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**CITY OF HUDSON
LENAWEE COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
JUNE 30, 2013**

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CITY OF HUDSON
LENAWEE COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
JUNE 30, 2013

**CITY OF HUDSON
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FOR THE YEAR ENDED JUNE 30, 2013**

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September 26, 2013

INDEPENDENT AUDITOR'S REPORT

**Honorable Mayor and Members
Members of the City Council
City of Hudson
121 N. Church St.
Hudson, Michigan 49247**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Hudson, Michigan as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's

**Honorable Mayor and Members
Members of the City Council
City of Hudson**

preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Hudson, Michigan, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-13 and 46-52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hudson, Michigan's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Honorable Mayor and Members
Members of the City Council
City of Hudson

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2013 on our consideration of the City of Hudson, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Hudson, Michigan's internal control over financial reporting and compliance.

Respectfully Submitted,


Philip R. Rubley, CPA

PRR/cab

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
June 30, 2013

Using This Annual Report

As management of City of Hudson, Michigan, we offer readers of City of Hudson, Michigan's these financial statements. This narrative overview and analysis of the financial activities of City of Hudson, Michigan is for the fiscal year ended June 30, 2013.

The annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of City of Hudson, Michigan's government-wide basis. They are designed to present a longer-term view of the City's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

Financial Highlights

The assets of the City of Hudson, Michigan exceeded its liabilities at the end of the fiscal year by \$8,175,553 (net assets), of this amount \$1,574,081 represents unrestricted net assets which may be used to meet the City's ongoing obligations to citizens and creditors.

The City's total net assets decreased by \$404,524, governmental activities decreased by \$278,376 and business-type activities decreased by \$126,148. Governmental activities decreased over the prior year, attributable mainly to an increase in expenditures applicable to public works and recreation and culture costs. The decrease was slightly less than the prior year which was also a decrease by \$16,794. Business-type activities decreased over the prior year because of increased operating costs of \$19,283 and a decrease in support revenue from transfers of \$32,652.

Overview Of The Financial Statements

The City's basic financial statements are comprised of three components:

- A) Government-wide financial statements.
- B) Fund financial statements.
- C) Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

CITY OF HUDSON, MICHIGAN
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Both of the government-wide financial statements distinguish functions of City of Hudson, Michigan that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of City of Hudson, Michigan include general government, public safety, recreation and culture, public works, community and economic development and other functions. The business-type activity of City of Hudson, Michigan includes the water and sewer system.

The government-wide financial statements can be found on pages 14-16 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. City of Hudson, Michigan, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of City of Hudson, Michigan 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 financial requirements.

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

City of Hudson, Michigan maintains fifteen individual governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance. The General Fund, Ambulance, Income Tax, Fire, Major and Local Streets Funds are considered to be major funds.

City of Hudson, Michigan adopts an annual appropriated budget for the General Fund, Ambulance, Income Tax, Fire, Major and Local Street Funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with budget.

The basic governmental fund financial statements can be found on pages 17-20 of this report.

Proprietary Fund. City of Hudson, Michigan maintains one type of Proprietary Fund. *Enterprise Funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. City of Hudson, Michigan uses an Enterprise Fund to account for its Sewer Fund and Water Fund.

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
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Proprietary Funds provide the same type of information as the government-wide financial statements, only in more detail. The Proprietary Fund financial statements provide separate information for the Sewer Fund and Water Fund shown as the (Utilities Fund) which is considered to be major funds of City of Hudson, Michigan.

The basic Proprietary financial statements can be found on pages 21-25 of this report.

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

The basic Fiduciary financial statements can be found on Page 26 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the City include general government, public safety, public works, recreation and culture, community promotion/development and other functions.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. The assets of the City exceeded the liabilities by \$8,175,553 at the end of the fiscal year.

By far the largest portion of the City's net assets (80.44%) reflects its investment in capital assets (e.g. land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire these assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
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CITY OF HUDSON, MICHIGAN NET ASSETS

Governmental Activities

	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Current and Other Assets	\$1,650,745	\$1,999,475
Capital Assets	<u>4,094,462</u>	<u>3,822,400</u>
Total Assets	<u>5,745,207</u>	<u>5,821,875</u>
<u>Liabilities</u>		
Long-Term Liabilities Outstanding	350,305	266,561
Other Liabilities	<u>211,512</u>	<u>93,548</u>
Total Liabilities	<u>561,817</u>	<u>360,109</u>
<u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	3,762,486	3,585,082
Restricted	9,619	9,828
Unrestricted	<u>1,411,285</u>	<u>1,866,856</u>
Total Net Assets	<u>\$5,183,390</u>	<u>\$5,461,766</u>

Business Activities

	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Current and Other Assets	\$ 197,935	\$ 212,621
Capital Assets	<u>3,776,154</u>	<u>3,972,605</u>
Total Assets	<u>3,974,089</u>	<u>4,185,226</u>
<u>Liabilities</u>		
Long-Term Liabilities Outstanding	961,665	1,046,665
Other Liabilities	<u>20,261</u>	<u>20,250</u>
Total Liabilities	<u>981,926</u>	<u>1,066,915</u>
<u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	2,814,489	2,925,940
Restricted	14,878	14,878
Unrestricted	<u>162,796</u>	<u>177,493</u>
Total Net Assets	<u>\$2,992,163</u>	<u>\$3,118,311</u>

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
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CITY OF HUDSON, MICHIGAN NET ASSETS

Governmental Activities

	<u>2013</u>	<u>2012</u>
<u>Revenue</u>		
Program Revenue:		
Charges for Services	\$1,018,906	\$1,020,702
Operating Grants and Contributions	193,997	281,715
Capital Grants and Contributions	437,538	142,448
General Revenue:		
Property Taxes/Special Assessments	924,652	859,328
Grants and Contributions Not Restricted To Specific Program	226,817	249,529
Other	<u>34,333</u>	<u>47,168</u>
Total Revenue	<u>2,836,243</u>	<u>2,600,890</u>
 <u>Expenses</u>		
General Government	522,872	482,965
Public Safety	833,968	848,741
Public Works	1,108,126	1,088,031
Community and Economic Development	293,097	143,699
Recreation and Culture	139,459	185,417
Interest on Long-Term Debt	3,924	4,963
Other Functions	<u>213,173</u>	<u>142,244</u>
Total Expenses	<u>3,114,619</u>	<u>2,896,060</u>
Increase (Decrease) in Net Assets	(278,376)	(295,170)
Net Assets Beginning of Year	<u>5,461,766</u>	<u>5,756,936</u>
Net Assets End of Year	<u>\$5,183,390</u>	<u>\$5,461,766</u>

A portion of the City of Hudson, Michigan's net assets for governmental activities of \$9,619 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$1,411,285 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF HUDSON, MICHIGAN
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CITY OF HUDSON, MICHIGAN NET ASSETS

Business-Type Activities

<u>Revenue</u>	<u>2013</u>	<u>2012</u>
Program Revenue:		
Charges for Services	\$ 555,980	\$ 560,313
General Revenue:		
Interest Income	<u>79</u>	<u>47</u>
Total Revenue	<u>556,059</u>	<u>560,360</u>
 <u>Expenses</u>		
Interest on Long-Term Debt	24,805	26,985
Utilities Expenses	<u>762,454</u>	<u>743,171</u>
Total Expenses	<u>787,259</u>	<u>770,156</u>
 Increase (Decrease) In Net Assets Before Transfers	<u>(231,200)</u>	<u>(209,796)</u>
Transfers In	<u>105,052</u>	<u>137,704</u>
Increase (Decrease) In Net Assets	(126,148)	(72,092)
Net Assets Beginning of Year	<u>3,118,311</u>	<u>3,190,403</u>
Net Assets End of Year	<u>\$2,992,163</u>	<u>\$3,118,311</u>

A portion of the City of Hudson, Michigan's net assets for business-type activities of \$14,878 represents resources that are restricted. The remaining balance of \$162,796 is available for ongoing obligations of the utilities.

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
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CITY OF HUDSON, MICHIGAN NET ASSETS

	<u>Component Unit Activities</u>			
	<u>DDA</u> <u>2013</u>	<u>DDA</u> <u>2012</u>	<u>LDFA</u> <u>2013</u>	<u>LDFA</u> <u>2012</u>
<u>Assets</u>				
Current and Other Assets	\$ 46,284	\$ 49,997	\$ 164,643	\$ 570,944
Capital Assets	130,619	137,784	2,610,137	2,252,899
Note Receivable	---	---	191,976	215,000
Total Assets	<u>\$176,903</u>	<u>\$187,781</u>	<u>\$2,966,756</u>	<u>\$3,038,843</u>
<u>Liabilities</u>				
Other Payables	\$ ---	\$ ---	\$ 5,387	\$ 212,701
Total Liabilities	<u>---</u>	<u>---</u>	<u>5,387</u>	<u>212,701</u>
<u>Net Assets</u>				
Invested in Capital Assets	130,619	137,784	2,610,137	2,252,899
Unrestricted	<u>46,284</u>	<u>49,997</u>	<u>351,232</u>	<u>573,243</u>
Total Net Assets	<u>\$176,903</u>	<u>\$187,781</u>	<u>\$2,961,369</u>	<u>\$2,826,142</u>
<u>Revenue</u>				
Community Development:				
Grants	\$ ---	\$ ---	\$ ---	\$ 293,281
Property Taxes	---	1,227	284,902	325,469
Interest Income	100	199	2,680	6,144
Rental Income	<u>3,600</u>	<u>3,590</u>	<u>---</u>	<u>---</u>
Total Revenue	<u>3,700</u>	<u>5,016</u>	<u>287,582</u>	<u>624,894</u>
<u>Expenses</u>				
Expenditures	14,578	13,370	142,855	65,537
Transfers	<u>---</u>	<u>---</u>	<u>9,500</u>	<u>103,213</u>
Total Expenses	<u>14,578</u>	<u>13,370</u>	<u>152,355</u>	<u>168,750</u>
Increase (Decrease) in Net Assets	(10,878)	(8,354)	135,227	456,144
Net Assets Beginning of Year	<u>187,781</u>	<u>196,135</u>	<u>2,826,142</u>	<u>2,369,998</u>
Net Assets End of Year	<u>\$176,903</u>	<u>\$187,781</u>	<u>\$2,961,369</u>	<u>\$2,826,142</u>

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
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Government Activities

Governmental activities decreased the City's net assets by \$278,376 in the current fiscal year; by comparison, in the prior year, governmental activities net assets decreased by \$295,170.

Key elements in the change of the current year:

- Decrease in state shared revenue of \$22,712.
- Property taxes and assessments increased by \$65,324.
- Expenditures for Public Works Operations and Maintenance increased by \$20,095.
- Capital grants increased and applicable expenditures also increased for about the same amounts.

Business-Type Activities

As mention under the financial highlights above the business-type activities decreased by \$126,148 in the current fiscal year; by comparison, in the prior year, business-type activities net assets increased by \$72,092.

Key elements for change include:

- Transfer in to support operations decreased by \$32,652.
- Expenditures increased for operations by \$19,283.

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
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Financial Analysis of City's Funds

The City uses fund accounting to insure and demonstrate compliance with finance related legal requirements.

Governmental Funds

As mentioned in the beginning of the Discussion and Analysis the focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. The unassigned fund balance may serve as a useful indicator of the City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,268,102, a decrease of \$465,473, in comparison to the prior year. Approximately 12% of this total amount is unassigned fund balances, which is available for spending at the City's discretion.

The General Fund reported a decrease in fund balance of \$125,323 over the prior year, resulting in an unassigned fund balance of \$149,273. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures and transfers out. Unassigned fund balance represents 7.7% of the total general fund expenditures and transfers out.

The decrease of \$125,323 is the result of a decrease in property tax revenue of \$37,546, intergovernmental revenues of \$22,712, and increased capital outlay and operating costs, resulting in an additional decrease over last years decrease of \$55,681.

The Ambulance Fund reported a decrease in fund balance of \$77,135 over the prior year, resulting in restricted fund balance of \$130,121. The decrease is applicable to increase in capital outlay for the year of \$224,682 for ambulance equipment. Ambulance revenues also decreased \$48,636 and expenses were also higher by \$21,906.

The Income Tax Fund reported a decrease in fund balance of \$308,498 over the prior year. The decrease is mainly from the increase transfers for capital and operation purposes. Revenues also improved by \$77,077.

The Fire Fund reported a decrease in fund balance of \$60,563 over the prior year. The decrease is the result of less revenue of \$20,058 and increase in capital outlay of \$37,240.

The Major Street Fund reported a decrease in fund balance of \$416. Revenues were stable and expenditures were less than the prior year.

The Local Street Fund reported an increase of \$113,504 over the prior year. This is the result of increased transfer in amounts of \$300,000 to be used for future expenses on local streets.

Proprietary Fund

The City's proprietary funds provide the same type of information found in the business-type activities of the government-wide financial statements, but in more detail.

Unrestricted net assets of the utilities funds at the end of the year amounted to \$158,702, for the current fiscal year and \$174,281 for the prior year. The utilities fund had a decrease in total net assets for the year of \$127,030. Most of the decrease applicable to an increase in operating costs \$21,500.

Revenue decreased during the year.

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
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General Fund Budgetary Highlights

There were differences between the original and amended budget of about \$59,262 increase expenditures over revenues.

For the fiscal year of 2013, the budgetary estimate for the net change in fund balance was a decrease of \$59,262; the actual was \$125,323 for a decrease of \$66,061.

Capital Assets And Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounted to \$6,576,975 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment. The total increase in the City's investment in capital assets for the current year was \$728,632. See Page 36-37 for types of capital assets purchased.

Economic Factors And Next Year's Budget And Rates

The City's budget for 2013 year has taken inconsideration, the economic condition and its effect on revenues. This will require close tabs on expenditures for the upcoming year and adjustments will be made to mirror, when possible, the revenue base, with expenses.

The following factors were considered in preparing the City's budget.

- To maintain services to the community and maintain an adequate fund balance in reserve.
- To be aware of economic conditions, sources of revenue and potential changes within the community.
- To continue to improve infrastructure.

Contacting The City's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at 121 N. Church Street, Hudson, Michigan 49247.

CITY OF HUDSON, MICHIGAN
Government-wide Statement of Net Assets
June 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Units</u>
<u>Assets</u>				
Cash and Equivalents	\$1,378,223	\$ 35,723	\$1,413,946	\$ 206,666
Investments	60,345	---	60,345	---
Receivables - Net	202,139	132,384	334,523	196,237
Inventory	3,951	14,068	18,019	---
Prepaid Items and Other Assets	6,087	882	6,969	---
Restricted Cash	---	14,878	14,878	---
Capital Assets Not Being Depreciated	150,000	33,600	183,600	49,853
Capital Assets Being Depreciated - Net	<u>3,944,462</u>	<u>3,742,554</u>	<u>7,687,016</u>	<u>2,690,903</u>
Total Assets	<u>5,745,207</u>	<u>3,974,089</u>	<u>9,719,296</u>	<u>3,143,659</u>
<u>Liabilities</u>				
Accounts Payable and Accrued Expenses	211,512	20,261	231,773	5,387
Long-Term Liabilities:				
Due Within One Year	59,889	90,000	149,889	---
Due In More Than One Year	<u>290,416</u>	<u>871,665</u>	<u>1,162,081</u>	<u>---</u>
Total Liabilities	<u>561,817</u>	<u>981,926</u>	<u>1,543,743</u>	<u>5,387</u>
<u>Net Assets</u>				
Invested In Capital Assets, Net of Related Debt	3,762,486	2,814,489	6,576,975	2,740,756
Restricted For:				
Cemetery Perpetual Care	2,080	---	2,080	---
Economic Growth - LDFA	---	---	---	351,232
Downtown Development - DDA	---	---	---	46,284
Debt Service	7,539	---	7,539	---
Replacement	---	14,878	14,878	---
Unrestricted	<u>1,411,285</u>	<u>162,796</u>	<u>1,574,081</u>	<u>---</u>
Total Net Assets	<u>\$5,183,390</u>	<u>\$2,992,163</u>	<u>\$8,175,553</u>	<u>\$3,138,272</u>

CITY OF HUDSON, MICHIGAN
Government-wide Statement of Activities
For The Year Ended June 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	<u>Capital Grants And Contributions</u>	<u>Net (Expenses) Revenues</u>
<u>Primary Government</u>					
<u>Governmental Activities:</u>					
General Government	\$ 522,872	\$ 517,816	\$ ---	\$ ---	\$ (5,056)
Public Safety	833,968	375,540	371	1,270	(456,787)
Public Works	1,108,126	125,550	182,024	---	(800,552)
Community and Economic Development	293,097	---	---	291,705	(1,392)
Recreation and Culture	139,459	---	11,602	144,563	16,706
Interest on Long-Term Debt	3,924	---	---	---	(3,924)
Other Functions	<u>213,173</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>(213,173)</u>
Total Governmental Activities	<u>3,114,619</u>	<u>1,018,906</u>	<u>193,997</u>	<u>437,538</u>	<u>(1,464,178)</u>
<u>Business-Type Activities:</u>					
Utilities	762,454	555,980	105,052	---	(101,422)
Interest on Long-Term Debt	<u>24,805</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>(24,805)</u>
Total Business-Type Activities	<u>787,259</u>	<u>555,980</u>	<u>105,052</u>	<u>---</u>	<u>(126,227)</u>
Total Primary Government	<u>\$3,901,878</u>	<u>\$1,574,886</u>	<u>\$299,049</u>	<u>\$437,538</u>	<u>\$ (1,590,405)</u>
<u>Component Units:</u>					
Local Development Finance Authority	152,355	---	---	---	(152,355)
Downtown Development Authority	<u>14,578</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>(14,578)</u>
Total Component Unit	<u>\$ 166,933</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ (166,933)</u>

CITY OF HUDSON, MICHIGAN
Government-wide Statement Of Activities (Concluded)
For The Year Ended June 30, 2013

	<u>Primary Government</u>			<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
<u>Changes In Net Assets</u>				
Net (Expense) Revenue	\$ (1,464,178)	\$ (126,227)	\$ (1,590,405)	\$ (166,933)
General Revenues:				
Tax Collections	924,652	---	924,652	284,902
Grants and Contributions Not Restricted To Specific Programs	226,817	---	226,817	---
Earnings and Rentals	<u>34,333</u>	<u>79</u>	<u>34,412</u>	<u>6,380</u>
Total General Revenues, Contributions and Transfers	<u>1,185,802</u>	<u>79</u>	<u>1,185,881</u>	<u>291,282</u>
Change In Net Assets (Decrease)	(278,376)	(126,148)	(404,524)	124,349
Net Assets, Beginning of Year	<u>5,461,766</u>	<u>3,118,311</u>	<u>8,580,077</u>	<u>3,013,923</u>
Net Assets, End of Year	<u>\$ 5,183,390</u>	<u>\$2,992,163</u>	<u>\$ 8,175,553</u>	<u>\$3,138,272</u>

CITY OF HUDSON, MICHIGAN
Governmental Funds
Balance Sheet
June 30, 2013

	General Fund	Ambulance Fund	Income Tax Fund
<u>Assets</u>			
Cash and Cash Equivalents	\$170,377	\$ 69,960	\$343,025
Investments	---	---	---
Prepaid Expenses	5,674	---	---
Receivables - Net	42,991	71,662	19,903
Due from Other Funds	---	---	---
Receivable from Other Governments	36,899	---	---
Inventories	3,951	---	---
	<u>\$259,892</u>	<u>\$141,622</u>	<u>\$362,928</u>
<u>Liabilities</u>			
Accounts Payable/ Accrued Liabilities	\$ 86,876	\$ 7,717	\$ 67,744
Due to Other Funds	---	---	---
Deferred Revenue	10,100	3,784	19,903
	<u>96,976</u>	<u>11,501</u>	<u>87,647</u>
<u>Fund Balances</u>			
Non-Spendable:			
Inventories	3,951	---	---
Prepaid Expenses	5,674	---	---
Restricted For:			
Public Safety - Ambulance	---	130,121	---
Public Safety - Fire	---	---	---
Public Safety - Police	4,018	---	---
Public Works - Roads	---	---	---
Recreation and Culture	---	---	---
Cemetery and Perpetual Care	---	---	---
Committed:			
Debt Service	---	---	---
Capital Improvements	---	---	275,281
Unassigned	149,273	---	---
	<u>162,916</u>	<u>130,121</u>	<u>275,281</u>
Total Fund Balances	<u>162,916</u>	<u>130,121</u>	<u>275,281</u>
Total Liabilities and Fund Balances	<u>\$259,892</u>	<u>\$141,622</u>	<u>\$362,928</u>

The notes to financial statements are an integral part of this statement.

<u>Fire Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Other Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$48,804	\$177,359	\$272,060	\$159,036	\$1,240,621
---	---	---	60,345	60,345
413	---	---	---	6,087
---	---	---	27	134,583
---	---	---	---	---
---	21,109	7,704	---	65,712
---	---	---	---	3,951
<u>\$49,217</u>	<u>\$198,468</u>	<u>\$279,764</u>	<u>\$219,408</u>	<u>\$1,511,299</u>
\$ 6,168	\$ 417	\$ 36,536	\$ 3,952	\$ 209,410
---	---	---	---	---
---	---	---	---	33,787
<u>6,168</u>	<u>417</u>	<u>36,536</u>	<u>3,952</u>	<u>243,197</u>
---	---	---	---	3,951
413	---	---	---	6,087
---	---	---	---	130,121
42,636	---	---	---	42,636
---	---	---	---	4,018
---	198,051	243,228	---	441,279
---	---	---	150,057	150,057
---	---	---	57,860	57,860
---	---	---	---	---
---	---	---	7,539	7,539
---	---	---	---	275,281
---	---	---	---	149,273
<u>43,049</u>	<u>198,051</u>	<u>243,228</u>	<u>215,456</u>	<u>1,268,102</u>
<u>\$49,217</u>	<u>\$198,468</u>	<u>\$279,764</u>	<u>\$219,408</u>	<u>\$1,511,299</u>

CITY OF HUDSON, MICHIGAN
Reconciliation of Fund Balances On The Balance Sheet For Governmental Funds
To Net Assets Of Governmental Activities On The Statement of Net Assets
June 30, 2013

Fund Balances – Total Governmental Funds \$ 1,268,102

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 are not reported in the funds.

Add: Capital Assets	11,241,549
Deduct: Accumulated Depreciation	(7,147,087)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental 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.	139,446
---	---------

Certain liabilities, such as bonds payable, notes payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: Bonds and notes payable	(331,976)
Deduct: Accrued interest on bonds	(2,102)
Deduct: Compensated absences long-term	(18,329)

Revenue that has been billed as a receivable, but not collected until later years, was not reported in the funds.

Add: Deferred Revenue	<u>33,787</u>
------------------------------	---------------

Net Assets of Governmental Activities \$ 5,183,390

CITY OF HUDSON, MICHIGAN
Governmental Funds
Statement of Revenue, Expenditures, and Changes In Fund Balances
For The Year Ended June 30, 2013

	<u>General Fund</u>	<u>Ambulance Fund</u>	<u>Income Tax Fund</u>
<u>Revenues</u>			
Taxes	\$ 458,361	\$ 50,787	\$ 413,261
Intergovernmental	226,817	---	---
Licenses and Permits	24,033	---	---
Fines and Forfeitures	8,293	---	---
Charges for Services	605,191	268,169	---
Interest and Rentals	10,314	504	775
Contributions from Local Units	---	---	---
Other	893	---	---
Grants	423,538	---	---
Contributions	---	---	---
	<u>1,757,440</u>	<u>319,460</u>	<u>414,036</u>
Total Revenue			
 <u>Expenditures</u>			
Current:			
General Government	342,686	---	111,659
Public Safety	289,539	291,560	---
Public Works	561,827	---	---
Community Economic Development	293,097	---	---
Recreation and Culture	---	---	---
Capital Outlay	249,128	224,682	138,823
Other Functions	117,621	---	---
Debt Service:			
Principal Payments	---	22,318	---
Interest Payments	---	535	---
	<u>1,853,898</u>	<u>539,095</u>	<u>250,482</u>
Total Expenditures			
Excess of Revenue Over (Under) Expenditures	<u>(96,458)</u>	<u>(219,635)</u>	<u>163,554</u>
 Other Financing Sources (Uses)			
Loan Proceeds - Ambulance	---	140,000	---
Transfers In	34,000	2,500	---
Transfers Out	(62,865)	---	(472,052)
	<u>(28,865)</u>	<u>142,500</u>	<u>(472,052)</u>
Total Other Financing Sources (Uses)			
Net Change In Fund Balances (Decrease)	(125,323)	(77,135)	(308,498)
Fund Balances – Beginning of Year	<u>288,239</u>	<u>207,256</u>	<u>583,779</u>
Fund Balances – End of Year	<u>\$ 162,916</u>	<u>\$ 130,121</u>	<u>\$ 275,281</u>

The notes to financial statements are an integral part of this statement.

<u>Fire Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Other Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ ---	\$ ---	\$ ---	\$ ---	\$ 922,409
---	127,174	54,850	1,965	410,806
---	---	---	---	24,033
---	---	---	20,047	28,340
---	---	---	28,379	901,739
261	688	489	21,302	34,333
54,513	---	---	4,000	58,513
5	---	---	5,383	6,281
---	---	---	14,000	437,538
371	---	---	9,637	10,008
<u>55,150</u>	<u>127,862</u>	<u>55,339</u>	<u>104,713</u>	<u>2,834,000</u>
---	---	---	26,789	481,134
68,730	---	---	---	649,829
---	112,778	290,335	---	964,940
---	---	---	---	293,097
---	---	---	122,026	122,026
37,240	---	---	17,548	667,421
---	---	---	---	117,621
23,024	---	---	---	45,342
1,976	---	---	---	2,511
<u>130,970</u>	<u>112,778</u>	<u>290,335</u>	<u>166,363</u>	<u>3,343,921</u>
<u>(75,820)</u>	<u>15,084</u>	<u>(234,996)</u>	<u>(61,650)</u>	<u>(509,921)</u>
---	---	---	---	140,000
15,257	15,000	348,500	54,608	469,865
---	(30,500)	---	---	(565,417)
<u>15,257</u>	<u>(15,500)</u>	<u>348,500</u>	<u>54,608</u>	<u>44,448</u>
(60,563)	(416)	113,504	(7,042)	(465,473)
<u>103,612</u>	<u>198,467</u>	<u>129,724</u>	<u>222,498</u>	<u>1,733,575</u>
<u>\$ 43,049</u>	<u>\$198,051</u>	<u>\$ 243,228</u>	<u>\$215,456</u>	<u>\$1,268,102</u>

CITY OF HUDSON, MICHIGAN
Reconciliation Of The Statement Of Revenues, Expenditures,
And Changes In Fund Balances Of Governmental Statement Of Activities
June 30, 2013

Net Change In Fund Balances – Total Governmental Funds (Decrease) \$ (465,473)

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 Outlay	667,421
(Deduct):	Depreciation Expense	(432,980)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increase 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 in the statement of net assets.

Add:	Principal payments on long-term liabilities	45,342
(Deduct):	New Loan for Ambulance Fund	(140,000)

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 the funds.

(Deduct):	Increase in interest payable on bonds and notes	(1,413)
Add:	Decrease in compensated absences long-term	10,914

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add:	Increase in net assets of governmental activities accounted for in the internal service fund	35,570
-------------	--	--------

Revenue deferred on the governmental funds report, which has been charged to receivable and thus income on the statement of activities.	2,243
---	-------

Change In Net Assets Of Governmental Activities (Decrease) \$ (278,376)

CITY OF HUDSON, MICHIGAN
Statement of Net Assets
Proprietary Funds
June 30, 2013

	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities</u>
<u>Assets</u>	<u>Utilities Fund</u>	<u>Internal Service Fund</u>
Current Assets:		
Cash and Cash Equivalents	\$ 31,629	\$141,696
Accounts Receivable	132,384	1,844
Inventory	14,068	---
Prepaid Interest	882	---
Non-Current Assets:		
Restricted Cash	14,878	---
Property and Equipment - Net	<u>3,776,154</u>	<u>117,811</u>
Total Non-Current Assets	<u>3,791,032</u>	<u>117,811</u>
Total Assets	<u>\$3,969,995</u>	<u>\$261,351</u>
 <u>Liabilities</u>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities/Deposits	\$ 20,030	---
Accrued Equipment Rent	231	---
Bonds Payable, Current Portion	<u>90,000</u>	<u>---</u>
Total Current Liabilities	<u>110,261</u>	<u>---</u>
Non-Current Liabilities:		
Bonds Payable	<u>871,665</u>	<u>---</u>
Total Non-Current Liabilities	<u>871,665</u>	<u>---</u>
Total Liabilities	<u>981,926</u>	<u>---</u>
 <u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	2,814,489	117,811
Restricted for Replacement	14,878	---
Unrestricted	<u>158,702</u>	<u>143,540</u>
Total Net Assets	<u>2,988,069</u>	<u>\$261,351</u>
 Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds	 <u>4,094</u>	
 Net Assets of Business-Type Activities on the Government-Wide Statement of Net Assets	 <u>\$2,992,163</u>	

CITY OF HUDSON, MICHIGAN
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For The Year Ended June 30, 2013

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Utilities Fund	Internal Service Fund
<u>Operating Revenues</u>		
Charges for Services	\$ 533,524	\$ 76,771
<u>Liabilities</u>		
Salaries and Wages	109,989	---
Fringe Benefits	55,101	---
Office Expenses	218,284	12,600
Contractual Services	4,693	200
Supplies and Materials	35,851	21,376
Utilities	93,325	---
Depreciation	220,041	25,373
Repairs/Maintenance	26,052	12,710
Other Expenses	---	159
Total Operating Expenses	763,336	72,418
Operating Income (Loss)	(229,812)	4,353
<u>Non-Operating Revenues (Expenses)</u>		
Investment Income	79	550
Interest Expense	(24,805)	---
Other - Miscellaneous	22,456	---
Total Non-Operating Revenues (Expenses)	(2,270)	550
<u>Other Financing Sources</u>		
Transfer In	105,052	---
Total Other Financing Sources	105,052	---
Income (Loss)	(127,030)	4,903
Net Assets, Beginning of Year	3,115,099	256,448
Net Assets, End of Year	\$2,988,069	\$261,351

CITY OF HUDSON, MICHIGAN
Reconciliation Of The Statement Of Revenues, Expenditures, To The Statement Of Activities
Proprietary Funds
June 30, 2013

Change In Net Assets – All Enterprise Funds (Decrease) \$(127,030)

An internal service fund is used by management to charge the cost of certain equipment usage to individual enterprise funds. The net revenue (expense) attributable to those funds is reported with the business-type activities

882

Change In Net Assets Of Business-Type Activities (Decrease)

\$(126,148)

CITY OF HUDSON, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For The Year Ended June 30, 2013

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	<u>Utilities Fund</u>	<u>Internal Service Fund</u>
<u>Cash Flows From Operating Activities</u>		
Cash Received from Customers	\$ 560,293	\$ 76,355
Cash Payment to Suppliers For Goods and Services/Employees	<u>(542,544)</u>	<u>(47,046)</u>
Net Cash Provided (Used)	<u>17,749</u>	<u>29,309</u>
<u>Cash Flows From Capital and</u> <u>Related Financing Activities</u>		
Purchase of Capital Assets	(23,590)	(31,443)
Bond Principal Payments	(85,000)	---
Bond Interest Payments	<u>(25,325)</u>	<u>---</u>
Net Cash (Used) by Capital and Related Financing Activities)	<u>(133,915)</u>	<u>(31,443)</u>
<u>Cash Flows From Investing Activities</u>		
Investment Income	79	550
Transfers from Other Funds	<u>105,052</u>	<u>---</u>
Net Cash Provided (Used) by Investing Activities	<u>105,131</u>	<u>550</u>
<u>Net Increase (Decrease) in Cash and</u> <u>Cash Equivalents</u>		
	(11,035)	(1,584)
Cash and Cash Equivalents, Beginning of Year	<u>42,664</u>	<u>143,280</u>
Cash and Cash Equivalents, End of Year	<u>\$ 31,629</u>	<u>\$141,696</u>
<u>Reconciliation to Statement of Net Assets</u>		
Cash and Cash Equivalents	\$ 31,629	\$141,696
Restricted Cash and Cash Equivalents	<u>14,878</u>	<u>---</u>
	<u>\$ 46,507</u>	<u>\$141,696</u>

CITY OF HUDSON, MICHIGAN
Statement of Cash Flows (Concluded)
Proprietary Funds
For The Year Ended June 30, 2013

	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities</u>
	<u>Utilities Fund</u>	<u>Internal Service Fund</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</u>		
Income (Loss)	\$(229,812)	\$ 4,353
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation/Amortization	220,041	25,373
Changes in Assets and Liabilities:		
Accounts Receivable, and Current Assets	4,533	(417)
Accounts Payable and Accrued Liabilities	<u>11</u>	<u>---</u>
Net Cash Provided (Used) by Operating Activities	<u>(5,227)</u>	<u>29,309</u>
<u>Cash Flows from Capital Activities</u>		
Acquisition of Capital Assets	<u>(23,590)</u>	<u>(31,443)</u>
Net Cash (Used) from Capital Activities	<u>(23,590)</u>	<u>(31,443)</u>
<u>Cash Flows From Financing Activities:</u>		
Interest Income	79	550
Principal Paid on Bonds	(85,000)	---
Interest Paid on Bonds	(24,805)	---
Miscellaneous Income	22,456	---
Transfer from Other Funds	<u>105,052</u>	<u>---</u>
Net Cash (Used) from Financing Activities	<u>17,782</u>	<u>550</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(11,035)	(1,584)
Cash and Cash Equivalents, Beginning of Year	<u>42,664</u>	<u>143,280</u>
Cash and Cash Equivalents, End of Year	<u>\$ 31,629</u>	<u>\$141,696</u>
<u>Reconciliation to Statement of Net Assets</u>		
Cash and Cash Equivalents	\$ 31,629	\$141,696
Restricted Cash and Cash Equivalents	<u>14,878</u>	<u>---</u>
	<u>\$ 46,507</u>	<u>\$141,696</u>

The accompanying notes are an integral part of this financial statement.

CITY OF HUDSON, MICHIGAN
Fiduciary Funds – Statement of Net Assets
June 30, 2013

	<u>Library Trust</u>	<u>Other Agency Funds</u>
<u>Assets</u>		
Cash and Cash Equivalents	<u>\$9,823</u>	<u>\$ 1</u>
Total Assets	<u>\$9,823</u>	<u>\$ 1</u>
<u>Liabilities</u>		
Other Payables	<u>\$ ---</u>	<u>\$ 1</u>
Total Liabilities	<u>---</u>	<u>\$ 1</u>
<u>Net Assets</u>		
Held In Trust for Library Operations	<u>9,823</u>	
Total Liabilities and Net Assets	<u>\$9,823</u>	

CITY OF HUDSON, MICHIGAN
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds – Library Trust Fund
For The Year Ended June 30, 2013

Additions

Investment Income:	
Interest Earned	\$ 44
Contributions	<u>7,538</u>
Total Investment Income	<u>7,582</u>

Deductions

Library Books and Expense	<u>6,422</u>
Total Deductions	<u>6,422</u>

Excess Additions Over (Deductions) 1,160

Net Assets Held in Trust, Beginning of Year 8,663

Net Assets Held in Trust, End of Year \$ 9,823

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of City Operations

The City of Hudson, Michigan operates under a Council form of government, with a City Manager and provides services to its residents in many areas including public safety, public works, community and economic development and human services.

The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

The accompanying financial statements present the government and its component units, for which the government is considered financially accountable.

The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government.

Discretely Presented Component Units

The local development Finance Authority of the City of Hudson, Michigan (LDFA) is governed by a board consisting of members appointed by the City Manager (subject to City Council approval). The LDFA was formed to promote economic growth in the City of Hudson, Michigan pursuant to Public Act 281 of 1986. The Downtown Development Authority (DDA) is also governed by a board of directors and promotes economic improvements and growth for the downtown area of the City.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments 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 revenue.

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.

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, except for agency funds, which do not have a measurement focus. Revenue is 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 revenue 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.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2013

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

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

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

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

The government reports the following major governmental funds:

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 Ambulance Fund is a special Revenue Fund that receives monies for contractual services and charges for the purpose of providing Advanced and Basic Life Support Services to the community.

The Income Tax Fund is a Special Revenue Fund that receives monies from residents, non-residents and businesses performing or operating within the City limits of Hudson, Michigan. These monies have been used for special projects, capital in nature.

The Fire Fund is a Special Revenue Fund that receives monies from various governmental units and donations to provide for fire protection for the area.

The Major Street Fund is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of City streets designated as major streets under State of Michigan Act 51 of Public Acts of 1951.

The Local Street Fund is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of City streets designated as local streets under State of Michigan Act 51 of Public Acts of 1951.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2013

The government reports the following major proprietary funds:

The Utilities Fund accounts for acquisition, operation and maintenance of the City's waste water and water system.

Additionally, the government reports the following fund types:

The Agency Funds account for assets held by the City acting as an agent for individuals, private organizations, other governments and/or other funds.

The government reports the following component units:

The Component Units - consists of the following two funds.

The Local Development Finance Authority is a separate entity, considered a component unit of the primary government, which promotes economic growth in the City, the financial reporting is on a modified accrual method of accounting.

The Downtown Development Authority is a separate entity, considered a component unit of the primary government, the City, which provides development for the downtown authority, through captured tax revenues. The financial reporting is on a modified accrual method of accounting.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-side and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities and enterprise funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

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 Utilities Funds are charges to customers for sales and services. The Utilities Funds also recognize, as operating revenues, the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise 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. Estimates

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

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2013

E. Assets, Liabilities, and Net Assets or Equity

1. Bank Deposits and Investment

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

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

2. Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

3. 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 using the consumption method.

4. Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

5. Restricted Assets

Certain proceeds of enterprise fund revenue bonds and general obligations bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The bond interest and redemption account is used to segregate resources accumulated for debt service payments. The bond reserve account is used to report resources set aside to make debt service payment on bonds which would otherwise be in default. The replacement account is used to report resources set aside to make major repairs and replacements to fixed operation assets of the enterprise fund.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2013

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., road, 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 \$1,500 (amount not rounded) 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 market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	20 - 50
Building	10 - 50
Machinery, Equipment, And Furnishings	5 - 35
Utility Systems	50 - 100
Infrastructure	15 - 100
Vehicles	5 - 15

7. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirement.

8. Long-Term Obligations

In the government-wide financial statements and the 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 are reported as other financing uses. Issuance costs are reported as debt service expenditures.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2013

9. **Fund Balance Classification Policies and Procedures**

Fund balance classifications shown in the governmental funds financial statements are non-spendable, restricted, committed, assigned and unassigned.

Non-Spendable Fund Balance Classification includes amounts that cannot be spent because they are either non-spendable in form or legally or contractually required to be maintained intact.

Restricted Fund Balance Classification includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed Fund Balance Classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision making authority.

Assigned Fund Balance Classification are intended to be used by the government for specific purposes but do not meet the criteria of restricted or committed.

Unassigned Fund Balance Classification is the residual.

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before the end of May of each year, the City Manager presents the proposed budget for review and holds public hearings and a final budget is adopted.

The appropriated budget is prepared by fund, function and activity. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is with the City Council.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2013

B. Excess of Expenditures Over Appropriations In Budgeted Funds - P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2013, the government incurred expenditures in excess of amounts appropriated at the legal level of budgetary control as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General Government:			
Office Operations	\$ 75,168	\$ 75,250	\$ 82
Treasurer	61,726	61,761	35
Clerk	69,870	70,399	529
Public Works:			
Mosquito Spraying	2,872	2,974	102
Community Economic Development:			
CDBG - Grants	---	291,705	291,705
Capital Outlay	119,956	249,128	129,172
Ambulance Fund:			
Ambulance Expenses	290,294	291,560	1,266
Income Tax Fund:			
Operations	109,231	111,659	2,428

NOTE 3 – DEPOSITS AND INVESTMENTS

The government unit's deposits and investment policy are in accordance with statutory authority.

Below is a reconciliation of deposits and investments as of June 30, 2013:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Total</u>
<u>Statement of Net Assets</u>			
Cash and Cash Equivalents	\$1,399,068	\$206,666	\$1,606,544
Investments	60,345	---	60,345
Restricted Cash and Cash Equivalents	14,878	---	14,068
<u>Statement of Fiduciary Net Assets</u>			
Trust and Agency Funds			
Cash	9,824	---	9,824
Totals	<u>\$1,484,115</u>	<u>\$206,666</u>	<u>\$1,690,781</u>
<u>Deposits and Investments</u>			
Bank Deposits (Checking, Savings, Money Markets and Certificates of Deposits)			\$1,690,781
Total			<u>\$1,690,781</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2013

The government complies with state law regarding their investment policy. All deposits are uncollateralized and in the government's name. Due to the dollar amounts of cash deposits and limits of FDIC insurance, the government believes it is impractical to insure all bank deposits. The government does evaluate the financial institutions as to risk. The government has no policy regarding custodial credit risk for deposits. The amount insured thru FDIC for primary government was \$750,000 the amount insured for the component units was \$206,666.

Custodial Credit Risk - Investment

The government's only investments are in certificate of deposits which are insured thru the FDIC. In accordance with the government's investment policy, all investments are held in the name of the government and thus are not exposed to custodial credit risks.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The government's investment policy will limit the government to the safest types of investments, thus minimizing credit risk. Presently the government has only savings, money markets, and certificates of deposits which are partly insured thru FDIC.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The government's policy does not limit investments to one user. Below is the percentage by issuer and type of investment at June 30, 2013.

At June 30, 2013, the City had greater than 5% of its total investment portfolio concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% of Portfolio</u>
Certificate of Deposit (FDIC)	County National Bank	100.00%

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of investments. In accordance with the government's investment policy, the government limits interest rate risk by purchasing a mix of short and longer term investments. This laddering approach also mates investment maturities to projected cash flow needs, thus minimizing interest rate risk and the need to liquidate securities at a loss.

Restricted Cash – Proprietary Funds - Utilities

Restricted cash are as follows:

<u>Description</u>	<u>Utilities Fund</u>
Repair and Replacement	<u>\$14,878</u>
Total	<u>\$14,878</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2013

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated:				
Other	\$ 150,000	\$ ---	\$ ---	\$ 150,000
	<u>150,000</u>	<u>---</u>	<u>---</u>	<u>150,000</u>
Capital Assets, Being Depreciated:				
Buildings	1,982,196	17,548	---	1,999,744
Vehicles	1,947,610	---	---	1,947,610
Equipment	1,811,153	302,935	---	2,114,088
Infrastructure	4,645,548	384,559	---	5,030,107
	<u>10,386,507</u>	<u>705,042</u>	<u>---</u>	<u>11,091,549</u>
Total Capital Assets Being Depreciated				
Less Accumulated Depreciation For:				
Buildings	(861,291)	(46,135)	---	(907,426)
Vehicles	(1,136,433)	(101,581)	---	(1,238,014)
Equipment	(1,324,838)	(98,785)	---	(1,423,623)
Infrastructure	(3,391,545)	(186,479)	---	(3,578,024)
	<u>(6,714,107)</u>	<u>(432,980)</u>	<u>---</u>	<u>(7,147,087)</u>
Total Accumulated Depreciation				
Total Capital Assets, Being Depreciated, Net	<u>3,672,400</u>	<u>272,062</u>	<u>---</u>	<u>3,944,462</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,822,400</u>	<u>\$ 272,062</u>	<u>\$ ---</u>	<u>\$ 4,094,462</u>
<u>Business-Type Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 33,600	\$ ---	\$ ---	\$ 33,600
	<u>33,600</u>	<u>---</u>	<u>---</u>	<u>33,600</u>
Capital Assets, Being Depreciated:				
Buildings and Systems	8,887,808	23,590	---	8,911,398
Equipment	423,941	---	---	423,941
	<u>9,311,749</u>	<u>23,590</u>	<u>---</u>	<u>9,335,339</u>
Total Capital Assets Being Depreciated				
Less Accumulated Depreciation For:				
Buildings	(5,030,693)	(209,677)	---	(5,240,370)
Equipment	(342,051)	(10,364)	---	(352,415)
	<u>(5,372,744)</u>	<u>(220,041)</u>	<u>---</u>	<u>(5,592,785)</u>
Total Accumulated Depreciation				
Total Capital Assets, Being Depreciated, Net	<u>3,939,005</u>	<u>(196,451)</u>	<u>---</u>	<u>3,742,554</u>
Business Type Activities Capital Assets, Net	<u>\$ 3,972,605</u>	<u>\$ (196,451)</u>	<u>\$ ---</u>	<u>\$ 3,776,154</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2013

NOTE 4 – CAPITAL ASSETS (Continued)

Capital assets activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Component Unit Activity - LDFA</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 49,853	\$ ---	\$ ---	\$ 49,853
Total Capital Assets Not Being Depreciated	<u>49,853</u>	<u>---</u>	<u>---</u>	<u>49,853</u>
Capital Assets Being Depreciated:				
Equipment	1,124,505	---	---	1,124,505
Infrastructure	<u>1,200,747</u>	<u>446,661</u>	<u>---</u>	<u>1,647,408</u>
Total Capital Assets Being Depreciated	<u>2,325,252</u>	<u>446,661</u>	<u>---</u>	<u>2,771,913</u>
Less Accumulated Depreciation For:				
Equipment	(112,540)	(33,794)	---	(146,334)
Infrastructure	<u>(9,666)</u>	<u>(55,629)</u>	<u>---</u>	<u>(65,295)</u>
Total Accumulated Depreciation	<u>(122,206)</u>	<u>(89,423)</u>	<u>---</u>	<u>(211,629)</u>
Total Capital Assets, Being Depreciated, Net	<u>2,203,046</u>	<u>357,238</u>	<u>---</u>	<u>2,560,284</u>
Component Unit - LDFA Capital Assets, Net	<u>\$2,252,899</u>	<u>\$ 357,238</u>	<u>\$ ---</u>	<u>\$2,610,137</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Component Unit Activity - DDA</u>				
Capital Assets Being Depreciated:				
Building Improvements	\$ 147,984	\$ ---	\$ ---	\$ 147,984
Equipment	<u>8,725</u>	<u>---</u>	<u>---</u>	<u>8,725</u>
Total Capital Assets Being Depreciated	<u>156,709</u>	<u>---</u>	<u>---</u>	<u>156,709</u>
Less Accumulated Depreciation For:				
Building Improvements	(18,925)	(5,919)	---	(24,844)
Equipment	<u>---</u>	<u>(1,246)</u>	<u>---</u>	<u>(1,246)</u>
Total Accumulated Depreciation	<u>(18,925)</u>	<u>(7,165)</u>	<u>---</u>	<u>(26,090)</u>
Total Capital Assets, Being Depreciated, Net	<u>137,784</u>	<u>(7,165)</u>	<u>---</u>	<u>130,619</u>
Component Unit - DDA Capital Assets, Net	<u>\$ 137,784</u>	<u>\$ (7,165)</u>	<u>\$ ---</u>	<u>\$ 130,619</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2013

NOTE 4 – CAPITAL ASSETS (Continued)

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

Governmental Activities:

General Government	\$ 43,273
Public Safety	185,565
Public Works	160,598
Culture and Recreation	18,171
Capital Assets Held By The Government's Internal Service Funds Are Charged To The Various Functions Based On Their Usage Of The Assets.	<u>25,373</u>

Total Depreciation Expense Governmental Activities	<u>\$432,980</u>
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Business-Type Activities:

Utilities	<u>\$220,041</u>
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Total Depreciation Expense Business-Type Activities	<u>\$220,041</u>
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Component Unit Activities:

Equipment	\$ 59,351
Building Improvements	<u>37,237</u>

Total Depreciation Expense Component Unit Activities	<u>\$ 96,588</u>
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CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2013

NOTE 6 – TRANSFERS

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 services from the funds collecting the receipts to the 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.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Summer Recreation	\$ 2,450	\$ ----
General	34,000	62,865
Income Tax	----	472,052
Major Street	15,000	30,500
Local	348,500	----
Library	46,828	----
Utilities	105,052	----
Fire	15,257	----
L DFA	----	9,500
Ambulance	2,500	----
Community Center	5,330	----
	<u>\$574,917</u>	<u>\$574,917</u>

NOTE 7 – PROPERTY TAXES:

The City bills and collects its own property taxes and also taxes for the County and several School Districts within its jurisdiction. Collections and remittances of the County and School taxes are accounted for in the Current Tax Collection Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied to the extent that they result in current receivables.

Property taxes are assessed December 31st and are levied on June 1st. Taxes become delinquent on September 15 with a 1/2% interest charge beginning September 15th. All delinquent taxes are charged with a 6% penalty.

The City currently levies 10.64190 mills for operating and 1.0 mills for ambulance. Property taxes attach as an enforceable lien on the property as of January 1.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2013

NOTE 8 – LONG TERM DEBT

Long-term debt consists of the following:

	Balance July 1, <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2013</u>	Due Within <u>One Year</u>
Bonds Payable - 2001					
Drinking Water Program	\$1,046,665	\$ ---	\$ 85,000	\$ 961,665	\$ 90,000
Compensated Absences	29,243	18,329	29,243	18,329	18,329
Note Payable - Ambulance	22,318	140,000	22,318	140,000	18,324
Note Payable - Fire Pumper Truck	215,000	---	23,024	191,976	23,236
Total	<u>\$1,313,226</u>	<u>\$158,329</u>	<u>\$159,585</u>	<u>\$1,311,970</u>	<u>\$149,889</u>

Ambulance – 2014 International

Title of Issue: Ambulance - Note Payable - United Bank & Trust
Purpose: Purchase Ambulance
Date of Note: May 31, 2013
Maturity of Note: May 30, 2020
Interest Rate: 2.95%
Payments: Annually at \$22,500 including interest - starting May 30, 2014
Amount of Note: \$140,000

<u>Due Date</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
May 30, 2014	\$ 22,500	\$ 4,176	\$ 18,324
May 30, 2015	22,500	3,639	18,861
May 30, 2016	22,500	3,084	19,416
May 30, 2017	22,500	2,494	20,006
May 30, 2018	22,500	1,896	20,604
May 30, 2019	22,500	1,280	21,220
May 30, 2020	22,216	647	21,569
	<u>\$157,216</u>	<u>\$17,216</u>	<u>\$140,000</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2013

NOTE 8 – LONG TERM DEBT (CONTINUED)

Crimson Fire Pumper Truck

Title of Issue: Crimson Fire Pumper Truck - Note Payable - LFDA
Purpose: Purchase Fire Pumper Truck
Date of Note: December 16, 2010
Maturity of Note: July 1, 2020
Interest Rate: 1%
Payments: Annually at \$25,000 - starting July 1, 2011
Amount of Note: \$240,000

<u>Due Date</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
July 1, 2013	\$ 25,000	\$1,764	\$ 23,236
July 1, 2014	25,000	1,551	23,449
July 1, 2015	25,000	1,335	23,665
July 1, 2016	25,000	1,118	23,882
July 1, 2017	25,000	898	24,102
July 1, 2018	25,000	677	24,323
July 1, 2019	25,000	453	24,547
July 1, 2020	25,000	228	24,772
	<u>\$200,000</u>	<u>\$8,024</u>	<u>\$191,976</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2013

NOTE 8 – LONG TERM DEBT (CONTINUED)

City of Hudson – Drinking Water Bond Issue

Title of Issue: City of Hudson Drinking Water Program General
Obligation Bonds
Purpose: Drinking Water, etc.
Date of Issue: June 28, 2001
Interest Rate: 2.50%
Interest Payable: Semi-Annual on October 1, and April 1, of each year
Amount of Issue: \$1,731,665
Available Funds: \$38,335

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
October 1, 2013	\$ 101,245	\$ 11,245	\$ 90,000
April 1, 2014	10,120	10,120	
October 1, 2014	100,120	10,120	90,000
April 1, 2015	8,995	8,995	
October 1, 2015	103,995	8,995	95,000
April 1, 2016	7,808	7,808	
October 1, 2016	102,808	7,808	95,000
April 1, 2017	6,620	6,620	
October 1, 2017	106,620	6,620	100,000
April 1, 2018	5,370	5,370	
October 1, 2018	105,370	5,370	100,000
April 1, 2019	4,120	4,120	
October 1, 2019	109,120	4,120	105,000
April 1, 2020	2,870	2,870	
October 1, 2020	107,870	2,870	105,000
April 1, 2021	1,495	1,495	
October 1, 2021	111,495	1,495	110,000
April 1, 2022	120	120	
October 1, 2022	71,785	120	71,665
	<u>\$1,067,946</u>	<u>\$106,281</u>	<u>\$961,665</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2013

NOTE 8 – LONG TERM DEBT (CONTINUED)

Maturities of Long-Term Debt

Maturities for the long-term debt are as follows:

<u>Years</u>	<u>Principal Amounts</u>	<u>Interest Amounts</u>
2014	\$ 149,889	\$ 27,305
2015	132,310	24,305
2016	138,081	21,222
2017	138,888	18,040
2018	144,706	14,784
2019	145,543	11,447
2020	151,116	8,090
2021	129,772	4,593
2022	110,000	1,615
2023	71,665	120
	<u>\$1,311,970</u>	<u>\$131,521</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2013

NOTE 9 – CAFETERIA PLAN – MEDICAL REIMBURSEMENT PLAN – DEPENDENT CARE PLAN

The City of Hudson has approved and adopted the Cafeteria Plan, Medical Expense Reimbursement Plan and Dependent Care Assistance Plan to be effective January 1, 1998.

The City of Hudson adopted a Cafeteria Plan under Internal Revenue Service Code SS 125, a Medical Expense Reimbursement Plan under code SS 105 (b) and an Dependent Care Assistance Plan Under Code SS 129. Each full-time employee is eligible to participate in each of the plans established. The maximum reimbursement for which any participant may apply under the Medical Expense Reimbursement Plan is \$3,000. The maximum reimbursement for which any participant may apply under the Dependent Care Assistance Plan is \$5,000.

The City of Hudson does not contribute to the Cafeteria Plan.

NOTE 10 – PENSION PLAN

The government offers all full time employees a 401(k) plan which is a tax qualified defined contribution pension plan created in accordance with subsection 401(k) of the Internal Revenue Codes. The assets of the plans were held in custodial accounts as provided in IRC Section 401(k) for the exclusive benefit of the employees and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries, and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the government's financial statements. Contributions are made by the City and employees.

NOTE 11 – OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2013, the government carried insurance through various commercial carriers, to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

NOTE 12 – RECEIVABLES

Receivables of the governmental activities and business-type activities of the government at June 30, 2013 consist of the following:

	Governmental Activities	Business-Type Activities
Property Taxes/Assessments	\$ 15,296	\$ ---
Income Taxes	19,903	---
Ambulance Runs	67,880	---
State of Michigan	65,715	---
Equipment Rent	1,844	---
Refuse	31,501	---
Utilities	---	132,384
Totals	<u>\$202,139</u>	<u>\$132,384</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2013

NOTE 13 – SUBSEQUENT EVENTS

Management has reviewed the events occurring through September 26, 2013, the date the financial statements were available to be issued, and no subsequent events occurred requiring accrual or disclosure.

NOTE 14 – INVESTMENTS

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

Unrealized appreciation or depreciation on investments due to changes in fair value are recognized each year.

Presently the City has investments in the Hudson Foundation a non-profit entity.

	<u>Fair Market Value</u>
Hudson Library Fund	\$36,835
Hudson Museum Fund	<u>27,792</u>
Total	<u>\$64,627</u>

NOTE 15 – SEGMENT INFORMATION – ENTERPRISE FUNDS

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

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
General Fund
For The Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$ 288,239	\$ 288,239	\$ 288,239	\$ ---
Resources (Inflows)				
Taxes and Assessments	484,354	458,937	458,361	(576)
Intergovernmental	225,100	225,100	226,817	1,717
Grants	---	1,270	423,538	422,268
Licenses and Permits	16,300	23,880	24,033	153
Fines and Forfeitures	12,500	8,300	8,293	(7)
Charges for Services	601,642	604,622	605,191	569
Interest and Rentals	11,650	10,634	10,314	(320)
Other	2,000	1,400	893	(507)
Transfers from Other Funds	131,378	109,378	34,000	(75,378)
	<u>1,773,163</u>	<u>1,731,760</u>	<u>2,079,679</u>	<u>347,919</u>
Amounts Available for Appropriation				
	<u>1,773,163</u>	<u>1,731,760</u>	<u>2,079,679</u>	<u>347,919</u>
<u>Charges to Appropriations (Outflows)</u>				
General Government				
City Council	14,583	15,173	14,972	201
City Manager	74,024	74,024	73,357	667
Office Operations	82,303	75,168	75,250	(82)
Treasurer	61,735	61,726	61,761	(35)
Assessing	17,475	17,710	17,648	62
Clerk	69,450	69,870	70,399	(529)
Elections	3,945	2,145	2,081	64
City Attorney/Auditing	20,400	15,690	15,685	5
Buildings and Grounds	12,100	11,785	11,533	252
	<u>356,015</u>	<u>343,291</u>	<u>342,686</u>	<u>605</u>
Public Safety				
Police	287,989	282,859	280,721	2,138
Inspections	8,500	8,820	8,818	2
	<u>296,489</u>	<u>291,679</u>	<u>289,539</u>	<u>2,140</u>
Community Economic Development				
Zoning	3,002	1,522	1,392	130
CDBG - Facade	---	---	291,705	(291,705)
	<u>3,002</u>	<u>1,522</u>	<u>293,097</u>	<u>(291,575)</u>
Public Works				
Mosquito Spraying	10,000	2,872	2,974	(102)
Sanitary Landfill	5,000	5,000	5,000	---
Street Maintenance & Lighting	454,243	449,432	449,403	29
Spring/Fall Cleanup	2,200	1,050	1,050	---
Refuse Collection	104,871	103,401	103,400	1
	<u>576,314</u>	<u>561,755</u>	<u>561,827</u>	<u>(72)</u>

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
General Fund
For The Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Charges to Appropriations (Outflows)</u>				
<u>(Continued)</u>				
Other Functions	127,239	121,715	117,621	4,094
Capital Outlay	63,000	119,956	249,128	(129,172)
Transfers to Other Funds	62,865	62,865	62,865	---
Total Charges to Appropriations	1,484,924	1,502,783	1,916,763	(413,980)
Ending of Year Fund Balance	\$ 288,239	\$ 228,977	\$ 162,916	\$ (66,061)

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
Ambulance Fund (Major Special Revenue Funds)
For The Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$207,256	\$207,256	\$207,256	\$ ---
<u>Resources (Inflows)</u>				
Taxes	49,920	50,788	50,787	(1)
Charges For Services	318,125	375,981	268,169	(107,812)
Interest Income	1,000	505	504	(1)
Transfer In From Funds	2,500	2,500	2,500	---
Ambulance Loan Proceeds	---	<u>140,000</u>	<u>140,000</u>	<u>---</u>
Amounts Available for Appropriation	<u>578,801</u>	<u>777,030</u>	<u>669,216</u>	<u>(107,814)</u>
<u>Charges to Appropriations (Outflows)</u>				
Public Safety				
Ambulance	288,870	290,294	291,560	(1,266)
Capital Outlay	60,000	227,312	224,682	2,630
Debt Service:				
Principle Payments	22,183	22,362	22,361	---
Interest Payments	<u>492</u>	<u>492</u>	<u>492</u>	<u>---</u>
Total Charges to Appropriations	<u>371,545</u>	<u>540,460</u>	<u>539,095</u>	<u>1,365</u>
Ending of Year Fund Balance	<u>\$207,256</u>	<u>\$236,570</u>	<u>\$130,121</u>	<u>\$ (106,449)</u>

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
Income Tax Fund (Major Special Revenue Fund)
For The Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$583,779	\$583,779	\$583,779	\$ ---
<u>Resources (Inflows)</u>				
Taxes	246,000	413,263	413,261	(2)
Interest and Rentals	1,300	775	775	---
Transfer In From Funds	---	---	---	---
Misc.	---	---	---	---
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
 Amounts Available for				
Appropriation	<u>831,079</u>	<u>997,817</u>	<u>997,815</u>	<u>(2)</u>
<u>Charges to Appropriations (Outflows)</u>				
General Government	119,944	109,231	111,659	(2,428)
Transfers to Other Funds	567,052	472,052	472,052	---
Capital Outlay	38,000	141,266	138,823	2,443
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
 Total Charges to Appropriations	<u>724,996</u>	<u>722,549</u>	<u>722,534</u>	<u>15</u>
Ending of Year Fund Balance	<u>\$106,083</u>	<u>\$275,268</u>	<u>\$275,281</u>	<u>\$ 13</u>

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
Fire Fund (Major Special Revenue Fund)
For The Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$103,612	\$103,612	\$103,612	\$ ---
<u>Resources (Inflows)</u>				
Contribution from				
Local Units	52,603	54,513	54,513	---
Donations	100	9,651	371	(9,280)
Transfer in from Funds	65,257	65,257	15,257	(50,000)
Other Revenue	5	5	5	---
Interest and Rentals	<u>525</u>	<u>262</u>	<u>261</u>	<u>(1)</u>
 Amounts Available for Appropriation	<u>222,102</u>	<u>233,300</u>	<u>174,019</u>	<u>(59,281)</u>
<u>Charges to Appropriations (Outflows)</u>				
Public Safety	72,490	78,153	68,730	9,423
Transfer to Other Funds	25,000	25,000	25,000	---
Capital Outlay	<u>21,000</u>	<u>37,241</u>	<u>37,240</u>	<u>1</u>
 Total Charges to Appropriations	<u>118,490</u>	<u>140,394</u>	<u>130,970</u>	<u>9,424</u>
Ending of Year Fund Balance	<u>\$103,612</u>	<u>\$ 92,906</u>	<u>\$ 43,049</u>	<u>\$ 49,857</u>

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
Major Street Fund (Major Special Revenue Fund)
For The Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$198,467	\$198,467	\$198,467	\$ ---
Resources (Inflows)				
Intergovernmental	124,300	127,567	127,174	(393)
Interest and Rentals	1,200	688	688	---
Other	---	---	---	---
Transfers from Other Funds	<u>39,885</u>	<u>39,885</u>	<u>15,000</u>	<u>(24,885)</u>
 Amounts Available for Appropriation	<u>363,852</u>	<u>366,607</u>	<u>341,329</u>	<u>(25,278)</u>
<u>Charges to Appropriations (Outflows)</u>				
Public Works	134,885	113,013	112,778	235
Transfers to Other Funds	<u>30,500</u>	<u>30,500</u>	<u>30,500</u>	<u>---</u>
 Total Charges to Appropriations	<u>165,385</u>	<u>143,513</u>	<u>143,278</u>	<u>235</u>
Ending of Year Fund Balance	<u>\$198,467</u>	<u>\$223,094</u>	<u>\$198,051</u>	<u>\$ 25,043</u>

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
Local Street Fund (Major Special Revenue Fund)
For The Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$129,724	\$129,724	\$129,724	\$ ---
Resources (Inflows)				
Intergovernmental	51,370	54,767	54,850	83
Other	---	---	---	---
Transfers from Other Funds	388,675	388,675	348,500	(40,175)
Interest Income	700	490	489	(1)
	<u>570,469</u>	<u>573,656</u>	<u>533,563</u>	<u>(40,093)</u>
<u>Amounts Available for Appropriation</u>				
<u>Charges to Appropriations (Outflows)</u>				
Public Works	440,745	290,594	290,335	259
Capital Outlay	---	---	---	---
	<u>440,745</u>	<u>290,594</u>	<u>290,335</u>	<u>259</u>
Total Charges to Appropriations				
	<u>440,745</u>	<u>290,594</u>	<u>290,335</u>	<u>259</u>
Ending of Year Fund Balance	<u>\$129,724</u>	<u>\$283,062</u>	<u>\$243,228</u>	<u>\$ (39,834)</u>

**CITY OF HUDSON, MICHIGAN
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2013**

Special Revenue Funds

	<u>Summer Recreation</u>	<u>Cemetery</u>
<u>Assets</u>		
Cash and Equivalents	\$9,457	\$55,925
Investments	---	---
Receivables	---	---
	<u>9,457</u>	<u>55,925</u>
Total Assets	<u>9,457</u>	<u>55,925</u>
 <u>Liabilities and Fund Balances</u>		
<u>Liabilities</u>		
Accounts Payable	\$ ---	\$ ---
Deposits Payable	---	---
Accrued Liabilities	---	145
	<u>---</u>	<u>145</u>
Total Liabilities	<u>---</u>	<u>145</u>
 <u>Fund Balance</u>		
Restricted For:		
Summer Recreation	9,457	---
Cemetery	---	55,780
Community Center	---	---
Museum	---	---
Cemetery Perpetual Care	---	---
Library	---	---
Committed For:		
Debt Service	---	---
	<u>---</u>	<u>---</u>
Total Fund Balances	<u>9,457</u>	<u>55,780</u>
Total Liabilities and Fund Balances	<u>\$9,457</u>	<u>\$55,925</u>

The notes to financial statements are an integral part of this statement.

<u>Special Revenue Funds</u>			<u>Debt Service Fund</u>	<u>Permanent Fund</u>	<u>Total Non-Major Governmental Funds</u>
<u>Community Center</u>	<u>Library</u>	<u>Museum</u>	<u>Debt Service</u>	<u>Cemetery Perpetual Care</u>	
\$3,458	\$52,308	\$28,278	\$7,539	\$2,071	\$159,036
---	12,343	48,002	---	---	60,345
---	7	11	---	9	27
<u>\$3,458</u>	<u>\$64,658</u>	<u>\$76,291</u>	<u>\$7,539</u>	<u>\$2,080</u>	<u>\$219,408</u>
\$ ---	\$ 1,416	\$ ---	\$ ---	\$ ---	\$ 1,416
650	---	---	---	---	650
8	1,733	---	---	---	1,886
<u>658</u>	<u>3,149</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>3,952</u>
---	---	---	---	---	9,457
2,800	---	---	---	---	55,780
---	---	---	---	---	2,800
---	---	76,291	---	---	76,291
---	---	---	---	2,080	2,080
---	61,509	---	---	---	61,509
---	---	---	7,539	---	7,539
<u>2,800</u>	<u>61,509</u>	<u>76,291</u>	<u>7,539</u>	<u>2,080</u>	<u>215,456</u>
<u>\$3,458</u>	<u>\$64,658</u>	<u>\$76,291</u>	<u>\$7,539</u>	<u>\$2,080</u>	<u>\$219,408</u>

CITY OF HUDSON, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes In Fund Balance
Non-Major Governmental Funds
For The Year Ended June 30, 2013

Special Revenue Funds

	<u>Summer Recreation</u>	<u>Cemetery</u>
<u>Revenues:</u>		
Intergovernmental Grants	\$ ----	\$ ----
Contribution from Local Units	----	----
Charges for Services	17,663	10,716
Fines and Forfeits	----	----
Interest and Rents	----	252
Other Revenue	----	4,495
Contributions	----	----
	<u>17,663</u>	<u>15,463</u>
<u>Expenditures:</u>		
General Government	----	26,539
Recreational and Cultural Capital Outlay	18,568	----
	----	----
Debt Service:		
Principal	----	----
Interest	----	----
	<u>18,568</u>	<u>26,539</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	<u>(905)</u>	<u>(11,076)</u>
<u>Other Financing Sources (Uses):</u>		
Operating Transfers In	2,450	----
Operating Transfers (Out)	----	----
	<u>2,450</u>	<u>----</u>
Excess of Revenues and Other Sources Over (Under) (Expenditures and Other Uses)	1,545	(11,076)
Beginning Fund Balance	<u>7,912</u>	<u>66,856</u>
Ending Fund Balance	<u>\$ 9,457</u>	<u>\$ 55,780</u>

The notes to financial statements are an integral part of this statement.

<u>Special Revenue Funds</u>			<u>Debt Service Fund</u>	<u>Permanent Fund</u>	<u>Total Non-Major Governmental Funds</u>
<u>Community Center</u>	<u>Library</u>	<u>Museum</u>	<u>Debt Service</u>	<u>Cemetery Perpetual Care</u>	
\$ ---	\$ 1,965	\$ ---	\$ ---	\$ ---	\$ 1,965
---	14,000	---	---	---	14,000
---	4,000	---	---	---	4,000
---	---	---	---	---	28,379
---	20,047	---	---	---	20,047
14,761	1,458	4,790	---	41	21,302
849	39	---	---	---	5,383
59	3,287	6,291	---	---	9,637
<u>15,669</u>	<u>44,796</u>	<u>11,081</u>	<u>---</u>	<u>41</u>	<u>104,713</u>
---	---	---	250	---	26,789
17,538	73,730	12,190	---	---	122,026
4,000	13,548	---	---	---	17,548
---	---	---	---	---	---
<u>21,538</u>	<u>87,278</u>	<u>12,190</u>	<u>250</u>	<u>---</u>	<u>166,363</u>
<u>(5,869)</u>	<u>(42,482)</u>	<u>(1,109)</u>	<u>(250)</u>	<u>41</u>	<u>(61,650)</u>
5,330	46,828	---	---	---	54,608
---	---	---	---	---	---
<u>5,330</u>	<u>46,828</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>54,608</u>
(539)	4,346	(1,109)	(250)	41	(7,042)
<u>3,339</u>	<u>57,163</u>	<u>77,400</u>	<u>7,789</u>	<u>2,039</u>	<u>222,498</u>
<u>\$ 2,800</u>	<u>\$ 61,509</u>	<u>\$76,291</u>	<u>\$ 7,539</u>	<u>\$2,080</u>	<u>\$215,456</u>

CITY OF HUDSON, MICHIGAN
Combining Balance Sheet
Component Units
For The Year Ended June 30, 2013

	<u>Local Development Finance Authority</u>	<u>Downtown Development Authority</u>	<u>Total Component Units</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<u>Assets</u>					
Cash and Cash Equivalents	\$160,382	\$46,284	\$206,666	\$ ---	\$ 206,666
Taxes Receivable	4,261	---	4,261	---	4,261
Notes Receivable	---	---	---	191,976	191,976
Capital Assets, Net	---	---	---	2,740,756	2,740,756
Total Assets	<u>\$164,643</u>	<u>\$46,284</u>	<u>\$210,927</u>	<u>\$2,932,732</u>	<u>\$3,143,659</u>
<u>Liabilities</u>					
Accounts Payable/ Accrued Expenses	\$ 5,387	\$ ---	5,387	---	5,387
Deferred Revenue	4,261	---	4,261	4,261	---
Total Liabilities	<u>9,648</u>	<u>---</u>	<u>9,648</u>	<u>4,261</u>	<u>5,387</u>
<u>Fund Balance/Net Assets</u>					
Unassigned	154,995	46,284	201,279	201,279	---
Total Fund Balance	<u>154,995</u>	<u>46,284</u>	<u>201,279</u>	<u>201,279</u>	<u>---</u>
Total Liabilities and Fund Balance	<u>\$164,643</u>	<u>\$46,284</u>	<u>\$210,927</u>		
<u>Net Assets</u>					
Invested in Capital Assets				2,740,756	2,740,756
Unrestricted				397,516	397,516
Total Net Assets				<u>\$3,138,272</u>	<u>\$3,138,272</u>

CITY OF HUDSON, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Component Units
For The Year Ended June 30, 2013

	<u>Local Development Finance Authority</u>	<u>Downtown Development Authority</u>	<u>Total Component Units</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<u>Revenues</u>					
Property Taxes	\$ 284,187	\$ ----	\$ 284,187	\$ (715)	\$ 284,902
Interest Income	704	100	804	(1,976)	2,780
Rental Income	---	3,600	3,600	---	3,600
Total Revenues	<u>284,891</u>	<u>3,700</u>	<u>288,591</u>	<u>(2,691)</u>	<u>291,282</u>
<u>Expenditures</u>					
Depreciation	---	---	---	96,588	96,588
Operating Expenses	53,432	7,413	60,845	---	60,845
Capital Outlay	446,661	---	446,661	(446,661)	---
Total Expenditures	<u>500,093</u>	<u>7,413</u>	<u>507,506</u>	<u>(350,073)</u>	<u>157,433</u>
Excess of Revenue Over (Under) Expenditures	<u>(215,202)</u>	<u>(3,713)</u>	<u>(218,915)</u>	<u>352,764</u>	<u>133,849</u>
<u>Other Financing Sources (Uses)</u>					
Loan Payment Received	25,000	---	25,000	25,000	---
Transfer (Out)	(9,500)	---	(9,500)	---	(9,500)
Total Other Financing Sources (Uses)	<u>15,500</u>	<u>---</u>	<u>15,500</u>	<u>25,000</u>	<u>(9,500)</u>
Net Change in Fund Balance (Decrease)	<u>(199,702)</u>	<u>(3,713)</u>	<u>(203,415)</u>	<u>327,764</u>	<u>124,349</u>
Fund Balance/Net Assets Beginning of Year	<u>354,697</u>	<u>49,997</u>	<u>404,694</u>	<u>2,609,229</u>	<u>3,013,923</u>
Fund Balance/Net Assets End of Year	<u>\$ 154,995</u>	<u>\$46,284</u>	<u>\$ 201,279</u>	<u>\$2,936,993</u>	<u>\$3,138,272</u>

The accompanying notes are an integral part of this financial statement.

PHILIP R. RUBLEY

– Certified Public Accountant –

133 W. MAIN STREET • MORENCI, MI 49256

PHONE 517/458-2274

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PHILIP R. RUBLEY, C.P.A.

MEMBERS OF
AMERICAN INSTITUTE OF C.P.A.'S
& THE MICHIGAN ASSOCIATION OF C.P.A.'S

September 26, 2013

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

Honorable Mayor and
Members of the City Council
City of Hudson
121 N. Church St.
Hudson, Michigan 49247

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund of City of Hudson, Michigan as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Hudson, Michigan's basic financial statements and have issued our report thereon dated September 26, 2013.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the

**Honorable Mayor and
Members of the City Council
City of Hudson**

entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in the accompanying schedule of findings to be significant deficiencies 2013 1-2.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hudson, Michigan's financial statements are free from material misstatement, we performed test 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

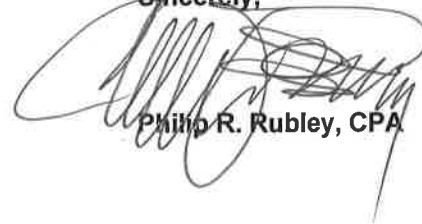
Response to Findings

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

Purpose of this Report

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

Sincerely,



Philip R. Rubley, CPA

PRR/cab

CITY OF HUDSON, MICHIGAN

SCHEDULE OF FINDINGS

JUNE 30, 2013

2013 – 1 PREPARATION OF GAAP BASIS FINANCIAL STATEMENTS

Requirement:

The City is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

Condition:

The City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the City'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 part of the City's internal controls.

Cause:

This condition is caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the added time and expense of obtaining the necessary training to perform this task.

Effect:

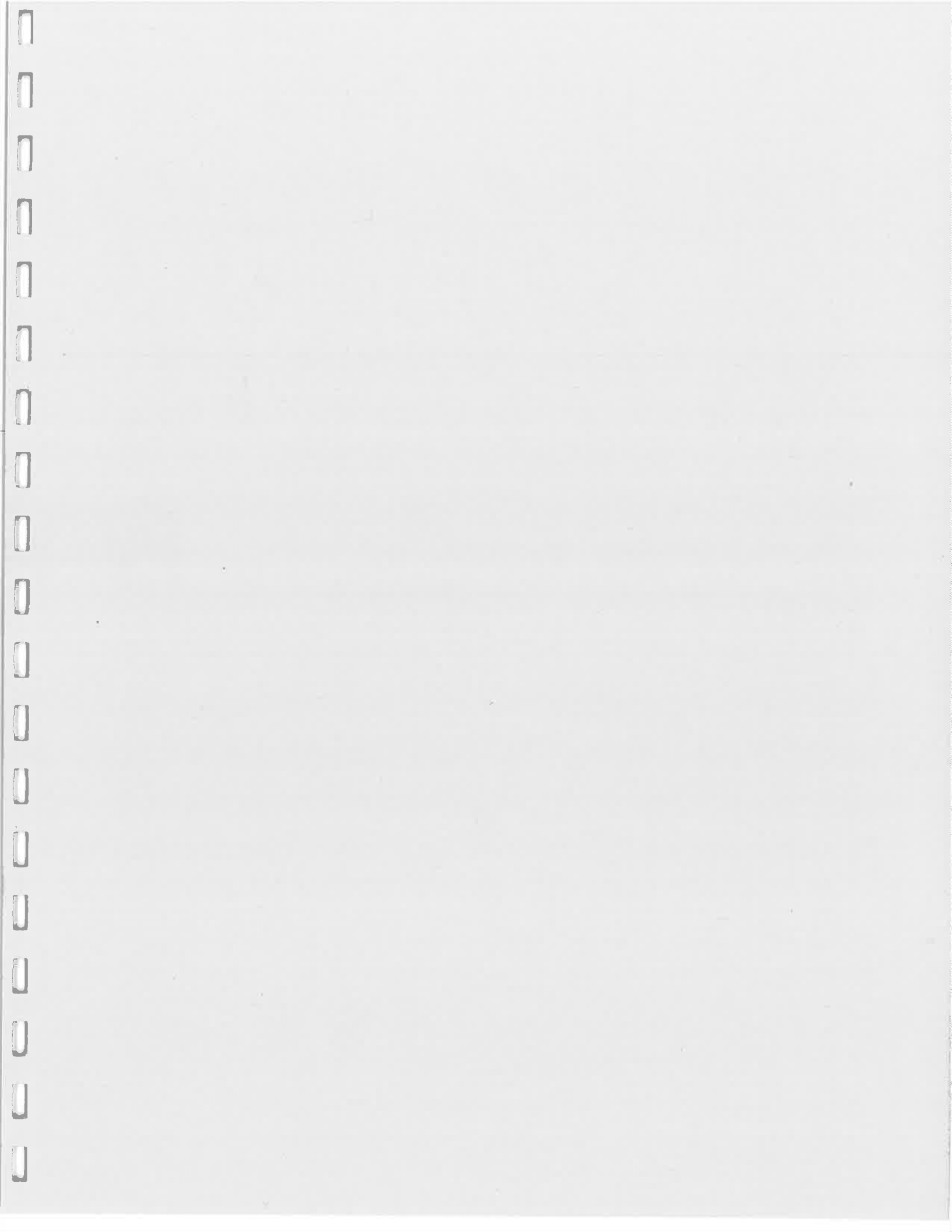
The result of this condition is that the City lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Official:

The City has determined that it is not economically feasible to establish additional internal controls over the preparation of financial statements in accordance with GAAP. In addition, the City will carefully review the draft financial statements and notes prior to approving them and accept responsibility for their content and presentation.

2013– 2 ADMINSTRATIVE COSTS

The City should review thru time studies, revised, if necessary allocations of administrative costs to the various funds.



PHILIP R. RUBLEY

– Certified Public Accountant –

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September 26, 2013

Honorable Mayor and
Members of the City Council
City of Hudson
121 N. Chursh St.
Hudson, Michigan 49247

We have audited the financial statements of the governmental activities of City of Hudson, Michigan for the year ended June 30, 2013, and have issued our report thereon dated September 26, 2013. Professional standards require that we provide you with the following information related to our audit.

PURPOSE OF THE AUDIT

The audit was designed to determine the fair presentation or compliance with:

- generally accepted accounting principles and auditing standards,
- the applicable laws and regulations of the State of Michigan,
- compliance with reporting under governmental auditing standards.

OUR RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS

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

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we consider the internal control of City of Hudson, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you.

RESULTS OF AUDIT

1. Audit opinion letter - an unqualified opinion on the City of Hudson, Michigan's financial statements has been issued. This means we have given a "clean" opinion with no reservations.

We noted significant deficiencies in our letter dated September 26, 2013. There was a very good relationship between City of Hudson, Michigan and the auditors.

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 City of Hudson, Michigan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into the City of Hudson, Michigan 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 disclosure in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

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 disagreement arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

OTHER MATTERS/RECOMMENDATIONS

WATER AND SEWER FUND (UTILITIES)

Consider a study into costs of operation to determine the need for additional increases in rates.

BUDGET

Try to budget projected grant revenues even through they flow thru the City or outside of.

GENERAL FUND

The need to improve the unrestricted fund equity of the general fund should be considered.

We performed the audit according to the planned scope and timing previously communicated to you.

The financial affairs have been professionally conducted. The accounting records were in good condition and we commend the staff for their assistance and support during the audit.

This information is intended solely for the use of City Council and management of City of Hudson, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Philip R. Rubley, CPA

CITY OF

HUDSON

121 North Church St.
Hudson, MI 49247
Phone: 517-448-
Fax: 517-448-



September 26, 2013

Philip R Rubley CPA
133 W Main Street
Morenci, Michigan 49256

We are providing this letter in connection with your audit of the financial statements of City of Hudson, Michigan as of June 30, 2013 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hudson and the respective changes in financial position and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of September 26, 2013, the following representations made to you during your audit.

- 1) The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity
- 2) We have made available to you all—
 - a) Financial records and related data [and all audit or relevant monitoring reports, if any, received from funding sources].
 - b) Minutes of the meetings of City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 3) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 4) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements [or the schedule of expenditures of federal awards].
- 5) We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
- 6) We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
- 7) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
- 8) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 9) The City of Hudson, Michigan has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

- 10) The following, if any, have been properly recorded or disclosed in the financial statements:
 - a) Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b) Guarantees, whether written or oral, under which the City of Hudson is contingently liable.
 - c) All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances.
- 11) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- 12) There are no—
 - a) Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with generally accepted accounting principles.
 - c) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles.
- 13) As part of your audit, you assisted with preparation of the financial statements and related notes [and schedule of expenditures of federal awards]. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes [and schedule of expenditures of federal awards].
- 14) The City of Hudson has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 15) The City of Hudson has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 16) We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
- 17) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 18) The financial statements properly classify all funds and activities.
- 19) All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 20) Components of net assets (invested in capital assets, net of related debt; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- 21) Investments, derivative transactions, and land and other real estate held by endowments are properly valued.
- 22) Provisions for uncollectible receivables have been properly identified and recorded.
- 23) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 24) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 25) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

- 26) Deposits and investment securities and derivative transactions are properly classified as to risk and are properly disclosed.
- 27) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 28) We have appropriately disclosed the City of Hudson's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.
- 29) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 30) We have evaluated the City of Hudson's ability to continue as a going concern and have included appropriate disclosures, as necessary, in the financial statements.
- 31) With respect to federal award programs:
 - a) We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, including
 - b) We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133.
 - c) We are responsible for understanding and complying with, and have complied with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.
 - d) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
 - e) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
 - f) We have received no requests from a federal agency to audit one or more specific programs as a major program.
 - g) We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the requirements of federal awards.
 - h) We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
 - i) We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
 - j) Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
 - k) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

- l) We have made available to you all documentation related to compliance with the direct material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- m) We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- n) There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- o) No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance was audited.
- p) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- q) The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.

Signed: Judith A. Janner
Title: Clerk

Signed: Marilyn Willett
Title: Treasurer