners amended the budget to take into account unexpected events during the year. Aside from the additional Courthouse Elevator payment, these amendments were fairly minor.

## **COUNTY OF HILLSDALE MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Capital Asset and Debt Administration**

At the end of the fiscal year 2008, the County had approximately \$16,713,399 (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 remainder of the Medical Care Facility addition and the Courthouse Elevator (both completed in the spring of 2008) along with the \$762,000 in energy conservation improvements at the Sheriff's Department. A major decrease was the transfer of the "Broad Street Market property" back to the City of Hillsdale.

The County continues to pay down debt obligations related to capital investments, although there was \$762,000 in new debt added during 2008 for energy efficient improvements to the Sheriff's building. At December 31, 2008, debt related to capital assets of governmental activities totaled \$4,553,864. Debt related to business-type activities totaled \$13,760,000, most of which relates to the Medical Care Facility.

### **Economic Factors and Next Year's Budgets and Rates**

Obviously, the local and state economy continues to be a concern. The 2009 and 2010 budget projects a net zero growth in property value. This figure would be even worse if not for the stability of agricultural land (25% of the County's tax base). It is anticipated that State funding sources will continue to decrease until such time as the economy can make a recovery.

On a positive note, the savings from health insurance changes will continue as more employee groups are added to the HRA plan. The Medical Care Facility has received approval from the State of Michigan to construct a 10-bed "small house" - a separate self-contained care facility on campus for residents with less acute medical needs. This project will create jobs, help fill the need for skilled nursing care in the county, and will strengthen the financial position of the Medical Care Facility.

### **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.

Separately-issued audit reports of the Hillsdale County Road Commission and Medical Care Facility, component units of the County, can be obtained from their respective offices or the County Clerk's Office.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**COUNTY OF ILLSDALE, MICHIGAN**  
**Statement of Net Assets**  
**December 31, 2008**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 3,715,390	\$ 2,893,130	\$ 6,608,520	\$ 720,107
Receivables, net	5,489,518	6,142,007	11,631,525	1,049,064
Prepaid items and other assets		123,922	123,922	701,578
Capital assets not being depreciated	130,003	140,540	270,543	4,876,645
Capital assets being depreciated, net	4,820,670	11,622,186	16,442,856	25,089,467
<b>Total assets</b>	<b>\$ 14,155,581</b>	<b>\$ 20,921,785</b>	<b>\$ 35,077,366</b>	<b>\$ 32,436,861</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 551,385	\$ 1,436,936	\$ 1,988,321	\$ 871,832
Unearned revenue	2,664,967	811,898	3,476,865	
Long-term liabilities:				
Due within one year	314,889	2,635,000	2,949,889	19,367
Due in more than one year	4,238,975	11,125,000	15,363,975	367,963
<b>Total liabilities</b>	<b>7,770,216</b>	<b>16,008,834</b>	<b>23,779,050</b>	<b>1,259,162</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	2,610,843	2,382,726	4,993,569	29,966,112
Restricted for:				
Debt service	470		470	
Endowments and trusts	3,314		3,314	
Other purposes	1,229,222	424,440	1,653,662	
Unrestricted	2,541,516	2,105,785	4,647,301	1,211,587
<b>Total net assets</b>	<b>6,385,365</b>	<b>4,912,951</b>	<b>11,298,316</b>	<b>31,177,699</b>
	<b>\$ 14,155,581</b>	<b>\$ 20,921,785</b>	<b>\$ 35,077,366</b>	<b>\$ 32,436,861</b>

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

**COUNTY OF HILLSDALE, MICHIGAN**  
**Statement of Activities**  
**For the Year Ended December 31, 2008**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government</b>					
Governmental activities:					
Legislative	\$ 138,403	\$ -	\$ -	\$ -	\$ (138,403)
Judicial	1,926,280	593,362	962,809	-	(370,109)
General government	2,251,496	758,678	218,510	-	(1,274,308)
Public safety	4,402,225	679,897	297,825	-	(3,424,503)
Public works	21,299	-	-	-	(21,299)
Health and welfare	3,267,890	331,561	959,503	-	(1,976,826)
Recreation and cultural	85,952	34,027	-	-	(51,925)
Other governmental activities	2,095,535	5,624	155	-	(2,089,756)
Interest on long-term debt	178,220	-	-	-	(178,220)
<b>Total governmental activities</b>	<b>14,367,300</b>	<b>2,403,149</b>	<b>2,438,802</b>	<b>-</b>	<b>(9,525,349)</b>
Business - type activities:					
Medical Care Facility	14,712,482	11,507,149	3,122,440	-	(82,893)
Delinquent tax collections/forfeitures	211,216	801,883	-	-	590,667
Emergency services	781,524	748,354	63,546	-	30,376
Geographic information services	27,102	220	7,978	-	(18,904)
Board of Public Works	286,205	9	286,205	-	9
<b>Total business activities</b>	<b>16,018,529</b>	<b>13,057,615</b>	<b>3,480,169</b>	<b>-</b>	<b>519,255</b>
<b>Total primary government</b>	<b>\$ 30,385,829</b>	<b>\$ 15,460,764</b>	<b>\$ 5,918,971</b>	<b>\$ -</b>	<b>\$ (9,006,094)</b>
<b>Component units</b>					
County Districts	\$ 462,165	\$ 140,002	\$ 316,849	\$ -	\$ (5,314)
County Roads	7,565,937	1,665,070	5,985,406	-	84,539
<b>Total component units</b>	<b>\$ 8,028,102</b>	<b>\$ 1,805,072</b>	<b>\$ 6,302,255</b>	<b>\$ -</b>	<b>\$ 79,225</b>

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

**COUNTY OF HILLSDALE, MICHIGAN**  
**Statement of Activities (Concluded)**  
**For the Year Ended December 31, 2008**

<u>Functions/Programs</u>	<u>Primary Government</u>			<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
<b>Changes in net assets</b>				
Net (expense) revenue	\$ (9,525,349)	\$ 519,255	\$ (9,006,094)	\$ 79,225
General revenues:			-	
Property taxes	7,616,477		7,616,477	
Unrestricted investment earnings	402,491		402,491	47,537
Transfers: internal activities	655,431	(655,431)	-	
Total general revenues and transfers	8,674,399	(655,431)	8,018,968	47,537
Special item: contribution of land and building to local unit of government	(552,000)		(552,000)	
Change in net assets	(1,402,950)	(136,176)	(1,539,126)	126,762
Net assets, beginning of year	7,788,315	5,049,127	12,837,442	31,050,937
Net assets, end of year	\$ 6,385,365	\$ 4,912,951	\$ 11,298,316	\$ 31,177,699

**FUND FINANCIAL STATEMENTS**

**COUNTY OF HILLSDALE, MICHIGAN**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2008**

	General	Revenue Sharing Reserve	Senior Center Debt Service	Nonmajor Funds	Totals
<b>ASSETS</b>					
Cash and cash equivalents	\$ 679,795	\$ 1,749,750	\$ (20)	\$ 1,211,073	\$ 3,640,598
Taxes receivable	1,088,008			1,818,629	2,906,637
Accounts receivable	862		1,910,000	48	1,910,910
Due from other governments	116,972			136,495	253,467
Advance to component unit	357,968				357,968
Interest receivable	55,321	5,198		17	60,536
	<u>\$ 2,298,926</u>	<u>\$ 1,754,948</u>	<u>\$ 1,909,980</u>	<u>\$ 3,166,262</u>	<u>\$ 9,130,116</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 227,219	\$	\$	\$ 59,835	\$ 287,054
Accrued expenditures	131,194			14,418	145,612
Due to other governments				58,000	58,000
Deferred revenue	840,258		1,910,000	1,824,709	4,574,967
Total liabilities	<u>1,198,671</u>	<u>-</u>	<u>1,910,000</u>	<u>1,956,962</u>	<u>5,065,633</u>
<b>FUND BALANCES</b>					
Reserved for advances	357,968				357,968
Reserved for family counseling	23,706				
Unreserved:					
Undesignated (deficit)	718,581	1,754,948	(20)		2,473,509
Undesignated, reported in nonmajor:					
Special revenue funds				775,655	775,655
Debt service funds				470	470
Capital projects funds				429,861	429,861
Permanent funds				3,314	3,314
Total fund balances	<u>1,100,255</u>	<u>1,754,948</u>	<u>(20)</u>	<u>1,209,300</u>	<u>4,064,483</u>
	<u>\$ 2,298,926</u>	<u>\$ 1,754,948</u>	<u>\$ 1,909,980</u>	<u>\$ 3,166,262</u>	<u>\$ 9,130,116</u>

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

**COUNTY OF HILLSDALE, MICHIGAN**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets**  
**of Governmental Activities on the Statement of Net Assets**  
**December 31, 2008**

Fund balances - total governmental funds \$ 4,064,483

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

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

Add: capital assets not being depreciated	130,003
Add: capital assets being depreciated, net	4,820,670

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 revenue in the governmental funds.

Add: deferred loans receivable	1,910,000
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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 assets.

Add: net assets of governmental activities accounted for in the internal service fund	56,034
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Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds, notes, and leases payable	(4,249,830)
Subtract: compensated absences	(304,034)
Subtract: accrued interest on long-term liabilities	(41,961)
	(4,595,825)

Net assets of governmental activities	\$ 6,385,365
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The accompanying notes are an integral part of these financial statements.

**COUNTY OF HILLSDALE, MICHIGAN**  
**Statement of Revenue, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2008**

	General	Revenue Sharing Reserve	Senior Center Debt Service	Nonmajor Funds	Totals
<b>Revenue</b>					
Taxes and special assessments	\$ 6,445,300	\$	\$	\$ 1,171,177	\$ 7,616,477
Intergovernmental	1,286,295			731,375	2,017,670
Licenses and permits	83,798				83,798
Contributions			160,982		160,982
Fines and forfeits	283,697			24,744	308,441
Charges for services	848,734			390,682	1,239,416
Reimbursements and refunds	501,630			66,062	567,692
Interest and rentals	572,032	27,797		31,208	631,037
Other revenue				315,406	315,406
<b>Total revenue</b>	<b>10,021,486</b>	<b>27,797</b>	<b>160,982</b>	<b>2,730,654</b>	<b>12,940,919</b>
<b>Expenditures</b>					
Legislative	138,403				138,403
Judicial	1,955,769			12,928	1,968,697
General Government	2,082,416			1,097,235	3,179,651
Public safety	3,764,953			596,363	4,361,316
Public works	21,299				21,299
Health and welfare	478,812			2,813,684	3,292,496
Recreation and cultural				85,952	85,952
Other	1,907,085				1,907,085
Capital outlay	295,223				295,223
Debt service:					
Principal			80,000	325,000	405,000
Interest			81,115	94,472	175,587
<b>Total expenditures</b>	<b>10,643,960</b>	<b>-</b>	<b>161,115</b>	<b>5,025,634</b>	<b>15,830,709</b>
<b>Revenue over (under) expenditures</b>	<b>(622,474)</b>	<b>27,797</b>	<b>(133)</b>	<b>(2,294,980)</b>	<b>(2,889,790)</b>
<b>Other financing sources (uses)</b>					
Proceeds from issuance of debt	90,324			762,000	852,324
Transfers in	1,543,400			1,212,309	2,755,709
Transfers (out)	(1,253,062)	(866,216)			(2,119,278)
<b>Total other financing sources (uses)</b>	<b>380,662</b>	<b>(866,216)</b>	<b>-</b>	<b>1,974,309</b>	<b>1,488,755</b>
<b>Net change in fund balances</b>	<b>(241,812)</b>	<b>(838,419)</b>	<b>(133)</b>	<b>(320,671)</b>	<b>(1,401,035)</b>
<b>Fund balances, beginning of year</b>	<b>1,342,067</b>	<b>2,593,367</b>	<b>113</b>	<b>1,529,971</b>	<b>5,465,518</b>
<b>Fund balances, end of year</b>	<b>\$ 1,100,255</b>	<b>\$ 1,754,948</b>	<b>\$ (20)</b>	<b>\$ 1,209,300</b>	<b>\$ 4,064,483</b>

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

**COUNTY OF HILLSDALE, MICHIGAN**  
**Reconciliation of the Statement of Revenue, Expenditures**  
**and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended December 31, 2008**

Net change in fund balances - total governmental funds \$ (1,401,035)

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.

Add: capital assets being depreciated, net	1,189,937
Subtract: depreciation expense	(240,471)

The disposal of capital assets in excess of proceeds received represent losses that are not reported in the fund statements as an expenditure, but is reported in the statement of activities as a loss.

Subtract: losses on the disposal of capital assets	(565,442)
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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.

Subtract: payments received on deferred long-term receivables	(80,000)
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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 assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities.

Subtract: capital lease and installment purchase proceeds	(852,324)
Add: principal payments on bonds	185,000
Add: principal payments on capital leases	72,542
Add: principal payments on notes	1,233
Add: principal payments on other installment contracts	220,000

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.

Subtract: increase in accrued interest on bonds	(2,633)
Add: decrease in the accrual of compensated absences	43,370

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:

Add: net operating income from governmental activities accounted for in the internal service fund	26,873
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Change in net assets of governmental activities	\$ (1,402,950)
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The accompanying notes are an integral part of these financial statements.

**COUNTY OF LULLSDALE, MICHIGAN**  
**Statement of Revenue, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Year Ended December 31, 2008**

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
<b>Revenue</b>				
Property Taxes	\$ 6,630,400	\$ 6,660,400	\$ 6,445,300	\$ (215,100)
Intergovernmental	1,583,887	1,583,887	1,286,295	(297,592)
Licenses and permits	84,400	84,400	83,798	(602)
Fines and forfeits	399,200	399,200	283,697	(115,503)
Charges for services	1,006,250	1,006,250	848,734	(157,516)
Interest and rentals	462,664	513,664	572,032	58,368
Reimbursements and refunds	505,539	505,539	501,630	(3,909)
<b>Total revenue</b>	<b>10,672,340</b>	<b>10,753,340</b>	<b>10,021,486</b>	<b>(731,854)</b>
<b>Expenditures</b>				
Legislative	137,730	139,230	138,403	(827)
Judicial	2,006,219	2,012,219	1,955,769	(56,450)
General government	2,138,574	2,145,074	2,082,416	(62,658)
Public safety	3,743,829	3,764,829	3,764,953	124
Public works	23,066	23,066	21,299	(1,767)
Health and welfare	489,341	492,856	478,812	(14,044)
Other	2,453,202	2,464,902	1,907,086	(557,816)
Capital outlay	189,165	219,165	295,223	76,058
<b>Total expenditures</b>	<b>11,181,126</b>	<b>11,261,341</b>	<b>10,643,961</b>	<b>(617,380)</b>
Revenues (under) expenditures	(508,786)	(508,001)	(622,475)	(114,474)
<b>Other financing sources (uses)</b>				
Proceeds from capital leases			90,324	90,324
Transfer in	1,467,216	1,575,316	1,543,400	(31,946)
Transfer (out)	(958,430)	(1,067,070)	(1,253,061)	(185,991)
<b>Total other financing sources (uses)</b>	<b>508,786</b>	<b>508,276</b>	<b>380,663</b>	<b>(127,613)</b>
Net change in fund balances		275	(241,812)	(242,087)
Fund balance, beginning of year	1,342,067	1,342,067	1,342,067	
<b>Fund balance, end of year</b>	<b>\$ 1,342,067</b>	<b>\$ 1,342,342</b>	<b>\$ 1,100,255</b>	<b>\$ (242,087)</b>

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

**COUNTY OF HILLSDALE, MICHIGAN**  
**Statement of Revenue, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**Revenue Sharing Reserve Fund**  
**For the Year Ended December 31, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Actual over (under) Final Budget</b>
<b>Revenue</b>				
Interest revenue	\$ 30,000	\$ 30,000	\$ 27,797	\$ (2,203)
	30,000	30,000	27,797	(2,203)
<b>Expenditures</b>				
General government	-	-	-	-
Revenue over (under) expenditures	30,000	30,000	27,797	(2,203)
<b>Other financing sources (uses)</b>				
Transfers (out)	(866,216)	(866,216)	(866,216)	-
Net changes in fund balances	(836,216)	(836,216)	(838,419)	(2,203)
Fund balances, beginning of year	2,593,367	2,593,367	2,593,367	
Fund balances, end of year	\$ 1,757,151	\$ 1,757,151	\$ 1,754,948	\$ (2,203)

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

**COUNTY OF HILLSDALE, MICHIGAN**  
**Statement of Net Assets**  
**Proprietary Funds**  
**December 31, 2008**

	Enterprise Funds				Internal Service
	Medical Care Facility	2007		Totals	Self Insurance
		Delinquent Tax Revolving	Nonmajor Funds		
<b>Assets</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ 1,074,430	\$ 936,772	\$ 881,928	\$ 2,893,130	\$ 74,792
Taxes receivable	811,898	1,491,942	355,673	2,659,515	
Accounts receivable	1,699,064		140,655	1,839,719	
Interest receivable			42,773	42,773	
Current portion of leases receivable			240,000	240,000	
Other assets	113,988		3,747	117,735	
Total current assets	<u>3,699,380</u>	<u>2,428,714</u>	<u>1,664,778</u>	<u>7,792,872</u>	<u>74,792</u>
<b>Noncurrent assets:</b>					
Leases receivable, net of current portion			1,360,000	1,360,000	
Other assets	6,187			6,187	
Capital assets not being depreciated	45,163		95,377	140,540	
Capital assets being depreciated, net	11,612,322		9,864	11,622,186	
Total noncurrent assets	<u>11,663,672</u>	<u>-</u>	<u>1,465,241</u>	<u>13,128,913</u>	<u>-</u>
	<u>\$ 15,363,052</u>	<u>\$ 2,428,714</u>	<u>\$ 3,130,019</u>	<u>\$ 20,921,785</u>	<u>\$ 74,792</u>
<b>Liabilities</b>					
<b>Current liabilities:</b>					
Accounts payable	\$ 394,918	\$ -	\$ 74,188	\$ 469,106	\$ 18,758
Accrued liabilities	948,755		19,075	967,830	
Unearned revenue	811,898			811,898	
Current portion of long-term debt	415,000	1,500,000	720,000	2,635,000	
Total current liabilities	<u>2,570,571</u>	<u>1,500,000</u>	<u>813,263</u>	<u>4,883,834</u>	<u>18,758</u>
<b>Long-term liabilities:</b>					
Due in more than one year	8,963,000	800,000	1,360,000	11,123,000	-
Total liabilities	<u>11,533,571</u>	<u>2,300,000</u>	<u>2,173,263</u>	<u>16,006,834</u>	<u>18,758</u>
<b>Net assets</b>					
Invested in capital assets, net of related debt	3,277,485		105,241	2,382,726	
Restricted by statute			424,440	424,440	
Unrestricted	1,549,996	128,714	427,075	2,105,785	56,034
Total net assets	<u>3,827,481</u>	<u>128,714</u>	<u>956,756</u>	<u>4,912,951</u>	<u>56,034</u>
	<u>\$ 15,363,052</u>	<u>\$ 2,428,714</u>	<u>\$ 3,130,019</u>	<u>\$ 20,921,785</u>	<u>\$ 74,792</u>

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

**COUNTY OF HILLSDALE, MICHIGAN**  
**Statement of Revenue, Expenses**  
**and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended December 31, 2008**

	Enterprise Funds				Internal Service
	2007			Totals	Self Insurance
	Medical Care Facility	Delinquent Tax Revolving	Nonmajor Funds		
<b>Operating revenue</b>					
Charges for services	\$ 11,476,917	\$ 90,622	\$ 1,090,030	\$ 12,657,569	\$
Refunds and reimbursements			63,546	63,546	
Contributions	530,791			530,791	
Other operating revenue	1,773,264		309,496	2,082,760	24,887
<b>Total operating revenue</b>	<b>13,780,972</b>	<b>90,622</b>	<b>1,463,072</b>	<b>15,334,666</b>	<b>24,887</b>
<b>Operating expense</b>					
Depreciation expense	478,242		15,124	493,366	
Cost of services	13,839,685	17,587	1,152,040	15,009,312	17,014
<b>Total operating expense</b>	<b>14,317,927</b>	<b>17,587</b>	<b>1,167,164</b>	<b>15,502,678</b>	<b>17,014</b>
<b>Operating income (loss)</b>	<b>(536,955)</b>	<b>73,035</b>	<b>295,908</b>	<b>(168,012)</b>	<b>7,873</b>
<b>Nonoperating revenue (expenses)</b>					
Property tax revenue	818,385			818,385	
Interest and rentals	30,232	88,310	266,191	384,733	
Interest and expense	(394,555)	(32,631)	(88,665)	(515,851)	
<b>Total nonoperating revenue</b>	<b>454,062</b>	<b>55,679</b>	<b>177,526</b>	<b>687,267</b>	<b>-</b>
<b>Income before transfers</b>	<b>(82,893)</b>	<b>128,714</b>	<b>473,434</b>	<b>519,255</b>	<b>7,873</b>
<b>Transfers in (out)</b>					
Transfers in			21,753	21,753	19,000
Transfers (out)			(677,184)	(677,184)	
<b>Total transfers</b>	<b>-</b>	<b>-</b>	<b>(655,431)</b>	<b>(655,431)</b>	<b>19,000</b>
<b>Change in net assets</b>	<b>(82,893)</b>	<b>128,714</b>	<b>(181,997)</b>	<b>(136,176)</b>	<b>26,873</b>
<b>Net assets, beginning of year</b>	<b>3,910,374</b>	<b>-</b>	<b>1,138,753</b>	<b>5,049,127</b>	<b>29,161</b>
<b>Net assets, end of year</b>	<b>\$ 3,827,481</b>	<b>\$ 128,714</b>	<b>\$ 956,756</b>	<b>\$ 4,912,951</b>	<b>\$ 56,034</b>

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

**COUNTY OF MILLSDALE, MICHIGAN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2008**

	<u>Enterprise Funds</u>				<u>Internal Service</u>
	Medical Care Facility	2007 Delinquent Tax Revolving	Nonmajor Funds	Totals	Self Insurance
<b>Cash flows from operating activities</b>					
Cash received from customers	\$ 11,033,637	\$ 2,390,622	\$ 2,108,651	\$ 15,532,910	\$ 24,887
Cash received from Quality Assurance Supplement	1,726,305			1,726,305	
Other operating receipts	530,791			530,791	
Cash payments to suppliers and employees for goods and services	(14,705,624)	(3,309,529)	(960,977)	(19,476,130)	(20,969)
Net cash provided by (used in) operating activities	<u>(1,414,891)</u>	<u>(1,418,907)</u>	<u>1,147,674</u>	<u>(1,686,124)</u>	<u>3,918</u>
<b>Cash flows from noncapital financing activities</b>					
Property tax revenue	818,385			818,385	-
Proceeds from tax notes		3,200,000		3,200,000	
Tax notes redeemed		(900,000)		(900,000)	
Transfers in			21,753	21,753	19,000
Transfers (out)			(677,184)	(677,184)	-
Net cash provided (used) by non-capital financing activities	<u>818,385</u>	<u>2,300,000</u>	<u>(655,431)</u>	<u>2,462,954</u>	<u>19,000</u>
<b>Cash flows from capital and related financing activities</b>					
Purchase of capital assets	(2,169,908)		(31,640)	(2,201,548)	
Interest payments	(394,555)	(32,631)	(144,870)	(572,056)	
Principal payments	(390,000)		(1,930,000)	(2,320,000)	
Proceeds from long-term debt				-	
Net cash provided (used) by capital and related financing activities	<u>(2,954,463)</u>	<u>(32,631)</u>	<u>(2,106,510)</u>	<u>(5,093,604)</u>	<u>-</u>
<b>Cash flows from investing activities</b>					
Interest and rental earnings	88,412	88,310	268,874	445,596	
Amounts collected on leases receivable			286,205	286,205	
Net cash provided by investing activities	<u>88,412</u>	<u>88,310</u>	<u>555,079</u>	<u>731,801</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(3,462,557)	936,772	(1,059,188)	(3,584,973)	22,918
Cash and cash equivalents, beginning of year	4,536,987		1,941,116	6,478,103	51,874
Cash and cash equivalents, end of year	<u>\$ 1,074,430</u>	<u>\$ 936,772</u>	<u>\$ 881,928</u>	<u>\$ 2,893,130</u>	<u>\$ 74,792</u>

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

**COUNTY OF HILLSDALE, MICHIGAN**  
**Statement of Cash Flows**  
**Proprietary Funds (Concluded)**  
**For the Year Ended December 31, 2008**

	2007				Internal Service
	Medical Care Facility	Delinquent Tax Revolving	Nonmajor Funds	Totals	Self Insurance
<b>Cash flows from operating activities</b>					
Operating income (loss)	\$ (536,955)	\$ 73,035	\$ 295,908	\$ (168,012)	\$ 7,873
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	478,242		15,124	493,366	
(Increase) decrease in:					
Taxes receivable			1,073,836	1,073,836	
Accounts receivable	(384,913)	(1,491,942)	(142,052)	(2,018,907)	
Other assets	(111,513)			(111,513)	
Increase (decrease) in:					
Accounts payable	(1,082,829)		(95,142)	(1,177,971)	(3,955)
Accrued expenses	223,077			223,077	
 Net cash provided by (used in) operating activities	 \$ (1,414,891)	 \$ (1,418,907)	 \$ 1,147,674	 \$ (1,686,124)	 \$ 3,918

**Non-cash transactions**

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

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

**COUNTY OF HILLSDALE, MICHIGAN**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**December 31, 2008**

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 810,224
	<hr/>
<b>Liabilities</b>	
Due to other governments	198,005
Undistributed receipts	612,219
	<hr/>
Total liabilities	\$ 810,224
	<hr/>

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

**COUNTY OF HILLSDALE, MICHIGAN**  
**Combined Statement of Net Assets**  
**Component Units**  
**December 31, 2008**

	<b>Drain Commission</b>	<b>Road Commission</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 473,814	\$ 246,293	\$ 720,107
Special assessments receivable	264,827		264,827
Receivables, net		784,237	784,237
Prepaid items and other assets		701,578	701,578
Capital assets:			-
Capital assets not being depreciated		4,876,645	4,876,645
Capital assets being depreciated, net	771,453	24,318,014	25,089,467
<b>Total assets</b>	<b>\$ 1,510,094</b>	<b>\$ 30,926,767</b>	<b>\$ 32,436,861</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses	\$	\$ 326,333	\$ 326,333
Advances from the state		187,531	187,531
Advances from primary government	357,968		357,968
Long-term liabilities:			
Due within one year		19,367	19,367
Due in more than one year		367,963	367,963
<b>Total liabilities</b>	<b>357,968</b>	<b>901,194</b>	<b>1,259,162</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	771,453	29,194,659	29,966,112
Unrestricted	380,673	830,914	1,211,587
<b>Total net assets</b>	<b>1,152,126</b>	<b>30,025,573</b>	<b>31,177,699</b>
	<b>\$ 1,510,094</b>	<b>\$ 30,926,767</b>	<b>\$ 32,436,861</b>

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

**COUNTY OF HILLSDALE, MICHIGAN**  
**Combined Statement of Activities**  
**Component Units**  
**December 31, 2008**

	<u>Drain Commission</u>	<u>Road Commission</u>	<u>Total</u>
<b>Expenses</b>			
County Drains	\$ 462,165	\$	\$ 462,165
County Roads		7,565,937	7,565,937
Total expenses	<u>462,165</u>	<u>7,565,937</u>	<u>8,028,102</u>
<b>Program revenues</b>			
Charges for services	140,002	1,665,070	1,805,072
Operating grants and contributions	316,849	5,985,406	6,302,255
Total program revenues	<u>456,851</u>	<u>7,650,476</u>	<u>8,107,327</u>
Net revenue (expense)	<u>(5,314)</u>	<u>84,539</u>	<u>79,225</u>
<b>General revenues</b>			
Unrestricted investment earnings	13,074	34,463	47,537
Change in net assets	7,760	119,002	126,762
Net assets, beginning of year	<u>1,144,366</u>	<u>29,906,571</u>	<u>31,050,937</u>
Net assets, end of year	<u>\$ 1,152,126</u>	<u>\$ 30,025,573</u>	<u>\$ 31,177,699</u>

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

# COUNTY OF HILLSDALE, MICHIGAN

## Index

### Notes to the Financial Statements

For the Year Ended December 31, 2008

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	<u>PAGE</u>
<b>I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>	
A. Reporting Entity.....	16
B. Government-wide and Fund Financial Statements.....	19
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation.....	20
D. Assets, Liabilities and Equity.....	22
<b>II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY</b>	
A. Budgetary Information.....	25
B. Excess of Expenditures over Appropriations.....	26
C. Fund Deficit.....	26
D. Departure from Accounting Standards.....	26
<b>III. DETAILED NOTES ON ALL FUNDS</b>	
A. Deposits and Investments.....	27
B. Receivables.....	29
C. Capital Assets.....	30
D. Accounts Payable.....	33
E. Interfund Receivables, Payables and Transfers.....	33
F. Long-term Debt.....	34
<b>IV. OTHER INFORMATION</b>	
A. Risk Management / Self-Insurance Programs.....	40
B. Property Taxes.....	42
C. Employee Retirement System and Plans.....	43
D. Postemployment Benefits.....	46
E. Contingent Liabilities.....	47
F. Special Item.....	47

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### A. 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 Units

A blended component unit is a legally separate entity from the local governmental unit, but is so intertwined with the Unit that it is, in substance, the same as the local governmental unit. It is reported as part of the local governmental unit and blended into the appropriated fund types.

#### Hillsdale County Medical Care Facility

The 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

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

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### Building Authority

The 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.

### 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

The following component units are reported within the "component units" column in the government-wide financial statements. The discretely presented component unit is an entity that is legally separate from Hillsdale County, but for which the County is financially accountable, or its relationship with the County is such that exclusion would cause the County's financial statements to be misleading or incomplete.

### Hillsdale County Road Commission

The County Road Commission, which 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 office or from the Clerk's Office:

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

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Hillsdale County Road Commission  
1919 Hudson Road  
Hillsdale, Michigan 49242

### Hillsdale County Drain Commission

Each of the drainage districts 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.) drainage districts 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.) drainage districts 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.) drainage districts, 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.) drainage districts consists of the Drain Commissioner, the State Director of Agriculture, and the commissioners of each county involved.

### Related Organizations

#### 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.

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

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### 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, 2008, was \$296,067.

### **B. Government-wide and fund financial statements**

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

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

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

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

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### C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government 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 revenue, 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 financial resources of the general government, except those required to be accounted for in another fund.

The *revenue sharing reserve fund* accounts for accelerated property tax collections which are held for the replacement of future State shared revenues.

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

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

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The County reports the following major proprietary funds:

The *Medical Care Facility fund* is used to account for the operation of the Hillsdale County Medical Care Facility. Financing is provided through charges for services, Medicare and Medicaid reimbursements, and general fund appropriations.

The *2007 delinquent tax revolving fund* accounts for the County's 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. The fund also accounts for the County's issuance of debt (to provide cash flow for the purchase of the taxes) and for the resulting debt service payments.

Additionally, the County reports the following fund types:

*Special revenue funds* account for revenue sources that are legally restricted to expenditure for specific purposes (not including major capital projects).

*Debt service funds* account for the servicing of general long-term debt not being financed by proprietary funds.

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

*Permanent funds* account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support specified government programs, including programs for a cemetery, the MCF, and a trust.

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

The *internal service fund* accounts for operations that provide the accounting for workers' compensation insurance to other departments or agencies of the County 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 accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

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

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 *non-operating* 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 government'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 non-operating revenues and expenses.

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

### **D. Assets, liabilities and equity**

#### ***1. 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, which is determined as follows: a) short-term investments are reported at cost, which approximates fair value; b) securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates; c) investments that do not have established market values are reported at estimated fair value; and d) cash deposits are reported at carrying amount, which reasonably approximates fair value.

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

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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, banker's acceptances, and mutual funds composed of otherwise legal investments.

### 2. *Receivables and payables*

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

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.

All trade and property tax receivables are shown net of an allowance for uncollectibles, as applicable.

### 3. *Inventories and prepaid items*

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

### 4. *Capital assets*

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

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

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

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

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10-50
Equipment	10-25
Vehicles	5-10

Capital assets in the Road Commission discretely presented component unit are depreciated as follows:

	<u>Methods</u>	<u>Useful Lives - Years</u>
Buildings and improvements	Straight-line	40
Road equipment	Sum of years-digits	5-8
Other equipment	Straight-line	5-8
Infrastructure	Straight-line	8-50

Capital assets in the Drain Commission discretely presented component unit are depreciated as follows:

	<u>Methods</u>	<u>Useful Lives - Years</u>
Buildings	Straight-line	25
Equipment	Straight-line	5-10
Infrastructure	Straight-line	50

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

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### 5. *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 of 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 employee resignations or retirements, is reported as an expenditure and a fund liability of the governmental fund that will pay it for employees retiring.

### 6. *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, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

### 7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. *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.

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

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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.

### **B. Excess of expenditures over appropriations**

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the County were adopted on an activity level for the general fund and a functional level basis for the special revenue funds.

Expenditures in excess of budgeted amounts at the legal level of control are disclosed in the Statements of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund.

### **C. Fund deficit**

At December 31, 2008, there is a deficit in the Drain Special Assessment fund of the Drain Commission component unit in the amount of \$ 58,946, the Homeland Security fund in the amount of \$ 22,789, the Soldiers and Sailors Relief fund in the amount of \$2,000, and the Senior Center Debt Service fund in the amount of \$ 20. The County plans to eliminate these deficits by the collection of future special assessments and/or appropriations.

### **D. Departure from accounting standards**

County of Hillsdale Medical Care Facility has not determined the cost of its postretirement medical benefits provided to eligible employees in accordance with accounting principles generally accepted in the United States of America, which requires the cost of those employee postretirement benefits to be recognized over the employees' respective service periods and a liability to be recognized for the benefit obligation. The effects of that departure on the financial statements are not reasonably determinable.

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

A reconciliation of cash and investments as shown in the basic financial statements is as follows:

Cash on hand	\$	6,300
Carrying amount of deposits		5,228,358
Carrying amount of investments		<u>2,904,193</u>
		<u>\$ 8,138,851</u>

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash Equivalents	\$ 6,608,520	\$ 720,107	\$ 810,224	\$ 8,138,851

The County chooses to disclose its investments by specific identification. As of year end, the County had the following investments.

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Merrill Lynch Treasury Fund	n/a	\$ 68,054	n/a
Monarch Bank money markets	n/a	1,061,889	n/a
Federal Home Loan Mtg. Corp	03/27/23	100,000	S&P - AAAm
Federal Farm Credit Bank	04/09/18	199,750	S&P - AAAm
Federal Nat. Mtg. Assn.	02/28/23	250,000	S&P - AAAm
Federal Home Loan Mtg. Corp	12/05/22	150,000	S&P - AAAm
Federal Home Loan Bank	05/05/20	100,000	S&P - AAAm
Federal Home Loan Mtg. Corp Bond	06/30/23	200,000	S&P - AAAm
Federal Home Loan Mtg. Corp	01/30/23	197,500	S&P - AAAm
Federal Home Loan Mtg. Corp	07/15/13	200,000	S&P - AAAm
Federal Nat. Mtg. Assn	04/17/23	250,000	S&P - AAAm
Federal Nat. Mtg. Assn	10/15/13	<u>127,000</u>	S&P - AAAm
		<u>\$ 2,904,193</u>	

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

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### Investment and deposit risk

*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 maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturities for each investment are identified above for investments held at year end.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools 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 credit risk. The ratings for each investment are identified above for investments held at year end.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year end, \$147,367 of the County's bank balance of \$ 8,320,330 was exposed to custodial credit risk because it was uninsured.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require a policy for investment custodial credit risk. The County's investment policy limits investments to those types of securities allowed by state statutes as listed in Note 1 above and pre-qualifies the financial institutions, broker/dealers, intermediaries and advisors with which the County does business in accordance with this policy. None of the investments above are subject to custodial credit risk since they are held in the name of the County.

*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.

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

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### B. Receivables

Receivables in the governmental activities are as follows:

Taxes	\$ 2,906,637
Accounts	910
Loans	1,910,000
Due from other governments	253,467
Advance to component unit	357,968
Interest	<u>60,536</u>
	<u>\$ 5,489,518</u>

\$ 1,830,000 of the loans receivable and \$ 357,968 of the advance to component unit is not expected to be collected within one year.

Receivables in the business-type activities are as follows:

Taxes	\$ 2,659,515
Accounts	1,839,719
Due from other governments	1,600,000
Interest	<u>42,773</u>
	<u>\$ 6,142,007</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, unearned revenue reported in the government-wide financial statement for governmental activities represent uncollected taxes from the Summer and Winter 2008 tax levies that are earmarked for the County's fiscal year of 2009.

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

### C. Capital assets

Capital assets activity for the year ended December 31, 2008 was as follows:

#### Primary government

	January 1, 2008	Additions	Deletions	December 31, 2008
<i>Governmental Activities</i>				
Capital assets not being depreciated:				
Land	\$ 330,003	\$ -	\$ 200,000	\$ 130,003
Capital assets being depreciated:				
Buildings and improvements	6,340,908	1,053,695	400,000	6,994,603
Vehicles and equipment	1,229,754	136,242	167,392	1,198,604
Total capital assets being depreciated	7,570,662	1,189,937	567,392	8,193,207
Less accumulated depreciation for:				
Buildings and improvements	(2,533,725)	(128,944)	48,000	(2,614,669)
Vehicles and equipment	(800,291)	(111,527)	153,950	(757,868)
Total accumulated depreciation	(3,334,016)	(240,471)	201,950	(3,372,537)
Total capital assets being depreciated, net	4,236,646	949,466	365,442	4,820,670
<b>Governmental activities capital assets, net</b>	<b>\$ 4,566,649</b>	<b>\$ 949,466</b>	<b>\$ 565,442</b>	<b>\$ 4,950,673</b>
<i>Business-type Activities</i>				
Capital assets not being depreciated:				
Construction in progress	\$ 6,992,170	\$ 140,540	\$ 6,992,170	\$ 140,540
Capital assets being depreciated:				
Land improvements	29,524	-	-	29,524
Buildings and improvements	6,628,829	8,708,280	-	15,337,109
Vehicles and equipment	1,231,116	408,635	-	1,639,751
Total capital assets being depreciated	7,889,469	9,116,915	-	17,006,384
Less accumulated depreciation for:				
Land improvements	(29,524)	-	-	(29,524)
Buildings and improvements	(3,736,617)	(384,850)	-	(4,121,467)
Vehicles and equipment	(1,124,691)	(108,516)	-	(1,233,207)
Total accumulated depreciation	(4,890,832)	(493,366)	-	(5,384,198)
Total capital assets being depreciated, net	2,998,637	8,623,549	-	11,622,186
<b>Business-type activities capital assets, net</b>	<b>\$ 9,990,807</b>	<b>\$ 8,764,089</b>	<b>\$ 6,992,170</b>	<b>\$ 11,762,726</b>

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

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

<b>Governmental activities:</b>	
General government	\$ 151,964
Public safety	85,423
Health and welfare	<u>3,084</u>
<b>Total</b>	<b><u>\$ 240,471</u></b>
<b>Business-type activities</b>	
Medical Care Facility	\$ 478,242
E-911 Emergency	<u>15,124</u>
<b>Total</b>	<b><u>\$ 493,366</u></b>

### Component Unit - Drain Commission

Activity for the Drain Commission for the year ended December 31, 2008, was as follows:

	January 1, 2008	Additions	Deletions	December 31, 2008
Capital assets being depreciated:				
Buildings	\$ 135,000	\$	\$	\$ 135,000
Equipment	677,434	36,291	32,155	681,570
Infrastructure	458,635			458,635
Total capital assets being depreciated	<u>1,271,069</u>	<u>36,291</u>	<u>32,155</u>	<u>1,275,205</u>
Less accumulated depreciation for:				
Buildings	(48,600)	(5,400)	-	(54,000)
Equipment	(362,274)	(57,634)	12,864	(407,044)
Infrastructure	(33,536)	(9,172)		(42,708)
Total accumulated depreciation	<u>(444,410)</u>	<u>(72,206)</u>	<u>12,864</u>	<u>(503,752)</u>
<b>Total capital assets being depreciated, net</b>	<b><u>\$ 826,659</u></b>	<b><u>\$ (35,915)</u></b>	<b><u>\$ 19,291</u></b>	<b><u>\$ 771,453</u></b>

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

### Component Unit - Road Commission

Activity for the Road Commission for the year ended December 31, 2008, was as follows:

	Balance January 1, 2008	Additions	Deductions	Balance December 31, 2008
<b>Capital assets not being depreciated:</b>				
Land	\$ 68,434	\$	\$	\$ 68,434
Land improvements - infrastructure	4,434,046	374,165		4,808,211
Subtotal	4,502,480	374,165	-	4,876,645
<b>Capital assets being depreciated:</b>				
Buildings and improvements	2,027,459	3,645	3,179	2,027,925
Road equipment	5,646,247	363,095	146,637	5,862,705
Shop equipment	115,213	3,765		118,978
Office equipment	147,293	8,040	886	154,447
Engineers' equipment	62,347	1,310		63,657
Yard and storage	436,535			436,535
Depletable assets	65,400			65,400
Infrastructure	44,497,467	2,108,214		46,605,681
Subtotal	52,997,961	2,488,069	150,702	55,335,328
<b>Accumulated depreciation and depletion</b>				
Buildings and improvements	587,553	61,105	3,179	645,479
Equipment	4,781,707	504,434	146,559	5,139,582
Depletable assets	62,795			62,795
Infrastructure	23,462,431	1,707,027		25,169,458
Total accumulated depreciation and depletion	28,894,486	2,272,566	149,738	31,017,314
Total capital assets being depreciated - net	24,103,475	215,503	964	24,318,014
Total capital assets - net	\$ 28,605,955	\$ 589,668	\$ 964	\$ 29,194,659

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

### D. Accounts payable

Accounts payable and accrued liabilities in the governmental activities are as follows:

Accounts payable	\$ 305,812
Accrued payroll, expenses and deposits	145,612
Due to other governments	58,000
Accrued interest on long-term debt	<u>41,961</u>
<b>Total</b>	<b><u>\$ 551,385</u></b>

Accounts payable and accrued liabilities in the business-type activities are as follows:

Accounts payable	\$ 469,106
Accrued payroll, expenses and deposits	<u>967,830</u>
<b>Total</b>	<b><u>\$ 1,436,936</u></b>

### E. Interfund receivables, payables and transfers

The County has interfund balances between its funds and component units. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and proprietary funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. The advances from the General Fund to the Drain and Lake Level Revolving Funds of the Drain Component Unit are used to provide cash flow to those funds until reimbursements from drain assessments are collected.

Fund	Receivable	Payable
General	\$ 357,968	\$
Drain revolving		339,489
Lake level revolving		<u>18,479</u>
	<b><u>\$ 357,968</u></b>	<b><u>\$ 357,968</u></b>

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

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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.

For the year ended December 31, 2008, interfund transfers consisted of the following:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General	\$ 1,543,400	\$ 1,253,062
Revenue Sharing Reserve		866,216
Nonmajor Governmental Funds	1,212,309	
Nonmajor Proprietary Funds	<u>40,753</u>	<u>677,184</u>
	<u>\$ 2,796,462</u>	<u>\$ 2,796,462</u>

### F. Long-term debt

#### Primary government

##### **Governmental activities**

**General obligation bonds.** The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities.

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:

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

<u>Purpose</u>	<u>Installments</u>	<u>Interest Rates</u>	<u>Due</u>	<u>Amount</u>
Governmental activities:				
County Building Authority - Buildings	\$95,000 to 170,000	5.25 to 5.70%	2016	<u>\$1,105,000</u>
Capital Improvement Senior Center Bldg	\$75,000 to 160,000	4.25 to 4.40%	2025	<u>\$1,910,000</u>

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

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 190,000	\$ 139,307	\$ 329,307
2010	200,000	129,967	329,967
2011	210,000	119,861	329,861
2012	215,000	109,874	324,874
2013	230,000	98,397	328,397
2014 - 2018	1,005,000	313,752	1,318,752
2019 - 2023	655,000	136,771	791,771
2024 - 2025	310,000	13,672	323,672
	<u>\$ 3,015,000</u>	<u>\$ 1,061,601</u>	<u>\$ 4,076,601</u>

The County has the following capital leases and installment purchase contracts:

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, 2008, were as follows:

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

**Capital leases:**

<b><u>Year Ending December 31</u></b>	<b><u>Governmental Activities</u></b>
2009	\$ 65,239
2010	29,988
2011	3,616
2012	<u>10,089</u>
Total minimum lease payments	108,932
Less: amount representing interest	<u>(16,102)</u>
<b>Present value of minimum lease payments</b>	<b><u>\$ 92,830</u></b>

**Installment contracts**

<b><u>Purpose</u></b>	<b><u>Installments</u></b>	<b><u>Interest Rates</u></b>	<b><u>Due</u></b>	<b><u>Amount</u></b>
Governmental activities:				
Elevator in the new addition	\$110,000 to 130,000	4.2%	2012	<b><u>\$380,000</u></b>
Energy efficient improvements to sheriff's building	\$65,000 to 90,000	4.38%	2018	<b><u>\$762,000</u></b>

Annual payments to maturity are as follows:

<b><u>Year Ended December 31</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2009	\$ 72,318	\$ 52,705	\$ 125,023
2010	190,299	47,027	237,326
2011	198,411	38,874	237,285
2012	206,662	30,373	237,035
2013	80,057	21,519	101,576
2014 - 2018	394,253	50,637	444,890
	<b><u>\$ 1,142,000</u></b>	<b><u>\$ 241,135</u></b>	<b><u>\$ 1,383,135</u></b>

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

### Business-type activities

**General obligation bonds.** The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for business-type activities.

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:

<u>Purpose</u>	<u>Installments</u>	<u>Interest Rates</u>	<u>Due</u>	<u>Amount</u>
Business-type activities:				
County Building Authority - Medical Care Facility Building	\$105,000 to 185,000	4.60 to 4.625%	2018	<u>\$ 1,475,000</u>
Medical Care Facility Building	\$150,000 to 695,000	4.00%	2026	<u>\$ 7,650,000</u>
Medical Care Facility Building	\$75,000 to 90,000	3.0 to 3.5%	2011	<u>\$ 255,000</u>
Sanitary Sewer - City of Litchfield	\$30,000 to 130,000	2.0%	2014	<u>\$ 675,000</u>
Water Supply System - Village of Jonesville	\$110,000 to 150,000	3.85 to 4.20%	2015	<u>\$ 925,000</u>

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

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

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 655,000	\$ 396,848	\$ 1,051,848
2010	690,000	377,511	1,067,511
2011	735,000	357,031	1,092,031
2012	685,000	335,086	1,020,086
2013	725,000	316,511	1,041,511
2014 - 2018	2,975,000	1,240,321	4,215,321
2019 - 2023	2,550,000	711,600	3,261,600
2024 - 2028	1,965,000	160,400	2,125,400
	<u>\$ 10,980,000</u>	<u>\$ 3,895,308</u>	<u>\$ 14,875,308</u>

*Delinquent tax notes.* The government issues delinquent 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 Funds) 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, 2008, are as follows:

<u>Series</u>	<u>Amount</u>
2007 - \$2,580,000 G.O. Limited Tax Notes payable, dated June 21, 2007, interest at 5.20 - 5.75%	<u>\$ 480,000</u>
2008 - \$3,200,000 G.O. Limited Tax Notes payable, dated May 28, 2008, interest at 2.25 - 4.00%	<u>\$ 2,300,000</u>

Annual debt service requirements to maturity are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,980,000	\$ 78,070	\$ 2,058,070
2010	800,000	25,625	825,625
	<u>\$ 2,780,000</u>	<u>\$ 103,695</u>	<u>\$ 2,883,695</u>

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

### Changes in long-term debt.

Long-term debt liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
<b>Governmental activities</b>					
1996 Building Authority Bonds	\$ 1,210,000	\$	\$ (105,000)	\$ 1,105,000	\$ 110,000
2005 Capital Improvement Bonds	1,990,000		(80,000)	1,910,000	80,000
Capital leases	76,281	90,324	(73,775)	92,830	52,571
Installment purchase contract	600,000	762,000	(220,000)	1,142,000	72,318
Compensated absences	347,403		(43,369)	304,034	
Total Governmental Activities	<u>\$ 4,223,684</u>	<u>\$ 852,324</u>	<u>\$ (322,144)</u>	<u>\$ 4,553,864</u>	<u>\$ 314,889</u>
<b>Business - type activities</b>					
<b>Bonds:</b>					
1998 Building Authority - MCF	\$ 1,585,000	\$	\$ (110,000)	\$ 1,475,000	\$ 115,000
2006 Building Authority - MCF	7,850,000		(200,000)	7,650,000	220,000
2005 Capital Improvement - MCF	335,000		(80,000)	255,000	80,000
BPW #1 - Litchfield	795,000		(120,000)	675,000	125,000
BPW #6 - Jonesville	1,035,000		(110,000)	925,000	115,000
Total Bonds	<u>11,600,000</u>	<u>-</u>	<u>(620,000)</u>	<u>10,980,000</u>	<u>655,000</u>
<b>Notes:</b>					
GO Limited Tax Notes 2006	400,000		(400,000)	-	
GO Limited Tax Notes 2007	1,780,000		(1,300,000)	480,000	480,000
GO Limited Tax Notes 2008		3,200,000	(900,000)	2,300,000	1,500,000
Total Notes	<u>2,180,000</u>	<u>3,200,000</u>	<u>(2,600,000)</u>	<u>2,780,000</u>	<u>1,980,000</u>
Total Business - type activities	<u>\$ 13,780,000</u>	<u>\$ 3,200,000</u>	<u>\$ (3,220,000)</u>	<u>\$ 13,760,000</u>	<u>\$ 2,635,000</u>
<b>Drain Commission component unit</b>					
Walker Interstate Drain	\$ 11,000	\$	\$ (11,000)	\$	\$
<b>Road Commission component unit</b>					
Compensated absences	\$ 367,403	\$ 19,927	\$	\$ 387,330	\$ 19,367

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

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

### IV. OTHER INFORMATION

#### A. Risk Management / Self-Insurance Program

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, 2008, 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 \$760,462. 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:

	<u>2008</u>	<u>2007</u>
Unpaid claims, beginning of year	\$ 22,713	\$ 21,823
Incurred claims (including IBNR's)	17,013	19,222
Claim payments	<u>(20,968)</u>	<u>(18,332)</u>
<b>Unpaid claims, end of year</b>	<b>\$ 18,758</b>	<b>\$ 22,713</b>

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

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### 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.

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

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### B. Property taxes

Prior to 2005, the County property taxes were levied annually on December 1 (the lien date) to fund operations of the following year. The property taxes were due in full within 90 days (prior to March 1), at which time uncollected taxes became delinquent.

In 2004, the State of Michigan passed Public Act 357. This Act provides a temporary funding mechanism as a substitute for state revenue sharing payments to counties. As a result of this new law, the County's levy date began a phased shifting (or acceleration) over a 3-year period from December 1 to July 1 of each year. In 2005, one-third of the tax levy took place on July 1 and two-thirds took place on December 1. In 2006, two-thirds of the tax levy took place on July 1 and one-third took place on December 1. In 2007 and each year thereafter, one-hundred percent of the tax levy will take place on July 1. The Act also requires that an amount equal to one-third of the December 2004 tax levy be placed each year for three years into the newly created Revenue Sharing Reserve Fund, a special revenue fund. An annual transfer, in an amount determined by the State of Michigan, is made from the Revenue Sharing Reserve Fund into the General Fund equal to the amount of revenue sharing the County used to receive from the State, adjusted for inflation.

For the ambulance, senior services and Medical Care Facility, the assessed and taxable value of real and personal property for the December 1, 2007 levy, for which revenue was recognized in fiscal 2008, was \$1,322,585,804. For the general fund, the assessed and taxable value of real and personal property for the July 1, 2008 levy, for which revenue was recognized in fiscal 2008, was \$1,353,064,014. 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, .4968 mills for senior services, and .6000 mills for the Medical Care Facility.

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.

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

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### C. Employee retirement systems and plans

#### 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 \$ 523,847 for the year ended December 31, 2008 and employees contributed \$ 438,088.

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.

#### Defined Benefit Pension Plan – Primary Government

##### **Plan Description – MERS**

Employees of the Sheriff Department, except the Sheriff and Undersheriff, 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, 447 N. Canal Road, Lansing, MI 48917, or by calling (800) 767-6377.

##### **Funding Policy**

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% 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.

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

For the year ended December 31, 2008, the annual pension cost of \$ 152,988 was equal to the required and actual contributions of the County. The required contributions were determined as part of the December 31, 2007 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, 2007.

### Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/06	\$ 136,951	100%	\$ -
12/31/07	142,417	100	\$ -
12/31/08	152,988	100	\$ -

### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)- Entry Age</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/05	\$1,590,906	\$3,963,875	\$2,372,969	40%	\$1,752,689	135%
12/31/06	1,881,418	4,219,255	2,337,837	45	1,785,069	131
12/31/07	2,178,561	4,537,379	2,358,818	48	1,877,268	126

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

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### Defined Benefit Pension Plan – Road Commission

#### **Plan Description**

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, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

#### **Funding Policy**

The Road Commission is required to contribute at an actuarially determined rate; the current employer's contribution rate of annual covered payroll is 6.40% for Association members and 11.55% for non-Association members. Certain employees are currently not required to contribute to the Plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Road Commission. In addition, Road Commission Association employees are currently required to contribute 5.3% of annual compensation, and non-Association employees are required to contribute 9.9% of annual compensation.

#### **Annual Pension Cost**

For the year ended December 31, 2008, the Road Commission's annual pension cost of \$155,055 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, 2007, the date of the latest actuarial valuation, is being amortized as a level percentage of projected payroll on an open basis over 29 years.

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

### Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/06	\$ 151,739	100%	\$ -
12/31/07	155,495	100	\$ -
12/31/08	155,055	100	\$ -

### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/05	\$4,028,654	\$6,292,619	\$2,263,965	64%	\$1,893,260	120%
12/31/06	4,507,820	6,590,191	2,082,371	68	1,767,724	118
12/31/07	4,939,183	7,242,137	2,302,954	68	1,836,131	125

#### D. Postemployment Benefits

The County provides 50% of the cost of health insurance benefits for retired employees of two union groups meeting certain service requirements. Costs incurred by the County during 2008 amounted to \$ 23,352 among 4 retirees.

The Governmental Accounting Standards Board has recently released Statement No. 45, "Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions." The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement became effective for the year ending December 31, 2008. However, management is still in process with assessing the impact of this new accounting standard on the County's financial statements for future reporting periods.

# COUNTY OF HILLSDALE, MICHIGAN

## Notes to the Financial Statements

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### **E. Contingent Liabilities**

Amounts received or receivable from grantor agencies and health care intermediaries including Medicare and Medicaid are subject to audit and adjustment by the grantor agencies or intermediaries. 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 grantors or intermediaries cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government and its component units, individually or jointly, are a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government and component unit's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

### **F. Special Item**

On October 28, 2003, the Hillsdale County Board of Commissioners signed an agreement with the City of Hillsdale Tax Increment Finance Authority Board (TIFA) that stipulated the County would obtain the use of real property planned for the future site of a County court building.

In 2008, the County decided to discontinue the agreement and return the property to the City, relinquishing any future claims and/or development plans associated with the property. The County continues to support the efforts by the City of Hillsdale and its TIFA Board to develop the central business district, and does not foresee the construction of a county court building at the site in the future as planned.

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**COMBINING and INDIVIDUAL FUND  
FINANCIAL STATEMENTS**

**COUNTY OF HILLSDALE, MICHIGAN**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**December 31, 2008**

	Parks	Ambulance	Tobacco and Alcohol Diversion	Senior Citizen	Friend of the Court
<b>Assets</b>					
Cash and cash equivalents	\$ 11,983	\$ 1,355	\$ 32,364	\$ 12,460	\$ 64,852
Taxes receivable		520,799		1,297,830	
Accounts receivable					
Due from other governments					3,547
Interest receivable	17				
	<u>\$ 12,000</u>	<u>\$ 522,154</u>	<u>\$ 32,364</u>	<u>\$ 1,310,290</u>	<u>\$ 68,399</u>
<b>Liabilities</b>					
Accounts payable	\$ 7,165	\$	\$	\$ 113	\$
Accrued liabilities	977				
Due to other governments					
Deferred revenue	2,080	520,799		1,297,830	
Total liabilities	<u>10,220</u>	<u>520,799</u>	<u>-</u>	<u>1,297,943</u>	<u>-</u>
<b>Fund balances</b>					
Unreserved:					
Undesignated (deficit)	1,780	1,355	32,364	12,347	68,399
Total fund balances	<u>1,780</u>	<u>1,355</u>	<u>32,364</u>	<u>12,347</u>	<u>68,399</u>
	<u>\$ 12,000</u>	<u>\$ 522,154</u>	<u>\$ 32,364</u>	<u>\$ 1,310,290</u>	<u>\$ 68,399</u>

See independent auditor's report and accompanying notes to the financial statements.

**Special Revenue**

Register of Deeds Automation	Drug Forfeiture	Law Enforcement Training	County Law Library	Child Abuse	Department of Human Services	Department of Human Services Child Care	Probate Child Care	Soldiers' and Sailors' Relief	Veterans' Trust
\$ 251,834	\$ 2,252	\$ 135	\$ 11,884	\$ 39,627	\$ (4,950)	\$ 33,816	\$ 211,876	\$ (2,048)	\$ 2,192
					95,358	1,833	17,594	48	
<u>\$ 251,834</u>	<u>\$ 2,252</u>	<u>\$ 135</u>	<u>\$ 11,884</u>	<u>\$ 39,627</u>	<u>\$ 88,408</u>	<u>\$ 35,649</u>	<u>\$ 229,470</u>	<u>\$ (2,000)</u>	<u>\$ 2,192</u>
\$	\$ 650	\$	\$ 572	\$	\$	\$	\$ 41,689	\$	\$
					58,000		8,920		
	650	-	572	-	58,000	-	50,609	-	
251,834	1,602	135	11,312	39,627	30,408	35,649	178,861	(2,000)	2,192
251,834	1,602	135	11,312	39,627	30,408	35,649	178,861	(2,000)	2,192
<u>\$ 251,834</u>	<u>\$ 2,252</u>	<u>\$ 135</u>	<u>\$ 11,884</u>	<u>\$ 39,627</u>	<u>\$ 88,408</u>	<u>\$ 35,649</u>	<u>\$ 229,470</u>	<u>\$ (2,000)</u>	<u>\$ 2,192</u>

continued...

**COUNTY OF HILLSDALE, MICHIGAN**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds (Concluded)**  
**December 31, 2008**

	Special Revenue				Debt Service
	Building Inspection	Homeland Security	GIS/Mapping Technology	Drug Offender	DHS Building Authority Debt Service
<b>Assets</b>					
Cash and cash equivalents	\$ 69,227	\$ (22,789)	\$ 3,222	\$ 59,136	\$ 470
Taxes receivable					
Accounts receivable					
Due from other governments				19,163	
Interest receivable					
	<u>\$ 69,227</u>	<u>\$ (22,789)</u>	<u>\$ 3,222</u>	<u>\$ 78,299</u>	<u>\$ 470</u>
<b>Liabilities</b>					
Accounts payable	\$ 831	\$	\$	\$ 8,817	\$
Accrued liabilities	4,521				
Due to other governments					
Deferred revenue				4,000	
Total liabilities	<u>5,352</u>	<u>-</u>	<u>-</u>	<u>12,817</u>	<u>-</u>
<b>Fund balances</b>					
Unreserved:					
Undesignated (deficit)	<u>63,875</u>	<u>(22,789)</u>	<u>3,222</u>	<u>65,482</u>	<u>470</u>
Total fund balances	<u>63,875</u>	<u>(22,789)</u>	<u>3,222</u>	<u>65,482</u>	<u>470</u>
	<u>\$ 69,227</u>	<u>\$ (22,789)</u>	<u>\$ 3,222</u>	<u>\$ 78,299</u>	<u>\$ 470</u>

See independent auditor's report and accompanying notes to the financial statements.

<u>Debt Service</u>	<u>Capital Projects</u>		<u>Permanent Funds</u>			
<u>Elevator Debt Service</u>	<u>Improvement</u>	<u>DHS Building Authority</u>	<u>Cemetery Trust</u>	<u>MCF Endowment</u>	<u>Carl Gilmore Trust</u>	<u>Total</u>
\$	\$ 422,276	\$ 6,585	\$ 237	\$ 3,030	\$ 47	\$ 1,211,073
						1,818,629
	1,000					48
						136,495
						17
<u>\$ -</u>	<u>\$ 423,276</u>	<u>\$ 6,585</u>	<u>\$ 237</u>	<u>\$ 3,030</u>	<u>\$ 47</u>	<u>\$ 3,166,262</u>
\$	\$	\$	\$	\$	\$	\$ 59,835
						14,418
						58,000
						1,824,709
						1,956,962
	423,276	6,585	237	3,030	47	1,209,300
-	423,276	6,585	237	3,030	47	1,209,300
<u>\$ -</u>	<u>\$ 423,276</u>	<u>\$ 6,585</u>	<u>\$ 237</u>	<u>\$ 3,030</u>	<u>\$ 47</u>	<u>\$ 3,166,262</u>

**COUNTY OF HILLSDALE, MICHIGAN**  
**Combining Statement of Revenue, Expenditures and Changes**  
**in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended December 31, 2008**

	Parks	Ambulance	Tobacco and Alcohol Diversion	Senior Citizen	Friend of the Court
<b>Revenue</b>					
Property taxes	\$	\$ 522,389	\$	\$ 648,788	\$
Intergovernmental Contributions					
Fines and forfeits			2,520		16,138
Charges for services	34,027				
Refunds and reimbursements					
Interest and rentals	583				
Other revenue					
<b>Total revenue</b>	<b>34,610</b>	<b>522,389</b>	<b>2,520</b>	<b>648,788</b>	<b>16,138</b>
<b>Expenditures</b>					
Current:					
Judicial					4,297
General government					
Public safety					
Health and welfare		522,417		643,326	
Recreation and culture	71,087				
Debt service					
Principal					
Interest					
<b>Total expenditures</b>	<b>71,087</b>	<b>522,417</b>	<b>-</b>	<b>643,326</b>	<b>4,297</b>
<b>Revenue over (under) expenditures</b>	<b>(36,477)</b>	<b>(28)</b>	<b>2,520</b>	<b>5,462</b>	<b>11,841</b>
<b>Other financing sources (uses)</b>					
Proceeds from debt issuance					
Transfers in	25,000				
Transfers (out)					
<b>Total other financing sources (uses)</b>	<b>25,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net changes in fund balances</b>	<b>(11,477)</b>	<b>(28)</b>	<b>2,520</b>	<b>5,462</b>	<b>11,841</b>
Fund balances, beginning of year	13,257	1,383	29,844	6,885	56,558
<b>Fund balances (deficit), end of year</b>	<b>\$ 1,780</b>	<b>\$ 1,355</b>	<b>\$ 32,364</b>	<b>\$ 12,347</b>	<b>\$ 68,399</b>

See independent auditor's report and accompanying notes to the financial statements.

Special Revenue

Register of Deeds Automation	Drug Forfeiture	Law Enforcement Training	County Law Library	Child Abuse	Department of Human Services	Department of Human Services Child Care	Probate Child Care	Soldiers' and Sailors' Relief	Veterans' Trust
\$ 52,716	\$	\$	\$	\$	\$ 520,361	\$ 44,943	\$	\$	\$ 9,347
	6,086						59,762		
							621		
		7,165	4,500	7,223			295,264		
52,716	6,086	7,165	4,500	7,223	520,361	44,943	355,647	-	9,347
			8,631						
	4,826	10,193		527	585,227	140,044	827,291	87,946	7,433
14,865									
14,865	4,826	10,193	8,631	527	585,227	140,044	827,291	87,946	7,433
37,851	1,260	(3,028)	(4,131)	6,696	(64,866)	(95,101)	(471,644)	(87,946)	1,914
			4,000		60,000	100,000	500,000	78,857	
			4,000		60,000	100,000	500,000	78,857	
37,851	1,260	(3,028)	(131)	6,696	(4,866)	4,899	28,356	(9,089)	1,914
213,983	342	3,163	11,443	32,931	35,274	30,750	150,505	7,089	278
\$ 251,834	\$ 1,602	\$ 135	\$ 11,312	\$ 39,627	\$ 30,408	\$ 35,649	\$ 178,861	\$ (2,000)	\$ 2,192

continued...

**COUNTY OF HILLSDALE, MICHIGAN**  
**Combining Statement of Revenue, Expenditures and Changes**  
**in Fund Balances**  
**Nonmajor Governmental Funds (Concluded)**  
**December 31, 2008**

	Special Revenue				Debt Service
	Building Inspection	Homeland Security	GIS/Mapping Technology	Drug Offender	DHS Building Authority Debt Service
<b>Revenue</b>					
Property taxes	\$	\$	\$	\$	\$
Intergovernmental		71,277		32,731	
Contributions					
Fines and forfeits					
Charges for services	356,655				
Refunds and reimbursements	6,300				
Interest and rentals					17
Other revenue			1,254		
<b>Total revenue</b>	362,955	71,277	1,254	32,731	17
<b>Expenditures</b>					
Current:					
Judicial					
General government					
Public safety	431,765	94,060		54,992	
Health and welfare					
Recreation and culture					
Debt service					
Principal					105,000
Interest					67,350
<b>Total expenditures</b>	431,765	94,060	-	54,992	172,350
Revenue over (under)					
expenditures	(68,810)	(22,783)	1,254	(22,261)	(172,333)
<b>Other financing sources (uses)</b>					
Proceeds from debt issuance					
Transfers in				25,000	172,330
Transfers (out)					
<b>Total other financing sources (uses)</b>	-	-	-	25,000	172,330
<b>Net changes in fund balances</b>	(68,810)	(22,783)	1,254	2,739	(3)
Fund balances, beginning of year	132,685	(6)	1,958	62,743	473
<b>Fund balances (deficit), end of year</b>	\$ 63,875	\$ (22,789)	\$ 3,222	\$ 65,482	\$ 470

See independent auditor's report and accompanying notes to the financial statements.

<u>Debt Service</u>	<u>Capital Projects</u>		<u>Permanent Funds</u>			
<u>Elevator Debt Service</u>	<u>Improvement</u>	<u>DHS Building Authority</u>	<u>Cemetery Trust</u>	<u>MCF Endowment</u>	<u>Carl Glmore Trust</u>	<u>Total</u>
\$	\$	\$	\$	\$	\$	\$ 1,171,177
						731,375
						24,744
						390,682
						66,062
	29,673	161	1	152		31,208
						315,406
	29,673	161	1	152		2,730,654
						12,928
	1,097,235					1,097,235
						596,363
						2,813,684
						85,952
220,000						325,000
27,122						94,472
247,122	1,097,235	-	-	-	-	5,025,634
(247,122)	(1,067,562)	161	1	152	-	(2,294,980)
	762,000					762,000
247,122						1,212,309
247,122	762,000	-	-	-	-	1,974,309
-	(305,562)	161	1	152	-	(320,671)
	728,838	6,424	236	2,878	47	1,539,971
\$ -	\$ 423,276	\$ 6,585	\$ 237	\$ 3,030	\$ 47	\$ 1,209,300

**COUNTY OF HILLSDALE, MICHIGAN**  
**Combining Statement of Net Assets**  
**Nonmajor Enterprise Funds**  
**December 31, 2008**

	2001 Delinquent Tax Revolving	2002 Delinquent Tax Revolving	2003 Delinquent Tax Revolving	2004 Delinquent Tax Revolving	2005 Delinquent Tax Revolving	2006 Delinquent Tax Revolving
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$	\$ 44,772	\$ 125,505	\$ 203,729	\$ 109,715	\$ 467,486
Taxes receivable	84	86	3,554	9,163	16,399	326,389
Accounts receivable						
Due from other governments						
Current portion of leases receivable						
Interest receivable					3,747	
<b>Total current assets</b>	<b>84</b>	<b>44,858</b>	<b>129,059</b>	<b>212,892</b>	<b>129,861</b>	<b>793,875</b>
<b>Noncurrent assets:</b>						
Leases receivable, net of current portion						
Capital assets not being depreciated						
Capital assets being depreciated						
<b>Total noncurrent assets</b>						
	84	44,858	129,059	212,892	129,861	793,875
<b>Liabilities</b>						
<b>Current liabilities:</b>						
Accounts payable						3,987
Cash over draft						
Accrued liabilities						7,420
Due to other governments						
Current portion of long-term debt						480,000
<b>Total current liabilities</b>						<b>491,407</b>
<b>Long-term liabilities:</b>						
Due in more than one year						
<b>Total liabilities</b>						<b>491,407</b>
<b>Net assets</b>						
Invested in capital assets						
Restricted by statute		43,557	125,984	179,143	75,756	
Unrestricted (deficit)	84	1,301	3,075	33,749	54,105	302,468
<b>Total net assets</b>	<b>84</b>	<b>44,858</b>	<b>129,059</b>	<b>212,892</b>	<b>129,861</b>	<b>302,468</b>
	<b>\$ 84</b>	<b>\$ 44,858</b>	<b>\$ 129,059</b>	<b>\$ 212,892</b>	<b>\$ 129,861</b>	<b>\$ 793,875</b>

See independent auditor's report and accompanying notes to the financial statements.

E-911 Emergency	Geographic Information Systems	BPW #1 City of Litchfield	BPW #6 Village of Jonesville	Total
\$ (123,556)	\$ 53,497	\$ 744	\$ 36	\$ 881,928
				555,675
140,655				140,655
42,773				42,773
		125,000	115,000	240,000
				3,747
59,872	53,497	125,744	115,036	1,664,778
		550,000	810,000	1,360,000
95,377				95,377
9,864				9,864
105,241	-	550,000	810,000	1,465,241
165,113	53,497	675,744	925,036	3,130,019
68,652	1,549			74,188
11,655				19,075
		125,000	115,000	720,000
80,307	1,549	125,000	115,000	813,263
-	-	550,000	810,000	1,360,000
80,307	1,549	675,000	925,000	2,173,263
105,241				105,241
(20,435)	51,948	744	36	424,440
				427,075
84,806	51,948	744	36	956,756
\$ 165,113	\$ 53,497	\$ 675,744	\$ 925,036	\$ 3,130,019

**COUNTY OF HILLSDALE, MICHIGAN**  
**Combining Statement of Revenue, Expenses**  
**and Changes in Fund Net Assets**  
**Nonmajor Enterprise Funds**  
**For the Year Ended December 31, 2008**

	2001	2002	2003	2004	2005	2006
	Delinquent	Delinquent	Delinquent	Delinquent	Delinquent	Delinquent
	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving
<b>Operating revenue</b>						
Charges for services	\$ 10,554	\$ 11,747	\$ 13,036	\$ 25,183	\$ 157,978	\$ 123,093
Refunds and reimbursements						
Other						
Other operating revenue					12,163	3,150
<b>Total operating revenue</b>	<b>10,554</b>	<b>11,747</b>	<b>13,036</b>	<b>25,183</b>	<b>170,141</b>	<b>126,243</b>
<b>Operating expense</b>						
Cost of services	1,900	11	20	21,287	18,587	30,528
<b>Operating income (loss)</b>	<b>8,654</b>	<b>11,736</b>	<b>13,016</b>	<b>3,896</b>	<b>151,554</b>	<b>95,715</b>
<b>Non-operating revenue (expenses)</b>						
Interest revenue		1,042	2,304	1,768	106,338	154,395
Interest expense					(16,650)	(72,015)
<b>Total non-operating revenue (expenses)</b>	<b>-</b>	<b>1,042</b>	<b>2,304</b>	<b>1,768</b>	<b>89,688</b>	<b>82,380</b>
<b>Income (loss) before transfers</b>	<b>8,654</b>	<b>12,778</b>	<b>15,320</b>	<b>5,664</b>	<b>241,442</b>	<b>178,095</b>
<b>Transfers</b>						
Transfers in						
Transfers out	(35,270)	(221,914)			(420,000)	
<b>Total transfers</b>	<b>(35,270)</b>	<b>(221,914)</b>	<b>-</b>	<b>-</b>	<b>(420,000)</b>	<b>-</b>
<b>Change in net assets</b>	<b>(26,616)</b>	<b>(209,136)</b>	<b>15,320</b>	<b>5,664</b>	<b>(178,558)</b>	<b>178,095</b>
<b>Net assets, beginning of year</b>	<b>26,700</b>	<b>253,994</b>	<b>113,739</b>	<b>207,228</b>	<b>308,419</b>	<b>124,373</b>
<b>Net assets, end of year</b>	<b>\$ 84</b>	<b>\$ 44,858</b>	<b>\$ 129,059</b>	<b>\$ 212,892</b>	<b>\$ 129,861</b>	<b>\$ 302,468</b>

See independent auditor's report and accompanying notes to the financial statements.

E-911 Emergency	Geographic Information Systems	BPW #1 City of Litchfield	BPW #6 Village of Jonesville	Total
\$ 748,219	\$ 220	\$	\$	\$ 1,090,030
63,546				63,546
	7,978	134,740	151,465	309,496
811,765	8,198	134,740	151,465	1,463,072
781,524	27,102	134,740	151,465	1,167,164
30,241	(18,904)	-	-	293,908
135		2	7	266,191
				(88,665)
135	-	2	7	177,526
30,376	(18,904)	2	7	473,434
	21,753			21,753
				(677,184)
-	21,753	-	-	(635,431)
30,376	2,849	2	7	(181,997)
54,430	49,099	742	29	1,138,753
\$ 84,806	\$ 51,948	\$ 744	\$ 36	\$ 956,756

**COUNTY OF HILLSDALE, MICHIGAN**  
**Combining Statement of Cash Flows**  
**Nonmajor Enterprise Funds**  
**For the Year Ended December 31, 2008**

	2001 Delinquent Tax Revolving	2002 Delinquent Tax Revolving	2003 Delinquent Tax Revolving	2004 Delinquent Tax Revolving	2005 Delinquent Tax Revolving	2006 Delinquent Tax Revolving
<b>Cash flows from operating activities</b>						
Cash received from customers	\$ 10,554	\$ 12,905	\$ 16,199	\$ 28,230	\$ 374,090	\$ 988,762
Cash paid to employees						
Cash payments to suppliers for goods and services	(12,454)	(11,451)	(62,410)	(33,198)	(38,612)	(19,121)
Net cash provided by (used in) operating activities	(1,900)	1,454	(46,211)	(4,968)	335,478	969,641
<b>Cash flows from non-capital financing activities</b>						
Tax notes redeemed						
Transfers in						
Transfers out	(35,270)	(221,914)			(420,000)	
Net cash provided by (used in) non-capital financing activities	(35,270)	(221,914)			(420,000)	
<b>Cash flows from capital and related financing activities</b>						
Equipment acquisitions						
Interest payments					(16,650)	(72,015)
Proceeds from long-term debt						
Principal payments					(400,000)	(1,300,000)
Net cash provided by (used in) capital and related financing activities					(416,650)	(1,372,015)
<b>Cash flows from investing activities</b>						
Interest received		1,042	2,304	5,433	105,556	154,395
Amounts collected on leases receivable						
Total cash provided from investing activities		1,042	2,304	5,433	105,556	154,395
Net increase (decrease) in cash and cash equivalents	(37,170)	(219,418)	(43,907)	465	(395,616)	(247,979)
Cash and cash equivalents, beginning of year	37,170	264,190	169,412	203,264	505,331	715,465
Cash and cash equivalents, end of year	\$ -	\$ 44,772	\$ 125,505	\$ 203,729	\$ 109,715	\$ 467,486
<b>Cash flows from operating activities</b>						
Operating income (loss)	\$ 8,654	\$ 11,736	\$ 13,016	\$ 3,896	\$ 151,554	\$ 95,715
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation						
(Increase) decrease in:						
Accounts receivable						
Taxes receivable		1,158	3,163	3,047	203,949	862,519
Interest receivable						
Increase (decrease) in:						
Accounts payable and accrued expenses	(10,554)	(11,440)	(62,390)	(11,911)	(20,025)	11,407
Net cash provided by (used in) operating activities	\$ (1,900)	\$ 1,454	\$ (46,211)	\$ (4,968)	\$ 335,478	\$ 969,641

See independent auditor's report and accompanying notes to the financial statements.

E-911 Emergency	Geographic Information Systems	BPW #1 City of Litchfield	BPW #6 Village of Jonesville	Total
\$ 569,713 (626,451)	\$ 8,198	\$	\$	\$ 2,108,651 (626,451)
(131,727)	(25,553)			(334,526)
(38,465)	(17,355)			1,147,674
	21,753			21,753 (677,184)
	21,753			(655,431)
(31,640)		(14,740)	(41,465)	(31,640) (144,870)
		(120,000)	(110,000)	(1,930,000)
(31,640)		(134,740)	(151,465)	(2,106,510)
135		2	7	268,874
		134,740	151,465	280,205
135		134,740	151,472	555,079
(119,970)	4,398	2	7	(1,059,188)
(3,586)	49,099	742	29	1,941,116
\$ (123,556)	\$ 53,497	\$ 744	\$ 36	\$ 881,928
\$ 30,241	\$ (18,904)	\$	\$	\$ 295,908
15,124				15,124
(142,052)				(142,052) 1,073,836
8,222	1,549			(95,142)
\$ (88,465)	\$ (17,355)	\$	\$	\$ 1,147,674

**COUNTY OF HILLSDALE, MICHIGAN**  
**Combining Balance Sheet**  
**Fiduciary Funds**  
**December 31, 2008**

	<b>Trust &amp; Agency</b>	<b>Land Policy Education</b>	<b>Library Penal Fines</b>	<b>Employee Benefit Trust</b>	<b>Sheriff Department Retirement</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	\$ 694,375	\$ 14,956	\$ 75,050	\$ 100	\$ 25,743	\$ 810,224
<b>Liabilities</b>						
Due to other governments	198,005		-	-	-	198,005
Undistributed receipts	496,370	14,956	75,050	100	25,743	612,219
	<u>\$ 694,375</u>	<u>\$ 14,956</u>	<u>\$ 75,050</u>	<u>\$ 100</u>	<u>\$ 25,743</u>	<u>\$ 810,224</u>

See independent auditor's report and accompanying notes to the financial statements.

**COUNTY OF HILLSDALE, MICHIGAN**  
**Statement of Net Assets / Governmental Funds Balance Sheet**  
**Drain Commission Component Unit**  
**December 31, 2008**

	Debt Service		Debt Construction Debt	Drain Special Assessment	Drain Revolving	Capital Lake Level Special Assessment		
<b>Assets</b>								
Cash and cash equivalents	\$	1,960	\$	268,977	\$	11,566	\$	67,336
Special assessments receivable				245,327				19,500
Due from other funds					327,923			
Capital assets, net								
	\$	1,960	\$	514,304	\$	339,489	\$	86,836
<b>Liabilities</b>								
Due to other funds	\$		\$	327,923	\$		\$	2,064
Advances from primary government					339,489			
Deferred revenue				245,327				19,500
Long-term liabilities:								
Due within one year								
Due in more than one year								
Total liabilities		-		573,250	339,489			21,564
<b>Fund balances</b>								
Unreserved, undesignated (deficit)		1,960		(58,946)				65,272
Total fund balances (deficit)		1,960		(58,946)	-			65,272
	\$	1,960	\$	514,304	\$	339,489	\$	86,836
<b>Net assets</b>								
Invested in capital assets, net of related debt								
Unrestricted								

See independent auditor's report and accompanying notes to the financial statements.

Projects		Internal Service		Statement of Net Assets	
Lake Level Revolving	Drain Construction	Drain Equipment Revolving	Total	Adjustments	
\$ 16,415	\$ 2,570	\$ 104,990	\$ 473,814	\$	\$ 473,814
			264,827		264,827
2,064			329,987	(329,987)	
		355,526	355,526	415,927	771,453
<u>\$ 18,479</u>	<u>\$ 2,570</u>	<u>\$ 460,516</u>	<u>\$ 1,424,154</u>	<u>\$ 85,940</u>	<u>\$ 1,510,094</u>
\$	\$	\$	\$ 329,987	\$ (329,987)	\$
18,479			357,968		357,968
			264,827	(264,827)	
<u>18,479</u>	<u>-</u>	<u>-</u>	<u>952,782</u>	<u>(594,814)</u>	<u>357,968</u>
	2,570	460,516	471,372	(471,372)	
-	2,570	460,516	471,372	(471,372)	-
<u>\$ 18,479</u>	<u>\$ 2,570</u>	<u>\$ 460,516</u>	<u>\$ 1,424,154</u>		
				771,453	771,453
				380,673	380,673
			<u>\$ 1,152,126</u>	<u>\$</u>	<u>1,152,126</u>

**COUNTY OF HILLSDALE, MICHIGAN**  
**Reconciliation of Governmental Fund Balance Sheet**  
**to Statement of Net Assets**  
**Drain Commission Component Unit**  
**December 31, 2008**

Fund balances - Governmental funds	\$ 471,372
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	415,927
Other long-term assets are not available to pay current year expenditures and, therefore, are not recorded in the funds.	
Add - deferred revenue on long-term special assessments receivable	<u>264,827</u>
Net assets of governmental activities	<u>\$ 1,152,126</u>

See independent auditor's report and accompanying notes to the financial statements.

**COUNTY OF HILLSDALE, MICHIGAN**  
**Statement of Activities / Governmental Funds Revenue,**  
**Expenditures, and Changes in Fund Balances**  
**Drain Commission Component Unit**  
**For the Year Ended December 31, 2008**

	Debt Service			Capital
	Drain Construction Debt	Drain Special Assessment	Drain Revolving	Lake Level Special Assessment
<b>Revenue</b>				
Interest revenue	\$ 10	\$ 8,001	\$ -	\$ 2,611
Equipment rentals				
Other revenue		270,360		474
<b>Total revenue</b>	<b>10</b>	<b>278,361</b>	<b>-</b>	<b>3,085</b>
<b>Expenditures/Expenses</b>				
Debt service:				
Principal		11,000		
Public works		255,140		26,770
Depreciation				
Interest expense		381		
<b>Total expenditures/expenses</b>	<b>-</b>	<b>266,521</b>	<b>-</b>	<b>26,770</b>
<b>Net change in fund balances/ change in net assets</b>	<b>10</b>	<b>11,840</b>		<b>(23,685)</b>
<b>Fund balances / net assets, beginning of year</b>	<b>1,950</b>	<b>(70,786)</b>	<b>-</b>	<b>88,957</b>
<b>Fund balances / net assets, (deficit) end of year</b>	<b>\$ 1,960</b>	<b>\$ (58,946)</b>	<b>\$ -</b>	<b>\$ 65,272</b>

See independent auditor's report and accompanying notes to the financial statements.

<u>Projects</u>					
<u>Lake Level Revolving</u>	<u>Drain Construction</u>	<u>Total</u>	<u>Adjustments</u>		<u>Statement of Net Assets</u>
\$	\$ 20	\$ 10,642	\$ 2,432	\$	13,074
			140,002		140,002
		270,834	46,015		316,849
	20	281,476	188,449		469,925
		11,000	(11,000)		
	1,347	283,257	106,321		389,578
			72,206		72,206
		381			381
	1,347	294,638	167,527		462,165
	(1,327)	(13,162)	20,922		7,760
	3,897	24,018	1,120,348		1,144,366
\$	\$ 2,570	\$ 10,856	\$ 1,141,270	\$	1,152,126

**COUNTY OF HILLSDALE, MICHIGAN**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balance to the Statement of Activities**  
**Drain Commission Component Unit**  
**For the Year Ended December 31, 2008**

Net change in fund balance - Governmental funds	\$	(13,162)
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		(9,172)
Repayment of debt principal is an expenditure in the funds but not in the statement of activities:		
Add - Payment of debt principal		11,000
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.		
Deduct - change in deferred long-term receivables		27,959
Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue of the Drain Equipment revolving internal service fund is reported with governmental activities on the statement of net assets.		
		(8,865)
Change in net assets of governmental activities	\$	7,760

See independent auditor's report and accompanying notes to the financial statements.

**COUNTY OF HILLSDALE, MICHIGAN**  
**Statement of Revenue,**  
**Expenses, and Changes in Net Assets**  
**Drain Commission Component Unit**  
**Internal Service - Drain Equipment Revolving Fund**  
**For the Year Ended December 31, 2008**

<b>Revenue</b>	
Interest revenue	\$ 2,432
Equipment rental	140,002
Other income	18,056
Total revenue	<u>160,490</u>
<b>Expenses</b>	
Current	
Public works	106,321
Depreciation expense	63,034
Total expenses	<u>169,355</u>
Change in net assets	<u>(8,865)</u>
Net assets, beginning of year	<u>469,381</u>
Net assets, end of year	<u>\$ 460,516</u>

See independent auditor's report and accompanying notes to the financial statements.

**SINGLE AUDIT ACT COMPLIANCE**

**COUNTY OF HILLSDALE, MICHIGAN  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts/ Revenue Recognized</b>	<b>Disbursements/ Expenditures</b>
<b>U.S. DEPARTMENT OF JUSTICE</b>			
Passed-through Michigan Department of State Police OMNI Grant	16.738	\$ 12,513	\$ 12,513
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
Passed-through Michigan Office of Highway Safety Planning Operation Spotlight Project	20.600	11,048	11,048
Youth Alcohol Enforcement	20.601	11,357	11,357
Child Safety Seats	20.602	3,992	3,992
<b>Total Department of Transportation</b>		<u>26,397</u>	<u>26,397</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed-through the Department of Human Services Child Support Enforcement: IV-D Support Incentive	93.563	70,123	70,123
Friend of the Court	93.563	379,655	379,655
Prosecuting Attorney	93.563	54,325	54,325
<b>Total U.S. Department of Health and Human Services</b>		<u>504,103</u>	<u>504,103</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
Passed-through Michigan Department of State Police Emergency Management Performance Grant	97.042	5,815	5,815
Passed-through City of Lansing State Homeland Security Grant Program	97.067	71,277	71,277
<b>Total Department of Homeland Security</b>		<u>77,092</u>	<u>77,092</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>		<u>\$ 620,105</u>	<u>\$ 620,105</u>

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

# COUNTY OF HILLSDALE, MICHIGAN

## Index

### Note to the Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2008

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**Note 1**      **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 financial statements.



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Certified Public Accountants

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

June 19, 2009

To the Board of Commissioners  
of the County of Hillsdale  
Hillsdale, Michigan

We have audited 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 *Hillsdale County, Michigan*, as of and for the year ended December 31, 2008, and have issued our report thereon dated June 19, 2009; our report was modified to include a reference to other auditors. Other auditors audited the financial statements of the Hillsdale County Road Commission (a discretely presented component unit), the County Park Fund (a special revenue fund type – governmental type activity), and the Hillsdale County Medical Care Facility, which is a major fund (a blended component unit – business type activity), as described in our report on the County of Hillsdale, Michigan 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 Medical Care Facility, a major fund, were not audited in accordance with Government Auditing Standards. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered *Hillsdale County, Michigan's* internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2008-1, to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above, and those reported in Section IV – prior year findings, in the aggregate are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether *Hillsdale County, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 2008-2, 2008-3, and 2008-4.

We noted certain matters that we reported to management of Hillsdale County in a separate letter dated June 19, 2009.

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Osbourne, March, Condon & Co P.C.*



Osbourne, March, Condon & Co., P.C.

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

June 19, 2009

To the Board of Commissioners  
of the County of Hillsdale  
Hillsdale, Michigan

**Compliance**

We have audited the compliance of *Hillsdale County, Michigan* (the "County") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

## Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the 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, 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's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

*Osbourne, March, Condon & Co P.C.*

COUNTY OF HILLSDALE, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2008

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SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued:

Qualified

Internal control over financial reporting:

Material weakness(es) identified?

X  yes          no

Significant deficiency(ies) identified not considered to be material weaknesses?

     yes     X  none reported

Noncompliance material to financial statements noted?

X  yes          no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

     yes     X  no

Significant deficiency(ies) identified not considered to be material weaknesses?

     yes     X  none reported

Type of auditor’s report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?

     yes     X  no

COUNTY OF HILLSDALE, MICHIGAN

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended December 31, 2008

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**SECTION I – SUMMARY OF AUDITORS' RESULTS (Concluded)**

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.563	Child Support Enforcement
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> yes      _____ no

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**2008-1 – Bank Accounts (Internal Controls)**

**Criteria:** The County is responsible for the accounting and reporting of all bank accounts in its general ledger.

**Condition:** During the course of our audit we noted that there were several decentralized checking accounts that are not accounted for in the County's general ledger (financial books) totaling approximately \$132,000 relating to the following departments: Medical Care Facility, Department of Human Services, and the District Court.

**Cause:** Historically, these identified bank accounts have been the responsibility of the respective departments with no oversight of the Treasurer's office.

**Effect:** As a result of this condition, the County's accounting records have been misstated by amounts material to the financial statements and significant audit adjustments were necessary in order to properly record cash.

**View of Responsible**

**Officials:** Bank accounts have been added to and reported in the general ledger.

**COUNTY OF HILLSDALE, MICHIGAN**

**Schedule of Findings and Questioned Costs (Continued)**

**For the Year Ended December 31, 2008**

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**2008-2 – Payment of Sick Time Earned (Compliance)**

**Criteria:** Management is responsible for adhering to employee contracts approved by the County Commissioners.

**Condition:** During our audit we noted that the County Courthouse employee contract is silent regarding the payment of accumulated sick time earned upon termination/retirement. However, we identified instances where payment was made for accumulated sick days upon termination of employees from various positions.

**Effect:** Payments to terminating/retiring employees have been made for accumulated sick time earned that do not appear to comply with the written contract.

**View of Responsible**

**Officials:** Contract compliance will be adhered to in the future.

**2008-3 – Late Submission of Reporting Package (Compliance)**

**Criteria:** Local units of government subject to the Single Audit Act of 1984, as amended, are required to annually submit a data collection form and reporting package to the federal clearinghouse within 30 days after receipt of the auditor's report, as outlined in OMB Circular A-133 Section 320(d).

**Condition:** During our audit, we noted that the County had not submitted the data collection form and reporting package for the (2) years ending December 31, 2006 and 2007.

**Effect:** The Michigan Department of Human Services may impose sanctions due to noncompliance with OMB Circular A-133 as stated in their contract agreements with the Hillsdale County Friend of the Court and Prosecuting Attorney's office.

**View of Responsible**

**Officials:** Submission of prior year forms will be made immediately.

**COUNTY OF HILLSDALE, MICHIGAN**

**Schedule of Findings and Questioned Costs (Continued)**

**For the Year Ended December 31, 2008**

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**2008-4 – Appropriation of Property Tax Collections (Compliance)**

**Criteria:** Counties are statutorily authorized to “appropriate” funds for senior programs, including public or private nonprofit corporations or organizations for the purposes of planning, coordinating, evaluating, and providing services to older persons. The Attorney General has held that any such appropriations to senior entities are contingent upon the return of consideration; i.e., there should be a contract setting the terms of the appropriations and stating the senior services to be provided by the entities.

**Condition:** During our audit we discovered that the County appropriated property tax collections during 2008 from a county wide senior services tax levy to a local senior services entity absent a contract setting the terms of the services to be provided.

**Effect:** Property tax monies appropriated did not comply with the Attorney General’s opinion.

**View of Responsible**

**Officials:** County officials have retained an attorney to assist in drafting a contract for senior services.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

**SECTION IV – PRIOR YEAR FINDINGS**

**2007 -1 – Preparation of Financial Statements in Accordance with GAAP**

**Criteria:** The preparation of financial statements in accordance with GAAP is the responsibility of the County’s management and requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting financial statements including the related footnotes (i.e., external financial reporting.)

**COUNTY OF HILLSDALE, MICHIGAN**

**Schedule of Findings and Questioned Costs (Continued)**

**For the Year Ended December 31, 2008**

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**2007-1 – Preparation of Financial Statements in Accordance with GAAP (concluded)**

**Condition:** As is the case with many smaller and medium-sized entities, the County has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the County's internal controls.

**Cause:** This condition was caused by management's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the County to perform this task internally.

**Effect:** As a result of this condition, the County lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

**View of Responsible**

**Officials:** The County has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the County to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

**2007-2 – Audit adjustments**

**Criteria:** The County is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

**Condition:** During the course of the audit, there were several adjusting journal entries posted to the original "adjusted" trial balance we received. These entries were comprised of entries initiated by both the County and the auditors. Specific and significant material items that required correction included property tax revenue as well as accounts payable relating to construction.

**COUNTY OF HILLSDALE, MICHIGAN**

**Schedule of Findings and Questioned Costs (Concluded)**

**For the Year Ended December 31, 2008**

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**2007-2 – Audit adjustments (concluded)**

**Cause:** The County's internal controls did not detect all adjustments necessary to properly record year-end balances.

**Effect:** As a result of this condition, the County's accounting records were initially misstated by amounts material to the financial statements and significant audit adjustments were necessary in order to properly record revenue, receivables and deferred revenue related to property taxes and accounts payable.

**View of Responsible**

**Officials:** In the future, proper accounting for general fund property taxes will be made.

**2007 -3 – Trust and Agency fund accounting**

**Criteria:** The Trust and Agency fund accounts for balances held in a fiduciary or agency capacity. Detail records supporting these balances should be maintained by the entity to achieve proper internal controls and to ensure that the related control accounts (general ledger balances) are correct. This is a responsibility of the government's financial function.

**Condition:** In our tests of balances at December 31, 2008, we determined that certain balances of the 701 fund were not reconciled, and for those in which reconciliations were made, differences between the general ledger account and supporting details were identified. This is a repeat comment from the prior year.

**Cause:** This condition was caused by the County's inability to maintain the reconciliations on a timely basis.

**Effect:** As a result of this condition, the government lacks internal controls over the maintenance of these accounts, and results in a possibility the underlying general ledger account will have to be adjusted, with adjustments being financed by (or credited to) the general fund.

**View of Responsible**

**Officials:** The County will make every effort in 2009 to reconcile accounts of the agency fund, and to make any necessary adjustments thereto.



Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

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June 19, 2009

To The Board of Commissioners  
County of Hillsdale

In planning and performing our audit of the financial statements of the County of Hillsdale, Michigan as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The deficiencies we noted that we consider to be both significant deficiencies and material weaknesses are described in the Schedule of Findings and Questioned Costs in the County's Single Audit report.

#### Other Matters

During our audit we became aware of matters that are opportunities for strengthening internal control and operating efficiency. The following summarizes our comments and recommendations regarding those matters.

**Payroll Approval (Repeat Comment)**

During the course of our audit we noted that there is no documented approval of the payroll registers. The independent review and approval of payroll registers is an important internal control, especially since the County's payroll expenditures are such a significant amount of total expenses. In order to enhance internal controls in this area, we recommend that an appropriate individual review and approve the payroll register prior to the payroll checks being run, and that this review be documented.

**Entries to Fund Balance Accounts (Repeat Comment)**

We noted that there continues to be numerous charges and credits posted to the beginning fund balance or retained earnings accounts of many funds throughout the year. These charges and credits should be minimized and reserved for larger prior period adjustment amounts. Most of these kinds of adjustments which have historically been coded directly to the fund balance/retained earnings accounts should be coded to a revenue or expense account of the current year for full disclosure and proper tracking, and to provide for a smoother closing out and audit process.

**Financial Policies and Procedures Manual (Repeat Comment)**

In order to facilitate financial processes, and to provide guidance on various policies and procedures, we recommend that the County consider preparing a complete financial policies and procedures manual. This would provide guidance all in one place on things such as purchasing procedures, receipt procedures, capitalization policies, etc.

**OPEB Liability**

The County, as well as other governmental units which offer other post employment benefits (health and life insurance benefits to retirees, or "OPEB") are required to record the annual cost and liability for these benefits in the annual financial statements. Historically, governmental units, including the County, have been on a "pay as you go" or cash basis to reflect these costs in their financial statements. This accounting treatment was in place for the County through the fiscal year ended December 31, 2007. Effective, for fiscal year 2008, this new reporting standard requires an actuarial determination of the funding requirements and related liability.

As of December 31, 2008, the County had not implemented this new accounting standard. We recommend management work towards the implementation of the required standard to correctly report the cost of post employment benefits.

**Premature Debt Obligation Payment**

During the course of our audit we noted that a principal payment on an installment contract was paid in 2008 when the required due date was scheduled approximately nine months later in 2009. Internal controls did not prevent the occurrence of this premature payment. It appears as though internal controls are properly designed but were not successfully carried out. We recommend management review the controls over debt obligation payments, with those charged with the responsibility for such payments, to ensure proper safeguarding and management over cash flow.

### Credit Cards

Currently the credit card policy states that the County Clerk is charged with issuing, monitoring, and accounting for credit cards used by County departments. During the course of our audit we identified that there were several Fifth-Third Bank credit cards issued and accounted for by the County Clerk. However, we identified additional credit cards used by various departments that include Walmart and Discover. There is no record that these cards were authorized or issued by the County Clerk. Furthermore, there are instances where payment has been made on these monthly credit card statements without the submission of receipts to support the charges made on account. We recommend that management review and modify its internal controls to ensure compliance with the credit card policy.

### Financial Coordinator Position

Historically the County has maintained its general ledger system (financial books) on the cash basis of accounting. However, in recent years reporting requirements have become very complex and the demand for immediate financial information has become imperative in managing operations. In light of these forces we recommend the County consider the following:

1. The hiring of a financial coordinator who possesses accounting, financial and managerial expertise to manage the County's accounting and financial reporting functions.
2. Conversion from the cash basis of accounting to full accrual.

We believe the above will eliminate a significant amount of inefficiencies, provide on-time financial information to management and the governing body, and streamline the County's accounting system.

### Circuit and District Court State Audits

During the year the State of Michigan audited the Circuit and District Court's internal controls. As part of our audit we read through the reports issued by the State and noted numerous findings identified by the State of Michigan's audit. Many of the findings relate to basic internal control procedures. We recommend the County adhere to the recommendations reported by the State of Michigan to mitigate the risk of errors or fraud in the County's operations.

*Osbourne, March, Condon & Co P.C.*



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June 19, 2009

To the Board of Commissioners  
Hillsdale County

We have audited 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* (the "County") for the year ended December 31, 2008, and have issued our report thereon dated June 19, 2009. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133**

As stated in our engagement letter dated April 15, 2009, 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 accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the County'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 also considered 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's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County'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's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County'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 meeting about planning matters on April 16, 2009.

**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 are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- 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 insurance claims incurred but not reported is based on information provided by the entity's third party administrators and subsequent claims activity.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statements may be affected by unusual transactions, including nonrecurring transactions. There were no significant or unusual transactions noted during the year.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit other than delays in being provided requested accounting information.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The following material misstatements detected as a result of audit procedures were corrected by management:

1. Adjustments to property taxes and the related receivables and deferrals
2. Interest and other various receivables
3. Correction to several fund balances
4. Unrecorded cash accounts

Management has not however, determined the cost related to post employment benefits required by new accounting standards that became effective for the 2008 year. The misstatement resulting from the omission of these costs is not yet reasonably determinable.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as 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 19, 2009.

*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 Entity'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.

This information is intended solely for the use of the governing body and management of Hillsdale County and is not intended to be and should not be used by anyone other than these specified parties.

*Osbourne, March, Condon & Co P.C.*

Certified Public Accountants