

City of Hastings,
Michigan



Year Ended
June 30, 2017

Financial
Statements

CITY OF HASTINGS, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

Month //, 2017

City Council
City of Hastings, Michigan

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 Hastings, Michigan* (the "City"), as of and for the year ended June 30, 2017, 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.

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

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

Opinions

In our opinion, 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 Hastings, Michigan, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund and each major special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

The combining and individual fund financial statements and schedules 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. The 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated **Month //, 2017**, on our consideration of the City of Hastings, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF HASTINGS, MICHIGAN

Management's Discussion and Analysis

As management of the City of Hastings, Michigan (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The City's total net position increased to \$28,858,933 at the end of the current fiscal compared to \$27,643,397 at the end of the prior period. Net position of governmental activities increased by \$993,031. Net position of business-type activities increased by \$222,505.
- The City continued to make pension contributions in excess of the ARC during the year and also continued to fund a Trust account for OPEB obligations. The City recognizes these liabilities and fully intends to fully meet them.
- Significant activity included the following:
 - Major projects completed during the year included construction of the Thornapple Plaza and the Veteran's Memorial at Tyden Park. Both of these facilities were constructed primarily using donated funds to cover the cost of construction. The new Butler Creek Crossing on East State Road was also completed in Fiscal Year 2016/2017. This project was funding in large part through a grant from the Michigan Department of Transportation (MDOT).
 - The West Michigan Mountain Biking Alliance (WMMBBA) constructed the new Hammond Hill multi-use trail on the City's property on Hammond Road. In addition to funds contributed by WMMBBA, the City obtained a grant from the Michigan Economic Development Commission and solicited matching funds for the grant through Patronicity crowd-funding. The City initiated construction of a new entry arch at Riverside Cemetery using funds donated for capital improvements that the Cemetery. Completion of the arch will occur in FY 17/18.
 - The City's Assessing Department completed a multi-year City-wide property reappraisal project in FY 16/17, and the updated property values are now reflected in the City's property tax records. The City also completed a Bicycle Master Plan identifying "bike-friendly" improvements that will be implemented in coming years. The City also completed design engineering for the MDOT "Safe Routes to Schools" project, with construction of the planned sidewalks and other facilities anticipate in FY 17/18.
 - The City Streets and Water and Sewer Departments began preparation of an Asset Management Plan funded in large part by a Michigan Department of Environmental Quality's Storm, Asset Management, Wastewater (SAQ) grant. Preparation of this Asset Management is expected to be complete in FY 17/18. The City continued to replace and update water meters within the water distribution system to increase metering accuracy and related revenues.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements, including management's discussion and analysis, budgetary schedules and combining statements for nonmajor, fiduciary funds, and internal service funds.

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.

CITY OF HASTINGS, MICHIGAN

Management's Discussion and Analysis

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government administration, police and fire services, public works including major and local street maintenance, recreation and cultural activities, operation of the airport, and community and economic development programs. The business-type activities of the City include sewer and water services. The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate Downtown Development Authority, Local Development Finance Authority, and Brownfield Redevelopment Authority for which the City is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

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

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

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

The City maintains eight individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, major streets fund, and library fund, each of which is considered to be a major fund. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements and schedules* elsewhere in this report.

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

CITY OF HASTINGS, MICHIGAN

Management's Discussion and Analysis

Proprietary Funds. The City maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles and for administrative services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the water and sewer operations, which is considered to be a major fund of the City.

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

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.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management discussion and analysis and the schedules for the pension and other postemployment benefit plans.

The combining statements and schedules referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes and pension/OPEB required supplementary information.

Government-wide Financial Analysis

As previously stated, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$28,858,933 at the close of the most recent fiscal year.

One of the larger portions of the City's net position reflects unrestricted net position which is available for future operation while a significant portion of net position is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF HASTINGS, MICHIGAN

Management's Discussion and Analysis

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	\$ 6,237,701	\$ 5,957,629	\$ 3,186,894	\$ 2,955,385	\$ 9,424,595	\$ 8,913,014
Capital assets, net	18,988,267	17,681,724	12,999,691	13,333,582	31,987,958	31,015,306
Total assets	25,225,968	23,639,353	16,186,585	16,288,967	41,412,553	39,928,320
Deferred outflows	877,834	1,290,759	162,128	238,396	1,039,962	1,529,155
Liabilities						
Other liabilities	10,350,698	10,131,788	1,896,962	1,983,353	12,247,660	12,115,141
Long-term debt	266,073	267,012	991,445	1,299,318	1,257,518	1,566,330
Total liabilities	10,616,771	10,398,800	2,888,407	3,282,671	13,505,178	13,681,471
Deferred inflows	74,622	111,934	13,782	20,673	88,404	132,607
Net position						
Net investment in capital assets	18,988,267	17,681,724	12,025,838	12,048,603	31,014,105	29,730,327
Restricted	3,018,383	3,001,570	346,977	346,977	3,365,360	3,348,547
Unrestricted (deficit)	(6,594,241)	(6,263,916)	1,073,709	828,439	(5,520,532)	(5,435,477)
Total net position	\$15,412,409	\$14,419,378	\$13,446,524	\$13,224,019	\$28,858,933	\$27,643,397

An additional portion of the City's net position represents resources that are subject to other external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the City's ongoing obligations to its general programs.

Net position of the City increased by \$1,215,536. The governmental activities increase in net position of \$993,031 was the result of a significant increase in capital grants, including \$960,000 for the Thornapple Plaza project, and \$320,600 for East State Street reconstruction. The business-type activities increase in net position of \$222,505 was the result of a significant increase in revenue (approximately \$350,000), offset by a smaller increase in total expenses of approximately \$200,000. The main reasons for these increases are revenues are up due to an increase in the billed volume of water and sewer services an increase in the charge for such services (3.5%), and due to grants received for the SAW program and Wellhead Protection program. Expenditures are up mainly due to the noncapital grant funded expenditures referenced above, costly maintenance activities at the Wastewater Treatment Plant (centrifuge reconstruction), and the purchase of water meters.

CITY OF HASTINGS, MICHIGAN

Management's Discussion and Analysis

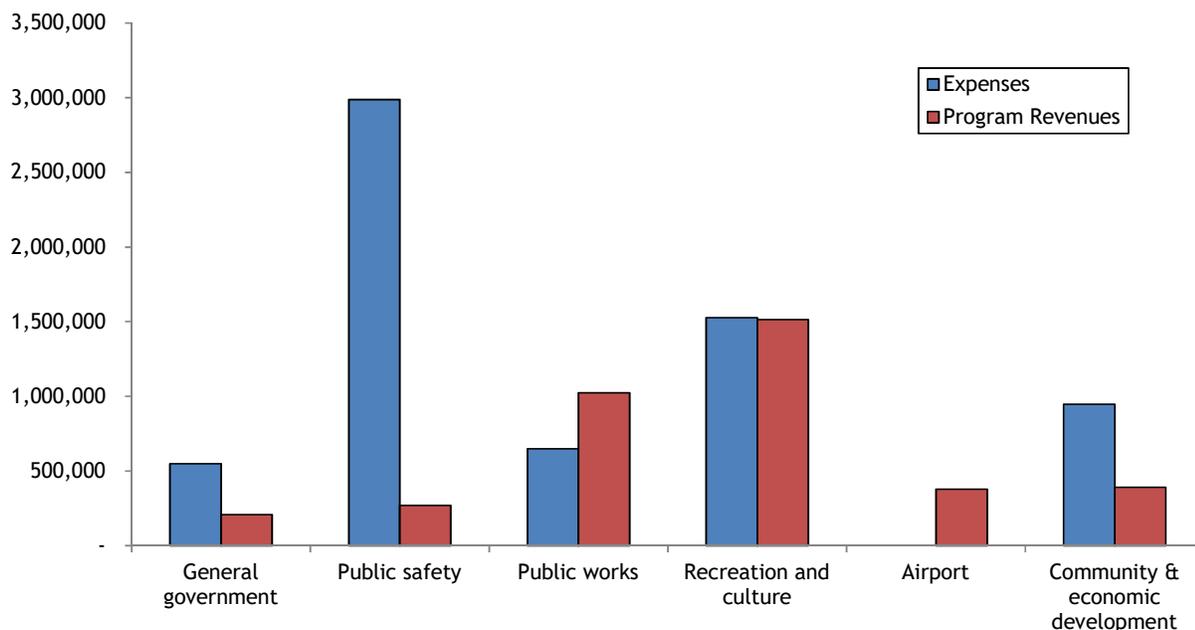
	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Charges for services	\$ 809,586	\$ 856,737	\$ 2,800,680	\$ 2,504,921	\$ 3,610,266	\$ 3,361,658
Operating grants	1,418,967	1,184,384	9,139	5,300	1,428,106	1,189,684
Capital grants	1,552,985	859,093	48,753	-	1,601,738	859,093
General revenues:						
Property taxes	2,876,659	2,979,882	-	-	2,876,659	2,979,882
Unrestricted grants and contributions	883,606	758,612	-	-	883,606	758,612
Unrestricted investment earnings	34,289	25,952	-	-	34,289	25,952
Gain on sale of capital assets	19,877	39,596	-	-	19,877	39,596
Other	29,156	38,399	13,365	917	42,521	39,316
Total revenues	7,625,125	6,742,655	2,871,937	2,511,138	10,497,062	9,253,793
Expenses						
General government	547,504	547,484	-	-	547,504	547,484
Public safety	2,987,344	2,704,783	-	-	2,987,344	2,704,783
Public works	648,529	807,667	-	-	648,529	807,667
Recreation and culture	1,524,982	1,499,855	-	-	1,524,982	1,499,855
Airport	-	45,194	-	-	-	45,194
Community and economic development	945,869	925,746	-	-	945,869	925,746
Water and sewer	-	-	2,627,298	2,421,081	2,627,298	2,421,081
Total expenses	6,654,228	6,530,729	2,627,298	2,421,081	9,281,526	8,951,810
Change in net position, before transfers	970,897	211,926	244,639	90,057	1,215,536	301,983
Transfers	22,134	21,489	(22,134)	(21,489)	-	-
Change in net position	993,031	233,415	222,505	68,568	1,215,536	301,983
Net position, beginning of year	14,419,378	14,185,963	13,224,019	13,155,451	27,643,397	27,341,414
Net position, end of year	\$15,412,409	\$14,419,378	\$13,446,524	\$13,224,019	\$28,858,933	\$27,643,397

CITY OF HASTINGS, MICHIGAN

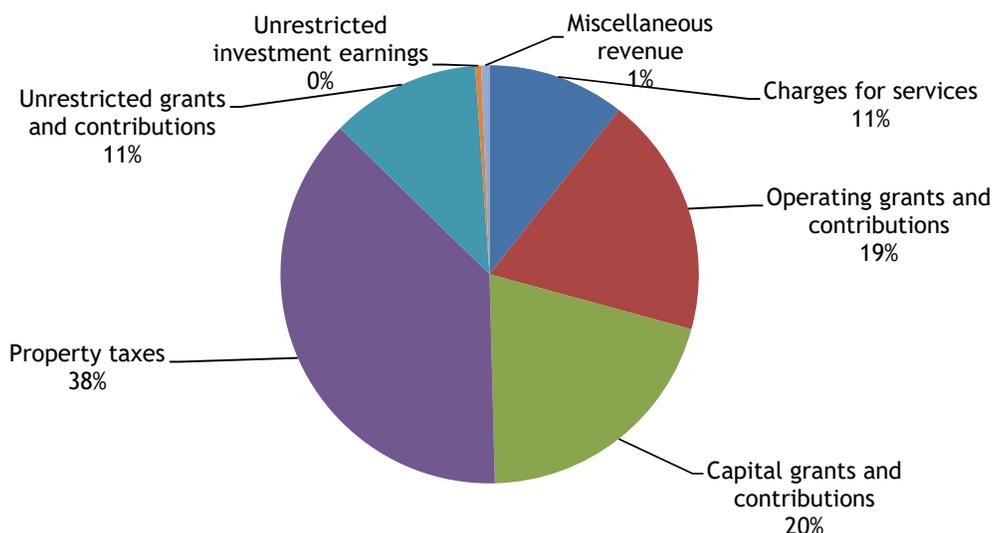
Management's Discussion and Analysis

Governmental Activities. Total governmental activities revenues increased by \$882,470. This was primarily the result of an increase in capital grant revenue.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



Total governmental expenses increased \$123,499. This net increase generally relates to an increase in the expenditures in the police department stemming from the purchase of an additional patrol vehicle in FY 16/17 and filling of two staff positions in the police department that were vacant for a good share of the previous year. These additional expenditures in the police department were partially offset by elimination of the City's contribution to the Airport Fund, and by reduction of construction related expenditures in the Major Streets department (the second phase of the Riverwalk project was completed in FY 15/16).

CITY OF HASTINGS, MICHIGAN

Management's Discussion and Analysis

During the year, the City continued its emphasis in public safety by investing \$2,987,344, or 44.9% of governmental activities expenses in this function. Recreation and cultural activities were \$1,524,982 or 22.9% of governmental activities expenses. The combination of general government, public works, airport, and community and economic development made up the remaining 32.2% of governmental activities expenses.

Business-type Activities. The City's business-type activities include the water and sewer system. Revenue of the business-type activities was \$2,871,937 (an increase of \$360,799, about 14.4%, from the prior year). Expenses were \$2,627,298 (an increase of \$206,217, about 8.5%, from the prior year). These significant increases in revenues were caused by an increase in the billed volume of water and sewer services an increase in the charge for such services (3.5%), and due to grants received for the SAW program and Wellhead Protection program, while the increases in expenses are mainly due to the noncapital grant funded expenditures referenced above, costly maintenance activities at the Wastewater Treatment Plant (centrifuge reconstruction), and the purchase of water meters.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,685,073, a decrease of \$462,793 in comparison with the prior year. The decrease is attributable to use of fund balance reserves in the general fund to pay for general operating expenses (as anticipated) as our tax revenues continue to rebound, and due to the use of fund balance reserves in the Major Street Fund to cover expenditures related to the East State Road Butler Creek Crossing project (again as anticipated).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,268,714, while total fund balance was \$2,007,800. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 27.0% of total general fund expenditures and transfers out.

The major streets fund has a total fund balance of \$191,059, which decreased by \$360,964 during the year. This decrease is a result of the use of Major Street Fund reserves to pay for the City's cost of the East State Road Butler Creek Crossing Project.

The library fund has a total fund balance of \$359,214, which increased by \$63,997 during the year. This increase is due to significant efforts to control costs including reductions in staffing levels and related labor costs.

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

Net position of the water and sewer fund at the end of the year amounted to \$12,821,598. The water and sewer fund had an increase in net position for the year of \$257,915. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

CITY OF HASTINGS, MICHIGAN

Management's Discussion and Analysis

General Fund Budgetary Highlights

Budget amendments enacted during the year focused on projects in most funds that had been planned but not completed in the prior fiscal year (resources being re-appropriated to complete the projects in the current year) and for other circumstances that arose during, rather than prior to, the beginning of the fiscal period. The most significant budget amendments were as follows:

- The budget for Federal intergovernmental revenue was decreased by \$400,000 to account for the City not being awarded an anticipated Brownfield Environmental Site Assessment Grant from the USEPA. The City subsequently reapplied for the grant through a consortium with Barry County in which Barry County was the fiduciary for receipt of grant funds and administration of the grant.
- The contributions revenue budget was amended \$1,128,855 higher than the original budget due to significant donations for the Thornapple Plaza project (Larry Baum), the Veteran's Memorial (varied) and the WMMBA multi-use trail (varied).
- The expenditure budget for economic development was decreased by \$382,000 during the year. This decrease was attributable to reductions in expenditures related to the USEPA Grant. These expenditures were not incurred since the City was not awarded the grant.
- The budgeted expenditures for recreation and culture increased by \$1,192,587 from the original amount budgeted. This increase was caused by expenditures for the donor funded Thornapple Plaza project, WMMBA multi-use trail, and the Veteran's Memorial.

Significant variations between the final amended budget and the actual results are described as follows:

- General Fund total revenue was \$1,457,809 (24.6%) below budget. The most significant under budget condition occurred in contributions revenue, almost \$1,130,191, due to non-cash capital contributions that were budgeted for the purposes of tracking the full cost of projects, but not recognized in the financial statements, because to do so would have violated current accounting and reporting standards. These budgeted amounts were offset in the budget by capital outlay expenditure amounts budgeted under recreation and culture.
- General Fund total expenditures were about \$1,710,000 (28.9%) under budget reflecting positive results from City management efforts to aggressively control and limit costs. The largest positive variances were in economic development, and recreation and cultural. Some costs, particularly those in economic development projects, are delayed to future periods and may be re-appropriated. The recreation and culture variance is mostly caused by the capital outlay offset to the budgeted non-cash capital contributions, as discussed in the previous paragraph.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2017, amounted to \$31,987,958 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment. Infrastructure investments included in the total have only been added since 2003.

CITY OF HASTINGS, MICHIGAN

Management's Discussion and Analysis

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

- Reconstruction of a portion of E. State Street; total cost of \$731,892, including a State capital contribution in the amount of \$320,600.
- Construction of a non-motorized path under the Safe Routes to School program; total cost of \$81,468.
- Construction of a mountain bike path; total cost of \$122,266, including local non-cash contributions in the amount of \$60,000.
- Improvements to the Veteran's Memorial; total cost of \$75,213, including local non-cash contributions in the amount of \$32,700.
- Completion of the Thornapple Plaza performance venue; total cost \$1,138,011, including local non-cash contributions in the amount of \$966,102.
- Replacement vehicles in the Equipment Fund of \$157,849.
- Replacement of the Clinton Street water main; total cost of \$233,492.

	Capital Assets (Net of Depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 1,413,822	\$ 1,413,822	\$ 99,200	\$ 99,200	\$ 1,513,022	1,513,022
Construction in progress	978,546	297,633	64,804	113,349	1,043,350	410,982
Land improvements and infrastructure	8,171,239	8,201,918	7,494,955	7,447,856	15,666,194	15,649,774
Buildings and system improvements	6,118,199	5,253,177	3,405,566	3,592,975	9,523,765	8,846,152
Machinery and equipment	2,306,461	2,515,174	1,935,166	2,080,202	4,241,627	4,595,376
Total capital assets, net	\$18,988,267	\$17,681,724	\$12,999,691	\$13,333,582	\$31,987,958	\$31,015,306

Additional information on the City's capital assets can be found in Note 5 of this report.

Long-term Debt. At the end of the current fiscal year, the City had total debt outstanding of \$1,257,518. Of this amount, \$991,445 was debt of business-type activities and \$266,073 was debt of governmental activities.

	Long-term Debt					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Bonds payable	\$ -	\$ -	\$ 973,853	\$ 1,288,853	\$ 973,853	\$ 1,288,853
Compensated absences	266,073	267,012	17,592	14,339	283,665	281,351
Unamortized bond discounts	-	-	-	(3,874)	-	(3,874)
Total long-term debt	\$ 266,073	\$ 267,012	\$ 991,445	\$ 1,299,318	\$ 1,257,518	\$ 1,566,330

The City's total long-term debt decreased by \$308,812 (19.7%) during the current fiscal year. The net decrease was mainly attributable to the City making required principal payments during the current year.

The City is currently not rated for general obligation bond issuance.

Additional information on the City's long-term debt can be found in Note 7 of this report.

CITY OF HASTINGS, MICHIGAN

Management's Discussion and Analysis

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the City's budget for the 2017-2018 fiscal year:

- The City is beginning to see indicators of economic recovery and is hopeful about the intermediate to longer term future. That said, the City continues its standing practice of considering the budget in a multi-year perspective.
 - Expecting continued slow revenue recovery;
 - Expecting continued inflationary pressures in wages, fringe benefits, contracted services, utilities, and all other costs.
- The City attempts to maintain and improve services for its residents with efforts to provide service more efficiently and when possible in cooperation with other units of government.
- The City budgets for OPEB expense in the Water & Sewer Fund and has improved its funding of future obligations but is still unable to fully fund the actuarially determined annual required contribution. OPEB obligations also impact Governmental Activities but are not reflected in the budget in the same way.
- The City has an established history of examining charges for services in all activities to ensure that current charges approximately equal current costs. In the Water & Sewer fund, rates were increased each July in 2014 3.5%, 2015 4.0%, and 2016 3.5% to protect the viability of the system.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 201 East State Street, Hastings, Michigan 49058.

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BASIC FINANCIAL STATEMENTS

CITY OF HASTINGS, MICHIGAN

Statement of Net Position

June 30, 2017

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ -	\$ 1,359,426	\$ 1,359,426	\$ 322,649
Restricted cash and cash equivalents	37,152	-	37,152	-
Investments	3,381,638	600,836	3,982,474	-
Receivables, net	292,113	463,851	755,964	333
Internal balances	(624,926)	624,926	-	-
Due from component unit	111,865	-	111,865	-
Inventory	24,983	137,855	162,838	-
Prepaid items	100,814	-	100,814	-
Land held for resale	505,308	-	505,308	23,738
Investment in joint venture	2,408,754	-	2,408,754	-
Capital assets not being depreciated	2,392,368	164,004	2,556,372	-
Capital assets being depreciated, net	16,595,899	12,835,687	29,431,586	-
Total assets	25,225,968	16,186,585	41,412,553	346,720
Deferred outflows of resources				
Deferred pension amounts	877,834	162,128	1,039,962	-
Liabilities				
Negative equity in pooled cash	457,243	-	457,243	324
Accounts payable and accrued liabilities	202,933	55,393	258,326	379,506
Due to primary government	-	-	-	111,865
Long-term debt, due within one year	194,165	57,433	251,598	-
Long-term debt, due in more than one year	71,908	934,012	1,005,920	-
Net pension liability	6,741,019	1,245,024	7,986,043	-
Net other postemployment benefits obligation	2,949,503	596,545	3,546,048	-
Total liabilities	10,616,771	2,888,407	13,505,178	491,695
Deferred inflows of resources				
Deferred pension amounts	74,622	13,782	88,404	-
Net position				
Net investment in capital assets	18,988,267	12,025,838	31,014,105	-
Restricted for:				
Major and local streets	259,056	-	259,056	-
Drug enforcement/D.A.R.E.	42,260	-	42,260	-
Debt service	-	346,977	346,977	-
Capital projects	185,294	-	185,294	-
Building improvement revolving loans	100,947	-	100,947	-
Joint airport authority	2,408,754	-	2,408,754	-
Cemetery operations	16,106	-	16,106	-
Other purposes	5,966	-	5,966	-
Unrestricted (deficit)	(6,594,241)	1,073,709	(5,520,532)	(144,975)
Total net position	\$ 15,412,409	\$ 13,446,524	\$ 28,858,933	\$ (144,975)

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

CITY OF HASTINGS, MICHIGAN

Statement of Activities
 For the Year Ended June 30, 2017

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 547,504	\$ 146,418	\$ 2,656	\$ 58,476	\$ (339,954)
Public safety	2,987,344	259,070	10,407	-	(2,717,867)
Public works	648,529	22,155	681,529	320,336	375,491
Recreation and cultural	1,524,982	378,678	69,360	1,064,802	(12,142)
Airport	-	-	377,779	-	377,779
Community and economic development	945,869	3,265	277,236	109,371	(555,997)
Total governmental activities	6,654,228	809,586	1,418,967	1,552,985	(2,872,690)
Business-type activities:					
Water and sewer	2,627,298	2,800,680	9,139	48,753	231,274
Total primary government	\$ 9,281,526	\$ 3,610,266	\$ 1,428,106	\$ 1,601,738	\$ (2,641,416)
Component units					
Downtown Development Authority	\$ 332,145	\$ -	\$ 10,716	\$ -	\$ (321,429)
Local Development Finance Authority	842	165	1,188	-	511
Brownfield Redevelopment Authority	12,929	-	-	-	(12,929)
Total component units	\$ 345,916	\$ 165	\$ 11,904	\$ -	\$ (333,847)

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CITY OF HASTINGS, MICHIGAN

Statement of Activities
 For the Year Ended June 30, 2017

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net position				
Net (expense) revenue	\$ (2,872,690)	\$ 231,274	\$ (2,641,416)	\$ (333,847)
General revenues:				
Property taxes	2,876,659	-	2,876,659	475,874
Unrestricted grants and contributions	883,606	-	883,606	-
Unrestricted investment earnings	34,289	-	34,289	-
Gain on sale of capital assets	19,877	-	19,877	-
Other	29,156	13,365	42,521	-
Transfers	22,134	(22,134)	-	-
Total general revenues and transfers	3,865,721	(8,769)	3,856,952	475,874
Change in net position	993,031	222,505	1,215,536	142,027
Net position, beginning of year	14,419,378	13,224,019	27,643,397	(287,002)
Net position, end of year	\$ 15,412,409	\$ 13,446,524	\$ 28,858,933	\$ (144,975)

concluded

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

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CITY OF HASTINGS, MICHIGAN

Balance Sheet Governmental Funds June 30, 2017

	General Fund	Major Streets	Library
Assets			
Cash and cash equivalents	\$ -	\$ 103,980	\$ 172,683
Restricted cash and cash equivalents	-	-	37,152
Investments	2,605,683	-	148,349
Accounts receivable	26,720	-	1,385
Taxes receivable	3,127	-	-
Special assessments receivable	-	2,557	-
Due from other governments	125,476	89,681	5,891
Advance to component unit	111,865	-	-
Prepaid items	15,000	-	-
Land held for resale	505,308	-	-
Total assets	\$ 3,393,179	\$ 196,218	\$ 365,460
Liabilities			
Negative equity in pooled cash and cash equivalents	\$ 1,262,376	\$ -	\$ -
Accounts payable	38,335	1,697	1,036
Accrued liabilities	22,334	2,172	3,725
Deposits	44,479	-	-
Advance from other governments	5,089	-	-
Total liabilities	1,372,613	3,869	4,761
Deferred inflows of resources			
Unavailable revenues	12,766	1,290	1,485
Fund balances			
Nonspendable	632,173	-	-
Restricted	106,913	191,059	185,294
Committed	-	-	173,920
Assigned	-	-	-
Unassigned	1,268,714	-	-
Total fund balances	2,007,800	191,059	359,214
Total liabilities, deferred inflows of resources and fund balances	\$ 3,393,179	\$ 196,218	\$ 365,460

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



Nonmajor Governmental Funds		Total Governmental Funds	
\$	110,791	\$	387,454
	-		37,152
	-		2,754,032
	-		28,105
	-		3,127
	-		2,557
	36,560		257,608
	-		111,865
	-		15,000
	-		505,308
<hr/>		<hr/>	
\$	147,351	\$	4,102,208
<hr/>		<hr/>	
\$	-	\$	1,262,376
	19,411		60,479
	940		29,171
	-		44,479
	-		5,089
<hr/>		<hr/>	
	20,351		1,401,594
<hr/>		<hr/>	
	-		15,541
<hr/>		<hr/>	
	-		632,173
	126,363		609,629
	-		173,920
	637		637
	-		1,268,714
<hr/>		<hr/>	
	127,000		2,685,073
<hr/>		<hr/>	
\$	147,351	\$	4,102,208
<hr/>		<hr/>	

CITY OF HASTINGS, MICHIGAN

Reconciliation

Fund Balances for Governmental Funds
 to Net Position of Governmental Activities
 June 30, 2017

Fund balances - total governmental funds \$ 2,685,073

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

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

Capital assets not being depreciated	2,392,368
Capital assets being depreciated, net	16,595,899
Capital assets not being depreciated, reported in internal service funds	(256,700)
Capital assets being depreciated, net, reported in internal service funds	(2,662,977)

Some items are recorded as revenues and expenditures in the fund statements when paid or when received. These items are recorded on the government-wide statements when incurred in the case of expenditures and when revenues are earned.

Deferred long-term receivables	15,541
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An internal service fund is used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. A portion of the assets and liabilities of the internal service fund are included in governmental activities.

Net position of governmental activities accounted for in internal service funds:	
Total internal service fund net position	3,950,128
Internal service fund net position accounted for in business-type activities	(624,926)

The government's investment in its joint venture is not a current financial resource, and therefore is not reported in the funds.

Investment in joint venture	2,408,754
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Certain liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

Compensated absences	(266,073)
Compensated absences, reported in internal service funds	62,632
Net other postemployment benefits obligation	(2,949,503)

Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.

Net pension liability	(6,741,019)
Deferred outflows related to the net pension liability	877,834
Deferred inflows related to the net pension liability	(74,622)

Net position of governmental activities	<u>\$ 15,412,409</u>
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The accompanying notes are an integral part of these financial statements.

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CITY OF HASTINGS, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2017

	General Fund	Major Streets	Library
Revenues			
Taxes	\$ 2,751,435	\$ -	\$ -
Special assessments	26,540	1,294	-
Licenses and permits	36,165	-	-
Intergovernmental:			
Federal	76,015	-	-
State	855,761	463,614	10,653
Local	201,221	-	354,298
Charges for services	283,588	22,155	10,184
Fines and forfeitures	3,265	-	20,211
Contributions and donations	93,331	-	46,328
Rentals	100,610	-	-
Interest	29,440	808	1,424
Other	10,664	226	8,281
Total revenues	4,468,035	488,097	451,379
Expenditures			
Current:			
General government	294,663	-	-
Public safety	2,662,627	-	-
Public works	-	849,061	-
Community and economic development	895,962	-	-
Recreation and cultural	350,890	-	681,192
Total expenditures	4,204,142	849,061	681,192
Revenues over (under) expenditures	263,893	(360,964)	(229,813)
Other financing sources (uses)			
Transfers in	22,134	-	293,810
Transfers out	(499,754)	-	-
Proceeds of sale of capital assets	1,605	-	-
Total other financing sources (uses)	(476,015)	-	293,810
Net changes in fund balances	(212,122)	(360,964)	63,997
Fund balances, beginning of year	2,219,922	552,023	295,217
Fund balances, end of year	\$ 2,007,800	\$ 191,059	\$ 359,214

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



Nonmajor Governmental Funds	Total Governmental Funds
\$ 124,056	\$ 2,875,491
-	27,834
-	36,165
-	76,015
218,943	1,548,971
-	555,519
16,624	332,551
1,286	24,762
58,476	198,135
-	100,610
727	32,399
226	19,397
<u>420,338</u>	<u>5,827,849</u>
186,258	480,921
4,995	2,667,622
388,733	1,237,794
-	895,962
-	1,032,082
<u>579,986</u>	<u>6,314,381</u>
<u>(159,648)</u>	<u>(486,532)</u>
205,944	521,888
-	(499,754)
-	1,605
<u>205,944</u>	<u>23,739</u>
46,296	(462,793)
80,704	3,147,866
<u>\$ 127,000</u>	<u>\$ 2,685,073</u>

CITY OF HASTINGS, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
 to Change in Net Position of Governmental Activities
 For the Year Ended June 30, 2017

Net changes in fund balances - total governmental funds \$ (462,793)

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

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

Capital assets purchased/constructed	912,425
Donated capital assets	1,385,402
Depreciation expense	(723,345)
Proceeds from sale of capital assets	(1,605)
Loss on sale of capital assets	(74,464)

Certain receivables, such as those for special assessments, are long-term in nature and are collectable over several years. However, the current receipts are reflected as revenues on the fund statements.

Net change in deferred inflows for special assessments receivable	(1,558)
Net change in deferred inflows for personal property taxes receivable	1,168

The City's investment in its joint venture is not a current financial resource, and therefore is not reported in the governmental funds.

Change in value of investment in joint venture	377,779
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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.

Net loss from internal service funds	(52,641)
Net loss from internal service funds allocated to business-type activities	35,410
Change in the accrual for compensated absences	(10,571)
Change in the net pension liability and related deferred amounts	(283,013)
Change in net other postemployment benefits obligation	(109,163)

Change in net position of governmental activities	<u>\$ 993,031</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF HASTINGS, MICHIGAN

Statement of Revenues, Expenditures and Change in Fund Balance

Budget and Actual - General Fund
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	\$ 2,810,308	\$ 2,810,308	\$ 2,751,435	\$ (58,873)
Special assessments	26,540	26,540	26,540	-
Licenses and permits	39,000	39,000	36,165	(2,835)
Intergovernmental revenue:				
Federal	760,400	360,400	76,015	(284,385)
State	781,875	820,875	855,761	34,886
Local	201,284	201,284	201,221	(63)
Charges for services	320,415	320,415	283,588	(36,827)
Fines and forfeitures	8,000	8,000	3,265	(4,735)
Contributions	94,667	1,223,522	93,331	(1,130,191)
Rentals	99,500	99,500	100,610	1,110
Interest	16,000	16,000	29,440	13,440
Other	-	-	10,664	10,664
Total revenues	5,157,989	5,925,844	4,468,035	(1,457,809)
Expenditures				
General government:				
City Council	73,954	78,624	67,377	(11,247)
Elections	51,462	51,462	20,776	(30,686)
Assessor	231,186	231,186	206,510	(24,676)
Total general government	356,602	361,272	294,663	(66,609)
Public safety:				
Police	2,257,322	2,273,596	2,184,499	(89,097)
Fire	524,248	524,248	478,128	(46,120)
Total public safety	2,781,570	2,797,844	2,662,627	(135,217)
Community and economic development:				
Community promotion	482,963	533,270	507,575	(25,695)
Economic development	1,021,768	639,768	301,002	(338,766)
Parking	83,709	109,505	87,385	(22,120)
Total community and economic development	1,588,440	1,282,543	895,962	(386,581)
Recreation and cultural	276,106	1,468,693	350,890	(1,117,803)
Total expenditures	5,002,718	5,910,352	4,204,142	(1,706,210)
Revenues over expenditures	155,271	15,492	263,893	248,401

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CITY OF HASTINGS, MICHIGAN

■ Statement of Revenues, Expenditures and Change in Fund Balance
 Budget and Actual - General Fund
 For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Other financing sources (uses)				
Transfers in	\$ 22,134	\$ 22,134	\$ 22,134	\$ -
Transfers out	(464,454)	(499,754)	(499,754)	-
Proceeds from sale of capital assets	-	-	1,605	1,605
	<u>(442,320)</u>	<u>(477,620)</u>	<u>(476,015)</u>	<u>1,605</u>
Total other financing sources (uses)				
Net change in fund balance	(287,049)	(462,128)	(212,122)	250,006
Fund balance, beginning of year	2,219,922	2,219,922	2,219,922	-
	<u>2,219,922</u>	<u>2,219,922</u>	<u>2,219,922</u>	<u>-</u>
Fund balance, end of year	\$ 1,932,873	\$ 1,757,794	\$ 2,007,800	\$ 250,006
	<u>\$ 1,932,873</u>	<u>\$ 1,757,794</u>	<u>\$ 2,007,800</u>	<u>\$ 250,006</u>

concluded

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

CITY OF HASTINGS, MICHIGAN

Statement of Revenues, Expenditures and Change in Fund Balance
 Budget and Actual - Major Streets Special Revenue Fund
 For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Special assessments	\$ 1,300	\$ 1,300	\$ 1,294	\$ (6)
Intergovernmental:				
Federal	361,058	681,058	-	(681,058)
State	474,921	491,754	463,614	(28,140)
Charges for services	-	-	22,155	22,155
Interest	210	210	808	598
Other	-	-	226	226
Total revenues	837,489	1,174,322	488,097	(686,225)
Expenditures				
Current - public works:				
Construction	420,483	1,168,619	434,631	(733,988)
Routine maintenance	412,867	485,852	414,430	(71,422)
Total expenditures	833,350	1,654,471	849,061	(805,410)
Net change in fund balance	4,139	(480,149)	(360,964)	119,185
Fund balance, beginning of year	552,023	552,023	552,023	-
Fund balance, end of year	\$ 556,162	\$ 71,874	\$ 191,059	\$ 119,185

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

CITY OF HASTINGS, MICHIGAN

Statement of Revenues, Expenditures and Change in Fund Balance
Budget and Actual - Library Special Revenue Fund
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Intergovernmental:				
State	\$ 8,000	\$ 8,000	\$ 10,653	\$ 2,653
Local	349,000	349,000	354,298	5,298
Charges for services	9,750	9,750	10,184	434
Fines and forfeitures	33,000	33,000	20,211	(12,789)
Contributions and donations	42,000	42,000	46,328	4,328
Interest	1,050	1,050	1,424	374
Other	1,500	1,500	8,281	6,781
Total revenues	444,300	444,300	451,379	7,079
Expenditures				
Current - recreation and cultural:				
Library	673,930	681,374	681,192	(182)
Capital outlay	5,000	5,000	-	(5,000)
Total expenditures	678,930	686,374	681,192	(5,182)
Revenues over (under) expenditures	(234,630)	(242,074)	(229,813)	12,261
Other financing sources				
Transfers in	293,810	293,810	293,810	-
Net change in fund balance	59,180	51,736	63,997	12,261
Fund balance, beginning of year	295,217	295,217	295,217	-
Fund balance, end of year	\$ 354,397	\$ 346,953	\$ 359,214	\$ 12,261

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

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CITY OF HASTINGS, MICHIGAN

Statement of Net Position

Proprietary Funds

June 30, 2017

	Business-type Activities Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,359,426	\$ 417,679
Investments	600,836	627,606
Accounts receivable	450,645	-
Due from other governments	1,378	716
Inventory	137,855	24,983
Prepaid items	-	85,814
Total current assets	<u>2,550,140</u>	<u>1,156,798</u>
Noncurrent assets:		
Accounts receivable	11,828	-
Capital assets not being depreciated	164,004	256,700
Capital assets being depreciated, net	12,835,687	2,662,977
Total noncurrent assets	<u>13,011,519</u>	<u>2,919,677</u>
Total assets	<u>15,561,659</u>	<u>4,076,475</u>
Deferred outflows of resources		
Deferred pension amounts	<u>162,128</u>	<u>-</u>
Liabilities		
Current liabilities:		
Accounts payable	43,929	57,583
Accrued liabilities	6,594	6,132
Accrued interest payable	4,870	-
Current portion of long-term debt	57,433	37,485
Total current liabilities	<u>112,826</u>	<u>101,200</u>
Long-term liabilities:		
Long-term debt, net of current portion	934,012	25,147
Net pension liability	1,245,024	-
Net other postemployment benefits obligation	596,545	-
Total long-term liabilities	<u>2,775,581</u>	<u>25,147</u>
Total liabilities	<u>2,888,407</u>	<u>126,347</u>
Deferred inflows of resources		
Deferred pension amounts	<u>13,782</u>	<u>-</u>
Net position		
Net investment in capital assets	12,025,838	2,919,677
Restricted for debt service	346,977	-
Unrestricted	448,783	1,030,451
Total net position	<u>\$ 12,821,598</u>	<u>\$ 3,950,128</u>

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

CITY OF HASTINGS, MICHIGAN

Reconciliation

Net Position of Enterprise Funds
to Net Position of Business-type Activities
June 30, 2017

Net position - total enterprise funds \$ 12,821,598

Amounts reported for *business-type activities* in the statement of
net position are different because:

Internal service funds are used by management to charge the costs of certain activities,
such as insurance and other centralized costs, to individual funds. A portion of the net
position of the internal service funds is allocated to the enterprise fund and reported in
the statement of net position.

Net position of business-type activities accounted for in governmental-type
internal service funds

624,926

Net position of business-type activities

\$ 13,446,524

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

CITY OF HASTINGS, MICHIGAN

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2017

	Business-type Activities Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Funds
Operating revenues		
Charges for services	\$ 2,800,680	\$ 2,001,059
Operating expenses		
Personnel services	682,277	1,243,709
Professional and contractual services	167,081	172,759
Materials and supplies	291,652	174,875
Utilities	212,022	44,611
Repairs and maintenance	211,798	50,524
Insurance and bonds	-	43,375
Equipment rental	183,124	22,081
Depreciation	530,823	302,335
Administrative services	250,914	29,863
Miscellaneous	32,243	4,053
Total operating expenses	2,561,934	2,088,185
Operating income (loss)	238,746	(87,126)
Nonoperating revenues (expenses)		
Interest income	9,139	4,849
Gain (loss) on sale of capital assets	(114)	19,877
State grants	48,753	-
Miscellaneous revenue	13,365	9,759
Interest expense	(29,840)	-
Total nonoperating revenues (expenses)	41,303	34,485
Net income (loss) before transfers	280,049	(52,641)
Transfers		
Transfers out	(22,134)	-
Changes in net position	257,915	(52,641)
Net position, beginning of year	12,563,683	4,002,769
Net position, end of year	\$ 12,821,598	\$ 3,950,128

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

CITY OF HASTINGS, MICHIGAN

Reconciliation

Change in Net Position of Enterprise Funds
 to Change in Net Position of Business-type Activities
 For the Year Ended June 30, 2017

Change in net position - total enterprise funds \$ 257,915

Amounts reported for *business-type activities* in the statement
 of activities are different because:

Internal service funds are used by management to charge the costs of certain activities,
 such as insurance and other centralized costs, to individual funds. A portion
 of the operating income (loss) of the internal service funds is allocated
 to the enterprise fund and reported in the statement of activities.

Net operating income (loss) from business-type activities accounted
 for in governmental-type internal service funds (35,410)

Change in net position of business-type activities \$ 222,505

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

CITY OF HASTINGS, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2017

	Business-type Activities Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Funds
Cash flows from operating activities		
Cash received from customers	\$ 2,750,740	\$ -
Cash received for interfund services provided	-	2,001,228
Cash payments to suppliers for goods and services	(1,332,395)	(574,168)
Cash payments to employees for services	(604,830)	(1,255,735)
Net cash provided by operating activities	<u>813,515</u>	<u>171,325</u>
Cash flows from noncapital financing activities		
Transfers to other funds	(22,134)	-
State grants received	48,753	
Other nonoperating revenue received	13,365	9,759
Net cash provided by noncapital financing activities	<u>39,984</u>	<u>9,759</u>
Cash flows from capital and related financing activities		
Acquisitions of capital assets	(197,046)	(181,837)
Proceeds from sale of capital assets	-	91,249
Principal paid on long-term debt	(315,000)	-
Interest paid on long-term debt	(27,773)	-
Net cash used in capital and related financing activities	<u>(539,819)</u>	<u>(90,588)</u>
Cash flows from investing activities		
Interest received	9,139	4,849
Proceeds from sale of investments	596,977	1,500,509
Purchase of investments	(850,836)	(1,502,606)
Net cash provided by (used in) investing activities	<u>(244,720)</u>	<u>2,752</u>
Net change in cash and cash equivalents	68,960	93,248
Cash and cash equivalents, beginning of year	<u>1,290,466</u>	<u>324,431</u>
Cash and cash equivalents, end of year	<u>\$ 1,359,426</u>	<u>\$ 417,679</u>

continued...

CITY OF HASTINGS, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2017

	Business-type Activities Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ 238,746	\$ (87,126)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	530,823	302,335
Changes in assets and liabilities which provided (used) cash:		
Accounts receivable	(69,017)	120
Due from other governments	19,077	49
Inventory and prepaid items	105,840	(22,701)
Net pension liability and related deferred amounts	52,274	-
Accounts payable	(89,401)	(9,326)
Accrued liabilities and deposits	2,429	(516)
Compensated absences	3,253	(11,510)
Net other postemployment benefits obligation	19,491	-
Net cash provided by operating activities	<u>\$ 813,515</u>	<u>\$ 171,325</u>

concluded

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

CITY OF HASTINGS, MICHIGAN

Statement of Fiduciary Assets and Liabilities

Agency Funds
June 30, 2017

Assets

Cash and cash equivalents

\$ -

Liabilities

Due to other governments

\$ -

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

CITY OF HASTINGS, MICHIGAN

Combining Statement of Net Position
 Discretely Presented Component Units
 June 30, 2017

	Brownfield Redevelopment Authority	Downtown Development Authority	Local Development Finance Authority	Totals
Assets				
Cash and cash equivalents	\$ -	\$ 122,696	\$ 199,953	\$ 322,649
Receivables	-	333	-	333
Land held for resale	-	-	23,738	23,738
Total assets	-	123,029	223,691	346,720
Liabilities				
Negative equity in pooled cash	324	-	-	324
Accounts payable and accrued liabilities	379,506	-	-	379,506
Advance from primary government	-	111,865	-	111,865
Total liabilities	379,830	111,865	-	491,695
Net position				
Unrestricted (deficit)	\$ (379,830)	\$ 11,164	\$ 223,691	\$ (144,975)

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

CITY OF HASTINGS, MICHIGAN

Combining Statement of Activities Discretely Presented Component Units For the Year Ended June 30, 2017

	Brownfield Redevelopment Authority	Downtown Development Authority	Local Development Finance Authority	Totals
Expenses				
Downtown Development Authority	\$ -	\$ 332,145	\$ -	\$ 332,145
Local Development Finance Authority	-	-	842	842
Brownfield Redevelopment Authority	12,929	-	-	12,929
Total expenses	12,929	332,145	842	345,916
Program revenues				
Charges for services	-	-	165	165
Operating grants and contributions	-	10,716	1,188	11,904
Total program revenues	-	10,716	1,353	12,069
Net (expense) revenue	(12,929)	(321,429)	511	(333,847)
General revenues				
Property taxes	22,277	417,613	35,984	475,874
Change in net position	9,348	96,184	36,495	142,027
Net position, beginning of year	(389,178)	(85,020)	187,196	(287,002)
Net position, end of year	\$ (379,830)	\$ 11,164	\$ 223,691	\$ (144,975)

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

NOTES TO FINANCIAL STATEMENTS

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hastings, Michigan (the “City”) was incorporated March 11, 1871, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), public works (highways and streets), recreation and cultural, public improvements, and general administrative services.

The accounting policies of the City conform to generally accepted accounting principles. The following is a summary of the more significant policies:

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. The City has no blended component units. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City.

Discretely Presented Component Units

Downtown Development Authority - The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, to encourage historical preservation, and to promote economic growth within the downtown district. The members of the governing board of the Downtown Development Authority are appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Local Development Finance Authority - The Local Development Finance Authority (LDFA) was created to encourage local development to prevent conditions of unemployment and promote economic growth within the LDFA district. The members of the governing board of the LDFA are appointed by the City Council. The budgets and expenditures of the LDFA must be approved by the City Council and the City also has the ability to significantly influence operations.

Brownfield Redevelopment Authority - The Brownfield Redevelopment Authority (BRA) was created to facilitate the implementation of plans relating to the identification and treatment of environmentally distressed areas to promote revitalization within the Brownfield Redevelopment zone. The members of the governing board of the BRA are appointed by the City Council. The budgets and expenditures of the BRA must be approved by the City Council and the City also has the ability to significantly influence operations.

Complete financial statements for the component units are not separately prepared.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

Joint Ventures

The City of Hastings, Michigan has an equity investment in the Airport Commission (“the Commission”) (a joint venture as defined by GAAP). The Commission was formed with the Barry County Board of Commissioners through an agreement made in 1977. The Commission is run by a 5-member Board of Directors, consisting of 2 residents of Barry County (the “County”) appointed by the Barry County Board of Commissioners, 2 residents of the City of Hastings appointed by the Hastings City Council, and one member appointed by the other four. The Commission is responsible for acquisition of property, and constructing, operating, and maintaining airport facilities. Ownership of the property is vested in the City. It may exercise on behalf of the political subdivision by which it was created, all powers of each such political subdivision. It may not issue debt without approvals from the City and County.

The agreement requires that each governmental unit provide 50% of the net budget appropriation requirements and that financial record keeping be maintained by the County. During the current year, the City contributed \$0 for operations and capital improvements. The City's equity in this joint venture as of June 30, 2017 is \$2,408,754, which is recorded in the governmental activities of the City. The Commission is presented as a component unit in the County's financial statements. The financial statements can be obtained by contacting Barry County, 220 West State Street, Hastings, MI 49058.

Government-wide and Fund Financial Statements

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

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

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

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the delinquent real property taxes are paid by the County to other units of government and the County is responsible for collecting any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, intergovernmental revenue, charges for services 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 City.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for and reports on all financial resources not accounted for and reported in another fund.

The *major streets fund* accounts for funds specifically intended for the maintenance and construction of major streets. Financing is provided from Public Act 51 State Shared Gas and Weight Tax and miscellaneous service revenues.

The *library fund* is utilized to account for and report on the operations and activities related to the library and the library capital campaign. Funding is provided primarily through township contributions for participation in the library services, restricted penal fine distributions from the County, and donations from individuals.

The City reports the following major proprietary fund:

The *water and sewer fund* is used to account for the cost of providing water to City residents and collecting and treating wastewater. Revenues are chiefly from service charges to customers. These revenues are also used to pay principal and interest on revenue bonds which were used to finance improvements to the system.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

Additionally, the City reports the following fund types:

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

Internal service funds account for major machinery and equipment purchases and maintenance, as well as management services provided to other departments of the City on a cost-reimbursement basis.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the government holds for others in an agency capacity (such as taxes collected for other governments).

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

Budgets and Budgetary Accounting

Budgets are adopted for general and special revenue funds on a basis consistent with generally accepted accounting principles (GAAP). The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except trust and agency funds.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

5. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed for the year ended June 30, 2017. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Any amendments to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council.
6. Budgets for expenditures are adopted at the activity level.
7. Budgeted amounts are as originally adopted, or as amended by the City Council.

Cash and Cash Equivalents and Investments

For purposes of the statement of cash flows, the City considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents. Investments consist primarily of certificates of deposit, commercial paper, and balances in investment pools. Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. 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.

Restricted Cash and Cash Equivalents

The City reports restricted assets in connection with the library capital campaign in the library special revenue fund.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Inventory

Inventory consists of road salt, water meters, and collection/distribution system parts. Inventory is valued at cost on the first-in first-out basis.

Prepaid Items

The City incurred expenses prior to year-end for services that will be performed in the next fiscal year. In these situations, the City records an asset to reflect the investment in future services.

Land Held For Resale

The City owns several parcels of land which it intends to sell in the future. These properties are valued at historical cost plus any additional costs to maintain the properties.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated acquisition cost on the date received. The amount reported for infrastructure includes only assets added beginning in 2003.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure) of the primary government, as well as the component units, is computed using the straight-line method over the following estimated useful lives:

Assets	Years
Water distribution system	30-67
Sewage disposal system	30-67
Building and improvements	30-50
Land improvements	10-30
Machinery, equipment and vehicle	3-10

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred outflows of resources for change in expected and actual investment returns, assumptions, and benefits provided in its pension plan.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the 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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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. Bond issuance costs are expensed when incurred in both the governmental fund and government-wide financial statements.

Compensated Absences

It is the City's policy to permit employees to accumulate earned unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds as it becomes due for payments (i.e., when the time is used or employment is terminated).

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds also report unavailable revenues, which arise only under a modified accrual basis of accounting that are reported as deferred inflows of resources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also reports deferred inflows related to its defined-benefit pension plan.

Fund Equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the City Council. A formal resolution of the City Council is required to establish, modify, or rescind a fund balance commitment. The City reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund.

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 balance first, then committed, assigned, and finally unassigned.

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before August 31. These summer tax bills include the City's own property taxes and taxes billed on behalf of other units within the City limits. Real property taxes not collected are returned to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the City.

Risk Management

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

Use of 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

2. ACCOUNTABILITY AND COMPLIANCE

At June 30, 2017, the City reported deficit fund balance/net position in the Brownfield Redevelopment Authority fund of \$379,830. This deficit will be eliminated in future years as taxable values increase and the Authority is able to capture revenue on the incremental increase.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

3. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of June 30, 2017:

	Primary Government	Component Units	Totals
Statement of Net Position			
Cash and cash equivalents	\$ 1,359,426	\$ 322,649	\$ 1,682,075
Restricted cash and cash equivalents	37,152	-	37,152
Investments	3,982,474	-	3,982,474
Negative equity in pooled cash	(457,243)	(324)	(457,567)
Total	\$ 4,921,809	\$ 322,325	\$ 5,244,134
Deposits and investments			
Checking and savings accounts			\$ 879,978
Certificates of deposit (due within one year)			2,624,185
Investments			1,737,198
Petty cash			2,773
Total			\$ 5,244,134

Deposits are held in seven financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at cost. Interest is recorded when earned.

The City's investments are summarized as follows:

Investment	Maturity	Fair Value	Rating
MI Class Investment Pool	N/A	\$ 1,364,229	S&P AAAM
Commercial Paper	10/24/2017	248,681	S&P A-1
Commercial Paper	7/28/2017	124,288	S&P A1+
Total investments		\$ 1,737,198	

Investment and Deposit Risk

Interest Rate Risk. Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified under "statutory authority" below. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year-end.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the City's specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in "statutory authority" below. The City's investment policy does not allow investments in banker acceptances or mutual funds. The credit ratings on the City's investments are identified above.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, \$2,258,708 of the City's bank balance of \$3,633,708 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City minimizes custodial credit risk by limiting investments to the types of securities listed in the City's investment policy and by pre-qualifying the financial institutions, broker/dealers, intermediaries, set forth in accordance with the City's investment policy. There is no custodial credit risk to the City as all investments are held in the City's name.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the County's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk. The City minimizes concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. All investments held at year-end are reported above.

Statutory Authority

State statutes authorize the City to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

Fair Value Measurements. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Commercial paper is carried at amortized cost (which approximates fair value).

The City has the following recurring fair value measurements as of June 30, 2017:

- Michigan Cooperative Liquid Assets Securities System, with a balance of \$1,364,229, which is valued using Level 2 inputs.

4. RECEIVABLES, DEFERRED INFLOWS OF RESOURCES AND PAYABLES

Receivables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Component Units
Accounts	\$ 28,105	\$ 462,473	\$ 333
Taxes receivable	107,539	-	-
Special assessment receivable	2,557	-	-
Due from other governments	258,324	1,378	-
Allowance for uncollectibles	(104,412)	-	-
Totals	<u>\$ 292,113</u>	<u>\$ 463,851</u>	<u>\$ 333</u>

Of the amounts above, the balance reported for accounts receivable in business-type activities includes amounts to be received based on agreed-upon payment plans. The balance not expected to be collected within one year is approximately \$12,000.

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred inflows of resources reported in governmental funds were as follows:

Governmental funds	
Delinquent personal property taxes receivable	\$ 3,127
Special assessments receivable	1,290
Restitution judgments receivable	<u>11,124</u>
Totals	<u>\$ 15,541</u>

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

Payables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Component Units
Accounts	\$ 118,062	\$ 43,929	\$ 379,506
Accrued liabilities	35,303	6,594	-
Deposits	44,479	-	-
Due to other governments	5,089	-	-
Accrued interest payable	-	4,870	-
Totals	\$ 202,933	\$ 55,393	\$ 379,506

The balance reported as accounts payable for component units includes \$379,506 in the Brownfield Redevelopment Authority due to a local business as reimbursement for clean-up costs incurred on a brownfield-qualifying property. The amount is due and payable in full as of June 30, 2017, but is being repaid as property taxes are captured on the increase in taxable value. The City expects the balance to be repaid in full by the fiscal year ending June 30, 2040.

5. CAPITAL ASSETS

Changes in capital assets for the year ending June 30, 2017, are as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 1,413,822	\$ -	\$ -	\$ -	\$ 1,413,822
Construction in progress	297,633	853,601	(936)	(171,752)	978,546
	<u>1,711,455</u>	<u>853,601</u>	<u>(936)</u>	<u>(171,752)</u>	<u>2,392,368</u>
Capital assets, being depreciated:					
Land improvements	2,801,090	207,475	-	-	3,008,565
Infrastructure	7,329,998	126,752	-	-	7,456,750
Buildings & improvements	7,943,213	981,587	(100,000)	171,752	8,996,552
Machinery, equipment and vehicles	6,490,507	310,249	(542,775)	-	6,257,981
	<u>24,564,808</u>	<u>1,626,063</u>	<u>(642,775)</u>	<u>171,752</u>	<u>25,719,848</u>
Less accumulated depreciation for:					
Land improvements	(908,161)	(113,819)	-	-	(1,021,980)
Infrastructure	(1,021,009)	(251,087)	-	-	(1,272,096)
Buildings & improvements	(2,690,036)	(235,843)	47,526	-	(2,878,353)
Machinery, equipment and vehicles	(3,975,333)	(424,931)	448,744	-	(3,951,520)
	<u>(8,594,539)</u>	<u>(1,025,680)</u>	<u>496,270</u>	<u>-</u>	<u>(9,123,949)</u>
Total capital assets being depreciated, net	<u>15,970,269</u>	<u>600,383</u>	<u>(146,505)</u>	<u>171,752</u>	<u>16,595,899</u>
Governmental activities capital assets, net	<u>\$ 17,681,724</u>	<u>\$ 1,453,984</u>	<u>\$ (147,441)</u>	<u>\$ -</u>	<u>\$ 18,988,267</u>

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 99,200	\$ -	\$ -	\$ -	\$ 99,200
Construction in progress	113,349	47,434	-	(95,979)	64,804
	<u>212,549</u>	<u>47,434</u>	<u>-</u>	<u>(95,979)</u>	<u>164,004</u>
Capital assets, being depreciated:					
Water system	9,300,635	137,512	-	95,979	9,534,126
Sewer system	2,144,917	-	-	-	2,144,917
Land improvements	21,807	-	-	-	21,807
Buildings & improvements	8,523,805	-	-	-	8,523,805
Machinery and equipment	2,815,484	12,100	(1,646)	-	2,825,938
	<u>22,806,648</u>	<u>149,612</u>	<u>(1,646)</u>	<u>95,979</u>	<u>23,050,593</u>
Less accumulated depreciation for:					
Water system	(3,388,814)	(152,993)	-	-	(3,541,807)
Sewer system	(626,714)	(32,171)	-	-	(658,885)
Land improvements	(3,975)	(1,228)	-	-	(5,203)
Buildings & improvements	(4,930,830)	(187,409)	-	-	(5,118,239)
Machinery and equipment	(735,282)	(157,022)	1,532	-	(890,772)
	<u>(9,685,615)</u>	<u>(530,823)</u>	<u>1,532</u>	<u>-</u>	<u>(10,214,906)</u>
Total capital assets being depreciated, net	<u>13,121,033</u>	<u>(381,211)</u>	<u>(114)</u>	<u>95,979</u>	<u>12,835,687</u>
Business-type activities capital assets, net	<u>\$ 13,333,582</u>	<u>\$ (333,777)</u>	<u>\$ (114)</u>	<u>\$ -</u>	<u>\$ 12,999,691</u>

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

Depreciation of governmental activities by function

General government	\$ 7,214
Public safety	116,354
Public works	347,465
Recreation and cultural	252,312
Internal service funds	302,335
	<u>\$ 1,025,680</u>

Depreciation of business-type activities by function

Water and sewer	<u>\$ 530,823</u>
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At June 30, 2017, the City had outstanding construction commitments for governmental activities of approximately \$1,490,000 and for business-type activities of approximately \$510,000.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

6. INTERFUND TRANSACTIONS

An interfund balance existed between governmental activities and business-type activities in the amount of \$624,926. This resulted from the allocation of a portion of internal service fund net position of governmental-type internal service funds to business-type activities.

Due to and from primary government and component units

	Due From Component Units	Due to Primary Government
General fund	\$ 111,865	\$ -
Downtown development authority	-	111,865
	<u>111,865</u>	<u>111,865</u>
Totals	<u>\$ 111,865</u>	<u>\$ 111,865</u>

This advance was provided to finance the purchase of property and is being repaid in monthly installments of \$3,874 including interest at a rate of 3%. The balance is expected to be repaid by December 2019.

For the year ended June 30, 2017, interfund transfers consisted of the following:

Transfers In	Transfers Out		Totals
	General Fund	Water and Sewer	
General fund	\$ -	\$ 22,134	22,134
Library	293,810	-	293,810
Nonmajor governmental funds	205,944	-	205,944
	<u>499,754</u>	<u>22,134</u>	<u>521,888</u>
Totals	<u>\$ 499,754</u>	<u>\$ 22,134</u>	<u>\$ 521,888</u>

Transfers are used to: (1) move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

7. LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental activities					
Compensated absences	\$ 267,012	\$ 197,149	\$ (198,088)	\$ 266,073	\$ 194,165
Business-type activities					
2006 Refunding revenue bonds payable through 2017 with interest varying from 3.8% to 4.0%	\$ 265,000	\$ -	\$ (265,000)	\$ -	\$ -
2013 Clean water revolving fund loan payable through 2034 with interest at 2.0%	1,023,853	-	(50,000)	973,853	50,000
Total installment debt	1,288,853	-	(315,000)	973,853	50,000
Unamortized discount	(3,874)	-	3,874	-	-
Compensated absences	14,339	16,339	(13,086)	17,592	7,433
Total business-type activities	\$ 1,299,318	\$ 16,339	\$ (324,212)	\$ 991,445	\$ 57,433

Compensated absences of governmental activities are generally liquidated by the general fund or administrative services internal service fund.

The annual requirements, excluding compensated absences and unamortized discounts, to maturity on the total long-term obligations outstanding at June 30, 2017 are as follows:

Year Ended June 30,	Business-type Activities	
	Principal	Interest
2018	\$ 50,000	\$ 19,477
2019	50,000	18,477
2020	50,000	17,477
2021	50,000	16,477
2022	50,000	15,477
2023-2027	280,000	61,385
2028-2032	310,000	32,285
2033-2034	133,853	4,054
Totals	\$ 973,853	\$ 185,109

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

8. FUND BALANCES - GOVERNMENTAL FUNDS

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies fund balances based primarily on the extent to which it is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Major Streets	Library Fund	Nonmajor Governmental Funds	Total
Nonspendable					
Prepaid items	\$ 15,000	\$ -	\$ -	\$ -	\$ 15,000
Land held for resale	505,308	-	-	-	505,308
Advance to component unit	111,865	-	-	-	111,865
Total nonspendable	632,173	-	-	-	632,173
Restricted					
Building exterior revolving loan program	100,947	-	-	-	100,947
Tangle Town play area	5,966	-	-	-	5,966
Major and local streets	-	191,059	-	67,997	259,056
D.A.R.E.	-	-	-	11,875	11,875
Drug enforcement	-	-	-	30,385	30,385
Capital improvements	-	-	185,294	-	185,294
Cemetery operations	-	-	-	16,106	16,106
Total restricted	106,913	191,059	185,294	126,363	609,629
Committed					
Library services	-	-	173,920	-	173,920
Assigned					
Police training	-	-	-	637	637
Unassigned					
	1,268,714	-	-	-	1,268,714
Total fund balances - governmental funds	\$ 2,007,800	\$ 191,059	\$ 359,214	\$ 127,000	\$ 2,685,073

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

9. NET INVESTMENT IN CAPITAL ASSETS

The composition of the City's net investment in capital assets as of June 30, 2017, was as follows:

	Governmental Activities	Business-type Activities
Capital assets:		
Capital assets not being depreciated	\$ 2,392,368	\$ 164,004
Capital assets being depreciated, net	<u>16,595,899</u>	<u>12,835,687</u>
	18,988,267	12,999,691
Related debt:		
Bonds payable	<u>-</u>	<u>973,853</u>
Net investment in capital assets	<u>\$ 18,988,267</u>	<u>\$ 12,025,838</u>

10. DEFINED BENEFIT PENSION PLAN

General Information About the Plan

Plan Description. The City participates in the Municipal Employees' Retirement System (MERS) of Michigan, a defined benefit pension plan that provides certain retirement, disability and death benefits to plan members and beneficiaries. MERS is an agent multiple-employer, state-wide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided. Pension benefits vary by division and are calculated as final average compensation (based on 5 years and 3 years for defined benefit and hybrid divisions, respectively) and a multiplier ranging from 1.0% to 2.5%. Participants are fully vested in the plan after 10 years for defined benefit divisions and 6 years for hybrid divisions. Normal retirement age is 60 with early retirement at age 50 with 25 years of service or age 55 with 15 years of service. Member contributions range from 0% to 3.40% of covered wages as presented in the table below.

Employees Covered by Benefit Terms. At December 31, 2016 valuation date, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	72
Inactive employees entitled to but not yet receiving benefits	15
Active employees	<u>57</u>
Total membership	<u>144</u>

Contributions. The City is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

Employer contributions are expressed as a percentage of payroll for open divisions and as a fixed monthly amount for closed divisions as summarized in the following table:

Division	Plan Type	Status	Employer Contribution Rate	Employee Contribution Rate
General	Defined Benefit	Closed	\$ 21,868	0.00%
Police	Defined Benefit	Closed	10,277	1.56%
Fire full-time	Defined Benefit	Closed	2,586	0.00%
DPW	Defined Benefit	Closed	10,828	0.00%
Fire volunteer	Defined Benefit	Closed	-	3.40%
City Council	Defined Benefit	Open	49.53%	0.00%
DPW	Hybrid	Open	4.37%	0.00%
General	Hybrid	Open	4.70%	0.00%
Fire full-time	Hybrid	Open	0.00%	0.00%
Police	Hybrid	Open	4.55%	0.00%

Net Pension Liability. The City's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation

Although no explicit price inflation assumption is used in the valuation, the long-term annual rate of price inflation implicit in the 3.75% base wage inflation is 2.50%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of the most recent actuarial experience study of 2009-2013.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	57.50%	5.02%	2.89%
Global fixed income	20.00%	2.18%	0.44%
Real assets	12.50%	4.23%	0.51%
Diversifying strategies	10.00%	6.56%	0.66%
	<u>100.00%</u>		
Inflation			3.25%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u>8.00%</u>

Discount Rate. The discount rate used to measure the total pension liability is 8.00% for 2016. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

Changes in Net Pension Liability

The components of the change in the net pension liability are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2015	\$ 15,700,628	\$ 7,604,882	\$ 8,095,746
Changes for the year:			
Service cost	149,861	-	149,861
Interest	1,215,477	-	1,215,477
Differences between expected and actual experience	66,455	-	66,455
Employer contributions	-	717,651	(717,651)
Employee contributions	-	5,649	(5,649)
Net investment income	-	834,716	(834,716)
Benefit payments, including refunds of employee contributions	(1,164,203)	(1,164,203)	-
Administrative expense	-	(16,520)	16,520
Net changes	<u>267,590</u>	<u>377,293</u>	<u>(109,703)</u>
Balances at December 31, 2016	<u>\$ 15,968,218</u>	<u>\$ 7,982,175</u>	<u>\$ 7,986,043</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the City, calculated using the discount rate of 8.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.0%) or 1% higher (9.0%) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
City's net pension liability	\$ 9,578,690	\$ 7,986,043	\$ 6,621,624

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial statements.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the City recognized pension expense of \$1,076,522. The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ 49,841	\$ 88,404	\$ (38,563)
Changes in assumptions	363,754	-	363,754
Net difference between projected and actual earnings on pension plan investments	329,174	-	329,174
	<u>742,769</u>	<u>88,404</u>	<u>654,365</u>
Contributions subsequent to the measurement date	297,193	-	297,193
	<u>297,193</u>	<u>-</u>	<u>297,193</u>
Total	<u>\$ 1,039,962</u>	<u>\$ 88,404</u>	<u>\$ 951,558</u>

The amount of deferred outflows of resources related to City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as pension-related deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2018	\$ 290,407
2019	290,407
2020	122,477
2021	<u>(48,926)</u>
Total	<u>\$ 654,365</u>

Payable to the Pension Plan. At June 30, 2017, the City reported a payable of \$49,877 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

11. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The City of Hastings Post-retirement Medical Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the City of Hastings. The Plan provides certain health care benefits, in accordance with union agreements and/or personnel policies, to employees who have retired. At December 31, 2015, the date of the most recent actuarial valuation, the plan had 71 members (46 retirees and 25 active employees).

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

Funding Policy

The contribution requirements of Plan members and the City are established and may be amended by the City Council. The required contribution is based on projected pay-as-you go financing requirements. For the year ended June 30, 2017, the City contributed \$604,471 to the Plan. Payments of \$454,471 were made to fund current year benefits. An additional payment of \$150,000 was made to the MERS retiree health funding vehicle to advance-fund future benefits. The amounts held in trust are legally restricted for the payment of postemployment benefits for qualifying retirees. Since the investment in trust are being actively managed by MERS, the assets do not meet the criteria for recognition in the accompanying financial statements. Retirees receiving benefits contributed \$36,784 through their required contribution of 10% to 50% of premiums, based on years of service at retirement.

Annual OPEB Cost and Net Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's net OPEB obligation:

Annual required contribution	\$ 820,520
Interest on net OPEB obligation	136,696
Adjustment to annual required contribution	<u>(224,091)</u>
Net OPEB cost (expense)	733,125
Contributions made	<u>(604,471)</u>
Increase in net OPEB obligation	128,654
Net OPEB obligation, beginning of year	<u>3,417,394</u>
Net OPEB obligation, end of year	<u><u>\$ 3,546,048</u></u>

The net OPEB obligation is presented in the government-wide statement of net position as follows:

Governmental activities	\$ 2,949,503
Business-type activities	<u>596,545</u>
Total net OPEB obligation	<u><u>\$ 3,546,048</u></u>

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

Three-Year Trend Information			
Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 889,903	55%	\$ 3,226,689
2016	724,444	74%	3,417,394
2017	733,125	82%	3,546,048

Funded Status and Funding Progress

As of December 31, 2015, the most recent actuarial valuation date, the Plan was 2.2% funded. The actuarial accrued liability for benefits was \$10,019,025, and the City had a market value of assets of \$218,223 in trust for future OPEB obligations, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,800,802. Subsequent to the date of the actuarial valuation, the City has made additional contributions to the trust fund. The balance in trust at June 30, 2017 was \$536,418. Covered payroll is not a relevant measure of the plan's funded status as the projected unit credit amortization method is being utilized. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the December 31, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions includes: (a) a rate of return on investments of 4.0%; (b) projected salary increases of 5.0% attributable to inflation; and (c) projected healthcare benefit increases of 8.0% graded down to 5.0% over four years. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized using the level dollar method on a closed basis. The remaining amortization period at December 31, 2015, the date of the most recent valuation, was 24 years.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

12. COMMUNITY FOUNDATION

The Barry Community Foundation (the "Foundation") maintains two separate funds (Riverside Cemetery and Paul & Rosellen Siegel Fund for the Hastings Public Library) which have not been included in the accompanying financial statements. Earnings on the endowments can be obtained and expended by the City upon request by the City Council and approval by the Foundation. The principal of the Cemetery fund may be obtained by the City only by court order and with approval by the Cemetery Commissioner of the State of Michigan. At June 30, 2017, the balances of the Cemetery and Library funds held by the Barry Community Foundation were \$898,797 and \$401,846, respectively, including spendable amounts of \$121,605 and \$992, respectively.

13. LITIGATION

In the normal course of its activities, the City has become a party in various legal actions, including property tax assessment appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City and, therefore, has not reflected loss reserves in the financial statements.

14. TAX ABATEMENTS

The City provides tax abatements under two different programs:

- Industrial property tax abatements are granted in the State of Michigan under Public Act 198 to promote economic development, creation of jobs, and new or improved facilities. The *Industrial Facilities Tax (IFT) Exemption* must be approved by both the City (after a public hearing is held) and the State of Michigan. IFT exemptions can cover real and/or personal property. By State law, the exemption must be applied for no later than six months after commencement of the project and must be accompanied by a written agreement between the taxpayer and the local unit. An exemption allows for taxation on IFT property at 50% of the local property tax millage rate for up to 12 years. A certificate may be revoked and taxes recaptured for noncompliance with the terms of the agreement. Property taxes abated by the City under this program for fiscal year 2017 amounted to \$17,388.
- The City encourages environmental cleanup and economic development through its *Brownfield Redevelopment Plan* under Public Act 318. A developer performed remediation activities at a site that was obsolete or blighted. The increased tax revenues resulting from the increase in taxable value are captured by the City and used to repay the developer for qualifying expenses. There is no provision for recovery of abated taxes because the developer is only paid for eligible expenses on a reimbursement-basis. Property taxes abated by the City under this program for fiscal year 2017 amounted to \$7,350.



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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HASTINGS, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Changes in the City's Net Pension Liability and Related Ratios

	Year Ended June 30,		
	2017	2016	2015
Total pension liability			
Service cost	\$ 149,861	\$ 156,822	\$ 166,909
Interest	1,215,477	1,192,492	1,175,920
Differences between expected and actual experience	66,455	(176,810)	-
Changes of assumptions	-	727,510	-
Benefit payments, including refunds of employee contributions	(1,164,203)	(1,150,859)	(1,122,957)
Net change in total pension liability	<u>267,590</u>	<u>749,155</u>	<u>219,872</u>
Total pension liability, beginning of year	<u>15,700,628</u>	<u>14,951,473</u>	<u>14,731,601</u>
Total pension liability, end of year	<u>15,968,218</u>	<u>15,700,628</u>	<u>14,951,473</u>
Plan fiduciary net position			
Employer contributions	717,651	633,390	598,213
Employee contributions	5,649	7,266	8,466
Net investment income (loss)	834,716	(115,260)	509,219
Benefit payments, including refunds of employee contributions	(1,164,203)	(1,150,859)	(1,122,957)
Administrative expense	(16,520)	(17,437)	(18,563)
Net change in plan fiduciary net position	<u>377,293</u>	<u>(642,900)</u>	<u>(25,622)</u>
Plan fiduciary net position, beginning of year	<u>7,604,882</u>	<u>8,247,782</u>	<u>8,273,404</u>
Plan fiduciary net position, end of year	<u>7,982,175</u>	<u>7,604,882</u>	<u>8,247,782</u>
City's net pension liability	<u>\$ 7,986,043</u>	<u>\$ 8,095,746</u>	<u>\$ 6,703,691</u>
Plan fiduciary net position as a percentage of total pension liability	49.99%	48.44%	55.16%
Covered payroll	\$ 2,186,822	\$ 2,137,801	\$ 2,251,414
City's net pension liability as a percentage of covered payroll	365.19%	378.70%	297.75%

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF HASTINGS, MICHIGAN

Required Supplementary Information
 MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of the Net Pension Liability

Fiscal Year Ended June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered Payroll	Net Pension Liability as Percentage of Covered Payroll
2017	\$ 15,968,218	\$ 7,982,175	\$ 7,986,043	49.99%	\$ 2,186,822	365.19%
2016	15,700,628	7,604,882	8,095,746	48.44%	2,137,801	378.70%
2015	14,951,473	8,247,782	6,703,691	55.16%	2,251,414	297.75%

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF HASTINGS, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Contributions

Fiscal Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2017	\$ 567,651	\$ 717,651	\$ (150,000)	\$ 2,242,387	32.00%
2016	544,754	654,754	(110,000)	2,327,398	28.13%
2015	507,242	617,242	(110,000)	2,238,967	27.57%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated as of the December 31 that is 18 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates (2017, based on the 12/31/2014 actuarial valuation):

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, open
Remaining amortization period	24 years
Asset valuation method	Open; 10-year smooth market
Inflation	3.0% to 4.0%
Salary increases	4.5% in the long-term (2.0% and 3.0% for calendars years 2015 and 2016, respectively)
Investment rate of return	8.0%, net of investment and administrative expense including inflation
Retirement age	Age-based table of rates that are specific to the type of eligibility condition. The Normal Retirement rates were first used for the December 31, 2009 actuarial valuations. The Early Retirement rates were first used for the December 31, 2011 actuarial valuations.
Mortality	1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

CITY OF HASTINGS, MICHIGAN

Required Supplementary Information

Single-Employer Defined Benefit Other Postemployment Benefits Plan

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2011	\$ -	\$ 10,195,863	\$ 10,195,863	0.0%	*	*
12/31/2013	-	11,705,719	11,705,719	0.0%	*	*
12/31/2015	218,223	10,019,025	9,800,802	2.2%	*	*

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contributions	Percentage Contributed
2015	\$ 957,872	51.5%
2016	806,962	66.1%
2017	820,520	73.7%

* The plan is valued using the project unit credit method. As such, covered payroll is not a relevant measure of funded status.

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**COMBINING AND INDIVIDUAL FUND FINANCIAL
STATEMENTS AND SCHEDULES**

CITY OF HASTINGS, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2017

	Special Revenue		
	Local Streets	Cemetery	Drug Enforcement
Assets			
Cash and cash equivalents	\$ 35,365	\$ 32,529	\$ 30,385
Due from other governments	36,560	-	-
Total assets	<u>\$ 71,925</u>	<u>\$ 32,529</u>	<u>\$ 30,385</u>
Liabilities			
Accounts payable	\$ 3,078	\$ 16,333	\$ -
Accrued liabilities	850	90	-
Total liabilities	<u>3,928</u>	<u>16,423</u>	<u>-</u>
Fund balances			
Restricted	67,997	16,106	30,385
Assigned	-	-	-
Total fund balances	<u>67,997</u>	<u>16,106</u>	<u>30,385</u>
Total liabilities and fund balances	<u>\$ 71,925</u>	<u>\$ 32,529</u>	<u>\$ 30,385</u>



Special Revenue		
Police Training	D.A.R.E.	Totals
\$ 637	\$ 11,875	\$ 110,791
-	-	36,560
<u>\$ 637</u>	<u>\$ 11,875</u>	<u>\$ 147,351</u>
\$ -	\$ -	\$ 19,411
-	-	940
<u>-</u>	<u>-</u>	<u>20,351</u>
-	11,875	126,363
<u>637</u>	<u>-</u>	<u>637</u>
<u>637</u>	<u>11,875</u>	<u>127,000</u>
<u>\$ 637</u>	<u>\$ 11,875</u>	<u>\$ 147,351</u>

CITY OF HASTINGS, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Governmental Funds
 For the Year Ended June 30, 2017

	Special Revenue		
	Local Streets	Cemetery	Drug Enforcement
Revenues			
Taxes	\$ -	\$ 124,056	\$ -
Intergovernmental - State	216,617	-	-
Charges for services	-	16,624	-
Fines and forfeitures	-	-	1,286
Contributions and donations	-	58,476	-
Interest	490	156	57
Other	226	-	-
Total revenues	217,333	199,312	1,343
Expenditures			
Current:			
General government	-	186,258	-
Public safety	-	-	306
Public works	388,733	-	-
Total expenditures	388,733	186,258	306
Revenues over (under) expenditures	(171,400)	13,054	1,037
Other financing sources			
Transfers in	202,944	-	-
Net changes in fund balances	31,544	13,054	1,037
Fund balances, beginning of year	36,453	3,052	29,348
Fund balances, end of year	\$ 67,997	\$ 16,106	\$ 30,385



Special Revenue		
Police Training	D.A.R.E.	Totals
\$ -	\$ -	\$ 124,056
2,326	-	218,943
-	-	16,624
-	-	1,286
-	-	58,476
-	24	727
-	-	226
<u>2,326</u>	<u>24</u>	<u>420,338</u>
-	-	186,258
4,689	-	4,995
-	-	388,733
<u>4,689</u>	<u>-</u>	<u>579,986</u>
(2,363)	24	(159,648)
<u>3,000</u>	<u>-</u>	<u>205,944</u>
637	24	46,296
-	11,851	80,704
<u>\$ 637</u>	<u>\$ 11,875</u>	<u>\$ 127,000</u>

CITY OF HASTINGS, MICHIGAN

Schedule of Revenues, Expenditures and Change in Fund Balance
 Budget and Actual - Local Streets Special Revenue Fund
 For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Special assessments	\$ 4,000	\$ 700	\$ -	\$ (700)
Intergovernmental:				
Federal	361,058	361,058	-	(361,058)
State	218,766	256,234	216,617	(39,617)
Interest	100	100	490	390
Other	-	-	226	226
Total revenues	583,924	618,092	217,333	(400,759)
Expenditures				
Current - public works:				
Routine maintenance	368,557	386,982	310,086	(76,896)
Construction	420,483	460,506	78,647	(381,859)
Total expenditures	789,040	847,488	388,733	(458,755)
Revenues over (under) expenditures	(205,116)	(229,396)	(171,400)	57,996
Other financing sources				
Transfers in	167,644	202,944	202,944	-
Net change in fund balance	(37,472)	(26,452)	31,544	57,996
Fund balance, beginning of year	47,472	36,453	36,453	-
Fund balance, end of year	\$ 10,000	\$ 10,001	\$ 67,997	\$ 57,996

CITY OF HASTINGS, MICHIGAN

Schedule of Revenues, Expenditures and Change in Fund Balance
 Budget and Actual - Cemetery Special Revenue Fund
 For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	\$ 126,162	\$ 126,162	\$ 124,056	\$ (2,106)
Charges for services	20,000	20,000	16,624	(3,376)
Contributions and donations	64,500	122,976	58,476	(64,500)
Interest	100	100	156	56
Total revenues	210,762	269,238	199,312	(69,926)
Expenditures				
Current - general government	216,386	239,386	186,258	(53,128)
Net change in fund balance	(5,624)	29,852	13,054	(16,798)
Fund balance, beginning of year	41,989	3,052	3,052	-
Fund balance, end of year	\$ 36,365	\$ 32,904	\$ 16,106	\$ (16,798)

CITY OF HASTINGS, MICHIGAN

Schedule of Revenues, Expenditures and Change in Fund Balance
 Budget and Actual - Drug Enforcement Special Revenue Fund
 For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Fines and forfeitures	\$ 200	\$ 200	\$ 1,286	\$ 1,086
Interest	40	40	57	17
Total revenues	240	240	1,343	1,103
Expenditures				
Current - public safety	5,350	5,350	306	(5,044)
Net change in fund balance	(5,110)	(5,110)	1,037	6,147
Fund balance, beginning of year	29,348	29,348	29,348	-
Fund balance, end of year	\$ 24,238	\$ 24,238	\$ 30,385	\$ 6,147

CITY OF HASTINGS, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual - Police Training Special Revenue Fund
 For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Intergovernmental - State	\$ 2,100	\$ 2,100	\$ 2,326	\$ 226
Expenditures				
Current - public safety:				
Police training	5,100	5,100	4,689	(411)
Revenues over (under) expenditures	(3,000)	(3,000)	(2,363)	637
Other financing sources				
Transfers in	3,000	3,000	3,000	-
Net changes in fund balance	-	-	637	637
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ 637	\$ 637

CITY OF HASTINGS, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual - D.A.R.E. Special Revenue Fund
 For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Interest	\$ 20	\$ 20	\$ 24	\$ 4
Net changes in fund balance	20	20	24	4
Fund balance, beginning of year	11,851	11,851	11,851	-
Fund balance, end of year	\$ 11,871	\$ 11,871	\$ 11,875	\$ 4

INTERNAL SERVICE FUNDS

CITY OF HASTINGS, MICHIGAN

Combining Statement of Net Position

Internal Service Funds
June 30, 2017

	Equipment Pool	Administrative Services	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 205,882	\$ 211,797	\$ 417,679
Investments	252,606	375,000	627,606
Due from other governments	716	-	716
Inventory	24,983	-	24,983
Prepaid items	-	85,814	85,814
Total current assets	<u>484,187</u>	<u>672,611</u>	<u>1,156,798</u>
Noncurrent assets:			
Capital assets not being depreciated	104,700	152,000	256,700
Capital assets being depreciated, net	1,406,583	1,256,394	2,662,977
Total noncurrent assets	<u>1,511,283</u>	<u>1,408,394</u>	<u>2,919,677</u>
Total assets	<u>1,995,470</u>	<u>2,081,005</u>	<u>4,076,475</u>
Liabilities			
Current liabilities:			
Accounts payable	2,690	54,893	57,583
Accrued liabilities	493	5,639	6,132
Current portion of long-term debt	4,202	33,283	37,485
Total current liabilities	<u>7,385</u>	<u>93,815</u>	<u>101,200</u>
Long-term liabilities:			
Long-term debt, net of current portion	<u>3,598</u>	<u>21,549</u>	<u>25,147</u>
Total liabilities	<u>10,983</u>	<u>115,364</u>	<u>126,347</u>
Net position			
Investment in capital assets	1,511,283	1,408,394	2,919,677
Unrestricted	473,204	557,247	1,030,451
Total net position	<u>\$ 1,984,487</u>	<u>\$ 1,965,641</u>	<u>\$ 3,950,128</u>

CITY OF HASTINGS, MICHIGAN

Combining Statement of Revenues, Expenses and Changes in Fund Net Position

Internal Service Funds

For the Year Ended June 30, 2017

	Equipment Pool	Administrative Services	Total
Operating revenues			
Charges for services	\$ 546,739	\$ 1,454,320	\$ 2,001,059
Operating expenses			
Personnel services	83,814	1,159,895	1,243,709
Professional and contractual services	3,222	169,537	172,759
Materials and supplies	140,362	34,513	174,875
Utilities	16,151	28,460	44,611
Repairs and maintenance	26,629	23,895	50,524
Insurance and bonds	16,559	26,816	43,375
Equipment rental	11,689	10,392	22,081
Depreciation	198,456	103,879	302,335
Administrative services	29,863	-	29,863
Miscellaneous	2,622	1,431	4,053
Total operating expenses	529,367	1,558,818	2,088,185
Operating income (loss)	17,372	(104,498)	(87,126)
Nonoperating revenues			
Interest income	2,389	2,460	4,849
Gain on sale of capital assets	19,877	-	19,877
Miscellaneous revenue	3,310	6,449	9,759
Total nonoperating revenues	25,576	8,909	34,485
Changes in net position	42,948	(95,589)	(52,641)
Net position, beginning of year	1,941,539	2,061,230	4,002,769
Net position, end of year	\$ 1,984,487	\$ 1,965,641	\$ 3,950,128

CITY OF HASTINGS, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2017

	Equipment Pool	Administrative Services	Total
Cash flows from operating activities			
Cash received from other funds	\$ 546,227	\$ 1,455,001	\$ 2,001,228
Cash payments to suppliers for goods and services	(247,247)	(326,921)	(574,168)
Cash payments to employees for services	(82,567)	(1,173,168)	(1,255,735)
Net cash provided by (used in) operating activities	216,413	(45,088)	171,325
Cash flows from noncapital financing activities			
Nonoperating revenue received	3,310	6,449	9,759
Cash flows from capital and related financing activities			
Acquisitions of capital assets	(179,805)	(2,032)	(181,837)
Proceeds from sale of capital assets	91,249	-	91,249
Net cash used in capital and related financing activities	(88,556)	(2,032)	(90,588)
Cash flows from investing activities			
Interest received	2,389	2,460	4,849
Proceeds from sale of investments	250,509	1,250,000	1,500,509
Purchase of investments	(252,606)	(1,250,000)	(1,502,606)
Net cash provided by investing activities	292	2,460	2,752
Net change in cash and cash equivalents	131,459	(38,211)	93,248
Cash and cash equivalents, beginning of year	74,423	250,008	324,431
Cash and cash equivalents, end of year	\$ 205,882	\$ 211,797	\$ 417,679

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CITY OF HASTINGS, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2017

	Equipment Pool	Administrative Services	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ 17,372	\$ (104,498)	\$ (87,126)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	198,456	103,879	302,335
Changes in assets and liabilities which provided (used) cash:			
Accounts receivable	-	120	120
Due from other governments	(512)	561	49
Inventory and prepaid items	-	(22,701)	(22,701)
Accounts payable	(150)	(9,176)	(9,326)
Accrued liabilities	(181)	(335)	(516)
Compensated absences	1,428	(12,938)	(11,510)
Net cash provided by (used in) operating activities	<u>\$ 216,413</u>	<u>\$ (45,088)</u>	<u>\$ 171,325</u>

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FIDUCIARY FUNDS

CITY OF HASTINGS, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds
 June 30, 2017

	Tax Collections	DPS Distribution Fund	Total
Assets			
Cash and cash equivalents	\$ -	\$ -	\$ -
Liabilities			
Due to other governments	\$ -	\$ -	\$ -

CITY OF HASTINGS, MICHIGAN

Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds

For the Year Ended June 30, 2017

	July 1, 2016	Additions	Deletions	June 30, 2017
<i>Tax Collections</i>				
Assets				
Cash and cash equivalents	\$ 9,482	\$ 9,383,599	\$ (9,393,081)	\$ -
Liabilities				
Due to other governments	\$ 9,482	\$ 9,383,599	\$ (9,393,081)	\$ -
<i>DPS Distribution Fund</i>				
Assets				
Cash and cash equivalents	\$ 2,033	\$ 228,090	\$ (230,123)	\$ -
Liabilities				
Due to other governments	\$ 782	\$ 34,295	\$ (35,077)	\$ -
Accrued liabilities	1,251	193,795	(195,046)	-
Total liabilities	\$ 2,033	\$ 228,090	\$ (230,123)	\$ -
<i>Total Agency Funds</i>				
Assets				
Cash and cash equivalents	\$ 11,515	\$ 9,611,689	\$ (9,623,204)	\$ -
Liabilities				
Due to other governments	\$ 10,264	\$ 9,417,894	\$ (9,428,158)	\$ -
Accrued liabilities	1,251	193,795	(195,046)	-
Total liabilities	\$ 11,515	\$ 9,611,689	\$ (9,623,204)	\$ -

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COMPONENT UNITS

CITY OF HASTINGS, MICHIGAN

Balance Sheet

Governmental Fund
 Brownfield Redevelopment Authority Component Unit
 June 30, 2017

	Governmental Fund
Liabilities	
Negative equity in pooled cash	\$ 324
Accounts payable	<u>379,506</u>
Total liabilities	379,830
Fund balance	
Unassigned (deficit)	<u>(379,830)</u>
Total liabilities and fund balance	<u><u>\$ -</u></u>

CITY OF HASTINGS, MICHIGAN

Statement Revenues, Expenditures and Change in Fund Balance

Governmental Fund
 Brownfield Redevelopment Authority Component Unit
 For the Year Ended June 30, 2017

	Governmental Fund
Revenues	
Taxes	\$ 22,277
Expenditures	
Administrative services	<u>12,929</u>
Change in fund balance	9,348
Fund balance (deficit), beginning of year	<u>(389,178)</u>
Fund balance (deficit), end of year	<u><u>\$ (379,830)</u></u>

CITY OF HASTINGS, MICHIGAN

Balance Sheet

Governmental Fund
 Downtown Development Authority Component Unit
 June 30, 2017

	Governmental Fund
Assets	
Cash and cash equivalents	\$ 122,696
Accounts receivable	333
	<hr/>
Total assets	<u>\$ 123,029</u>
Liabilities	
Advance from primary government	\$ 111,865
Fund balance	
Unassigned	11,164
	<hr/>
Total liabilities and fund balance	<u>\$ 123,029</u>

CITY OF HASTINGS, MICHIGAN

Statement Revenues, Expenditures and Change in Fund Balance

Governmental Fund

Downtown Development Authority Component Unit

For the Year Ended June 30, 2017

	Governmental Fund
Revenues	
Taxes	\$ 417,613
Contributions and donations	10,401
Interest	315
	<hr/>
Total revenues	428,329
	<hr/>
Expenditures	
Contributions to primary government	201,221
Capital outlay	81,004
Interest expense	4,048
Other	45,872
	<hr/>
Total expenditures	332,145
	<hr/>
Change in fund balance	96,184
	<hr/>
Fund balance (deficit), beginning of year	(85,020)
	<hr/>
Fund balance, end of year	<u>\$ 11,164</u>

CITY OF HASTINGS, MICHIGAN

Balance Sheet

Governmental Fund
 Local Development Finance Authority Component Unit
 June 30, 2017

	Governmental Fund
Assets	
Cash and cash equivalents	\$ 199,953
Land held for resale	23,738
	<hr/>
Total assets	\$ 223,691
	<hr/> <hr/>
Fund balance	
Nonspendable	\$ 23,738
Unassigned	199,953
	<hr/>
Total fund balance	\$ 223,691
	<hr/> <hr/>

CITY OF HASTINGS, MICHIGAN

Statement Revenues, Expenditures and Change in Fund Balance

Governmental Fund

Local Development Finance Authority Component Unit

For the Year Ended June 30, 2017

	Governmental Fund
Revenues	
Taxes	\$ 35,984
Charges for services	165
Interest	<u>1,188</u>
Total revenues	37,337
Expenditures	
Capital outlay	<u>842</u>
Change in fund balance	36,495
Fund balance, beginning of year	<u>187,196</u>
Fund balance, end of year	<u><u>\$ 223,691</u></u>

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INTERNAL CONTROL AND COMPLIANCE

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INDEPENDENT AUDITORS' 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*

Month xx, 2017

City Council
City of Hastings, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Hastings, Michigan* (the "City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated **Month xx, 2017**.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2017-001 to be a material weakness.

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 described in the accompanying schedule of findings and responses as item 2017-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Hastings's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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.

CITY OF HASTINGS, MICHIGAN

Schedule of Findings and Responses For the Year Ended June 30, 2017

2017-001 - Segregation of Incompatible Duties

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the City's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept given the government's unique circumstances. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction.

Condition. We identified the following deficiencies in the design of internal controls and segregation of incompatible accounting duties:

- A single individual inputs invoices, processes accounts payable batches and prints checks with digitally-applied signatures. Management is reviewing the check register, but not verifying check sequence to ensure that the file provided for review is complete.
- A single individual is responsible for setting up new employees, entering timesheet data, inputting and adjusting benefits, and printing checks with digitally-applied signatures. Management was reviewing a report of total hours and total gross pay by employee, but it did not include check numbers to verify check sequence, nor did it include net pay to compare against the direct deposit and manual check totals.
- Cash registers are not assigned to individual, password-protected accounts. The individual that prepares the bank deposit also delivers the deposit to the bank, posts journal entries, and has periodic cash receipting duties.
- The utility billing register is not subject to independent review and approval.
- User rights for finance-related applications are not reviewed and employee access is not consistently limited based on the need for assigned job functions. Multiple users have full administrative rights in the software.
- The general ledger allows for modification or deletion of transactions after posting. An "audit trail" report of such transactions is available but not being reviewed.

Cause. This condition was caused primarily by staffing changes and misrepresentations from a former employee on the availability of supporting documentation that would have allowed for independent review and approval.

Effect. As a result of this condition, the City is exposed to an increased risk that misstatements (whether caused by error or fraud) might occur and not be detected by management on a timely basis.

Recommendation. While there are no easy answers to the challenge of balancing costs and benefits of internal control and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management as possible. Our recommendations for the control deficiencies noted in the condition include:

- Verification of the check sequence by the individual approving accounts payable and payroll checks.
- Independent review of the payroll register including pay rate, hours worked, gross pay, and net pay.
- Eliminate the ability to modify or delete transactions in the general ledger (or independent review and approval of the "audit trail" report on a regular basis by an individual without primary general ledger responsibilities).

CITY OF HASTINGS, MICHIGAN

Schedule of Findings and Responses For the Year Ended June 30, 2017

2017-001 - Segregation of Incompatible Duties (Concluded)

- Periodic review and adjustment of IT access rights by employee to ensure access is only provided to information necessary for the job function.
- Assign cash registers to an individual, password-protected account and ensure that receipts are processed only by the assigned user.
- Eliminate the Deputy Treasurer's responsibility to perform cash receipting functions to allow for an independent comparison of cash receipts in the general ledger to cash on hand in the registers.
- Review of utility billing or usage reports to identify inconsistencies.
- Segregate the responsibility for inputting accounts payable invoices, generating checks, and approving checks for payment.

View of Responsible Officials. Subsequent to year-end, the City made internal control improvements that address many of the items noted in the condition above. The City has contracted with a local CPA firm for accounting oversight and will continue to work with this firm and the auditors to make further improvements.

CITY OF HASTINGS, MICHIGAN

Schedule of Findings and Responses For the Year Ended June 30, 2017

2017-002 - Significant Audit Adjustments

Finding Type. Significant Deficiency in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. There were a variety of adjustments identified throughout the audit process (some identified internally and others by the auditors), which had a significant (but not material) effect on the financial statements. These adjustments involved many balance sheet accounts and all opinion units.

Cause. This condition was the result of staffing turnover during the year under audit and unexpected events that delayed year-end close and audit preparation.

Effect. As a result of this condition, the City's accounting records were initially misstated by amounts that were significant (but not material) to the financial statements.

Recommendation. Management has already taken appropriate corrective action by posting correcting journal entries. We recommend that the City continue its relationship with a contracted CPA firm to ensure that all general ledgers are reconciled to subsidiary detail on an ongoing basis.

View of Responsible Officials. The City agrees with the audit finding of fact. This oversight occurred due to change in City staff. This situation will call additional attention to the need for careful training and more careful review during staff transitions. We will commit to such additional effort and care, and have contracted with a local CPA firm for accounting oversight.

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