

City of Hastings,
Michigan



Year Ended
June 30, 2018

Financial
Statements

CITY OF HASTINGS, MICHIGAN

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	18
Statement of Activities	19
Fund Financial Statements:	
Balance Sheet - Governmental Funds	22
Reconciliation of Fund Balances for Governmental Funds to Net Position of Governmental Activities	24
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	26
Reconciliation of Net Changes in Fund Balances of Governmental Funds to Change in Net Position of Governmental Activities	28
Statement of Revenues, Expenditures and Change in Fund Balance - Budget and Actual:	
General Fund	29
Major Streets Special Revenue Fund	31
Library Special Revenue Fund	32
Statement of Net Position - Proprietary Funds	34
Reconciliation of Net Position of Enterprise Funds to Net Position of Business-type Activities	35
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	36
Reconciliation of Change in Net Position of Enterprise Funds to Change in Net Position of Business-type Activities	37
Statement of Cash Flows - Proprietary Funds	38
Statement of Fiduciary Assets and Liabilities - Agency Funds	40
Combining Statement of Net Position - Discretely Presented Component Units	41
Combining Statement of Activities - Discretely Presented Component Units	42
Notes to Financial Statements	43

CITY OF HASTINGS, MICHIGAN

Table of Contents

	<u>Page</u>
Required Supplementary Information	
MERS Agent Multiple-Employer Plan:	
Schedule of Changes in City's Net Pension Liability and Related Ratios	74
Schedule of the Net Pension Liability	75
Schedule of Contributions	76
Single-employer Other Postemployment Benefits Plan:	
Schedule of Changes in City's Net OPEB Liability and Related Ratios	77
Schedule of the Net OPEB Liability	78
Schedule of Contributions	79
Schedule of Investment Returns	80
Combining and Individual Fund Financial Statements and Schedules	
Nonmajor Governmental Funds:	
Combining Balance Sheet	82
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	84
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual:	
Local Streets Special Revenue Fund	86
Cemetery Special Revenue Fund	87
Drug Enforcement Special Revenue Fund	88
Police Training Special Revenue Fund	89
D.A.R.E. Special Revenue Fund	90
Internal Service Funds:	
Combining Statement of Net Position	92
Combining Statement of Revenues, Expenses and Changes in Fund Net Position	93
Combining Statement of Cash Flows	94
Agency Funds:	
Combining Statement of Fiduciary Assets and Liabilities	98
Statement of Changes in Fiduciary Assets and Liabilities	99
Component Units:	
Balance Sheet - Governmental Fund - Brownfield Redevelopment Authority	102
Statement of Revenues, Expenditures and Change in Fund Balance - Governmental Fund - Brownfield Redevelopment Authority	103
Balance Sheet - Governmental Fund - Downtown Development Authority	104
Statement of Revenues, Expenditures and Change in Fund Balance - Governmental Fund - Downtown Development Authority	105
Balance Sheet - Governmental Fund - Local Development Finance Authority	106
Statement of Revenues, Expenditures and Change in Fund Balance - Governmental Fund - Local Development Finance Authority	107

CITY OF HASTINGS, MICHIGAN

■ Table of Contents

	<u>Page</u>
Internal Control and Compliance	
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 <i>Government Auditing Standards</i>	111
Schedule of Findings and Responses	113



INDEPENDENT AUDITORS' REPORT

December 19, 2018

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, 2018, 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, 2018, 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.

Implementation of GASB Statement No. 75

As described in Note 15, the City implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. Accordingly, beginning net position of governmental and business-type activities and the major enterprise fund was restated. Our opinion is not modified with respect to this matter.

Restatement of Beginning Fund Balance/Net Position of General Fund and Governmental Activities

As described in Note 15 to the financial statements, the beginning fund balance of the general fund and the net position of governmental activities was decreased by \$45,934 to properly account for payments in lieu of taxes collected and recorded as revenue in a prior year that belonged to other local governmental units. Our opinion is not modified with respect to this matter.

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 December 19, 2018, 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.

Rehmann Lobson LLC

This page intentionally left blank.

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, 2018. 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 \$18,713,611 at the end of the current fiscal compared to \$18,711,401 at the end of the prior period, as restated. Net position of governmental activities increased by \$160,137, while net position of business-type activities decreased by \$157,927.
- Beginning net position of governmental activities, and the business-type activities and water and sewer enterprise fund, was decreased to recognize the balance of the net other postemployment benefits (OPEB) liability at June 30, 2018 in the amounts of \$8,569,110 and 1,532,488, respectively. Beginning fund balance of the general fund and net position of governmental activities was also decreased by \$45,934 to properly account for the liability to other local governmental units for payments in lieu of taxes received in a prior year and recorded as revenue.
- Significant activity included the following:
 - The City completed construction of a new entry arch at Riverside Cemetery using funds donated for capital improvements for the Cemetery in fiscal year 2017/18. Continued improvements in the cemetery will include a new fence to be completed in fiscal year 2018/19.
 - Upon completion of the City's Bicycle Master Plan, "bicycle friendly" improvements for the current fiscal year included re-lining of streets to include bicycle lanes . Implementation of the plan will continue into fiscal year 2018/19. The City also continued the MDOT "Safe Routes to Schools" project, with construction of the planned sidewalks and other facilities to be completed in 2018/19.
 - The City Streets and Water and Sewer Departments continued implementation of an Asset Management Plan funded in large part by a Michigan Department of Environmental Quality's Storm, Asset Management, Wastewater (SAW) grant. This Asset Management project is expected to be completed in FY 19/20. 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.

CITY OF HASTINGS, MICHIGAN

Management's Discussion and Analysis

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

The *statement of net 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.

CITY OF HASTINGS, MICHIGAN

Management's Discussion and Analysis

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.

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 \$18,713,611 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	
	2018	2017	2018	2017	2018	2017
Assets						
Current and other assets	\$ 9,027,465	\$ 6,237,701	\$ 3,583,214	\$ 3,186,894	\$12,610,679	\$ 9,424,595
Capital assets, net	18,779,079	18,988,267	12,591,596	12,999,691	31,370,675	31,987,958
Total assets	27,806,544	25,225,968	16,174,810	16,186,585	43,981,354	41,412,553
Deferred outflows	479,102	877,834	88,555	162,128	567,657	1,039,962
Liabilities						
Current and other liabilities	20,870,070	10,350,698	3,541,911	1,896,962	24,411,981	12,247,660
Long-term debt	277,695	266,073	932,006	991,445	1,209,701	1,257,518
Total liabilities	21,147,765	10,616,771	4,473,917	2,888,407	25,621,682	13,505,178
Deferred inflows	180,379	74,622	33,339	13,782	213,718	88,404
Net position						
Net investment in capital assets	18,779,079	18,988,267	11,667,743	12,025,838	30,446,822	31,014,105
Restricted	3,683,865	3,018,383	195,477	346,977	3,879,342	3,365,360
Unrestricted (deficit)	(15,505,442)	(6,594,241)	(107,111)	1,073,709	(15,612,553)	(5,520,532)
Total net position	\$ 6,957,502	\$15,412,409	\$11,756,109	\$13,446,524	\$18,713,611	\$28,858,933

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 \$2,210. The governmental activities increase in net position of \$160,137 was down from the prior year as the result of a significant decrease in capital grants, as previously mentioned. The business-type activities decrease in net position of \$157,927 was the result of increased expenses related to the recording of the net OPEB liability.

CITY OF HASTINGS, MICHIGAN

Management's Discussion and Analysis

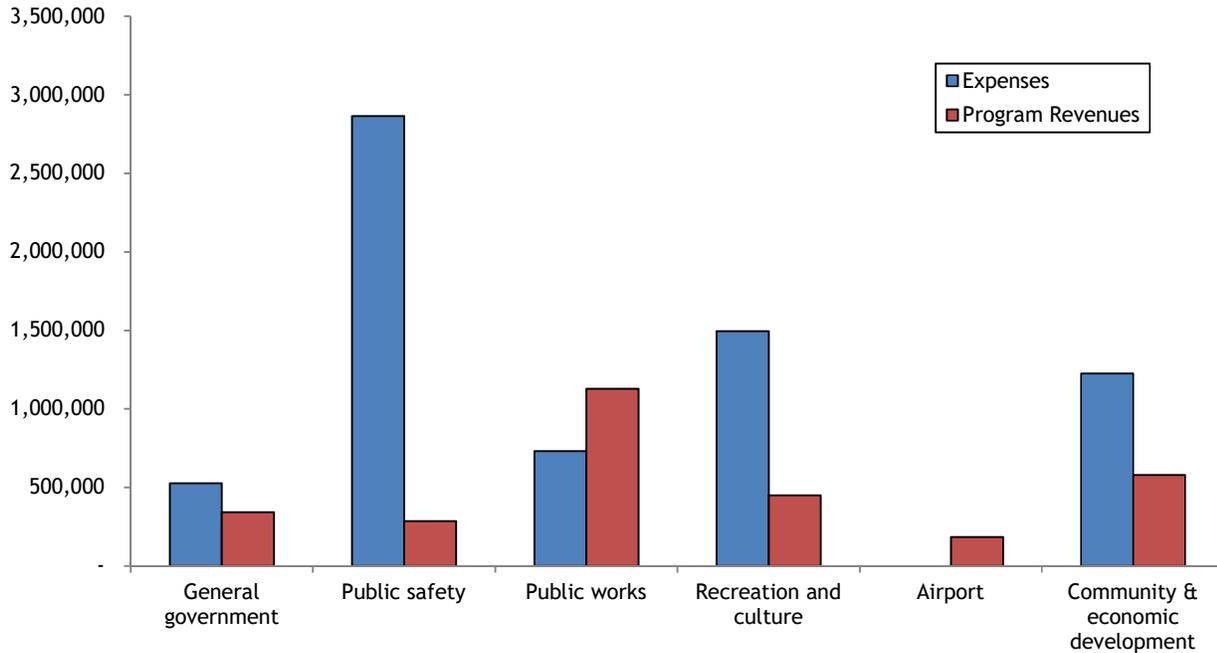
	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues:						
Charges for services	\$ 841,547	\$ 809,586	\$ 2,754,041	\$ 2,800,680	\$ 3,595,588	\$ 3,610,266
Operating grants	1,727,669	1,418,967	11,715	9,139	1,739,384	1,428,106
Capital grants	400,006	1,552,985	293,894	48,753	693,900	1,601,738
General revenues:						
Property taxes	2,960,087	2,876,659	-	-	2,960,087	2,876,659
Unrestricted grants and contributions	865,569	883,606	-	-	865,569	883,606
Unrestricted investment earnings	60,801	34,289	-	-	60,801	34,289
Gain on sale of capital assets	6,572	19,877	-	-	6,572	19,877
Other	120,816	29,156	-	13,365	120,816	42,521
Total revenues	6,983,067	7,625,125	3,059,650	2,871,937	10,042,717	10,497,062
Expenses						
General government	527,073	547,504	-	-	527,073	547,504
Public safety	2,864,183	2,987,344	-	-	2,864,183	2,987,344
Public works	731,903	648,529	-	-	731,903	648,529
Recreation and culture	1,496,042	1,524,982	-	-	1,496,042	1,524,982
Community and economic development	1,226,527	945,869	-	-	1,226,527	945,869
Water and sewer	-	-	3,194,779	2,627,298	3,194,779	2,627,298
Total expenses	6,845,728	6,654,228	3,194,779	2,627,298	10,040,507	9,281,526
Change in net position, before transfers	137,339	970,897	(135,129)	244,639	2,210	1,215,536
Transfers	22,798	22,134	(22,798)	(22,134)	-	-
Change in net position	160,137	993,031	(157,927)	222,505	2,210	1,215,536
Net position, beginning of year	15,412,409	14,419,378	13,446,524	13,224,019	28,858,933	27,643,397
Restatements (note 15)	(8,615,044)	-	(1,532,488)	-	(10,147,532)	-
Net position, end of year	\$ 6,957,502	\$15,412,409	\$11,756,109	\$13,446,524	\$18,713,611	\$ 28,858,933

CITY OF HASTINGS, MICHIGAN

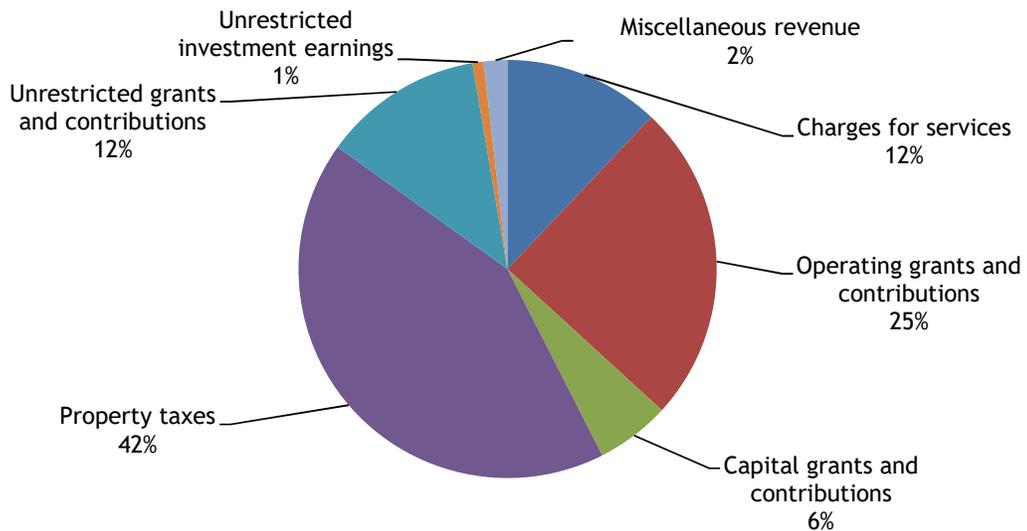
Management's Discussion and Analysis

Governmental Activities. Total governmental activities revenues decreased by \$642,058. This was primarily the result of a decrease in capital grant revenue related to Michigan Department of Transportation (MDOT) administered road projects and the donated infrastructure associated with these projects.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



CITY OF HASTINGS, MICHIGAN

Management's Discussion and Analysis

Total governmental activity expenses increased \$191,500. This net increase generally relates to additional expenses in community development for our downtown rental rehab primarily financed by Federal dollars through the State of Michigan.

During the year, the City continued its emphasis in public safety by investing \$2,864,183, or 41.8% of governmental activities expenses in this function. Recreation and cultural activities were \$1,496,042 or 21.9% of governmental activities expenses. The combination of general government, public works, and community and economic development made up the remaining 36.3% of governmental activities expenses.

Expenses for community and economic development increased by \$280,658, or 29.7% over the prior year. The main cause of this increase was downtown rental rehab primarily financed by Federal dollars through the State of Michigan.

Business-type Activities. The City's business-type activities include the water and sewer system. Revenue of the business-type activities was \$3,059,650 (an increase of \$187,713, or 6.5%, from the prior year). Expenses were \$3,194,779 (an increase of \$567,481, or 21.6%, from the prior year). These significant increases in revenues were caused by an increase in the billed volume of water and sewer services, and grants received for the SAW program, while the increases in expenses are mainly due to the noncapital grant funded expenditures referenced above, continued costly maintenance activities at the Wastewater Treatment Plant, and the continued annual 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 \$3,184,539, an increase of \$545,400 from the prior year. This increase is mainly attributable to under spent personnel services budget in the police department. In addition, the major streets and library funds budgeted for projects that were not undertaken in the current fiscal year.

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 \$1,529,567, while total fund balance was \$2,199,918. 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 32.4% of total general fund expenditures and transfers out.

The major streets fund has a total fund balance of \$215,467, which increased by \$24,408 during the year.

The library fund has a total fund balance of \$469,906, which increased by \$110,692 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 \$11,164,228. The water and sewer fund had a decrease in net position for the year of \$124,882. 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 increased by \$236,000 to account for the rental rehab project in the downtown area.
- The contributions revenue budget was amended \$130,210 higher than the original budget due to private donations to fund the summer programming at Thornapple Plaza.
- The expenditure budget for economic development was increased by \$366,001 during the year. This increase was attributable to account for the rental rehab project and additional contributions for the summer programming at Thornapple Plaza.
- The budgeted expenditures for recreation and culture increased by \$51,400 from the original budget. This increase was necessary to account for roof replacement at Fish Hatchery Park, and the next phase of the bicycle master plan.

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

- General fund total expenditures were \$488,592 (10.2%) under budget reflecting positive results from City management efforts to aggressively control and limit costs. The largest positive variances were in public safety, community and economic development, and recreation and cultural. Some costs, particularly those in the police department, will increase in the subsequent fiscal year due to increased staffing. In addition, deferred construction projects in major streets and library funds will be scheduled for completion in fiscal year 18/19.

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, 2018, amounted to \$31,370,675 (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.

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

- Ongoing MDOT milling and resurfacing project; total cost to date of \$232,005.
- Land improvements to the cemetery; total cost of \$70,785 for a new entrance arch.
- Replacement sweeper in the Equipment Fund of \$222,616.
- Replacement vehicles in the Equipment Fund of \$256,140.
- Waste water treatment plant primary pump of \$61,764; Watermain valve exercising trailer of \$55,800.

CITY OF HASTINGS, MICHIGAN

Management's Discussion and Analysis

	Capital Assets (Net of Depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 1,413,822	\$ 1,413,822	\$ 99,200	\$ 99,200	\$ 1,513,022	1,513,022
Construction in progress	404,836	978,546	-	64,804	404,836	1,043,350
Land improvements and infrastructure	8,783,247	8,171,239	7,316,562	7,494,955	16,099,809	15,666,194
Buildings and system improvements	5,917,103	6,118,199	3,244,051	3,405,566	9,161,154	9,523,765
Machinery and equipment	2,260,071	2,306,461	1,931,783	1,935,166	4,191,854	4,241,627
Total capital assets, net	\$18,779,079	\$18,988,267	\$12,591,596	\$12,999,691	\$31,370,675	\$31,987,958

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 \$1,209,701. Of this amount, \$932,006 was debt of business-type activities and \$277,695 was debt of governmental activities.

	Long-term Debt					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Bonds payable	\$ -	\$ -	\$ 923,853	\$ 973,853	\$ 923,853	\$ 973,853
Compensated absences	277,695	266,073	8,153	17,592	285,848	283,665
Total long-term debt	\$ 277,695	\$ 266,073	\$ 932,006	\$ 991,445	\$ 1,209,701	\$ 1,257,518

The City's total long-term debt decreased by \$47,817 (3.8%) 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.

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the City's budget for the 2018-2019 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 and sewer fund, rates were increased each July in 2014 by 3.5%, 2015 by 4.0%, 2016 by 3.5%, and 2017 by 3.0% to protect the viability of the system.

CITY OF HASTINGS, MICHIGAN

Management's Discussion and Analysis

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.

This page intentionally left blank.

BASIC FINANCIAL STATEMENTS

CITY OF HASTINGS, MICHIGAN

Statement of Net Position
June 30, 2018

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 3,012,790	\$ 2,079,234	\$ 5,092,024	\$ 324,735
Restricted cash and cash equivalents	48,349	-	48,349	-
Investments	2,936,402	256,415	3,192,817	128,207
Receivables, net	364,276	540,246	904,522	-
Internal balances	(601,201)	601,201	-	-
Due from component unit	58,130	-	58,130	-
Inventory	32,869	106,118	138,987	-
Prepaid items	76,679	-	76,679	-
Land held for resale	505,308	-	505,308	23,738
Investment in joint venture	2,593,863	-	2,593,863	-
Capital assets not being depreciated	1,818,658	99,200	1,917,858	-
Capital assets being depreciated, net	16,960,421	12,492,396	29,452,817	-
Total assets	27,806,544	16,174,810	43,981,354	476,680
Deferred outflows of resources				
Deferred pension amounts	479,102	88,555	567,657	-
Liabilities				
Negative equity in pooled cash	2,441,298	-	2,441,298	317
Accounts payable and accrued liabilities	276,809	186,809	463,618	434,934
Due to primary government	-	-	-	58,130
Long-term debt:				
Due within one year	69,424	52,038	121,462	-
Due in more than one year	208,271	879,968	1,088,239	-
Net pension liability	6,578,060	1,215,850	7,793,910	-
Net other postemployment benefit liability	11,573,903	2,139,252	13,713,155	-
Total liabilities	21,147,765	4,473,917	25,621,682	493,381
Deferred inflows of resources				
Deferred pension amounts	146,920	27,155	174,075	-
Deferred other postemployment benefit amounts	33,459	6,184	39,643	-
Total deferred inflows of resources	180,379	33,339	213,718	-
Net position				
Net investment in capital assets	18,779,079	11,667,743	30,446,822	-
Restricted for:				
Major and local streets	427,178	-	427,178	-
Drug enforcement/D.A.R.E.	45,707	-	45,707	-
Debt service	-	195,477	195,477	-
Library operations	469,906	-	469,906	-
Building improvement revolving loans	100,000	-	100,000	-
Joint airport authority	2,593,863	-	2,593,863	-
Cemetery operations	41,245	-	41,245	-
Other purposes	5,966	-	5,966	-
Unrestricted (deficit)	(15,505,442)	(107,111)	(15,612,553)	(16,701)
Total net position	\$ 6,957,502	\$ 11,756,109	\$ 18,713,611	\$ (16,701)

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

CITY OF HASTINGS, MICHIGAN

Statement of Activities For the Year Ended June 30, 2018

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	\$ 527,073	\$ 174,160	\$ 120,678	\$ 46,705	\$ (185,530)
Public safety	2,864,183	274,662	11,372	-	(2,578,149)
Public works	731,903	8,081	867,643	251,761	395,582
Recreation and cultural	1,496,042	377,765	71,224	-	(1,047,053)
Airport	-	-	185,109	-	185,109
Community and economic development	1,226,527	6,879	471,643	101,540	(646,465)
Total governmental activities	<u>6,845,728</u>	<u>841,547</u>	<u>1,727,669</u>	<u>400,006</u>	<u>(3,876,506)</u>
Business-type activities:					
Water and sewer	<u>3,194,779</u>	<u>2,754,041</u>	<u>11,715</u>	<u>293,894</u>	<u>(135,129)</u>
Total primary government	<u>\$10,040,507</u>	<u>\$ 3,595,588</u>	<u>\$ 1,739,384</u>	<u>\$ 693,900</u>	<u>\$ (4,011,635)</u>
Component units					
Downtown Development Authority	\$ 348,348	\$ -	\$ 50,193	\$ -	\$ (298,155)
Local Development Finance Authority	5,987	-	10,677	-	4,690
Brownfield Redevelopment Authority	10,702	-	-	-	(10,702)
Total component units	<u>\$ 365,037</u>	<u>\$ -</u>	<u>\$ 60,870</u>	<u>\$ -</u>	<u>\$ (304,167)</u>

continued...

CITY OF HASTINGS, MICHIGAN

Statement of Activities
For the Year Ended June 30, 2018

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net position				
Net (expense) revenue	\$ (3,876,506)	\$ (135,129)	\$ (4,011,635)	\$ (304,167)
General revenues:				
Property taxes	2,960,087	-	2,960,087	432,441
Unrestricted grants and contributions	865,569	-	865,569	-
Unrestricted investment earnings	60,801	-	60,801	-
Gain on sale of capital assets	6,572	-	6,572	-
Other	120,816	-	120,816	-
Transfers	22,798	(22,798)	-	-
Total general revenues and transfers	4,036,643	(22,798)	4,013,845	432,441
Change in net position	160,137	(157,927)	2,210	128,274
Net position, beginning of year, as restated	6,797,365	11,914,036	18,711,401	(144,975)
Net position, end of year	\$ 6,957,502	\$ 11,756,109	\$ 18,713,611	\$ (16,701)

concluded

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

This page intentionally left blank.

CITY OF HASTINGS, MICHIGAN

Balance Sheet

Governmental Funds

June 30, 2018

	General Fund	Major Streets	Library
Assets			
Cash and cash equivalents	\$ 1,376,175	\$ 123,392	\$ 425,283
Restricted cash and cash equivalents	-	-	48,349
Investments	2,679,987	-	-
Accounts receivable	45,423	-	1,253
Due from other governments	130,861	120,074	-
Due from other funds	20,385	-	4,817
Advance to component unit	58,130	-	-
Land held for resale	505,308	-	-
Total assets	\$ 4,816,269	\$ 243,466	\$ 479,702
Liabilities			
Negative equity in pooled cash and cash equivalents	\$ 2,441,298	\$ -	\$ -
Accounts payable	64,758	16,937	3,792
Accrued liabilities	25,907	1,742	4,751
Due to other funds	4,817	9,320	-
Deposits	44,479	-	-
Advance from other governments	5,089	-	-
Total liabilities	2,586,348	27,999	8,543
Deferred inflows of resources			
Unavailable revenues - long-term receivables	30,003	-	1,253
Fund balances			
Nonspendable	563,438	-	-
Restricted	105,966	215,467	469,906
Assigned	16,312	-	-
Unassigned	1,514,202	-	-
Total fund balances	2,199,918	215,467	469,906
Total liabilities, deferred inflows of resources and fund balances	\$ 4,816,269	\$ 243,466	\$ 479,702

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



Nonmajor Governmental Funds	Total Governmental Funds
\$ 261,784	\$ 2,186,634
-	48,349
-	2,679,987
2,077	48,753
63,823	314,758
-	25,202
-	58,130
-	505,308
<u>\$ 327,684</u>	<u>\$ 5,867,121</u>
\$ -	\$ 2,441,298
26,196	111,683
2,240	34,640
-	14,137
-	44,479
-	5,089
<u>28,436</u>	<u>2,651,326</u>
<u>-</u>	<u>31,256</u>
-	563,438
298,663	1,090,002
585	16,897
-	1,514,202
<u>299,248</u>	<u>3,184,539</u>
<u>\$ 327,684</u>	<u>\$ 5,867,121</u>

CITY OF HASTINGS, MICHIGAN

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
June 30, 2018

Fund balances - total governmental funds	\$ 3,184,539
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	1,818,658
Capital assets being depreciated, net	16,960,421
Capital assets not being depreciated, reported in internal service funds	(266,156)
Capital assets being depreciated, net, reported in internal service funds	(2,649,589)
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	31,256
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	3,942,114
Internal service fund net position accounted for in business-type activities	(591,881)
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	2,593,863
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	(277,695)
Compensated absences, reported in internal service funds	65,212
Certain pension and other postemployment benefits related amounts, such as the net pension and other postemployment benefits liabilities and related 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	(6,578,060)
Net other postemployment benefits liability	(11,573,903)
Deferred outflows related to the net pension liability	479,102
Deferred inflows related to the net pension liability	(146,920)
Deferred inflows related to the net other postemployment benefits liability	(33,459)
Net position of governmental activities	<u>\$ 6,957,502</u>

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

This page intentionally left blank.

CITY OF HASTINGS, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental Funds

For the Year Ended June 30, 2018

	General Fund	Major Streets	Library
Revenues			
Taxes	\$ 2,835,300	\$ -	\$ -
Special assessments	26,540	317	-
Licenses and permits	32,856	-	-
Intergovernmental:			
Federal	261,096	-	-
State	840,223	641,607	9,174
Local	210,547	-	346,929
Charges for services	312,078	2,956	9,976
Fines and forfeitures	6,879	-	17,223
Contributions and donations	189,254	-	59,925
Rentals	106,959	-	-
Interest	53,007	228	1,907
Other	67,176	16,015	3,587
Total revenues	4,941,915	661,123	448,721
Expenditures			
Current:			
General government	269,698	-	-
Public safety	2,553,269	-	-
Public works	-	508,604	-
Community and economic development	1,179,347	-	-
Recreation and cultural	294,418	-	636,643
Total expenditures	4,296,732	508,604	636,643
Revenues over (under) expenditures	645,183	152,519	(187,922)
Other financing sources (uses)			
Transfers in	22,798	-	298,614
Transfers out	(429,929)	(128,111)	-
Total other financing sources (uses)	(407,131)	(128,111)	298,614
Net changes in fund balances	238,052	24,408	110,692
Fund balances, beginning of year, as restated	1,961,866	191,059	359,214
Fund balances, end of year	\$ 2,199,918	\$ 215,467	\$ 469,906

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



Nonmajor Governmental Funds	Total Governmental Funds
\$ 127,914	\$ 2,963,214
-	26,857
-	32,856
-	261,096
314,350	1,805,354
-	557,476
30,582	355,592
673	24,775
46,705	295,884
-	106,959
365	55,507
-	86,778
<u>520,589</u>	<u>6,572,348</u>
175,072	444,770
2,606	2,555,875
430,089	938,693
-	1,179,347
-	931,061
<u>607,767</u>	<u>6,049,746</u>
<u>(87,178)</u>	<u>522,602</u>
259,426	580,838
-	(558,040)
<u>259,426</u>	<u>22,798</u>
172,248	545,400
127,000	2,639,139
<u>\$ 299,248</u>	<u>\$ 3,184,539</u>

CITY OF HASTINGS, MICHIGAN

Reconciliation

Net Changes in Fund Balance of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2018

Net change in fund balances - total governmental funds	\$ 545,400
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital assets purchased/constructed	363,813
Donated capital assets	146,158
Depreciation expense	(699,066)
Loss on sale of capital assets	(16,161)
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	18,842
Net change in deferred inflows for personal property taxes receivable	(3,127)
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	185,109
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	(8,014)
Operating income from internal service funds allocated to business-type activities	33,045
Change in the accrual for compensated absences	(9,042)
Change in the net pension liability and related deferred amounts	(308,071)
Change in net other postemployment benefits obligation	(88,749)
Change in net position of governmental activities	<u>\$ 160,137</u>

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, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	\$ 2,843,166	\$ 2,843,166	\$ 2,835,300	\$ (7,866)
Special assessments	26,540	26,540	26,540	-
Licenses and permits	36,000	36,000	32,856	(3,144)
Intergovernmental revenue:				
Federal	25,000	261,000	261,096	96
State	775,681	795,547	840,223	44,676
Local	199,570	199,570	210,547	10,977
Charges for services	304,000	308,400	312,078	3,678
Fines and forfeitures	6,500	6,500	6,879	379
Contributions	4,790	135,000	189,254	54,254
Rentals	99,500	99,500	106,959	7,459
Interest	22,010	50,210	53,007	2,797
Other	-	12,003	67,176	55,173
Total revenues	4,342,757	4,773,436	4,941,915	168,479
Expenditures				
General government:				
City Council	84,493	84,493	70,841	(13,652)
Elections	45,960	45,960	42,578	(3,382)
Assessor	190,706	190,706	156,279	(34,427)
Total general government	321,159	321,159	269,698	(51,461)
Public safety:				
Police	2,329,119	2,362,631	2,060,486	(302,145)
Fire	526,116	563,331	492,783	(70,548)
Total public safety	2,855,235	2,925,962	2,553,269	(372,693)
Community and economic development:				
Community promotion	492,032	526,882	530,106	3,224
Economic development	222,253	588,254	570,036	(18,218)
Parking	87,691	87,691	79,205	(8,486)
Total community and economic development	801,976	1,202,827	1,179,347	(23,480)
Recreation and cultural	283,976	335,376	294,418	(40,958)
Total expenditures	4,262,346	4,785,324	4,296,732	(488,592)
Revenues over (under) expenditures	80,411	(11,888)	645,183	657,071

continued...

CITY OF HASTINGS, MICHIGAN

Statement of Revenues, Expenditures and Change in Fund Balance Budget and Actual - General Fund For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Other financing sources (uses)				
Transfers in	\$ 22,798	\$ 22,798	\$ 22,798	\$ -
Transfers out	(429,929)	(429,929)	(429,929)	-
Total other financing sources (uses)	(407,131)	(407,131)	(407,131)	-
Net change in fund balance	(326,720)	(419,019)	238,052	657,071
Fund balance, beginning of year, as restated	1,904,266	1,961,866	1,961,866	-
Fund balance, end of year	<u>\$ 1,577,546</u>	<u>\$ 1,542,847</u>	<u>\$ 2,199,918</u>	<u>\$ 657,071</u>

concluded

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

CITY OF HASTINGS, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Major Streets Special Revenue Fund For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Special assessments	\$ 1,300	\$ 1,300	\$ 317	\$ (983)
Intergovernmental:				
Federal	-	153,586	-	(153,586)
State	591,753	961,498	641,607	(319,891)
Charges for services	-	-	2,956	2,956
Interest	27	27	228	201
Other	22,249	19,900	16,015	(3,885)
Total revenues	615,329	1,136,311	661,123	(475,188)
Expenditures				
Current - public works:				
Construction	124,658	746,464	148,073	(598,391)
Routine maintenance	226,967	217,988	194,921	(23,067)
Sweeping	71,741	58,441	57,941	(500)
Traffic services	36,957	40,827	40,295	(532)
Winter maintenance	122,370	76,972	67,374	(9,598)
Total expenditures	582,693	1,140,692	508,604	(632,088)
Revenues over (under) expenditures	32,636	(4,381)	152,519	156,900
Other financing uses				
Transfers out	(128,111)	(128,111)	(128,111)	-
Net change in fund balance	(95,475)	(132,492)	24,408	156,900
Fund balance, beginning of year	202,895	191,059	191,059	-
Fund balance, end of year	\$ 107,420	\$ 58,567	\$ 215,467	\$ 156,900

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, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Intergovernmental:				
State	\$ 8,000	\$ 8,000	\$ 9,174	\$ 1,174
Local	349,000	349,000	346,929	(2,071)
Charges for services	9,750	9,750	9,976	226
Fines and forfeitures	33,000	33,000	17,223	(15,777)
Contributions and donations	42,000	42,000	59,925	17,925
Interest	300	321	1,907	1,586
Other	1,500	1,500	3,587	2,087
Total revenues	444,550	444,571	448,721	4,150
Expenditures				
Current - recreation and cultural:				
Library	746,113	746,113	636,643	(109,470)
Total expenditures	746,113	746,113	636,643	(109,470)
Revenues under expenditures	(301,563)	(301,542)	(187,922)	113,620
Other financing sources				
Transfers in	297,458	297,458	298,614	1,156
Net change in fund balance	(4,105)	(4,084)	110,692	114,776
Fund balance, beginning of year	145,147	359,214	359,214	-
Fund balance, end of year	\$ 141,042	\$ 355,130	\$ 469,906	\$ 114,776

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

This page intentionally left blank.

CITY OF HASTINGS, MICHIGAN

Statement of Net Position
 Proprietary Funds
 June 30, 2018

	Business-type Activities Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,079,234	\$ 826,156
Investments	256,415	256,415
Accounts receivable	372,262	-
Due from other governments	158,937	765
Due from other funds	9,320	-
Inventory	106,118	32,869
Prepaid items	-	76,679
Total current assets	2,982,286	1,192,884
Noncurrent assets:		
Accounts receivable	9,047	-
Capital assets not being depreciated	99,200	266,156
Capital assets being depreciated, net	12,492,396	2,649,589
Total noncurrent assets	12,600,643	2,915,745
Total assets	15,582,929	4,108,629
Deferred outflows of resources		
Deferred pension amounts	88,555	-
Liabilities		
Current liabilities:		
Accounts payable	172,007	72,486
Accrued liabilities	9,932	8,432
Due to other funds	-	20,385
Accrued interest payable	4,870	-
Current portion of long-term debt	52,038	16,303
Total current liabilities	238,847	117,606
Long-term liabilities:		
Long-term debt, net of current portion	879,968	48,909
Net pension liability	1,215,850	-
Net other postemployment benefits liability	2,139,252	-
Total long-term liabilities	4,235,070	48,909
Total liabilities	4,473,917	166,515
Deferred inflows of resources		
Deferred pension amounts	27,155	-
Deferred other postemployment benefit amounts	6,184	-
Total deferred inflows of resources	33,339	-
Net position		
Net investment in capital assets	11,667,743	2,915,745
Restricted for debt service	195,477	-
Unrestricted (deficit)	(698,992)	1,026,369
Total net position	\$ 11,164,228	\$ 3,942,114

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, 2018

Net position - total enterprise funds \$ 11,164,228

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

591,881

Net position of business-type activities

\$ 11,756,109

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, 2018

	Business-type Activities Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Funds
Operating revenues		
Charges for services	\$ 2,754,041	\$ 2,040,635
Operating expenses		
Personnel services	764,918	1,161,773
Professional and contractual services	205,477	242,690
Materials and supplies	250,215	171,278
Utilities	222,776	47,540
Repairs and maintenance	527,931	71,517
Insurance and bonds	-	43,970
Equipment rental	304,852	27,876
Depreciation	532,280	312,110
Administrative services	303,792	30,019
Miscellaneous	30,016	3,613
Total operating expenses	3,142,257	2,112,386
Operating loss	(388,216)	(71,751)
Nonoperating revenues (expenses)		
Interest income	11,715	7,794
Gain (loss) on sale of capital assets	-	6,572
State grants	293,894	15,333
Miscellaneous revenue	-	34,038
Interest expense	(19,477)	-
Total nonoperating revenues (expenses)	286,132	63,737
Net loss before transfers	(102,084)	(8,014)
Transfers		
Transfers out	(22,798)	-
Changes in net position	(124,882)	(8,014)
Net position, beginning of year, as restated	11,289,110	3,950,128
Net position, end of year	\$ 11,164,228	\$ 3,942,114

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, 2018

Change in net position - total enterprise funds	\$ (124,882)
Amounts reported for <i>business-type activities</i> 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	<u>(33,045)</u>
Change in net position of business-type activities	<u>\$ (157,927)</u>

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, 2018

	Business-type Activities Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Funds
Cash flows from operating activities		
Cash received from customers	\$ 2,668,326	\$ -
Cash received for interfund services provided	-	2,060,971
Cash payments to suppliers for goods and services	(1,011,796)	(576,688)
Cash payments to employees for services	(696,844)	(1,156,893)
Cash payments for internal services	(608,644)	(45,663)
Net cash provided by operating activities	<u>351,042</u>	<u>281,727</u>
Cash flows from noncapital financing activities		
Transfers to other funds	(22,798)	-
State grants received	293,894	-
Other nonoperating revenue received	-	49,371
Net cash provided by noncapital financing activities	<u>271,096</u>	<u>49,371</u>
Cash flows from capital and related financing activities		
Acquisitions of capital assets	(188,989)	(495,810)
Proceeds from sale of capital assets	-	194,204
Principal paid on long-term debt	(50,000)	-
Interest paid on long-term debt	(19,477)	-
Net cash used in capital and related financing activities	<u>(258,466)</u>	<u>(301,606)</u>
Cash flows from investing activities		
Interest received	11,715	7,794
Purchase of investments	(3,809)	(3,809)
Net cash provided by investing activities	<u>7,906</u>	<u>3,985</u>
Net change in cash and cash equivalents	371,578	33,477
Cash and cash equivalents, beginning of year	<u>1,707,656</u>	<u>792,679</u>
Cash and cash equivalents, end of year	<u>\$ 2,079,234</u>	<u>\$ 826,156</u>

continued...

CITY OF HASTINGS, MICHIGAN

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2018

	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)	\$ (388,216)	\$ (71,751)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	532,280	312,110
Disposal of prior year construction in progress	64,804	-
Changes in assets and liabilities which provided (used) cash:		
Accounts receivable	81,164	-
Due from other governments	(157,559)	(49)
Due from other funds	(9,320)	-
Inventory and prepaid items	31,737	1,249
Deferred outflows - pension	73,573	-
Accounts payable	128,078	14,903
Accrued liabilities and deposits	3,338	2,300
Due to other funds	-	20,385
Compensated absences	(9,439)	2,580
Net pension liability	(29,174)	-
Deferred inflows - pension	13,373	-
Net other postemployment benefits liability	10,638	-
Deferred inflows - other postemployment benefits	5,765	-
Net cash provided by operating activities	<u>\$ 351,042</u>	<u>\$ 281,727</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, 2018

Assets

Cash and cash equivalents	\$ 3,898
---------------------------	----------

Liabilities

Due to other governments	\$ 3,898
--------------------------	----------

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, 2018

	Brownfield Redevelopment Authority	Downtown Development Authority	Local Development Finance Authority	Totals
Assets				
Cash and cash equivalents	\$ -	\$ 230,713	\$ 94,022	\$ 324,735
Investments	-	-	128,207	128,207
Land held for resale	-	-	23,738	23,738
Total assets	-	230,713	245,967	476,680
Liabilities				
Negative equity in pooled cash	317	-	-	317
Accounts payable and accrued liabilities	369,394	62,142	3,398	434,934
Advance from primary government	-	58,130	-	58,130
Total liabilities	369,711	120,272	3,398	493,381
Net position				
Unrestricted (deficit)	\$ (369,711)	\$ 110,441	\$ 242,569	\$ (16,701)

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, 2018

	Brownfield Redevelopment Authority	Downtown Development Authority	Local Development Finance Authority	Totals
Expenses				
Downtown Development Authority	\$ -	\$ 348,348	\$ -	\$ 348,348
Local Development Finance Authority	-	-	5,987	5,987
Brownfield Redevelopment Authority	10,702	-	-	10,702
Total expenses	10,702	348,348	5,987	365,037
Program revenues				
Operating grants and contributions	-	50,193	10,677	60,870
Net (expense) revenue	(10,702)	(298,155)	4,690	(304,167)
General revenues				
Property taxes	20,821	397,432	14,188	432,441
Change in net position	10,119	99,277	18,878	128,274
Net position, beginning of year	(379,830)	11,164	223,691	(144,975)
Net position, end of year	\$ (369,711)	\$ 110,441	\$ 242,569	\$ (16,701)

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

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.

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.

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

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

Joint Venture

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, 2018 is \$2,593,863, 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, 2018. 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 pension and other postemployment benefits plans.

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.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

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.

Pensions and Other Postemployment Benefits

For purposes of measuring the net pension liability, the net other postemployment benefit liability, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pension and other postemployment benefit 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.

Reclassifications

In the cash flow statements, certain items in beginning cash and cash equivalents were reclassified between cash and investments to conform to the current year presentation.

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.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

2. ACCOUNTABILITY AND COMPLIANCE

During the year ended June 30, 2018, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General Fund			
Community and economic development:			
Community promotion	\$ 526,882	\$ 530,106	\$ 3,224

At June 30, 2018, the City reported deficit fund balance/net position in the Brownfield Redevelopment Authority fund of \$369,711. This deficit will be eliminated in future years as taxable values increase and the Authority is able to capture revenue on the incremental increase.

3. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of June 30, 2018:

	Primary Government	Fiduciary Funds	Component Units	Totals
Statement of Net Position				
Cash and cash equivalents	\$ 5,092,024	\$ 3,898	\$ 324,735	\$ 5,420,657
Restricted cash and cash equivalents	48,349	-	-	48,349
Investments	3,192,817	-	128,207	3,321,024
Negative equity in pooled cash	(2,441,298)	-	(317)	(2,441,615)
Total	<u>\$ 5,891,892</u>	<u>\$ 3,898</u>	<u>\$ 452,625</u>	<u>\$ 6,348,415</u>
Deposits and investments				
Checking and savings accounts				\$ 400,658
Certificates of deposit (due within one year)				2,624,185
Investments				3,321,024
Petty cash				<u>2,548</u>
Total				<u>\$ 6,348,415</u>

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.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

The City's investments are summarized as follows:

Investment	Maturity	Fair Value	Rating
MI Class Investment Pool	N/A	\$ 2,578,935	S&P AAAM
Commercial Paper	10/11/2018	247,023	S&P A-1
Commercial Paper	7/30/2018	247,756	S&P A1+
Commercial Paper	9/27/2018	<u>247,310</u>	S&P A1+
Total investments		<u>\$ 3,321,024</u>	

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.

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, \$1,860,125 of the City’s bank balance of \$3,235,125 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.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

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.

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, 2018:

- Michigan Cooperative Liquid Assets Securities System, with a balance of \$2,578,935, 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
Accounts	\$ 48,753	\$ 381,309
Due from other governments	315,523	158,937
Totals	<u>\$ 364,276</u>	<u>\$ 540,246</u>

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

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 \$9,000.

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, \$31,256 in deferred inflows were reported related to restitution judgements receivable that are not considered "available" at June 30, 2018.

Payables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Component Units
Accounts	\$ 184,169	\$ 172,007	\$ 434,934
Accrued liabilities	43,072	9,932	-
Deposits	44,479	-	-
Due to other governments	5,089	-	-
Accrued interest payable	-	4,870	-
Totals	<u>\$ 276,809</u>	<u>\$ 186,809</u>	<u>\$ 434,934</u>

The balance reported as accounts payable for component units includes \$369,394 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, 2018, 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.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

5. CAPITAL ASSETS

Changes in capital assets for the year ending June 30, 2018, 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	978,546	346,371	(16,160)	(903,921)	404,836
	<u>2,392,368</u>	<u>346,371</u>	<u>(16,160)</u>	<u>(903,921)</u>	<u>1,818,658</u>
Capital assets, being depreciated:					
Land improvements	3,008,565	20,002	-	93,012	3,121,579
Infrastructure	7,456,750	63,679	-	810,909	8,331,338
Buildings & improvements	8,996,552	30,449	(9,494)	-	9,017,507
Machinery, equipment and vehicles	6,257,981	545,280	(363,054)	-	6,440,207
	<u>25,719,848</u>	<u>659,410</u>	<u>(372,548)</u>	<u>903,921</u>	<u>26,910,631</u>
Less accumulated depreciation for:					
Land improvements	(1,021,980)	(119,562)	-	-	(1,141,542)
Infrastructure	(1,272,096)	(256,032)	-	-	(1,528,128)
Buildings & improvements	(2,878,353)	(231,545)	9,494	-	(3,100,404)
Machinery, equipment and vehicles	(3,951,520)	(404,037)	175,421	-	(4,180,136)
	<u>(9,123,949)</u>	<u>(1,011,176)</u>	<u>184,915</u>	<u>-</u>	<u>(9,950,210)</u>
Total capital assets being depreciated, net	<u>16,595,899</u>	<u>(351,766)</u>	<u>(187,633)</u>	<u>903,921</u>	<u>16,960,421</u>
Governmental activities capital assets, net	<u>\$ 18,988,267</u>	<u>\$ (5,395)</u>	<u>\$ (203,793)</u>	<u>\$ -</u>	<u>\$ 18,779,079</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	64,804	-	(64,804)	-	-
	<u>164,004</u>	<u>-</u>	<u>(64,804)</u>	<u>-</u>	<u>99,200</u>
Capital assets, being depreciated:					
Water system	9,534,126	8,360	-	-	9,542,486
Sewer system	2,144,917	-	-	-	2,144,917
Land improvements	21,807	-	-	-	21,807
Buildings & improvements	8,523,805	24,819	-	-	8,548,624
Machinery and equipment	2,825,938	155,810	-	-	2,981,748
	<u>23,050,593</u>	<u>188,989</u>	<u>-</u>	<u>-</u>	<u>23,239,582</u>
Less accumulated depreciation for:					
Water system	(3,541,807)	(153,358)	-	-	(3,695,165)
Sewer system	(658,885)	(32,171)	-	-	(691,056)
Land improvements	(5,203)	(1,224)	-	-	(6,427)
Buildings & improvements	(5,118,239)	(186,334)	-	-	(5,304,573)
Machinery and equipment	(890,772)	(159,193)	-	-	(1,049,965)
	<u>(10,214,906)</u>	<u>(532,280)</u>	<u>-</u>	<u>-</u>	<u>(10,747,186)</u>
Total capital assets being depreciated, net	<u>12,835,687</u>	<u>(343,291)</u>	<u>-</u>	<u>-</u>	<u>12,492,396</u>
Business-type activities capital assets, net	<u>\$ 12,999,691</u>	<u>\$ (343,291)</u>	<u>\$ (64,804)</u>	<u>\$ -</u>	<u>\$ 12,591,596</u>

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

Depreciation of governmental activities by function

General government	\$ 6,300
Public safety	352,658
Public works	115,959
Recreation and cultural	224,149
Internal service funds	312,110
	<u>\$ 1,011,176</u>

Depreciation of business-type activities by function

Water and sewer	<u>\$ 532,280</u>
-----------------	-------------------

At June 30, 2018, the City had outstanding construction commitments for governmental activities of approximately \$1,115,000 and for business-type activities of approximately \$707,000.

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 \$601,201. 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	\$ 58,130	\$ -
Downtown development authority	-	58,130
	<u>\$ 58,130</u>	<u>\$ 58,130</u>
Totals	<u>\$ 58,130</u>	<u>\$ 58,130</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, 2018, interfund transfers consisted of the following:

Transfers In	Transfers Out			Totals
	General Fund	Major Streets	Water and Sewer	
General fund	\$ -	\$ -	\$ 22,798	22,798
Library	298,614	-	-	298,614
Nonmajor governmental funds	131,315	128,111	-	259,426
	<u>\$ 429,929</u>	<u>\$ 128,111</u>	<u>\$ 22,798</u>	<u>\$ 580,838</u>
Totals	<u>\$ 429,929</u>	<u>\$ 128,111</u>	<u>\$ 22,798</u>	<u>\$ 580,838</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, 2018, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental activities					
Compensated absences	\$ 266,073	\$ 205,203	\$ (193,581)	\$ 277,695	\$ 69,424
Business-type activities					
2013 Clean water revolving fund loan payable through 2034 with interest at 2.0%	\$ 973,853	\$ -	\$ (50,000)	\$ 923,853	\$ 50,000
Compensated absences	17,592	11,787	(21,226)	8,153	2,038
Total business-type activities	\$ 991,445	\$ 11,787	\$ (71,226)	\$ 932,006	\$ 52,038

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, 2018 are as follows:

Year Ended June 30,	Business-type Activities	
	Principal	Interest
2019	\$ 50,000	\$ 18,477
2020	50,000	17,477
2021	50,000	16,477
2022	50,000	15,477
2023	55,000	14,477
2024-2028	285,000	55,785
2029-2033	315,000	26,085
2034	68,853	1,377
Totals	\$ 923,853	\$ 165,632

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	Nonmajor Governmental Funds	Total
Nonspendable					
Land held for resale	\$ 505,308	\$ -	\$ -	\$ -	\$ 505,308
Advance to component unit	58,130	-	-	-	58,130
Total nonspendable	563,438	-	-	-	563,438
Restricted					
Building exterior revolving loan program	100,000	-	-	-	100,000
Tangle Town play area	5,966	-	-	-	5,966
Major and local streets	-	215,467	-	211,711	427,178
Police training	-	-	-	3,000	3,000
D.A.R.E.	-	-	-	11,899	11,899
Drug enforcement	-	-	-	30,808	30,808
Library operations	-	-	469,906	-	469,906
Cemetery operations	-	-	-	41,245	41,245
Total restricted	105,966	215,467	469,906	298,663	1,090,002
Assigned					
Police activities/training	16,312	-	-	585	16,897
Unassigned	1,514,202	-	-	-	1,514,202
Total fund balances - governmental funds	\$ 2,199,918	\$ 215,467	\$ 469,906	\$ 299,248	\$ 3,184,539

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, 2018, was as follows:

	Governmental Activities	Business-type Activities
Capital assets:		
Capital assets not being depreciated	\$ 1,818,658	\$ 99,200
Capital assets being depreciated, net	<u>16,960,421</u>	<u>12,492,396</u>
	18,779,079	12,591,596
Related debt:		
Bonds payable	<u>-</u>	<u>923,853</u>
Net investment in capital assets	<u>\$ 18,779,079</u>	<u>\$ 11,667,743</u>

10. DEFINED BENEFIT PENSION PLAN

General Information About the Plan

Plan Description. The City's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide 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/bargaining unit and are calculated as final average compensation (based on a 3 or 5 year period) and multipliers at 2.25%. Participants are considered to be fully vested in the plan after 10 years. Normal retirement age is 60 with early retirement at age 50 with 25 years of service, or age 55 with 15 years of service, depending on division/bargaining unit.

Employees Covered by Benefit Terms. At December 31, 2017 valuation date, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	75
Inactive employees entitled to but not yet receiving benefits	19
Active employees	<u>56</u>
Total membership	<u><u>150</u></u>

Contributions. The employer 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. In addition, the employer may establish contribution rates to be paid by its covered employees.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

Employer and employee contribution amounts or rates, by division/bargaining unit, were as follows for the year ended June 30, 2018:

Division	Plan Type	Status	Employer Contribution Rate	Employee Contribution Rate
General	Defined Benefit	Closed	\$ 23,068	0.00%
Police	Defined Benefit	Closed	9,732	1.56%
Fire full-time	Defined Benefit	Closed	2,805	0.00%
DPW	Defined Benefit	Closed	11,528	0.00%
Fire volunteer	Defined Benefit	Closed	-	3%<;5%>
City Council	Defined Benefit	Open	1,069	0.00%
DPW	Hybrid	Open	932	0.00%
General	Hybrid	Open	1,346	0.00%
Fire full-time	Hybrid	Open	-	0.00%
Police	Hybrid	Open	925	0.00%

Net Pension Liability. The City's net pension liability was measured as of December 31, 2017, 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, 2017 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, 2017 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	<u>10.00%</u>	6.56%	0.66%
	<u><u>100.00%</u></u>		
Inflation			3.25%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u><u>8.00%</u></u>

Discount Rate. The discount rate used to measure the total pension liability as of December 31, 2017 was 8.0%. 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, 2016	\$ 15,968,218	\$ 7,982,175	\$ 7,986,043
Changes for the year:			
Service cost	138,539	-	138,539
Interest	1,234,049	-	1,234,049
Change in benefits	(1,974)	-	(1,974)
Differences between expected and actual experience	53,377	-	53,377
Employer contributions	-	609,436	(609,436)
Employee contributions	-	5,785	(5,785)
Net investment income	-	1,017,247	(1,017,247)
Benefit payments, including refunds of employee contributions	(1,223,752)	(1,223,752)	-
Administrative expense	-	(16,164)	16,164
Other changes	180	-	180
Net changes	<u>200,419</u>	<u>392,552</u>	<u>(192,133)</u>
Balances at December 31, 2017	<u>\$ 16,168,637</u>	<u>\$ 8,374,727</u>	<u>\$ 7,793,910</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	\$ 9,387,867	\$ 7,793,910	\$ 6,428,248

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/Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the City recognized pension expense of \$990,607. The City reported deferred outflows/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	\$ -	\$ 129,874	\$ (129,874)
Changes in assumptions	181,876	-	181,876
Net difference between projected and actual earnings on pension plan investments	73,260	44,201	29,059
	<u>255,136</u>	<u>174,075</u>	<u>81,061</u>
Contributions subsequent to the measurement date	312,521	-	312,521
	<u>567,657</u>	<u>174,075</u>	<u>393,582</u>
Total	<u>\$ 567,657</u>	<u>\$ 174,075</u>	<u>\$ 393,582</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, 2019. 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
2019	\$ 223,018
2020	55,090
2021	(116,313)
2022	<u>(80,734)</u>
Total	<u>\$ 81,061</u>

Payable to the Pension Plan. At June 30, 2018, the City reported a payable of \$49,877 for the outstanding amount of contributions to the pension plan.

For the governmental activities the net pension liability is generally liquidated by the general fund.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

11. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The City administers a single-employer defined benefit healthcare plan (OPEB Plan) that is used to provide postemployment benefits other than pensions (OPEB) in accordance with union agreements and/or personnel policies, to employees who have retired. Effective February 24, 2014, the City adopted the Michigan Municipal Employees' Retirement System (MERS) Retiree Health Funding Vehicle to fund the obligation. Stand-alone financial statements are not issued for the OPEB Plan.

The MERS Retiree Health Funding Vehicle became operational in the fall of 2004, and was made available to all municipalities in Michigan. Participating municipalities can contribute monies to the Trust as desired and no contribution method is imposed. These funds constitute a health care fund, which enable municipalities to accumulate monies to provide or subsidize health benefits for retirees and beneficiaries as defined by Code Section 213. The Retiree Health Funding Vehicle accounts are invested in the MERS portfolio choices and earnings are tax exempt as a result of the MERS Private Letter Ruling. Plan provisions and requirements are specified in the MERS Health Care Savings Program and Retiree Health Funding Vehicle Plan Document and Trust.

Management of the OPEB Plan is vested with the City Council.

Plan Membership. At June 30, 2018, OPEB Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	49
Active plan members	<u>19</u>
Total membership	<u><u>68</u></u>

Benefits Provided. The City Council has the authority to establish or amend benefit terms, to determine the types of benefits provided through the OPEB Plan, and to determine the classes of plan members covered. The City permits retiring employees to continue theirs and their spouse on the employer-paid health insurance program at a 50% employee-paid rate until the retired employee reaches the age of 65. If a spouse reaches the age of 65 before the retiree, their coverage ends at that time.

Contributions. Active Plan members are not required to contribute to the OPEB Plan, but retirees are required to pay between 50% and 90% of the amount of the monthly insurance premium on a pay-as-you-go basis, depending on the length of service at the employee's date of retirement. The contribution requirements of OPEB Plan members and the City are established and may be amended by the City Council. The Plan's funding policy is that the Employer will contribute any amount as budgeting permits.

Investments

Investment Policy. The OPEB Plan's policy in regard to the allocation of invested assets is established and may be amended by the City Council. The investment policy has been formulated based on consideration of a wide range of policies and describes the prudent investment processes that the City Council deems appropriate. The OPEB Plan's asset allocation policy is shown on the following pages.

Concentrations. At June 30, 2018, the OPEB Plan's investments were fully invested in the MERS Retiree Health Funding Vehicle.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

Rate of Return. For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 5.25 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The long-term expected rate of return on OPEB Plan investments was determined using a forward looking estimate of capital market returns model for each investment major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and investment expenses. The target allocation and best estimates of arithmetic real rates of return for each 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	55.5%	6.15%	3.42%
Global fixed income	18.5%	1.26%	0.23%
Real estate	13.5%	7.22%	0.97%
Diversifying strategies	12.5%	5.00%	0.63%
	<u>100.0%</u>		5.25%
Inflation			<u>2.50%</u>
Investment rate of return			<u>7.75%</u>

Discount Rate. The discount rate used to measure the total OPEB liability was 3.06%. The projection of cash flows used to determine the discount rate assumed that \$150,000 contributions will be made at least for the next two years. Based on those assumptions, the Plan’s fiduciary net position was projected to be insufficient to make all projected future benefit payments of current Plan participants beyond 2020. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the “depletion date”), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the Total OPEB Liability.

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation (using the alternative measurement method) as of June 30, 2018, using the following actuarial assumptions (which were determined by management utilizing the best information available), applied to all periods included in the measurement, unless otherwise specified:

Inflation – 2.5%

Salary increases – 2.5%

Investment rate of return – 7.75%, net of OPEB Plan investment expense, including inflation

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

Healthcare cost trend rates – The expected rate of increase in healthcare insurance premiums was based on projections by the City's management. For those below age 65, the inflation rate was assumed to be 8.5% in 2019 graded down 0.25% per year to an ultimate rate of 4.5%. For those who are Medicare eligible, the 2019 rate is assumed to be 7.5%, with the same annual downgrade and ultimate rate as the pre-65 participants.

Retirement age for active employees – Consistent with the City's experience, retirement rates were graduated from 2% at age 50 to 100% at age 68.

Marital status – 80% of active employees will have a covered spouse at retirement; Female spouses are assumed to be 4 years younger than male spouses; Actual spouse data used for retirees.

Mortality – RPH-2014 annuitant and non-annuitant, sex distinct, health mortality with mortality improvement scale MP 2017.

Health insurance premiums – 2018 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Probability of accepting benefits – 90% of eligible employees will elect coverage at retirement - half of whom will choose optional BCNA when Medicare eligible; 10% will receive \$200 per month waiver; Actual coverage used for non-active; one-half of current retirees under 65 will choose optional BCNA when Medicare eligible.

Net OPEB Liability of the City

The components of the net OPEB liability of the City at June 30, 2018, were as follows:

Total OPEB liability	\$ 14,292,427
Plan fiduciary net position	<u>579,272</u>
City's net OPEB liability	<u>\$ 13,713,155</u>
Plan fiduciary net position as a percentage of the total OPEB liability	4.1%

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

Changes in Net OPEB Liability

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

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balances at June 30, 2017	\$ 14,181,377	\$ 536,418	\$ 13,644,959
Changes for the year:			
Service cost	103,897	-	103,897
Interest	431,988	-	431,988
Differences between expected and actual experience	(88,853)	-	(88,853)
Employer contributions	-	335,982	(335,982)
Net investment income	-	44,207	(44,207)
Benefit payments, including refunds of employee contributions	(335,982)	(335,982)	-
Administrative expense	-	(1,353)	1,353
Net changes	111,050	42,854	68,196
Balances at June 30, 2018	\$ 14,292,427	\$ 579,272	\$ 13,713,155

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate. The following presents the net OPEB liability of the City, calculated using the discount rate of 3.06%, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.06%) or 1% higher (4.06%) than the current rate:

1% Decrease (2.06%)	Current Discount Rate (3.06%)	1% Increase (4.06%)
\$ 16,632,477	\$ 13,713,155	\$ 11,864,371

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following presents the net OPEB liability of the City, calculated using the healthcare cost trend rate of 8.5%, as well as what the City's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower (7.5%) or 1% higher (9.5%) than the current rate:

1% Decrease (7.5%)	Current Healthcare Trend Rate (8.5%)	1% Increase (9.5%)
\$ 11,919,674	\$ 13,713,155	\$ 16,541,565

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the City recognized OPEB expense of \$443,821. The City reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources
Difference between expected and actual experience	\$ (37,493)
Net difference between projected and actual earnings on OPEB plan investments	<u>(2,150)</u>
	<u>\$ (39,643)</u>

Amounts reported as deferred outflows/inflows of resources related to the OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Amount
2019	\$ (38,030)
2020	(537)
2021	(537)
2022	<u>(539)</u>
Total	<u>\$ (39,643)</u>

Payable to the OPEB Plan. At June 30, 2018, the City had no amounts payable for contributions to the OPEB plan.

For the governmental activities, the net OPEB liability is generally liquidated by the general fund.

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, 2018, the balances of the Cemetery and Library funds held by the Barry Community Foundation were \$943,134 and \$397,378, respectively, including spendable amounts of \$92,218 and \$992, respectively.

CITY OF HASTINGS, MICHIGAN

■ Notes to Financial Statements

13. LITIGATION

In the normal course of its activities, the City is 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 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 2018 amounted to \$6,882.

15. RESTATEMENTS

The City adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result of this change, beginning net position of governmental and business-type activities decreased \$8,569,110 and 1,532,488, respectively.

In addition, beginning net position of governmental activities and fund balance of the general fund decreased \$45,934 to properly account for payments in lieu of taxes collected and recorded as revenue in a prior year that belonged to other local governmental units. The error was discovered during the current year and the appropriate amounts remitted.



This page intentionally left blank.

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,			
	2018	2017	2016	2015
Total pension liability				
Service cost	\$ 138,539	\$ 149,861	\$ 156,822	\$ 166,909
Interest	1,234,049	1,215,477	1,192,492	1,175,920
Changes in benefits	(1,974)	-	-	-
Differences between expected and actual experience	53,377	66,455	(176,810)	-
Changes of assumptions	-	-	727,510	-
Benefit payments, including refunds of employee contributions	(1,223,752)	(1,164,203)	(1,150,859)	(1,122,957)
Other changes	180	-	-	-
Net change in total pension liability	<u>200,419</u>	<u>267,590</u>	<u>749,155</u>	<u>219,872</u>
Total pension liability, beginning of year	<u>15,968,218</u>	<u>15,700,628</u>	<u>14,951,473</u>	<u>14,731,601</u>
Total pension liability, end of year	<u>16,168,637</u>	<u>15,968,218</u>	<u>15,700,628</u>	<u>14,951,473</u>
Plan fiduciary net position				
Employer contributions	609,436	717,651	633,390	598,213
Employee contributions	5,785	5,649	7,266	8,466
Net investment income (loss)	1,017,247	834,716	(115,260)	509,219
Benefit payments, including refunds of employee contributions	(1,223,752)	(1,164,203)	(1,150,859)	(1,122,957)
Administrative expense	(16,164)	(16,520)	(17,437)	(18,563)
Net change in plan fiduciary net position	<u>392,552</u>	<u>377,293</u>	<u>(642,900)</u>	<u>(25,622)</u>
Plan fiduciary net position, beginning of year	<u>7,982,175</u>	<u>7,604,882</u>	<u>8,247,782</u>	<u>8,273,404</u>
Plan fiduciary net position, end of year	<u>8,374,727</u>	<u>7,982,175</u>	<u>7,604,882</u>	<u>8,247,782</u>
City's net pension liability	<u>\$ 7,793,910</u>	<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	51.80%	49.99%	48.44%	55.16%
Covered payroll	\$ 2,167,475	\$ 2,186,822	\$ 2,137,801	\$ 2,251,414
City's net pension liability as a percentage of covered payroll	359.58%	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
2018	\$ 16,168,637	\$ 8,374,727	\$ 7,793,910	51.80%	\$ 2,167,475	359.58%
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
2018	\$ 625,114	\$ 625,114	\$ -	\$ 2,303,999	27.13%
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 (2018, based on the 12/31/2015 actuarial valuation):

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, open
Remaining amortization period	23 years
Asset valuation method	Open; 10-year smooth market
Inflation	2.5%
Salary increases	3.75% in the long-term
Investment rate of return	7.5%, 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, 2015 actuarial valuations. The Early Retirement rates were first used for the December 31, 2015 actuarial valuations.
Mortality	2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend. The mortality tables were first used for the December 31, 2015 actuarial valuations.

CITY OF HASTINGS, MICHIGAN

Required Supplementary Information Single-Employer Other Postemployment Benefits Plan

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

	Year Ended June 30, 2018
Total OPEB liability	
Service cost	\$ 103,897
Interest	431,988
Differences between expected and actual experience	(88,853)
Benefit payments, including refunds of employee contributions	(335,982)
Net change in total OPEB liability	<u>111,050</u>
Total OPEB liability, beginning of year	<u>14,181,377</u>
Total OPEB liability, end of year	<u>14,292,427</u>
Plan fiduciary net position	
Employer contributions	335,982
Net investment income	44,207
Benefit payments, including refunds of employee contributions	(335,982)
Administrative expense	(1,353)
Net change in plan fiduciary net position	<u>42,854</u>
Plan fiduciary net position, beginning of year	<u>536,418</u>
Plan fiduciary net position, end of year	<u>579,272</u>
City's net OPEB liability	<u>\$ 13,713,155</u>
Plan fiduciary net position as a percentage of total OPEB liability	4.1%
Covered payroll	\$ 992,264
City's net OPEB liability as a percentage of covered payroll	1382.0%

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF HASTINGS, MICHIGAN

Required Supplementary Information Single-Employer Other Postemployment Benefits Plan

Schedule of the Net OPEB Liability

Year Ended June 30,	Total OPEB Liability	Plan Net Position	Net OPEB Liability	Plan Net Position as Percentage of Total OPEB Liability	Covered Payroll	Net OPEB Liability as Percentage of Covered- Employee Payroll
2018	\$ 14,292,427	\$ 579,272	\$ 13,713,155	4.1%	\$ 992,264	1382.0%

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF HASTINGS, MICHIGAN

Required Supplementary Information Single-Employer Other Postemployment Benefits Plan

Schedule of Contributions

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution (Deficiency) Excess	Covered Payroll	Contributions as Percentage of Covered-Employee Payroll
2018	\$ 808,642	\$ 335,982	\$ (472,660)	\$ 992,264	33.9%

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF HASTINGS, MICHIGAN

Required Supplementary Information Single-Employer Other Postemployment Benefits Plan

Schedule of Investment Returns

Year Ended June 30,	Annual Money- Weighted Rate of Return, Net of Investment Expense
2018	7.75%

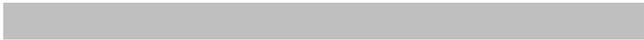
Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

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

CITY OF HASTINGS, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2018

	Special Revenue		
	Local Streets	Cemetery	Drug Enforcement
Assets			
Cash and cash equivalents	\$ 165,733	\$ 49,759	\$ 30,808
Accounts receivable	2,077	-	-
Due from other governments	63,823	-	-
Total assets	<u>\$ 231,633</u>	<u>\$ 49,759</u>	<u>\$ 30,808</u>
Liabilities			
Accounts payable	\$ 17,682	\$ 8,514	\$ -
Accrued liabilities	2,240	-	-
Total liabilities	<u>19,922</u>	<u>8,514</u>	<u>-</u>
Fund balances			
Restricted	211,711	41,245	30,808
Assigned	-	-	-
Total fund balances	<u>211,711</u>	<u>41,245</u>	<u>30,808</u>
Total liabilities and fund balances	<u>\$ 231,633</u>	<u>\$ 49,759</u>	<u>\$ 30,808</u>



Special Revenue		
Police Training	D.A.R.E.	Totals
\$ 3,585	\$ 11,899	\$ 261,784
-	-	2,077
-	-	63,823
<hr/>		
\$ 3,585	\$ 11,899	\$ 327,684
<hr/>		
\$ -	\$ -	\$ 26,196
-	-	2,240
<hr/>		
-	-	28,436
<hr/>		
3,000	11,899	298,663
585	-	585
<hr/>		
3,585	11,899	299,248
<hr/>		
\$ 3,585	\$ 11,899	\$ 327,684
<hr/>		

CITY OF HASTINGS, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2018

	Special Revenue		
	Local Streets	Cemetery	Drug Enforcement
Revenues			
Taxes	\$ -	\$ 127,914	\$ -
Intergovernmental - State	312,105	-	-
Charges for services	5,125	25,457	-
Fines and forfeitures	-	-	673
Contributions and donations	-	46,705	-
Interest	147	135	59
Total revenues	317,377	200,211	732
Expenditures			
Current:			
General government	-	175,072	-
Public safety	-	-	309
Public works	430,089	-	-
Total expenditures	430,089	175,072	309
Revenues over (under) expenditures	(112,712)	25,139	423
Other financing sources			
Transfers in	256,426	-	-
Net changes in fund balances	143,714	25,139	423
Fund balances, beginning of year	67,997	16,106	30,385
Fund balances, end of year	\$ 211,711	\$ 41,245	\$ 30,808



Special Revenue		
Police Training	D.A.R.E.	Totals
\$ -	\$ -	\$ 127,914
2,245	-	314,350
-	-	30,582
-	-	673
-	-	46,705
-	24	365
<hr/>		
2,245	24	520,589
<hr/>		
-	-	175,072
2,297	-	2,606
-	-	430,089
<hr/>		
2,297	-	607,767
<hr/>		
(52)	24	(87,178)
<hr/>		
3,000	-	259,426
<hr/>		
2,948	24	172,248
<hr/>		
637	11,875	127,000
<hr/>		
\$ 3,585	\$ 11,899	\$ 299,248
<hr/> <hr/>		

CITY OF HASTINGS, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Local Streets Special Revenue Fund

For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Intergovernmental:				
Federal	\$ 281,619	\$ 552,926	\$ -	\$ (552,926)
State	217,966	247,815	312,105	64,290
Charges for services	-	-	5,125	5,125
Interest	106	106	147	41
Total revenues	499,691	800,847	317,377	(483,470)
Expenditures				
Current - public works:				
Construction	350,127	671,428	53,495	(617,933)
Routine maintenance	318,438	247,520	209,465	(38,055)
Sweeping	86,017	77,367	74,193	(3,174)
Traffic services	6,804	6,804	3,554	(3,250)
Winter maintenance	86,049	91,052	89,382	(1,670)
Total expenditures	847,435	1,094,171	430,089	(664,082)
Revenues over (under) expenditures	(347,744)	(293,324)	(112,712)	180,612
Other financing sources				
Transfers in	256,426	256,426	256,426	-
Net change in fund balance	(91,318)	(36,898)	143,714	180,612
Fund balance, beginning of year	101,318	67,997	67,997	-
Fund balance, end of year	\$ 10,000	\$ 31,099	\$ 211,711	\$ 180,612

CITY OF HASTINGS, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Cemetery Special Revenue Fund For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	\$ 127,400	\$ 127,400	\$ 127,914	\$ 514
Charges for services	17,500	17,500	25,457	7,957
Contributions and donations	11,000	57,705	46,705	(11,000)
Interest	100	103	135	32
Total revenues	156,000	202,708	200,211	(2,497)
Expenditures				
Current - general government	165,330	215,035	175,072	(39,963)
Net change in fund balance	(9,330)	(12,327)	25,139	37,466
Fund balance, beginning of year	39,352	16,106	16,106	-
Fund balance, end of year	\$ 30,022	\$ 3,779	\$ 41,245	\$ 37,466

CITY OF HASTINGS, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Drug Enforcement Special Revenue Fund For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Fines and forfeitures	\$ 200	\$ 200	\$ 673	\$ 473
Interest	15	15	59	44
Total revenues	215	215	732	517
Expenditures				
Current - public safety	4,375	4,375	309	(4,066)
Net change in fund balance	(4,160)	(4,160)	423	4,583
Fund balance, beginning of year	28,187	30,385	30,385	-
Fund balance, end of year	\$ 24,027	\$ 26,225	\$ 30,808	\$ 4,583

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, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Intergovernmental - State	\$ 2,100	\$ 2,100	\$ 2,245	\$ 145
Expenditures				
Current - public safety:				
Police training	5,100	5,100	2,297	(2,803)
Revenues over (under) expenditures	(3,000)	(3,000)	(52)	2,948
Other financing sources				
Transfers in	3,000	3,000	3,000	-
Net changes in fund balance	-	-	2,948	2,948
Fund balance, beginning of year	-	637	637	-
Fund balance, end of year	\$ -	\$ 637	\$ 3,585	\$ 2,948

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, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Interest	\$ 25	\$ 27	\$ 24	\$ (3)
Net change in fund balance	25	27	24	(3)
Fund balance, beginning of year	11,676	11,875	11,875	-
Fund balance, end of year	\$ 11,701	\$ 11,902	\$ 11,899	\$ (3)

INTERNAL SERVICE FUNDS

CITY OF HASTINGS, MICHIGAN

Combining Statement of Net Position

Internal Service Funds

June 30, 2018

	Equipment Pool	Administrative Services	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 265,606	\$ 560,550	\$ 826,156
Investments	256,415	-	256,415
Due from other governments	765	-	765
Inventory	32,869	-	32,869
Prepaid items	-	76,679	76,679
Total current assets	555,655	637,229	1,192,884
Noncurrent assets:			
Capital assets not being depreciated	104,700	161,456	266,156
Capital assets being depreciated, net	1,488,673	1,160,916	2,649,589
Total noncurrent assets	1,593,373	1,322,372	2,915,745
Total assets	2,149,028	1,959,601	4,108,629
Liabilities			
Current liabilities:			
Accounts payable	4,600	67,886	72,486
Accrued liabilities	790	7,642	8,432
Due to other funds	-	20,385	20,385
Current portion of long-term debt	1,827	14,476	16,303
Total current liabilities	7,217	110,389	117,606
Long-term debt, net of current portion	5,479	43,430	48,909
Total liabilities	12,696	153,819	166,515
Net position			
Investment in capital assets	1,593,373	1,322,372	2,915,745
Unrestricted	542,959	483,410	1,026,369
Total net position	\$ 2,136,332	\$ 1,805,782	\$ 3,942,114

CITY OF HASTINGS, MICHIGAN

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

Internal Service Funds

For the Year Ended June 30, 2018

	Equipment Pool	Administrative Services	Total
Operating revenues			
Charges for services	\$ 703,331	\$ 1,337,304	\$ 2,040,635
Operating expenses			
Personnel services	86,496	1,075,277	1,161,773
Professional and contractual services	7,660	235,030	242,690
Materials and supplies	135,985	35,293	171,278
Utilities	18,451	29,089	47,540
Repairs and maintenance	57,473	14,044	71,517
Insurance and bonds	16,786	27,184	43,970
Equipment rental	12,232	15,644	27,876
Depreciation	212,634	99,476	312,110
Administrative services	30,019	-	30,019
Miscellaneous	2,154	1,459	3,613
Total operating expenses	579,890	1,532,496	2,112,386
Operating income (loss)	123,441	(195,192)	(71,751)
Nonoperating revenues			
Interest income	4,352	3,442	7,794
Gain on sale of capital assets	6,572	-	6,572
Federal revenue	-	15,333	15,333
Miscellaneous revenue	17,480	16,558	34,038
Total nonoperating revenues	28,404	35,333	63,737
Change in net position	151,845	(159,859)	(8,014)
Net position, beginning of year	1,984,487	1,965,641	3,950,128
Net position, end of year	\$ 2,136,332	\$ 1,805,782	\$ 3,942,114

CITY OF HASTINGS, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2018

	Equipment Pool	Administrative Services	Total
Cash flows from operating activities			
Cash received from other funds	\$ 703,282	\$ 1,357,689	\$ 2,060,971
Cash payments to suppliers for goods and services	(256,717)	(319,971)	(576,688)
Cash payments to employees for services	(86,693)	(1,070,200)	(1,156,893)
Cash payments for internal services	(30,019)	(15,644)	(45,663)
Net cash provided by (used in) operating activities	<u>329,853</u>	<u>(48,126)</u>	<u>281,727</u>
Cash flows from noncapital financing activities			
Nonoperating revenue received	<u>17,480</u>	<u>31,891</u>	<u>49,371</u>
Cash flows from capital and related financing activities			
Acquisitions of capital assets	(482,356)	(13,454)	(495,810)
Proceeds from sale of capital assets	<u>194,204</u>	<u>-</u>	<u>194,204</u>
Net cash used in capital and related financing activities	<u>(288,152)</u>	<u>(13,454)</u>	<u>(301,606)</u>
Cash flows from investing activities			
Interest received	4,352	3,442	7,794
Purchase of investments	<u>(3,809)</u>	<u>-</u>	<u>(3,809)</u>
Net cash provided by investing activities	<u>543</u>	<u>3,442</u>	<u>3,985</u>
Net change in cash and cash equivalents	59,724	(26,247)	33,477
Cash and cash equivalents, beginning of year	<u>205,882</u>	<u>586,797</u>	<u>792,679</u>
Cash and cash equivalents, end of year	<u>\$ 265,606</u>	<u>\$ 560,550</u>	<u>\$ 826,156</u>

continued...

CITY OF HASTINGS, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2018

	Equipment Pool	Administrative Services	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ 123,441	\$ (195,192)	\$ (71,751)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	212,634	99,476	312,110
Changes in assets and liabilities which provided (used) cash:			
Due from other governments	(49)	-	(49)
Inventory and prepaid items	(7,886)	9,135	1,249
Accounts payable	1,910	12,993	14,903
Accrued liabilities	297	2,003	2,300
Due to other funds	-	20,385	20,385
Compensated absences	(494)	3,074	2,580
Net cash provided by (used in) operating activities	<u>\$ 329,853</u>	<u>\$ (48,126)</u>	<u>\$ 281,727</u>

concluded

This page intentionally left blank.

FIDUCIARY FUNDS

CITY OF HASTINGS, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds
June 30, 2018

	Tax Collections	DPS Distribution Fund	Total
Assets			
Cash and cash equivalents	\$ -	\$ 3,898	\$ 3,898
Liabilities			
Due to other governments	\$ -	\$ 3,898	\$ 3,898

CITY OF HASTINGS, MICHIGAN

Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds

For the Year Ended June 30, 2018

	July 1, 2017	Additions	Deletions	June 30, 2018
<i>Tax Collections</i>				
Assets				
Cash and cash equivalents	\$ -	\$ 9,071,866	\$ (9,071,866)	\$ -
Liabilities				
Due to other governments	\$ -	\$ 9,071,866	\$ (9,071,866)	\$ -
<i>DPS Distribution Fund</i>				
Assets				
Cash and cash equivalents	\$ -	\$ 236,410	\$ (232,512)	\$ 3,898
Liabilities				
Due to other governments	\$ -	\$ 51,358	\$ (47,460)	\$ 3,898
Accrued liabilities	-	185,052	(185,052)	-
Total liabilities	\$ -	\$ 236,410	\$ (232,512)	\$ 3,898
<i>Total Agency Funds</i>				
Assets				
Cash and cash equivalents	\$ -	\$ 9,308,276	\$ (9,304,378)	\$ 3,898
Liabilities				
Due to other governments	\$ -	\$ 9,123,224	\$ (9,119,326)	\$ 3,898
Accrued liabilities	-	185,052	(185,052)	-
Total liabilities	\$ -	\$ 9,308,276	\$ (9,304,378)	\$ 3,898

This page intentionally left blank.

COMPONENT UNITS

CITY OF HASTINGS, MICHIGAN

Balance Sheet

Governmental Fund
Brownfield Redevelopment Authority Component Unit
June 30, 2018

	Governmental Fund
Liabilities	
Negative equity in pooled cash	\$ 317
Accounts payable	<u>369,394</u>
Total liabilities	369,711
Fund balance	
Unassigned (deficit)	<u>(369,711)</u>
Total liabilities and fund balance	<u><u>\$ -</u></u>

CITY OF HASTINGS, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental Fund

Brownfield Redevelopment Authority Component Unit

For the Year Ended June 30, 2018

	Governmental Fund
Revenues	
Taxes	\$ 20,821
Expenditures	
Administrative services	<u>10,702</u>
Total expenditures / expenses	<u>10,702</u>
Net change in fund balance	10,119
Fund balance (deficit), beginning of year	<u>(379,830)</u>
Fund balance (deficit), end of year	<u><u>\$ (369,711)</u></u>

CITY OF HASTINGS, MICHIGAN

Balance Sheet

Governmental Fund
Downtown Development Authority Component Unit
June 30, 2018

	Governmental Fund
Assets	
Cash and cash equivalents	\$ 230,713
Liabilities	
Accounts payable	\$ 62,142
Advance from primary government	58,130
Total liabilities	120,272
Fund balance	
Unassigned	110,441
Total liabilities and fund balance	\$ 230,713

CITY OF HASTINGS, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental Fund

Downtown Development Authority Component Unit

For the Year Ended June 30, 2018

	Governmental Fund
Revenues	
Taxes	\$ 397,432
Intergovernmental - State	35,526
Contributions and donations	14,149
Interest	518
	<hr/>
Total revenues	447,625
	<hr/>
Expenditures	
Contributions to primary government	210,547
Capital outlay	98,268
Interest expense	2,757
Other	36,776
	<hr/>
Total expenditures	348,348
	<hr/>
Net change in fund balance	99,277
	<hr/>
Fund balance, beginning of year	11,164
	<hr/>
Fund balance, end of year	\$ 110,441
	<hr/> <hr/>

CITY OF HASTINGS, MICHIGAN

Balance Sheet

Governmental Fund
Local Development Finance Authority Component Unit
June 30, 2018

	Governmental Fund
Assets	
Cash and cash equivalents	\$ 94,022
Land held for resale	23,738
	<hr/>
Total assets	\$ 117,760
	<hr/> <hr/>
Fund balance	
Nonspendable	\$ 23,738
Unassigned	218,831
	<hr/>
Total fund balance	\$ 242,569
	<hr/> <hr/>

CITY OF HASTINGS, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental Fund

Local Development Finance Authority Component Unit

For the Year Ended June 30, 2018

	Governmental Fund
Revenues	
Taxes	\$ 14,188
Intergovernmental - State	8,594
Interest	<u>2,083</u>
Total revenues	24,865
Expenditures	
Capital outlay	<u>5,987</u>
Net change in fund balance	18,878
Fund balance, beginning of year	<u>223,691</u>
Fund balance, end of year	<u><u>\$ 242,569</u></u>

This page intentionally left blank.

INTERNAL CONTROL AND COMPLIANCE

This page intentionally left blank.

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*

December 19, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 19, 2018.

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 2018-001 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 2018-002 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 Responses 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.

A handwritten signature in black ink that reads "Rehmann Lobson LLC". The signature is written in a cursive, flowing style.

CITY OF HASTINGS, MICHIGAN

Schedule of Findings and Responses For the Year Ended June 30, 2018

2018-001 - Segregation of Incompatible Duties (Repeat Comment)

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.
- 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.
- Bank reconciliations are not being completed and/or in a timely manner and are sometimes being completed by an employee who has significant cash receipting and disbursement duties.
- 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 in financial management and the time necessary to analyze the duties of each staff member to achieve optimal segregation of tasks.

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.

CITY OF HASTINGS, MICHIGAN

Schedule of Findings and Responses For the Year Ended June 30, 2018

2018-001 - Segregation of Incompatible Duties (Repeat Comment) (Concluded)

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:

- 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).
- 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.
- Segregate the responsibility for completion of bank reconciliations from both cash receipting and disbursement duties.
- Strictly enforce policies requiring timely completion of bank reconciliations.

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 made staffing changes and will work with auditors to make further improvements.

CITY OF HASTINGS, MICHIGAN

Schedule of Findings and Responses For the Year Ended June 30, 2018

2018-002 - Significant Audit Adjustments (Repeat Comment)

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.

View of Responsible Officials. With no anticipated staff turnover, and regular monitoring of transactions and monthly financial statements, any anomalies found will be addressed timely, and eliminate any misstatements.

