

City of Hastings,
Michigan



Year Ended
June 30, 2019

Financial
Statements

CITY OF HASTINGS, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

December 18, 2019

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, 2019, 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, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund and the major special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2019, 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 Lohman LLC

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MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF HASTINGS, MICHIGAN

Management's Discussion and Analysis

As management of the City of Hastings, Michigan (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2019. 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 \$23,182,598 at the end of the current fiscal compared to \$18,713,611 at the end of the prior period. Net position of governmental activities increased by \$4,401,519, while net position of business-type activities increased by \$67,468.
- Significant activity included the following:
 - The City completed installation of a new fence at Riverside Cemetery using funds donated for capital improvements for the Cemetery in fiscal year 2018/19. Continued improvements in the cemetery including new benches, foundation restoration, and tree replacements are slated for fiscal year 2019/20.
 - The City also completed the MDOT "Safe Routes to Schools" project.
 - 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.

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).

CITY OF HASTINGS, MICHIGAN

Management's Discussion and Analysis

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, and library fund, each of which is considered to be a major fund. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements and schedules* elsewhere in this report.

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

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.

CITY OF HASTINGS, MICHIGAN

Management's Discussion and Analysis

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 \$23,182,598 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	
	2019	2018	2019	2018	2019	2018
Assets						
Current and other assets	\$ 7,508,498	\$ 9,027,465	\$ 2,848,644	\$ 3,583,214	\$10,357,142	\$12,610,679
Capital assets, net	18,755,067	18,779,079	12,784,343	12,591,596	31,539,410	31,370,675
Total assets	26,263,565	27,806,544	15,632,987	16,174,810	41,896,552	43,981,354
Deferred outflows	771,995	479,102	142,691	88,555	914,686	567,657
Liabilities						
Current and other liabilities	15,222,914	20,870,070	3,032,668	3,541,911	18,255,582	24,411,981
Long-term debt	222,039	277,695	876,629	932,006	1,098,668	1,209,701
Total liabilities	15,444,953	21,147,765	3,909,297	4,473,917	19,354,250	25,621,682
Deferred inflows	231,586	180,379	42,804	33,339	274,390	213,718
Net position						
Net investment in capital assets	18,755,067	18,779,079	11,910,490	11,667,743	30,665,557	30,446,822
Restricted	3,851,124	3,683,865	-	195,477	3,851,124	3,879,342
Unrestricted (deficit)	(11,247,170)	(15,505,442)	(86,913)	(107,111)	(11,334,083)	(15,612,553)
Total net position	\$11,359,021	\$ 6,957,502	\$11,823,577	\$11,756,109	\$23,182,598	\$ 18,713,611

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 \$4,468,987. The governmental activities increase in net position of \$4,401,519 was up from the prior year mainly as the result of a moderate decrease in the net OPEB liability to changes enacted to the terms of the plan. The business-type activities increase in net position of \$67,468. was also the result of a significant decrease in the net OPEB liability.

CITY OF HASTINGS, MICHIGAN

Management's Discussion and Analysis

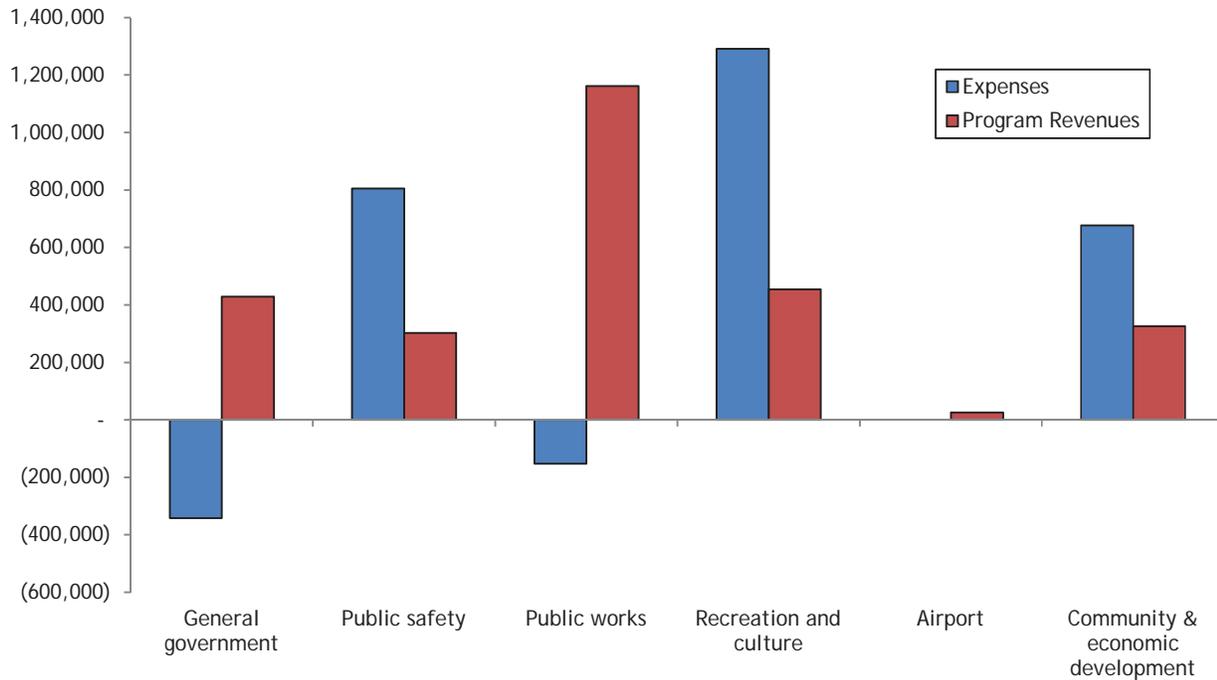
	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues						
Program revenues:						
Charges for services	\$ 875,932	\$ 841,547	\$ 2,878,356	\$ 2,754,041	\$ 3,754,288	\$ 3,595,588
Operating grants	1,499,960	1,727,669	38,485	11,715	1,538,445	1,739,384
Capital grants	322,613	400,006	-	293,894	322,613	693,900
General revenues:						
Property taxes	3,030,180	2,960,087	-	-	3,030,180	2,960,087
Unrestricted grants and contributions	789,566	865,569	-	-	789,566	865,569
Unrestricted investment earnings	109,583	60,801	-	-	109,583	60,801
Gain on disposal of capital assets	-	6,572	-	-	-	6,572
Other	30,185	120,816	858	-	31,043	120,816
Total revenues	6,658,019	6,983,067	2,917,699	3,059,650	9,575,718	10,042,717
Expenses						
General government	(341,757)	527,073	-	-	(341,757)	527,073
Public safety	805,282	2,864,183	-	-	805,282	2,864,183
Public works	(152,540)	731,903	-	-	(152,540)	731,903
Recreation and culture	1,290,846	1,496,042	-	-	1,290,846	1,496,042
Community and economic development	676,742	1,226,527	-	-	676,742	1,226,527
Water and sewer	-	-	2,828,158	3,194,779	2,828,158	3,194,779
Total expenses	2,278,573	6,845,728	2,828,158	3,194,779	5,106,731	10,040,507
Change in net position, before transfers	4,379,446	137,339	89,541	(135,129)	4,468,987	2,210
Transfers	22,073	22,798	(22,073)	(22,798)	-	-
Change in net position	4,401,519	160,137	67,468	(157,927)	4,468,987	2,210
Net position, beginning of year	6,957,502	15,412,409	11,756,109	13,446,524	18,713,611	28,858,933
Restatements	-	(8,615,044)	-	(1,532,488)	-	(10,147,532)
Net position, end of year	\$11,359,021	\$ 6,957,502	\$11,823,577	\$11,756,109	\$23,182,598	\$ 18,713,611

CITY OF HASTINGS, MICHIGAN

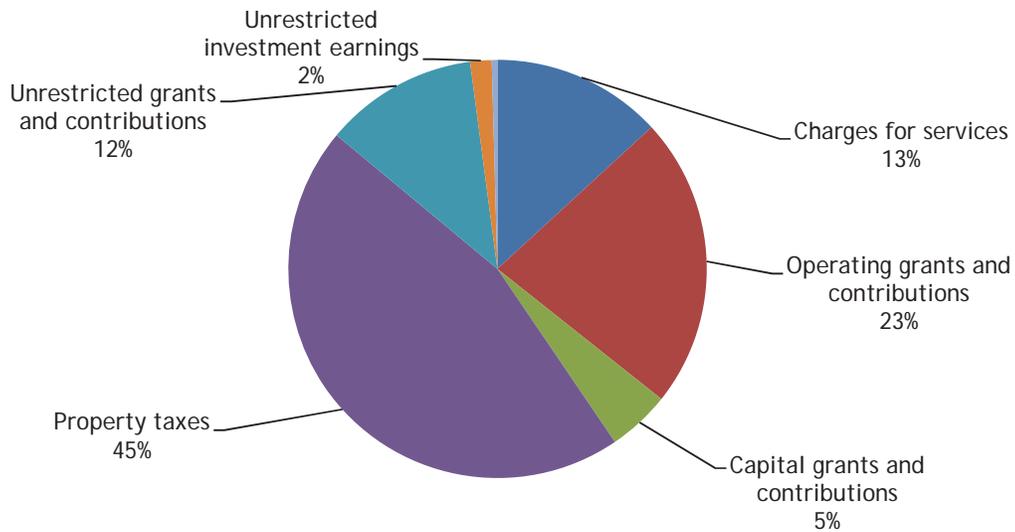
Management's Discussion and Analysis

Governmental Activities. Total governmental activities revenues decreased by \$325,048. This was primarily the result of a decrease in operating grant revenue related to Michigan State Housing Development Authority (MSHDA) administered housing projects and 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 decreased by \$4,567,155. This net decrease primarily relates to the activities associated with a net reduction in the City's OPEB liability.

During the year, the City continued its emphasis in public safety by investing \$805,282, or 35.3% of governmental activities expenses in this function. Recreation and cultural activities were \$1,290,846 or 56.7% of governmental activities expenses. The combination of general government, public works, and community and economic development made up the remaining 8.0% of governmental activities expenses.

Expenses for community and economic development decreased by \$549,785, or 44.8% over the prior year. The main cause of this decrease was reduction in grant spending by Federal dollars through the State of Michigan.

Business-type Activities. The City's business-type activities include the water and sewer system. Revenues of the business-type activities were \$2,917,699 (a decrease of \$141,951, or 4.6%, from the prior year). Expenses were \$2,828,158 (a decrease of \$366,621, or 11.5%, from the prior year). These significant decreases in revenues and expenses were due to the near completion of the grants received for the SAW program.

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 \$3,724,462, an increase of \$539,923 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 local streets 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 \$1,737,130, while total fund balance was \$2,498,037. 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 39.1% of total general fund expenditures and transfers out.

The library fund has a total fund balance of \$531,397, which increased by \$61,491 during the year. This increase is due to significant efforts to control costs combined with planned technology spending not taking place in 2018-19.

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 \$11,206,950. The water and sewer fund had an increase in net position for the year of \$42,722. 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 \$2,200 to account for election grant proceeds for the purchase of election equipment.
- The contributions revenue budget was amended \$153,500 higher than the original budget due to private donations to fund the summer programming and a new sign at Thornapple Plaza.
- The budgeted expenditures for recreation and culture increased by \$5,993 from the original budget. This increase was necessary to account additional tree plantings (funded with a local grant), and environmental and survey expenditures for donated property.

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

- General fund total expenditures were \$464,051 (10.5%) under budget reflecting positive results from City management efforts to aggressively limit and reduce costs. The largest positive variances were in public safety and recreation and cultural. Some costs, particularly those in the police department, will increase in the subsequent fiscal year due to increased staffing and the purchase of new vehicles. In addition, deferred projects in major and local streets and library funds will be scheduled for completion in fiscal year 19/20.

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, 2019, amounted to \$31,539,410 (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 \$461,245
- Safe Routes to School; Major Streets \$233,945 and Local Streets \$701,836
- Generator at the Water Treatment Plant; \$184,097
- New Volute Dewatering Press at Waste Water Treatment Plant; \$420,700

CITY OF HASTINGS, MICHIGAN

Management's Discussion and Analysis

	Capital Assets (Net of Depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 1,568,287	\$ 1,413,822	\$ 99,200	\$ 99,200	\$ 1,667,487	\$ 1,513,022
Construction in progress	26,082	404,836	403,329	-	429,411	404,836
Land improvements and infrastructure	9,747,539	8,783,247	7,228,511	7,316,562	16,976,050	16,099,809
Buildings and system improvements	5,718,503	5,917,103	3,282,379	3,244,051	9,000,882	9,161,154
Machinery and equipment	1,694,656	2,260,071	1,770,924	1,931,783	3,465,580	4,191,854
Total capital assets, net	\$18,755,067	\$18,779,079	\$12,784,343	\$12,591,596	\$31,539,410	\$31,370,675

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 \$1,098,668. Of this amount, \$876,629 was debt of business-type activities and \$222,039 was debt of governmental activities.

	Long-term Debt					
	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Bonds payable	\$ -	\$ -	\$ 873,853	\$ 923,853	\$ 873,853	\$ 923,853
Compensated absences	222,039	277,695	2,776	8,153	224,815	285,848
Total long-term debt	\$ 222,039	\$ 277,695	\$ 876,629	\$ 932,006	\$ 1,098,668	\$ 1,209,701

The City's total long-term debt decreased by \$111,033 (9.2%) 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 2019-2020 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 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 2016 by 3.5%, 2017 by 3.0% and 2018 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 Director of Finance, 201 East State Street, Hastings, Michigan 49058.

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BASIC FINANCIAL STATEMENTS

CITY OF HASTINGS, MICHIGAN

Statement of Net Position
June 30, 2019

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 1,927,012	\$ 200,200	\$ 2,127,212	\$ -
Investments	2,738,533	1,633,340	4,371,873	533,213
Receivables, net	277,172	388,735	665,907	-
Internal balances	(616,627)	616,627	-	-
Inventory	34,448	9,742	44,190	-
Prepaid items	9,925	-	9,925	-
Advance to component unit	12,760	-	12,760	-
Land held for resale	505,308	-	505,308	23,738
Investment in joint venture	2,619,967	-	2,619,967	-
Capital assets not being depreciated	1,594,369	502,529	2,096,898	-
Capital assets being depreciated, net	17,160,698	12,281,814	29,442,512	-
Total assets	26,263,565	15,632,987	41,896,552	556,951
Deferred outflows of resources				
Deferred pension amounts	756,485	139,824	896,309	-
Deferred other postemployment benefit amounts	15,510	2,867	18,377	-
Total deferred outflows of resources	771,995	142,691	914,686	-
Liabilities				
Accounts payable and accrued liabilities	216,560	258,981	475,541	367,591
Advance from primary government	-	-	-	12,760
Long-term debt:				
Due within one year	141,519	52,142	193,661	-
Due in more than one year	80,520	824,487	905,007	-
Net pension liability (due in more than one year)	7,216,284	1,333,816	8,550,100	-
Net other postemployment benefit liability (due in more than one year)	7,790,070	1,439,871	9,229,941	-
Total liabilities	15,444,953	3,909,297	19,354,250	380,351
Deferred inflows of resources				
Deferred pension amounts	205,684	38,017	243,701	-
Deferred other postemployment benefit amounts	25,902	4,787	30,689	-
Total deferred inflows of resources	231,586	42,804	274,390	-
Net position				
Net investment in capital assets	18,755,067	11,910,490	30,665,557	-
Restricted for:				
Major and local streets	567,003	-	567,003	-
Drug enforcement	25,071	-	25,071	-
Library operations	431,397	-	431,397	-
Building improvement revolving loans	100,000	-	100,000	-
Joint airport authority	2,619,967	-	2,619,967	-
Cemetery operations	101,720	-	101,720	-
Other purposes	5,966	-	5,966	-
Unrestricted (deficit)	(11,247,170)	(86,913)	(11,334,083)	176,600
Total net position	\$ 11,359,021	\$ 11,823,577	\$ 23,182,598	\$ 176,600

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

CITY OF HASTINGS, MICHIGAN

Statement of Activities For the Year Ended June 30, 2019

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	\$ (341,757)	\$ 192,276	\$ 151,550	\$ 85,283	\$ 770,866
Public safety	805,282	281,316	21,053	-	(502,913)
Public works	(152,540)	12,513	940,371	208,330	1,313,754
Recreation and cultural	1,290,846	388,350	65,327	-	(837,169)
Airport	-	-	26,104	-	26,104
Community and economic development	676,742	1,477	295,555	29,000	(350,710)
Total governmental activities	<u>2,278,573</u>	<u>875,932</u>	<u>1,499,960</u>	<u>322,613</u>	<u>419,932</u>
Business-type activities:					
Water and sewer	<u>2,828,158</u>	<u>2,878,356</u>	<u>38,485</u>	<u>-</u>	<u>88,683</u>
Total primary government	<u>\$ 5,106,731</u>	<u>\$ 3,754,288</u>	<u>\$ 1,538,445</u>	<u>\$ 322,613</u>	<u>\$ 508,615</u>
Component units					
Downtown Development Authority	\$ 284,107	\$ 600	\$ 37,806	\$ -	\$ (245,701)
Local Development Finance Authority	25,845	6,360	9,538	-	(9,947)
Brownfield Redevelopment Authority	13,144	-	-	-	(13,144)
Total component units	<u>\$ 323,096</u>	<u>\$ 6,960</u>	<u>\$ 47,344</u>	<u>\$ -</u>	<u>\$ (268,792)</u>

continued...

CITY OF HASTINGS, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2019

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net position				
Net (expense) revenue	\$ 419,932	\$ 88,683	\$ 508,615	\$ (268,792)
General revenues:				
Property taxes	3,030,180	-	3,030,180	432,150
Unrestricted grants and contributions	789,566	-	789,566	9,933
Unrestricted investment earnings	109,583	-	109,583	-
Other	30,185	858	31,043	20,010
Transfers	22,073	(22,073)	-	-
Total general revenues and transfers	3,981,587	(21,215)	3,960,372	462,093
Changes in net position	4,401,519	67,468	4,468,987	193,301
Net position, beginning of year	6,957,502	11,756,109	18,713,611	(16,701)
Net position, end of year	<u>\$ 11,359,021</u>	<u>\$ 11,823,577</u>	<u>\$ 23,182,598</u>	<u>\$ 176,600</u>

concluded

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

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CITY OF HASTINGS, MICHIGAN

Balance Sheet

Governmental Funds

June 30, 2019

	General Fund	Library	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,749,364	\$ 152,577	\$ 25,071	\$ 1,927,012
Investments	167,467	385,623	643,597	1,196,687
Accounts receivable	41,177	1,155	2,824	45,156
Due from other governments	138,119	-	70,724	208,843
Advance to component unit	12,760	-	-	12,760
Land held for resale	505,308	-	-	505,308
Total assets	\$ 2,614,195	\$ 539,355	\$ 742,216	\$ 3,895,766
Liabilities				
Accounts payable	\$ 50,228	\$ 1,668	\$ 40,356	\$ 92,252
Accrued liabilities	26,513	5,135	6,832	38,480
Deposits	19,095	-	-	19,095
Advance from other governments	4,179	-	-	4,179
Total liabilities	100,015	6,803	47,188	154,006
Deferred inflows of resources				
Unavailable revenues - long-term receivables	16,143	1,155	-	17,298
Fund balances				
Nonspendable	518,068	-	-	518,068
Restricted	105,966	431,397	693,794	1,231,157
Committed	-	100,000	-	100,000
Assigned	136,873	-	1,234	138,107
Unassigned	1,737,130	-	-	1,737,130
Total fund balances	2,498,037	531,397	695,028	3,724,462
Total liabilities, deferred inflows of resources and fund balances	\$ 2,614,195	\$ 539,355	\$ 742,216	\$ 3,895,766

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

CITY OF HASTINGS, MICHIGAN

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
June 30, 2019

Fund balances - total governmental funds \$ 3,724,462

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

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

Capital assets not being depreciated	1,594,369
Capital assets being depreciated, net	17,160,698
Capital assets not being depreciated, reported in internal service funds	(256,700)
Capital assets being depreciated, net, reported in internal service funds	(2,279,549)

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	17,298
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An internal service fund is used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. A portion of the assets and liabilities of the internal service fund are included in governmental activities.

Net position of governmental activities accounted for in internal service funds:

Total internal service fund net position	4,045,039
Internal service fund net position accounted for in business-type activities	(616,627)

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	2,619,967
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Certain liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

Compensated absences	(222,039)
Compensated absences, reported in internal service funds	38,048

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	(7,216,284)
Deferred outflows related to the net pension liability	756,485
Deferred outflows related to the net pension liability	(205,684)
Net other postemployment benefits liability	(7,790,070)
Deferred inflows related to the net other postemployment benefits liability	15,510
Deferred inflows related to the net other postemployment benefits liability	(25,902)

Net position of governmental activities \$ 11,359,021

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

CITY OF HASTINGS, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2019

	General Fund	Library	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 2,898,853	\$ -	\$ 131,327	\$ 3,030,180
Special assessments	29,000	-	-	29,000
Licenses and permits	31,856	-	-	31,856
Intergovernmental:				
Federal	2,200	-	-	2,200
State	881,532	12,140	962,327	1,855,999
Local	201,389	365,369	-	566,758
Charges for services	309,596	9,328	48,261	367,185
Fines and forfeitures	1,477	15,131	3,465	20,073
Contributions and donations	156,343	47,764	85,283	289,390
Rentals	96,872	-	-	96,872
Interest	73,947	8,837	9,330	92,114
Other	27,733	4,813	627	33,173
Total revenues	4,710,798	463,382	1,240,620	6,414,800
Expenditures				
Current:				
General government	237,836	-	193,025	430,861
Public safety	2,562,463	-	13,634	2,576,097
Public works	-	-	1,056,583	1,056,583
Community and economic development	828,948	-	-	828,948
Recreation and cultural	306,091	698,370	-	1,004,461
Total expenditures	3,935,338	698,370	1,263,242	5,896,950
Revenues over (under) expenditures	775,460	(234,988)	(22,622)	517,850
Other financing sources (uses)				
Transfers in	35,522	296,479	310,000	642,001
Transfers out	(512,863)	-	(107,065)	(619,928)
Total other financing sources (uses)	(477,341)	296,479	202,935	22,073
Net changes in fund balances	298,119	61,491	180,313	539,923
Fund balances, beginning of year	2,199,918	469,906	514,715	3,184,539
Fund balances, end of year	\$ 2,498,037	\$ 531,397	\$ 695,028	\$ 3,724,462

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

CITY OF HASTINGS, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2019

Net change in fund balances - total governmental funds	\$ 539,923
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	1,162,458
Depreciation expense	(730,175)
Loss on disposal of capital assets	(257,232)
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	(13,958)
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	26,104
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 income from internal service funds	102,925
Operating income from internal service funds allocated to business-type activities	(24,746)
Change in the accrual for compensated absences	28,492
Change in the net pension liability and related deferred amounts	(419,605)
Change in net other postemployment benefits obligation	<u>3,806,900</u>
Change in net position of governmental activities	<u>\$ 4,401,519</u>

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

CITY OF HASTINGS, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	\$ 2,914,109	\$ 2,896,978	\$ 2,898,853	\$ 1,875
Special assessments	-	29,000	29,000	-
Licenses and permits	36,000	29,700	31,856	2,156
Intergovernmental revenue:				
Federal	-	2,200	2,200	-
State	860,986	883,686	881,532	(2,154)
Local	-	201,389	201,389	-
Charges for services	334,500	301,500	309,596	8,096
Fines and forfeitures	7,000	1,200	1,477	277
Contributions	-	153,500	156,343	2,843
Rentals	71,500	96,000	96,872	872
Interest	70,000	71,000	73,947	2,947
Other	-	6,831	27,733	20,902
Total revenues	4,294,095	4,672,984	4,710,798	37,814
Expenditures				
Current:				
General government:				
City Council	77,307	94,307	78,756	(15,551)
Elections	23,951	31,451	31,016	(435)
Assessor	191,634	174,634	128,064	(46,570)
Total general government	292,892	300,392	237,836	(62,556)
Public safety:				
Police	2,216,574	2,216,574	2,040,608	(175,966)
Fire	594,542	594,542	521,855	(72,687)
Total public safety	2,811,116	2,811,116	2,562,463	(248,653)
Community and economic development:				
Community promotion	516,324	556,324	554,573	(1,751)
Economic development	232,823	232,823	216,663	(16,160)
Parking	90,627	90,627	57,712	(32,915)
Total community and economic development	839,774	879,774	828,948	(50,826)
Recreation and cultural				
	402,114	408,107	306,091	(102,016)
Total expenditures	4,345,896	4,399,389	3,935,338	(464,051)
Revenues over (under) expenditures	(51,801)	273,595	775,460	501,865

continued...

CITY OF HASTINGS, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual - General Fund
 For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Other financing sources (uses)				
Transfers in	\$ 224,846	\$ 35,522	\$ 35,522	\$ -
Transfers out	(515,863)	(512,863)	(512,863)	-
Total other financing sources (uses)	(291,017)	(477,341)	(477,341)	-
Net changes in fund balances	(342,818)	(203,746)	298,119	501,865
Fund balances, beginning of year	2,142,638	2,199,918	2,199,918	-
Fund balances, end of year	\$ 1,799,820	\$ 1,996,172	\$ 2,498,037	\$ 501,865

concluded

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

CITY OF HASTINGS, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - Library Special Revenue Fund For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Intergovernmental:				
State	\$ 8,000	\$ 12,000	\$ 12,140	\$ 140
Local	349,000	363,300	365,369	2,069
Charges for services	9,300	9,100	9,328	228
Fines and forfeitures	18,000	14,700	15,131	431
Contributions and donations	47,000	46,500	47,764	1,264
Interest	300	7,800	8,837	1,037
Other	1,500	4,700	4,813	113
Total revenues	<u>433,100</u>	<u>458,100</u>	<u>463,382</u>	<u>5,282</u>
Expenditures				
Current - recreation and cultural:				
Library	<u>727,136</u>	<u>727,136</u>	<u>698,370</u>	<u>(28,766)</u>
Revenues over (under) expenditures	(294,036)	(269,036)	(234,988)	34,048
Other financing sources				
Transfers in	<u>296,479</u>	<u>296,479</u>	<u>296,479</u>	<u>-</u>
Net changes in fund balances	2,443	27,443	61,491	34,048
Fund balances, beginning of year	<u>399,789</u>	<u>469,906</u>	<u>469,906</u>	<u>-</u>
Fund balances, end of year	<u>\$ 402,232</u>	<u>\$ 497,349</u>	<u>\$ 531,397</u>	<u>\$ 34,048</u>

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

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CITY OF HASTINGS, MICHIGAN

Statement of Net Position
 Proprietary Funds
 June 30, 2019

	Business-type Activities Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents	\$ 200,200	\$ -
Investments	1,633,340	1,541,846
Accounts receivable	382,748	23,173
Inventory	9,742	34,448
Prepaid items	-	9,925
Total current assets	<u>2,226,030</u>	<u>1,609,392</u>
Noncurrent assets:		
Accounts receivable	5,987	-
Capital assets not being depreciated	502,529	256,700
Capital assets being depreciated, net	12,281,814	2,279,549
Total noncurrent assets	<u>12,790,330</u>	<u>2,536,249</u>
Total assets	<u>15,016,360</u>	<u>4,145,641</u>
Deferred outflows of resources		
Deferred pension amounts	139,824	-
Deferred other postemployment benefit amounts	2,867	-
Total deferred outflows of resources	<u>142,691</u>	<u>-</u>
Liabilities		
Current liabilities:		
Accounts payable	247,976	17,993
Accrued liabilities	6,373	44,561
Accrued interest payable	4,632	-
Current portion of long-term debt	52,142	26,938
Total current liabilities	<u>311,123</u>	<u>89,492</u>
Long-term liabilities:		
Long-term debt, net of current portion	824,487	11,110
Net pension liability	1,333,816	-
Net other postemployment benefits liability	1,439,871	-
Total long-term liabilities	<u>3,598,174</u>	<u>11,110</u>
Total liabilities	<u>3,909,297</u>	<u>100,602</u>
Deferred inflows of resources		
Deferred pension amounts	38,017	-
Deferred other postemployment benefit amounts	4,787	-
Total deferred inflows of resources	<u>42,804</u>	<u>-</u>
Net position		
Net investment in capital assets	11,910,490	2,536,249
Unrestricted (deficit)	(703,540)	1,508,790
Total net position	<u>\$ 11,206,950</u>	<u>\$ 4,045,039</u>

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

CITY OF HASTINGS, MICHIGAN

Reconciliation

Net Position of Enterprise Funds
to Net Position of Business-type Activities
June 30, 2019

Net position - total enterprise funds	\$ 11,206,950
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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	<u>616,627</u>
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Net position of business-type activities	<u><u>\$ 11,823,577</u></u>
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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, 2019

	Business-type Activities Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Funds
Operating revenues		
Charges for services	\$ 2,878,356	\$ 2,141,847
Operating expenses		
Personnel services	83,283	1,108,272
Professional and contractual services	241,637	208,064
Materials and supplies	276,252	171,209
Utilities	257,991	47,758
Repairs and maintenance	236,523	47,842
Insurance and bonds	26,701	52,067
Equipment rental	314,596	23,641
Depreciation	533,965	304,570
Administrative services	357,138	32,885
Miscellaneous	10,793	2,507
Total operating expenses	<u>2,338,879</u>	<u>1,998,815</u>
Operating income	<u>539,477</u>	<u>143,032</u>
Nonoperating revenues (expenses)		
Interest income	38,485	27,262
Loss on disposal of capital assets	(495,786)	(91,247)
Federal revenue	-	12,908
Miscellaneous revenue	858	10,970
Interest expense	(18,239)	-
Total nonoperating revenues (expenses)	<u>(474,682)</u>	<u>(40,107)</u>
Net income before transfers	<u>64,795</u>	<u>102,925</u>
Transfers		
Transfers in	1,384	-
Transfers out	(23,457)	-
Total transfers	<u>(22,073)</u>	<u>-</u>
Changes in net position	42,722	102,925
Net position, beginning of year	<u>11,164,228</u>	<u>3,942,114</u>
Net position, end of year	<u>\$ 11,206,950</u>	<u>\$ 4,045,039</u>

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, 2019

Change in net position - total enterprise funds	\$ 42,722
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Amounts reported for *business-type activities* in the statement of activities are different because:

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

Net operating income from business-type activities accounted for in governmental-type internal service funds	<u>24,746</u>
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Change in net position of business-type activities	<u><u>\$ 67,468</u></u>
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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, 2019

	Business-type Activities Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Funds
Cash flows from operating activities		
Cash received from customers	\$ 3,039,187	\$ -
Cash received for interfund services provided	-	2,099,054
Cash payments to suppliers for goods and services	(718,305)	(518,766)
Cash payments to employees for services	(877,552)	(1,099,307)
Cash payments for internal services	(671,734)	(56,526)
Net cash provided by operating activities	<u>771,596</u>	<u>424,455</u>
Cash flows from noncapital financing activities		
Transfers from other funds	1,384	-
Transfers to other funds	(23,457)	-
Other nonoperating revenue received	858	23,878
Net cash provided by (used in) noncapital financing activities	<u>(21,215)</u>	<u>23,878</u>
Cash flows from capital and related financing activities		
Acquisitions of capital assets	(1,222,498)	(21,070)
Proceeds from disposal of capital assets	-	4,750
Principal paid on long-term debt	(50,000)	-
Interest paid on long-term debt	(18,477)	-
Net cash used in capital and related financing activities	<u>(1,290,975)</u>	<u>(16,320)</u>
Cash flows from investing activities		
Interest received	38,485	27,262
Purchase of investments	(1,376,925)	(1,285,431)
Net cash used in investing activities	<u>(1,338,440)</u>	<u>(1,258,169)</u>
Net change in cash and cash equivalents	(1,879,034)	(826,156)
Cash and cash equivalents, beginning of year	<u>2,079,234</u>	<u>826,156</u>
Cash and cash equivalents, end of year	<u>\$ 200,200</u>	<u>\$ -</u>

continued...

CITY OF HASTINGS, MICHIGAN

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2019

	Business-type Activities Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Funds
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 539,477	\$ 143,032
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	533,965	304,570
Changes in assets and liabilities which provided (used) cash:		
Accounts receivable	(7,426)	(23,173)
Due from other governments	158,937	765
Due from other funds	9,320	-
Inventory and prepaid items	96,376	65,175
Deferred outflows - pension	(51,269)	-
Deferred outflows - other postemployment benefits	(2,867)	-
Accounts payable	75,969	(54,493)
Accrued liabilities	(3,559)	36,129
Due to other funds	-	(20,385)
Compensated absences	(5,377)	(27,165)
Net pension liability	117,966	-
Deferred inflows - pension	10,862	-
Net other postemployment benefits liability	(699,381)	-
Deferred inflows - other postemployment benefits	(1,397)	-
Net cash provided by operating activities	\$ 771,596	\$ 424,455

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, 2019

Assets

Cash and cash equivalents	\$ 210
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Liabilities

Due to other governments	\$ 210
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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, 2019

	Brownfield Redevelopment Authority	Downtown Development Authority	Local Development Finance Authority	Totals
Assets				
Investments	\$ 23	\$ 281,827	\$ 251,363	\$ 533,213
Land held for resale	-	-	23,738	23,738
Total assets	23	281,827	275,101	556,951
Liabilities				
Accounts payable and accrued liabilities	362,097	3,894	1,600	367,591
Advance from primary government	-	12,760	-	12,760
Total liabilities	362,097	16,654	1,600	380,351
Net position				
Unrestricted (deficit)	\$ (362,074)	\$ 265,173	\$ 273,501	\$ 176,600

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, 2019

	Brownfield Redevelopment Authority	Downtown Development Authority	Local Development Finance Authority	Totals
Expenses				
Downtown Development Authority	\$ -	\$ 284,107	\$ -	\$ 284,107
Local Development Finance Authority	-	-	25,845	25,845
Brownfield Redevelopment Authority	13,144	-	-	13,144
Total expenses	13,144	284,107	25,845	323,096
Program revenues				
Charges for services	-	600	6,360	6,960
Operating grants and contributions	-	37,806	9,538	47,344
Total program revenues	-	38,406	15,898	54,304
Net expense	(13,144)	(245,701)	(9,947)	(268,792)
General revenues				
Property taxes	20,758	395,357	16,035	432,150
Interest	23	5,076	4,834	9,933
other revenue	-	-	20,010	20,010
Total general revenues	20,781	400,433	40,879	462,093
Changes in net position	7,637	154,732	30,932	193,301
Net position, beginning of year	(369,711)	110,441	242,569	(16,701)
Net position, end of year	\$ (362,074)	\$ 265,173	\$ 273,501	\$ 176,600

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, 2019 is \$2,619,967, 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 *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 a City general fund transfer and 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.

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.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

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.

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.
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, 2019. 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.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

6. Budgets for expenditures are adopted at the activity level.
7. Budgeted amounts are as originally adopted, or as amended by the City Council.

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

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.

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 water meters. 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.

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 \$5,000 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.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

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	15-50
Land improvements	10-30
Machinery, equipment and vehicle	5-10

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.

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).

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

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.

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.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

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.

2. ACCOUNTABILITY AND COMPLIANCE

During the year ended June 30, 2019, 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
Local Streets Fund			
Current - public works:			
Construction	\$ 210,035	\$ 229,464	\$ 19,429

At June 30, 2019, the City reported deficit fund balance/net position in the Brownfield Redevelopment Authority fund of \$362,074. This deficit will be eliminated in future years as taxable values increase and the Authority is able to capture revenue on the incremental increase.

At June 30, 2019, the City reported an unrestricted deficit net position in the Water and Sewer enterprise fund of \$703,540. This deficit will be eliminated in future years as water and sewer rates increase and pension and other postemployment benefit costs stabilize.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

3. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of June 30, 2019:

	Primary Government	Fiduciary Funds	Component Units	Totals
Statement of Net Position				
Cash and cash equivalents	\$ 2,127,212	\$ 210	\$ -	\$ 2,127,422
Investments	4,371,873	-	533,213	4,905,086
Total	\$ 6,499,085	\$ 210	\$ 533,213	\$ 7,032,508
Deposits and investments				
Checking and savings accounts				\$ 1,150,364
Certificates of deposit				
Due within one year				500,000
Due in one to five years				475,000
Investments				4,905,086
Petty cash				2,058
Total				\$ 7,032,508

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

The City's investments are summarized as follows:

Investment	Maturity	Fair Value	Rating
MI Class Investment Pool	N/A	<u>\$ 4,905,086</u>	S&P AAAM

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.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

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, \$1,531,608 of the City's bank balance of \$2,281,608 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

Statutory Authority

State statutes authorize the City to invest in:

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

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).

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

The City had the following recurring fair value measurements as of June 30, 2019:

Investments in Entities that Calculate Net Asset Value per Share. The City holds shares in Michigan CLASS whereby the fair value of the investment is measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient.

At year end, the net asset value of the City's investment in Michigan CLASS was \$4,905,086. The investment pool had no unfunded commitments, specific redemption frequency or redemption notice period required. The Michigan CLASS investment pool invests in U.S. treasury obligations, federal agency obligations of the U.S. government, high-grade commercial paper (rated 'A-1' or better) collateralized bank deposits, repurchase agreements (collateralized at 102% by Treasuries and agencies), and approved money-market funds. The program seeks to provide safety, liquidity, convenience, and competitive rates of return, and is designed to meet the needs of Michigan public sector investors. It purchases securities that are legally permissible under state statutes and are available for investment by Michigan counties, cities, townships, school districts, authorities and other public agencies.

4. RECEIVABLES, DEFERRED INFLOWS OF RESOURCES AND PAYABLES

Receivables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities
Accounts	\$ 68,329	\$ 388,735
Due from other governments	208,843	-
Totals	\$ 277,172	\$ 388,735

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 \$5,900.

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, \$17,298 in deferred inflows were reported related to restitution judgements receivable that are not considered "available" at June 30, 2019.

Accounts payable and accrued liabilities are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Component Units
Accounts	\$ 110,245	\$ 247,976	\$ 367,591
Accrued liabilities	83,041	6,373	-
Deposits	19,095	-	-
Advance from other governments	4,179	-	-
Accrued interest payable	-	4,632	-
Totals	\$ 216,560	\$ 258,981	\$ 367,591

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

The balance reported as accounts payable for component units includes \$362,097 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, 2019, but is being repaid as property taxes are captured on the increase in taxable value. This balance includes interest accreted on the payable, at 3% per annum, in the amount of \$45,827. The City expects the balance to be repaid in full by the fiscal year ending June 30, 2040.

5. CAPITAL ASSETS

Changes in capital assets for the year ending June 30, 2019, are as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 1,413,822	\$ 154,465	\$ -	\$ -	\$ 1,568,287
Construction in progress	404,836	1,048,798	-	(1,427,552)	26,082
	<u>1,818,658</u>	<u>1,203,263</u>	<u>-</u>	<u>(1,427,552)</u>	<u>1,594,369</u>
Capital assets, being depreciated:					
Land improvements	3,121,579	82,353	(120,424)	-	3,083,508
Infrastructure	8,331,338	-	(63,625)	1,397,026	9,664,739
Buildings & improvements	9,017,507	78,345	(81,767)	30,526	9,044,611
Machinery, equipment and vehicles	6,440,207	-	(1,068,442)	-	5,371,765
	<u>26,910,631</u>	<u>160,698</u>	<u>(1,334,258)</u>	<u>1,427,552</u>	<u>27,164,623</u>
Less accumulated depreciation for:					
Land improvements	(1,141,542)	(120,413)	63,671	-	(1,198,284)
Infrastructure	(1,528,128)	(281,904)	7,608	-	(1,802,424)
Buildings & improvements	(3,100,404)	(269,138)	43,434	-	(3,326,108)
Machinery, equipment and vehicles	(4,180,136)	(363,290)	866,317	-	(3,677,109)
	<u>(9,950,210)</u>	<u>(1,034,745)</u>	<u>981,030</u>	<u>-</u>	<u>(10,003,925)</u>
Total capital assets being depreciated, net	<u>16,960,421</u>	<u>(874,047)</u>	<u>(353,228)</u>	<u>1,427,552</u>	<u>17,160,698</u>
Governmental activities capital assets, net	<u>\$ 18,779,079</u>	<u>\$ 329,216</u>	<u>\$ (353,228)</u>	<u>\$ -</u>	<u>\$ 18,755,067</u>

The infrastructure amount transferred from CIP also includes a capital grant of \$180,433, which represents the State funded portion of various road projects completed during the year ended June 30, 2019.

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	-	403,329	-	-	403,329
	<u>99,200</u>	<u>403,329</u>	<u>-</u>	<u>-</u>	<u>502,529</u>
Capital assets, being depreciated:					
Water system	9,542,486	90,380	(12,327)	-	9,620,539
Sewer system	2,144,917	13,430	(11,707)	-	2,146,640
Land improvements	21,807	-	(3,804)	-	18,003
Buildings & improvements	8,548,624	270,766	(86,038)	-	8,733,352
Machinery and equipment	2,981,748	444,593	(854,138)	-	2,572,203
	<u>23,239,582</u>	<u>819,169</u>	<u>(968,014)</u>	<u>-</u>	<u>23,090,737</u>
Less accumulated depreciation for:					
Water system	(3,695,165)	(153,129)	12,328	-	(3,835,966)
Sewer system	(691,056)	(31,996)	6,569	-	(716,483)
Land improvements	(6,427)	(900)	3,105	-	(4,222)
Buildings & improvements	(5,304,573)	(179,636)	33,236	-	(5,450,973)
Machinery and equipment	(1,049,965)	(168,304)	416,990	-	(801,279)
	<u>(10,747,186)</u>	<u>(533,965)</u>	<u>472,228</u>	<u>-</u>	<u>(10,808,923)</u>
Total capital assets being depreciated, net	<u>12,492,396</u>	<u>285,204</u>	<u>(495,786)</u>	<u>-</u>	<u>12,281,814</u>
Business-type activities capital assets, net	<u>\$ 12,591,596</u>	<u>\$ 688,533</u>	<u>\$ (495,786)</u>	<u>\$ -</u>	<u>\$ 12,784,343</u>

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

Depreciation of governmental activities by function

General government	\$ 7,277
Public safety	94,557
Public works	381,625
Recreation and cultural	246,716
Internal service funds	304,570
	<u>\$ 1,034,745</u>

Depreciation of business-type activities by function

Water and sewer	<u>\$ 533,965</u>
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At June 30, 2019, the City had outstanding construction commitments for governmental activities of approximately \$420,000 and for business-type activities of approximately \$11,700,000.

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 \$616,627. This resulted from the allocation of a portion of internal service fund net position of governmental-type internal service funds to business-type activities.

Advance between primary government and component units

	Advance to Component Units	Advance from Primary Government
General fund	\$ 12,760	\$ -
Downtown development authority	-	12,760
Totals	\$ 12,760	\$ 12,760

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, 2019, interfund transfers consisted of the following:

Transfers In	Transfers Out			Totals
	General Fund	Nonmajor Governmental Funds	Water and Sewer	
General fund	\$ -	\$ 12,065	\$ 23,457	35,522
Library fund	296,479	-	-	296,479
Nonmajor governmental funds	215,000	95,000	-	310,000
Water and sewer fund	1,384	-	-	1,384
Totals	\$ 512,863	\$ 107,065	\$ 23,457	\$ 643,385

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, 2019, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental activities					
Compensated absences	\$ 277,695	\$ 186,921	\$ (242,577)	\$ 222,039	\$ 141,519
Business-type activities					
Direct borrowings and direct placements:					
2013 Clean water revolving fund					
loan payable through 2034					
with interest at 2.0%	\$ 923,853	\$ -	\$ (50,000)	\$ 873,853	\$ 50,000
Compensated absences	8,153	14,751	(20,128)	2,776	2,142
Total business-type activities	\$ 932,006	\$ 14,751	\$ (70,128)	\$ 876,629	\$ 52,142

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

The annual requirements to maturity on the total direct borrowings and direct placements outstanding at June 30, 2019 are as follows:

Year Ended June 30,	Business-type Activities	
	Principal	Interest
2020	\$ 50,000	\$ 17,477
2021	50,000	16,477
2022	50,000	15,477
2023	55,000	14,477
2024	55,000	13,377
2025-2029	290,000	50,085
2030-2034	323,853	19,785
Totals	\$ 873,853	\$ 147,155

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	Library	Nonmajor Governmental Funds	Total
Nonspendable				
Advance to component unit	\$ 12,760	\$ -	\$ -	\$ 12,760
Land held for resale	505,308	-	-	505,308
Total nonspendable	518,068	-	-	518,068
Restricted				
Building exterior revolving loan program	100,000	-	-	100,000
Tangle Town play area	5,966	-	-	5,966
Major and local streets	-	-	567,003	567,003
Drug enforcement	-	-	25,071	25,071
Library operations	-	431,397	-	431,397
Cemetery operations	-	-	101,720	101,720
Total restricted	105,966	431,397	693,794	1,231,157
Committed				
Police activities/training	-	100,000	-	100,000
Assigned				
Thornapple Plaza Friday Night Features	100,000	-	-	100,000
Police activities/training	36,873	-	1,234	38,107
Total assigned	136,873	-	1,234	138,107
Unassigned	1,737,130	-	-	1,737,130
Total fund balances - governmental funds	\$ 2,498,037	\$ 531,397	\$ 695,028	\$ 3,724,462

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, 2019, was as follows:

	Governmental Activities	Business-type Activities
Capital assets:		
Capital assets not being depreciated	\$ 1,594,369	\$ 502,529
Capital assets being depreciated, net	<u>17,160,698</u>	<u>12,281,814</u>
	18,755,067	12,784,343
Related debt:		
Loans payable	<u>-</u>	<u>873,853</u>
Net investment in capital assets	<u><u>\$ 18,755,067</u></u>	<u><u>\$ 11,910,490</u></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 6 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 the December 31, 2018 valuation date, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	73
Inactive employees entitled to but not yet receiving benefits	40
Active employees	<u>57</u>
Total membership	<u><u>170</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, 2019:

Division	Plan Type	Status	Employer Monthly Contribution Rate	Employee Contribution Rate
General	Defined Benefit	Closed	\$ 24,913	0.00%
Police	Defined Benefit	Closed	10,988	1.56%
Fire full-time	Defined Benefit	Closed	2,899	0.00%
DPW	Defined Benefit	Closed	10,909	0.00%
Fire volunteer	Defined Benefit	Closed	-	3%<;5%>
City Council	Defined Benefit	Open	347	0.00%
DPW	Hybrid	Open	1,019	0.00%
General	Hybrid	Open	1,490	0.00%
Fire full-time	Hybrid	Open	-	0.00%
Police	Hybrid	Open	1,444	0.00%
City Council	Hybrid	Open	-	0.00%

Net Pension Liability. The City's net pension liability was measured as of December 31, 2018, 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, 2018 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

The mortality table used to project the mortality experience of non-disabled plan members is a 50% male, 50% female blend of the following tables:

- The RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%
- The RP-2014 Employee Mortality Tables
- The RP-2014 Juvenile Mortality Tables

The mortality table used to project the mortality experience of disabled plan members is 50% Male, 50% Female blend of RP-2014 Disabled Retiree Mortality Tables.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of the most recent actuarial experience study of 2009-2013.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

Long-term Expected Rate of Return. 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	55.50%	6.15%	3.41%
Global fixed income	18.50%	1.26%	0.23%
Real assets	13.50%	7.22%	0.98%
Diversifying strategies	12.50%	5.00%	0.63%
	100.00%		
Inflation			2.50%
Administrative expenses netted above			0.25%
Investment rate of return			8.00%

Discount Rate. The discount rate used to measure the total pension liability as of December 31, 2018 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, 2017	\$ 16,168,637	\$ 8,374,727	\$ 7,793,910
Changes for the year:			
Service cost	148,110	-	148,110
Interest	1,252,431	-	1,252,431
Differences between expected and actual experience	(324,935)	-	(324,935)
Employer contributions	-	638,127	(638,127)
Employee contributions	-	7,647	(7,647)
Net investment loss	-	(310,528)	310,528
Benefit payments, including refunds of employee contributions	(1,174,619)	(1,174,619)	-
Administrative expense	-	(15,830)	15,830
Net changes	(99,013)	(855,203)	756,190
Balances at December 31, 2018	\$ 16,069,624	\$ 7,519,524	\$ 8,550,100

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	\$ 10,120,504	\$ 8,550,100	\$ 7,203,050

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, 2019, the City recognized pension expense of \$1,094,061. 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	\$ 43,302	\$ 243,701	\$ (200,399)
Net difference between projected and actual earnings on pension plan investments	581,716	-	581,716
Contributions subsequent to the measurement date	625,018	243,701	381,317
	271,291	-	271,291
Total	\$ 896,309	\$ 243,701	\$ 652,608

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, 2020. 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
2020	\$ 165,600
2021	(5,803)
2022	29,777
2023	191,743
Total	\$ 381,317

Payable to the Pension Plan. At June 30, 2019, the City had no amounts payable for 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 the June 30, 2018 valuation date, OPEB Plan membership consisted of the

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 10% and 50% 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, 2019, 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 3.05%. 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 as of June 30, 2018, rolled forward to June 30, 2019, 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, 2019, were as follows:

Total OPEB liability	\$ 9,833,272
Plan fiduciary net position	<u>603,331</u>
City's net OPEB liability	<u>\$ 9,229,941</u>
Plan fiduciary net position as a percentage of the total OPEB liability	6.1%

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, 2018	\$ 14,292,427	\$ 579,272	\$ 13,713,155
Changes for the year:			
Service cost	74,878	-	74,878
Interest	300,137	-	300,137
Differences between expected and actual experience	(98,888)	-	(98,888)
Change in actuarial assumptions	13,969	-	13,969
Change in plan terms	(4,368,569)	-	(4,368,569)
Employer contributions	-	380,682	(380,682)
Net investment income	-	25,279	(25,279)
Benefit payments, including refunds of employee contributions	(380,682)	(380,682)	-
Administrative expense	-	(1,220)	1,220
Net changes	(4,459,155)	24,059	(4,483,214)
Balances at June 30, 2019	\$ 9,833,272	\$ 603,331	\$ 9,229,941

Changes in Actuarial Assumptions, Plan Changes and Expected Actuarial Experience. The Medicare plan coverage was updated to reflect changes made by the plan sponsor since the prior valuation. The impact of this change was a decrease in the net OPEB liability of \$4.4 million. In addition, the discount rate was dropped by one basis point.

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 (2.05%)	Current Discount Rate (3.05%)	1% Increase (4.05%)
\$ 10,803,126	\$ 9,229,941	\$ 7,976,236

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

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%)
\$ 8,007,547	\$ 9,229,941	\$ 10,771,587

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

For the year ended June 30, 2019, the City recognized OPEB expense of \$(4,129,862). The City reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Totals
Difference between expected and actual experience	\$ -	\$ 30,689	\$ (30,689)
Changes in assumptions	4,335	-	4,335
Net difference between projected and actual earnings on OPEB plan investments	14,042	-	14,042
	<u>\$ 18,377</u>	<u>\$ 30,689</u>	<u>\$ (12,312)</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
2020	\$ (22,977)
2021	3,377
2022	3,375
2023	3,913
Total	<u><u>\$ (12,312)</u></u>

Payable to the OPEB Plan. At June 30, 2019, 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.

CITY OF HASTINGS, MICHIGAN

Notes to Financial Statements

12. COMMUNITY FOUNDATION

The Barry Community Foundation (the "Foundation") maintains two separate funds (Riverside Cemetery and Paul & Rosellen Siegel Fund for the Hastings Public Library) which have not been included in the accompanying financial statements. Earnings on the endowments can be obtained and expended by the City upon request by the City Council and approval by the Foundation. The principal of the Cemetery fund may be obtained by the City only by court order and with approval by the Cemetery Commissioner of the State of Michigan. At June 30, 2019, the balances of the Cemetery and Library funds held by the Barry Community Foundation were \$965,313 and \$408,424, respectively, including spendable amounts of \$92,365 and \$11,242, respectively.

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.



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,				
	2019	2018	2017	2016	2015
Total pension liability					
Service cost	\$ 148,110	\$ 138,539	\$ 149,861	\$ 156,822	\$ 166,909
Interest	1,252,431	1,234,049	1,215,477	1,192,492	1,175,920
Changes in benefits	-	(1,974)	-	-	-
Differences between expected and actual experience	(324,935)	53,377	66,455	(176,810)	-
Changes of assumptions	-	-	-	727,510	-
Benefit payments, including refunds of employee contributions	(1,174,619)	(1,223,752)	(1,164,203)	(1,150,859)	(1,122,957)
Other changes	-	180	-	-	-
Net change in total pension liability	(99,013)	200,419	267,590	749,155	219,872
Total pension liability, beginning of year	16,168,637	15,968,218	15,700,628	14,951,473	14,731,601
Total pension liability, end of year	16,069,624	16,168,637	15,968,218	15,700,628	14,951,473
Plan fiduciary net position					
Employer contributions	638,127	609,436	717,651	633,390	598,213
Employee contributions	7,647	5,785	5,649	7,266	8,466
Net investment income (loss)	(310,528)	1,017,247	834,716	(115,260)	509,219
Benefit payments, including refunds of employee contributions	(1,174,619)	(1,223,752)	(1,164,203)	(1,150,859)	(1,122,957)
Administrative expense	(15,830)	(16,164)	(16,520)	(17,437)	(18,563)
Net change in plan fiduciary net position	(855,203)	392,552	377,293	(642,900)	(25,622)
Plan fiduciary net position, beginning of year	8,374,727	7,982,175	7,604,882	8,247,782	8,273,404
Plan fiduciary net position, end of year	7,519,524	8,374,727	7,982,175	7,604,882	8,247,782
City's net pension liability	\$ 8,550,100	\$ 7,793,910	\$ 7,986,043	\$ 8,095,746	\$ 6,703,691
Plan fiduciary net position as a percentage of total pension liability	46.79%	51.80%	49.99%	48.44%	55.16%
Covered payroll	\$ 2,356,062	\$ 2,167,475	\$ 2,186,822	\$ 2,137,801	\$ 2,251,414
City's net pension liability as a percentage of covered payroll	362.90%	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
2019	\$ 16,069,624	\$ 7,519,524	\$ 8,550,100	46.79%	\$ 2,356,062	362.90%
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
2019	\$ 596,547	\$ 596,547	\$ -	\$ 2,294,274	26.00%
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 (2019, based on the 12/31/2016 actuarial valuation):

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, open
Remaining amortization period	22 years
Asset valuation method	5-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
Normal retirement age	Age 60
Mortality	50% Female/50% Male blend of the RP-2014 Healthy Annuitant Mortality Tables with rates multiplied by 105%, the RP-2014 Employee Mortality Tables, and the RP-2014 Juvenile Mortality Tables

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,	
	2019	2018
Total OPEB liability		
Service cost	\$ 74,878	\$ 103,897
Interest	300,137	431,988
Differences between expected and actual experience	(98,888)	(88,853)
Change in assumptions	13,969	-
Change in plan terms	(4,368,569)	-
Benefit payments, including refunds of employee contributions	(380,682)	(335,982)
Net change in total OPEB liability	(4,459,155)	111,050
Total OPEB liability, beginning of year	14,292,427	14,181,377
Total OPEB liability, end of year	9,833,272	14,292,427
Plan fiduciary net position		
Employer contributions	380,682	335,982
Net investment income	25,279	44,207
Benefit payments, including refunds of employee contributions	(380,682)	(335,982)
Administrative expense	(1,220)	(1,353)
Net change in plan fiduciary net position	24,059	42,854
Plan fiduciary net position, beginning of year	579,272	536,418
Plan fiduciary net position, end of year	603,331	579,272
City's net OPEB liability	\$ 9,229,941	\$ 13,713,155
Plan fiduciary net position as a percentage of total OPEB liability	6.1%	4.1%
Covered payroll	\$ 843,228	\$ 992,264
City's net OPEB liability as a percentage of covered payroll	1094.6%	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.

Changes in Plan Terms. For the June 30, 2019 liability, rolled forward from the June 30, 2018 valuation, the Medicare plan coverage was updated to reflect changes made by the plan sponsor since the prior valuation. The impact of this change was a decrease in the net OPEB liability of \$4.4 million. In addition, the discount rate was dropped by one basis point.

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
2019	\$ 9,833,272	\$ 603,331	\$ 9,229,941	6.1%	\$ 843,228	1094.6%
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
2019	\$ 590,387	\$ 380,682	\$ (209,705)	\$ 843,228	45.1%
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.

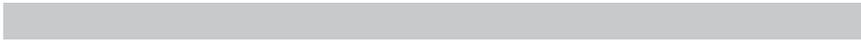
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**COMBINING AND INDIVIDUAL FUND FINANCIAL
STATEMENTS AND SCHEDULES**

CITY OF HASTINGS, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2019

	Special Revenue		
	Major Streets	Local Streets	Cemetery
Assets			
Cash and cash equivalents	\$ -	\$ -	\$ -
Investments	249,749	283,356	109,258
Accounts receivable	2,824	-	-
Due from other governments	50,238	20,486	-
Total assets	<u>\$ 302,811</u>	<u>\$ 303,842</u>	<u>\$ 109,258</u>
Liabilities			
Accounts payable	\$ 12,784	\$ 20,034	\$ 7,538
Accrued liabilities	3,416	3,416	-
Total liabilities	<u>16,200</u>	<u>23,450</u>	<u>7,538</u>
Fund balances			
Restricted	286,611	280,392	101,720
Assigned	-	-	-
Total fund balances	<u>286,611</u>	<u>280,392</u>	<u>101,720</u>
Total liabilities and fund balances	<u>\$ 302,811</u>	<u>\$ 303,842</u>	<u>\$ 109,258</u>



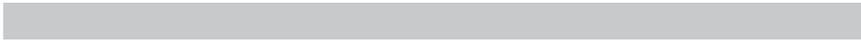
Special Revenue			
Drug Enforcement	Police Training	D.A.R.E.	Totals
\$ 25,071	\$ -	\$ -	\$ 25,071
-	1,234	-	643,597
-	-	-	2,824
-	-	-	70,724
<u>\$ 25,071</u>	<u>\$ 1,234</u>	<u>\$ -</u>	<u>\$ 742,216</u>
\$ -	\$ -	\$ -	\$ 40,356
-	-	-	6,832
-	-	-	47,188
25,071	-	-	693,794
-	1,234	-	1,234
<u>25,071</u>	<u>1,234</u>	<u>-</u>	<u>695,028</u>
<u>\$ 25,071</u>	<u>\$ 1,234</u>	<u>\$ -</u>	<u>\$ 742,216</u>

CITY OF HASTINGS, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds
For the Year Ended June 30, 2019

	Special Revenue		
	Major Streets	Local Streets	Cemetery
Revenues			
Taxes	\$ -	\$ -	\$ 131,327
Intergovernmental - State	623,062	337,279	-
Charges for services	12,513	-	35,748
Fines and forfeitures	-	-	-
Contributions and donations	-	-	85,283
Interest	4,741	3,186	1,142
Other	-	627	-
Total revenues	640,316	341,092	253,500
Expenditures			
Current:			
General government	-	-	193,025
Public safety	-	-	-
Public works	474,172	582,411	-
Total expenditures	474,172	582,411	193,025
Revenues over (under) expenditures	166,144	(241,319)	60,475
Other financing sources (uses)			
Transfers in	-	310,000	-
Transfers out	(95,000)	-	-
Total other financing sources (uses)	(95,000)	310,000	-
Net changes in fund balances	71,144	68,681	60,475
Fund balances, beginning of year	215,467	211,711	41,245
Fund balances, end of year	\$ 286,611	\$ 280,392	\$ 101,720



Special Revenue			
Drug Enforcement	Police Training	D.A.R.E.	Totals
\$ -	\$ -	\$ -	\$ 131,327
-	1,986	-	962,327
-	-	-	48,261
3,465	-	-	3,465
-	-	-	85,283
58	37	166	9,330
-	-	-	627
<u>3,523</u>	<u>2,023</u>	<u>166</u>	<u>1,240,620</u>
-	-	-	193,025
9,260	4,374	-	13,634
-	-	-	1,056,583
<u>9,260</u>	<u>4,374</u>	<u>-</u>	<u>1,263,242</u>
<u>(5,737)</u>	<u>(2,351)</u>	<u>166</u>	<u>(22,622)</u>
-	-	-	310,000
-	-	(12,065)	(107,065)
-	-	(12,065)	202,935
<u>(5,737)</u>	<u>(2,351)</u>	<u>(11,899)</u>	<u>180,313</u>
<u>30,808</u>	<u>3,585</u>	<u>11,899</u>	<u>514,715</u>
<u>\$ 25,071</u>	<u>\$ 1,234</u>	<u>\$ -</u>	<u>\$ 695,028</u>

CITY OF HASTINGS, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - Major Streets Special Revenue Fund For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Special assessments	\$ 12,000	\$ -	\$ -	\$ -
Intergovernmental:				
State	574,021	802,350	623,062	(179,288)
Charges for services	-	12,200	12,513	313
Interest	-	4,400	4,741	341
Other	12,000	-	-	-
Total revenues	<u>598,021</u>	<u>818,950</u>	<u>640,316</u>	<u>(178,634)</u>
Expenditures				
Current - public works:				
Construction	22,151	320,830	138,706	(182,124)
Routine maintenance	280,360	240,551	140,154	(100,397)
Sweeping	70,923	70,923	65,936	(4,987)
Traffic services	47,658	47,658	18,624	(29,034)
Winter maintenance	126,542	126,542	110,752	(15,790)
Total expenditures	<u>547,634</u>	<u>806,504</u>	<u>474,172</u>	<u>(332,332)</u>
Revenues over expenditures	50,387	12,446	166,144	153,698
Other financing uses				
Transfers out	(95,000)	(95,000)	(95,000)	-
Net changes in fund balances	(44,613)	(82,554)	71,144	153,698
Fund balances, beginning of year	<u>63,997</u>	<u>215,467</u>	<u>215,467</u>	<u>-</u>
Fund balances, end of year	<u>\$ 19,384</u>	<u>\$ 132,913</u>	<u>\$ 286,611</u>	<u>\$ 153,698</u>

CITY OF HASTINGS, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - Local Streets Special Revenue Fund For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Intergovernmental:				
State	\$ 231,107	\$ 317,519	\$ 337,279	\$ 19,760
Interest	100	100	3,186	3,086
Total revenues	<u>231,207</u>	<u>317,619</u>	<u>341,092</u>	<u>23,473</u>
Expenditures				
Current - public works:				
Construction	22,151	210,035	229,464	19,429
Routine maintenance	351,450	293,387	165,737	(127,650)
Sweeping	85,449	85,449	73,551	(11,898)
Traffic services	14,078	14,078	2,645	(11,433)
Winter maintenance	94,116	111,116	111,014	(102)
Total expenditures	<u>567,244</u>	<u>714,065</u>	<u>582,411</u>	<u>(131,654)</u>
Revenues over (under) expenditures	(336,037)	(396,446)	(241,319)	155,127
Other financing sources				
Transfers in	<u>310,000</u>	<u>310,000</u>	<u>310,000</u>	<u>-</u>
Net changes in fund balances	(26,037)	(86,446)	68,681	155,127
Fund balances, beginning of year	<u>101,302</u>	<u>211,711</u>	<u>211,711</u>	<u>-</u>
Fund balances, end of year	<u>\$ 75,265</u>	<u>\$ 125,265</u>	<u>\$ 280,392</u>	<u>\$ 155,127</u>

CITY OF HASTINGS, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - Cemetery Special Revenue Fund For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	\$ 127,746	\$ 127,746	\$ 131,327	\$ 3,581
Charges for services	18,000	18,000	35,748	17,748
Contributions and donations	81,000	81,000	85,283	4,283
Interest	120	120	1,142	1,022
Total revenues	<u>226,866</u>	<u>226,866</u>	<u>253,500</u>	<u>26,634</u>
Expenditures				
Current - general government	<u>230,123</u>	<u>230,123</u>	<u>193,025</u>	<u>(37,098)</u>
Net changes in fund balances	<u>(3,257)</u>	<u>(3,257)</u>	<u>60,475</u>	<u>63,732</u>
Fund balances, beginning of year	<u>33,077</u>	<u>41,245</u>	<u>41,245</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 29,820</u></u>	<u><u>\$ 37,988</u></u>	<u><u>\$ 101,720</u></u>	<u><u>\$ 63,732</u></u>

CITY OF HASTINGS, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual - Drug Enforcement Special Revenue Fund
 For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Fines and forfeitures	\$ 200	\$ 3,469	\$ 3,465	\$ (4)
Interest	30	57	58	1
Total revenues	230	3,526	3,523	(3)
Expenditures				
Current - public safety	2,400	11,651	9,260	(2,391)
Net changes in fund balances	(2,170)	(8,125)	(5,737)	2,388
Fund balances, beginning of year	28,303	30,808	30,808	-
Fund balances, end of year	<u>\$ 26,133</u>	<u>\$ 22,683</u>	<u>\$ 25,071</u>	<u>\$ 2,388</u>

CITY OF HASTINGS, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual - Police Training Special Revenue Fund
 For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Intergovernmental - State	\$ 2,100	\$ 1,965	\$ 1,986	\$ 21
Interest	-	35	37	2
Total revenues	<u>2,100</u>	<u>2,000</u>	<u>2,023</u>	<u>23</u>
Expenditures				
Current - public safety:				
Police training	<u>5,100</u>	<u>5,100</u>	<u>4,374</u>	<u>(726)</u>
Revenues over (under) expenditures	(3,000)	(3,100)	(2,351)	749
Other financing sources				
Transfers in	<u>3,000</u>	<u>6,000</u>	<u>-</u>	<u>(6,000)</u>
Net changes in fund balances	-	2,900	(2,351)	(5,251)
Fund balances, beginning of year	<u>3,045</u>	<u>3,585</u>	<u>3,585</u>	<u>-</u>
Fund balances, end of year	<u>\$ 3,045</u>	<u>\$ 6,485</u>	<u>\$ 1,234</u>	<u>\$ (5,251)</u>

CITY OF HASTINGS, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual - D.A.R.E. Special Revenue Fund
 For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Interest	\$ 25	\$ 25	\$ 166	\$ 141
Other financing uses				
Transfers out	-	(12,065)	(12,065)	-
Net changes in fund balances	25	(12,040)	(11,899)	141
Fund balances, beginning of year	11,899	11,899	11,899	-
Fund balances, end of year	<u>\$ 11,924</u>	<u>\$ (141)</u>	<u>\$ -</u>	<u>\$ 141</u>

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INTERNAL SERVICE FUNDS

CITY OF HASTINGS, MICHIGAN

Combining Statement of Net Position

Internal Service Funds

June 30, 2019

	Equipment Pool	Administrative Services	Total
Assets			
Current assets:			
Investments	\$ 871,480	\$ 670,366	\$ 1,541,846
Accounts receivable	-	23,173	23,173
Inventory	34,448	-	34,448
Prepaid items	-	9,925	9,925
Total current assets	<u>905,928</u>	<u>703,464</u>	<u>1,609,392</u>
Noncurrent assets:			
Capital assets not being depreciated	104,700	152,000	256,700
Capital assets being depreciated, net	1,211,430	1,068,119	2,279,549
Total noncurrent assets	<u>1,316,130</u>	<u>1,220,119</u>	<u>2,536,249</u>
Total assets	<u>2,222,058</u>	<u>1,923,583</u>	<u>4,145,641</u>
Liabilities			
Current liabilities:			
Accounts payable	3,058	14,935	17,993
Accrued liabilities	2,359	42,202	44,561
Current portion of long-term debt	5,154	21,784	26,938
Total current liabilities	<u>10,571</u>	<u>78,921</u>	<u>89,492</u>
Long-term debt, net of current portion	<u>3,332</u>	<u>7,778</u>	<u>11,110</u>
Total liabilities	<u>13,903</u>	<u>86,699</u>	<u>100,602</u>
Net position			
Investment in capital assets	1,316,130	1,220,119	2,536,249
Unrestricted	<u>892,025</u>	<u>616,765</u>	<u>1,508,790</u>
Total net position	<u>\$ 2,208,155</u>	<u>\$ 1,836,884</u>	<u>\$ 4,045,039</u>

CITY OF HASTINGS, MICHIGAN

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

Internal Service Funds

For the Year Ended June 30, 2019

	Equipment Pool	Administrative Services	Total
Operating revenues			
Charges for services	\$ 684,247	\$ 1,457,600	\$ 2,141,847
Operating expenses			
Personnel services	97,972	1,010,300	1,108,272
Professional and contractual services	3,534	204,530	208,064
Materials and supplies	137,942	33,267	171,209
Utilities	17,761	29,997	47,758
Repairs and maintenance	35,105	12,737	47,842
Insurance and bonds	21,995	30,072	52,067
Equipment rental	6,669	16,972	23,641
Depreciation	215,594	88,976	304,570
Administrative services	32,885	-	32,885
Miscellaneous	205	2,302	2,507
Total operating expenses	569,662	1,429,153	1,998,815
Operating income	114,585	28,447	143,032
Nonoperating revenues (expenses)			
Interest income	13,795	13,467	27,262
Loss on disposal of capital assets	(56,899)	(34,348)	(91,247)
Federal revenue	-	12,908	12,908
Miscellaneous revenue	342	10,628	10,970
Total nonoperating revenues (expenses)	(42,762)	2,655	(40,107)
Changes in net position	71,823	31,102	102,925
Net position, beginning of year	2,136,332	1,805,782	3,942,114
Net position, end of year	\$ 2,208,155	\$ 1,836,884	\$ 4,045,039

CITY OF HASTINGS, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2019

	Equipment Pool	Administrative Services	Total
Cash flows from operating activities			
Cash received for internal services provided	\$ 685,012	\$ 1,414,042	\$ 2,099,054
Cash payments to suppliers for goods and services	(219,663)	(299,103)	(518,766)
Cash payments to employees for services	(95,223)	(1,004,084)	(1,099,307)
Cash payments for internal services	(39,554)	(16,972)	(56,526)
Net cash provided by operating activities	330,572	93,883	424,455
Cash flows from noncapital financing activities			
Nonoperating revenue received	342	23,536	23,878
Cash flows from capital and related financing activities			
Acquisitions of capital assets	-	(21,070)	(21,070)
Proceeds from disposal of capital assets	4,750	-	4,750
Net cash provided by (used in) capital and related financing activities	4,750	(21,070)	(16,320)
Cash flows from investing activities			
Interest received	13,795	13,467	27,262
Purchase of investments	(615,065)	(670,366)	(1,285,431)
Net cash used in investing activities	(601,270)	(656,899)	(1,258,169)
Net change in cash and cash equivalents	(265,606)	(560,550)	(826,156)
Cash and cash equivalents, beginning of year	265,606	560,550	826,156
Cash and cash equivalents, end of year	\$ -	\$ -	\$ -

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CITY OF HASTINGS, MICHIGAN

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2019

	Equipment Pool	Administrative Services	Total
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 114,585	\$ 28,447	\$ 143,032
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	215,594	88,976	304,570
Changes in assets and liabilities which provided (used) cash:			
Accounts receivable	-	(23,173)	(23,173)
Due from other governments	765	-	765
Inventory and prepaid items	(1,579)	66,754	65,175
Accounts payable	(1,542)	(52,951)	(54,493)
Accrued liabilities	1,569	34,560	36,129
Due to other funds	-	(20,385)	(20,385)
Compensated absences	1,180	(28,345)	(27,165)
Net cash provided by operating activities	<u>\$ 330,572</u>	<u>\$ 93,883</u>	<u>\$ 424,455</u>

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FIDUCIARY FUNDS

CITY OF HASTINGS, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds
June 30, 2019

	General Agency	Tax Collections	DPS Distribution Fund	Total
Assets				
Cash and cash equivalents	\$ 210	\$ -	\$ -	\$ 210
Liabilities				
Due to other governments	\$ 210	\$ -	\$ -	\$ 210

CITY OF HASTINGS, MICHIGAN

Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds

For the Year Ended June 30, 2019

	July 1, 2018	Additions	Deletions	June 30, 2019
<i>General Agency</i>				
Assets				
Cash and cash equivalents	\$ -	\$ 210	\$ -	\$ 210
Liabilities				
Due to other governments	\$ -	\$ 210	\$ -	\$ 210
<i>Tax Collections</i>				
Assets				
Cash and cash equivalents	\$ -	\$ 9,267,522	\$ (9,267,522)	\$ -
Liabilities				
Due to other governments	\$ -	\$ 9,267,522	\$ (9,267,522)	\$ -
<i>DPS Distribution Fund</i>				
Assets				
Cash and cash equivalents	\$ 3,898	\$ 270,145	\$ (274,043)	\$ -
Liabilities				
Due to other governments	\$ 816	\$ 49,989	\$ (50,805)	\$ -
Accrued liabilities	3,082	220,156	(223,238)	-
Total liabilities	\$ 3,898	\$ 270,145	\$ (274,043)	\$ -
<i>Total Agency Funds</i>				
Assets				
Cash and cash equivalents	\$ 3,898	\$ 9,537,877	\$ (9,541,565)	\$ 210
Liabilities				
Due to other governments	\$ 816	\$ 9,317,721	\$ (9,318,327)	\$ 210
Accrued liabilities	3,082	220,156	(223,238)	-
Total liabilities	\$ 3,898	\$ 9,537,877	\$ (9,541,565)	\$ 210

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COMPONENT UNITS

CITY OF HASTINGS, MICHIGAN

Balance Sheet

Governmental Fund
Brownfield Redevelopment Authority Component Unit
June 30, 2019

	Governmental Fund
Assets	
Investments	\$ 23
Liabilities	
Accounts payable	\$ 362,097
Fund balance	
Unassigned deficit	(362,074)
Total liabilities and fund balance	\$ 23

CITY OF HASTINGS, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund

Brownfield Redevelopment Authority Component Unit

For the Year Ended June 30, 2019

	Governmental Fund
Revenues	
Taxes	\$ 20,758
Interest	23
	<hr/>
Total revenues	20,781
Expenditures	
Administrative services	13,144
	<hr/>
Net changes in fund balances	7,637
Fund balances (deficit), beginning of year	<hr/> (369,711)
Fund balances (deficit), end of year	<hr/> <hr/> \$ (362,074)

CITY OF HASTINGS, MICHIGAN

Balance Sheet

Governmental Fund
Downtown Development Authority Component Unit
June 30, 2019

	Governmental Fund
Assets	
Investments	\$ 281,827
Liabilities	
Accounts payable	\$ 3,894
Advance from primary government	12,760
Total liabilities	16,654
Fund balance	
Unassigned	265,173
Total liabilities and fund balance	\$ 281,827

CITY OF HASTINGS, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund
Downtown Development Authority Component Unit
For the Year Ended June 30, 2019

	Governmental Fund
Revenues	
Taxes	\$ 395,357
Intergovernmental - State	35,034
Charges for services	600
Contributions and donations	2,772
Interest	5,076
	<hr/>
Total revenues	438,839
	<hr/>
Expenditures	
Contributions to primary government	201,389
Capital outlay	42,037
Interest expense	1,123
Other	39,558
	<hr/>
Total expenditures	284,107
	<hr/>
Net changes in fund balances	154,732
	<hr/>
Fund balances, beginning of year	110,441
	<hr/>
Fund balances, end of year	\$ 265,173
	<hr/> <hr/>

CITY OF HASTINGS, MICHIGAN

Balance Sheet

Governmental Fund
Local Development Finance Authority Component Unit
June 30, 2019

	Governmental Fund
Assets	
Investments	\$ 251,363
Land held for resale	<u>23,738</u>
Total assets	<u><u>\$ 275,101</u></u>
Liabilities	
Accounts payable	<u>\$ 1,600</u>
Fund balances	
Nonspendable	23,738
Unassigned	<u>249,763</u>
Total fund balances	<u>273,501</u>
Total liabilities and fund balances	<u><u>\$ 275,101</u></u>

CITY OF HASTINGS, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund

Local Development Finance Authority Component Unit

For the Year Ended June 30, 2019

	Governmental Fund
Revenues	
Taxes	\$ 16,035
Intergovernmental - State	9,538
Interest	4,834
Rentals	6,360
	<u>20,010</u>
Total revenues	56,777
Expenditures	
Capital outlay	<u>25,845</u>
Net changes in fund balances	30,932
Fund balances, beginning of year	<u>242,569</u>
Fund balances, end of year	<u><u>\$ 273,501</u></u>

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INTERNAL CONTROL AND COMPLIANCE

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

December 18, 2019

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, 2019, 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 18, 2019.

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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2019-001 that we consider 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 Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 "Lehmann 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, 2019

2019-001 - 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 adjusting the pension and other postemployment benefits liabilities, and the associated deferrals, as well as capital asset balances for the enterprise and internal service funds.

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. As the implementation of changes to the fixed assets policy is complete, subsequent year asset adjustments will be addressed timely moving forward. In addition, pension and other postemployment benefit adjustments to the liabilities and associated deferrals will be addressed by management at the fiscal year end.

