

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF HASTINGS	County BARRY
Fiscal Year End JUNE 30, 2007	Opinion Date November 7, 2007	Date Audit Report Submitted to State November 9, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

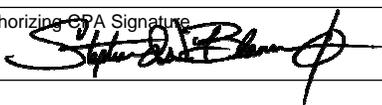
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	NONE	
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 616-975-4100	
Street Address 2330 EAST PARIS AVE., SE		City GRAND RAPIDS	State MI
		Zip 49546	
Authorizing CPA Signature 	Printed Name Stephen W. Blann, CPA, CGFM	License Number 24801	



**CITY OF HASTINGS
HASTINGS, MICHIGAN**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007



REHMANN ROBSON

Certified Public Accountants

CITY OF HASTINGS

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

INDEPENDENT AUDITORS' REPORT

November 7, 2007

Honorable Mayor and
Members of the City Council
City of Hastings, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hastings, Michigan (the "City"), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Hastings, Michigan. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and Library special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2007, on our consideration of the City of Hastings' 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hastings' 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 City of Hastings' basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Lehmann Johnson".

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Hastings, we offer readers of the City of Hastings' financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007. 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 assets increased to \$25,671,893 at the end of the current fiscal compared to \$20,898,929 at the end of the prior period. Net assets of governmental activities (including the internal service funds) increased by \$3,592,319, largely due to capital projects, especially the new library building, some of which had significant funding from external grant sources. Net assets of business-type activities increased by \$1,180,645.
- During the year, the City's revenues were \$12,011,091, an increase of \$3,900,198 (48.1%) over the prior year. The City's expenses also increased, by \$527,499 (7.8%) to \$7,238,127. Revenues exceeded expenses for the year by \$4,772,964. The magnitude of these changes is attributable to the library building project, receiving substantial sums for construction and other services.
- The City continues to increase its investment earnings by carefully managing cash to ensure that the maximum amount possible is invested at interest and by seeking new investment partners and vehicles to optimize return (consistent with security of principal). Investment earnings increased from \$283,231 in the prior year to \$413,759 in the current year. This follows a substantial increases reported in each of the prior two fiscal years.
- In the General Fund, expenditures and outgoing transfers exceeded revenues, incoming transfers, and other financing sources by \$73,549, reducing the fund balance from \$769,842 to \$696,293. The reduction was about one third of the reduction that occurred in the prior period.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Hastings' 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 themselves.

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

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

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

Both of the government-wide financial statements distinguish functions of the City of Hastings 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 and recreation and cultural activities. The business-type activities of the City include sewer and water services and a business incubator program. The government-wide financial statements include not only the City of Hastings itself (known as the *primary government*), but also a legally separate Downtown Development Authority and Local Development Finance Authority for which the City is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 13-15 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Hastings, 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 government'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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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

The basic governmental fund financial statements can be found on pages 16-21 of this report.

Proprietary funds. The City of Hastings maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Hastings uses enterprise funds to account for its water, sewer, and business incubator operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the

City is various functions. The City uses the internal service fund to account for its fleet of vehicles and accounting 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 separate information for the water and sewer and business incubator operations, both of which are considered major funds of the City of Hastings.

The basic proprietary fund financial statements can be found on pages 22-24 of this report.

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.

The basic fiduciary fund financial statements can be found on page 25 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-40 of this report.

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.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 41-54 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Hastings, assets exceeded liabilities by \$25,671,893 at the close of the most recent fiscal year.

One of the larger portions of the City's net assets reflects unrestricted net assets which are available for future operation while a significant portion of net assets 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 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.

The table below summarizes the components of the City's net assets for the current and prior fiscal years.

City of Hastings Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 3,040,970	\$ 3,876,525	\$ 3,295,550	\$ 2,888,421	\$ 6,336,520	\$ 6,764,946
Capital assets	11,837,399	6,995,309	11,612,797	11,209,382	23,450,196	18,204,691
Total assets	14,878,369	10,871,834	14,908,347	14,097,803	29,786,716	24,969,637
Long-term liabilities	976,112	1,030,656	2,207,432	2,539,093	3,183,544	3,569,749
Other liabilities	828,044	359,284	103,235	141,675	931,279	500,959
Total liabilities	1,804,156	1,389,940	2,310,667	2,680,768	4,114,823	4,070,708
Net assets:						
Invested in capital assets, net of related debt	10,908,660	5,930,955	9,426,533	8,672,631	20,335,193	14,603,586
Restricted	891,484	2,461,172	862,502	-	1,753,986	2,461,172
Unrestricted	1,274,069	1,089,767	2,308,645	2,744,404	3,582,714	3,834,171
Total net assets	\$13,074,213	\$ 9,481,894	\$12,597,680	\$11,417,035	\$25,671,893	\$20,898,929

Net assets of the City increased by \$4,772,964 with both governmental and business-type activities showing additions to prior balances. The business-type activities increase in net assets of \$1,180,645 was the result of a high volume of new service connections, steady revenues from operations, careful management of expenses, and an increase in investment income. The governmental activities increase in net assets of \$3,392,319 was primarily the result of the construction of the new library with substantial support from contributed resources.

City of Hastings Changes in Net Assets

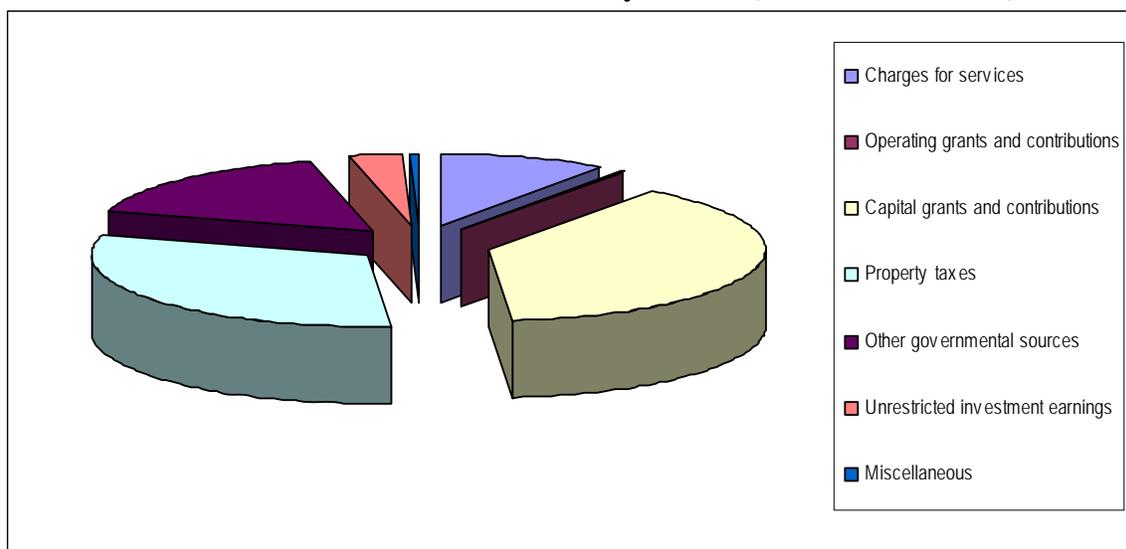
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue:						
Program revenue:						
Charges for services	\$ 867,727	\$ 839,276	\$3,004,708	\$2,030,796	\$ 3,872,435	\$2,870,072
Operating grants and contributions	11,879	722,765	-	-	11,879	722,765
Capital grants and contributions	3,439,813	42,903	-	20,553	3,439,813	63,456
General revenue:						
Property taxes	2,736,925	2,590,356	-	-	2,736,925	2,590,356
Other governmental Sources	1,491,761	1,512,840	-	-	1,491,761	1,512,840
Unrestricted investment earnings	272,843	175,799	140,916	107,432	413,759	283,231
Miscellaneous	(46,366)	(47,441)	90,885	115,614	44,519	68,173
Total revenue	8,774,582	5,836,498	3,236,509	2,274,395	12,011,091	8,110,893

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Expenses:						
General government	\$ 243,840	\$ 264,462	\$ -	\$ -	\$ 243,840	\$ 264,462
Public safety	2,463,091	2,474,090	-	-	2,463,091	2,474,090
Public works	775,611	693,647	-	-	775,611	693,647
Recreation and cultural	1,090,245	947,992	-	-	1,090,245	947,992
Community and Economic development	565,712	46,337	-	-	565,712	46,337
Interest on long-term debt	43,764	53,814	-	-	43,764	53,814
Water & Sewer	-	-	1,909,140	1,809,540	1,909,140	1,809,540
Business Incubator	-	-	146,724	191,107	146,724	191,107
Total expenses	<u>5,182,263</u>	<u>4,480,342</u>	<u>2,055,864</u>	<u>2,000,647</u>	<u>7,238,127</u>	<u>6,480,989</u>
Change in net assets	3,592,319	1,356,156	1,180,645	273,748	4,772,964	1,629,904
Net assets - beginning of year	<u>9,481,894</u>	<u>8,125,738</u>	<u>11,417,035</u>	<u>11,143,287</u>	<u>20,898,929</u>	<u>19,269,025</u>
Net assets - end of year	<u>\$13,074,213</u>	<u>\$9,481,894</u>	<u>\$12,597,680</u>	<u>\$11,417,035</u>	<u>\$25,671,893</u>	<u>\$20,898,929</u>

Governmental Activities Revenue

Total governmental revenue increased by \$2,938,084. Property tax revenue increased due to increasing taxable values; grants and contributions revenue increased, mostly due to the library building project, general state revenue sharing declined slightly, investment income increased significantly.

Governmental Activities Revenues by Source (FYE June 30 2007)

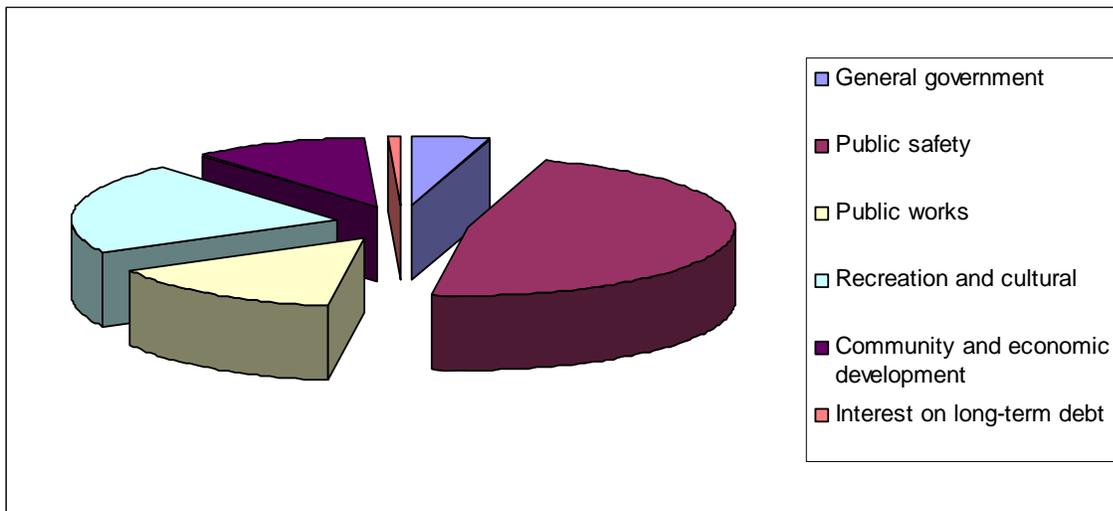


Governmental Activities Expenses

Total governmental expenses increased \$701,921. Increases relate to cost of living increases in wages and most benefits, larger increases in health insurance for active employees and retirees, and variations in levels of program activity. The overall increase in total expenses for governmental activities was higher than the previous period (about 15.7% compared to 4.6%).

During the year, the City continued its emphasis in public safety by investing \$2,463,091, or 47.5% of governmental activities expenses. Recreation and cultural services was \$1,090,245 or 21.0% of governmental activities expenses. The combination of general government, public works, community and economic development, and interest on long-term debt made up the remaining \$1,628,927 or 31.5% of governmental activities expenses.

Governmental Activities Expenses by Category (FYE June 30 2007)



Business-Type Activities

The City's business-type activities include the Water and Sewer System and a Business Incubator. Revenue of the business-type activities was \$3,236,509 (an increase of \$962,114 from the prior year). Revenue for the Water & Sewer System increased, in significant part due to an unusual amount of new connection fees for multi-family housing, while revenue for the Business Incubator declined. Charges for service revenue increased substantially, grants and contributions declined more significantly, investment income increased. Expenses were \$2,055,864 (a relatively small increase of \$55,217 from the prior year). Net income from business-type activities was \$1,180,645 (a significant increase of \$906,897 from the prior year, again significantly related to new connections to the water and sewer system).

Financial Analysis of the Government'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, *unreserved 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 about \$1.6 million, a decrease of about \$1.6 million in comparison with the prior year. The largest part of this decrease is occasioned by the construction of the new library building, with the application of previously reserved fund balance. Approximately 57 percent of the total fund balance amount (about \$913,000) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) for prepaid items (about \$21,000), 2) for inventory replacement (about \$2,000), 3) for library building funding (about \$500,000), and 4) for specific purposes of special revenue funds (about \$111,000).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$673,918, while total fund balance was \$696,293. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents about 18% percent of total general fund expenditures and transfers out.

The fund balance of the City's general fund decreased by \$73,549 during the current fiscal year. This is primarily attributable to planned, budgeted spending in excess of current revenue.

The library fund has a total fund balance of \$780,288, which decreased by \$1,319,649 during the year. This reduction is primarily attributable to the disbursement of assets reserved for the new library building during its construction.

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 assets of the water and sewer and business incubator funds at the end of the year amounted to \$11,967,478 and \$630,202, respectively. The sewer and water fund had an increase in net assets for the year of \$1,175,730, while the business incubator fund had an increase of \$4,915. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

Budgetary Highlights

Differences between the original and final amended budgets for expenditures were mostly minor for the year. Significant amendments (increases) were made for water and sewer fund revenue when the multi-family connections became known. Other 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 the continuation of active construction of the new library building.

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, 2007, amounted to \$23,106,457 (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. The City's investment in capital assets for the current fiscal year increased approximately 30 percent (again, significantly due to the new library building).

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

- Governmental activities
 - Infrastructure additions and improvements of approximately \$665,000
 - Construction of the new library building of approximately \$4,236,000
 - Acquisition of library furnishings and equipment of approximately \$515,000
 - Equipment fund acquisitions of approximately \$78,600
 - Improvements to networks and technology of approximately \$35,700
- Business-type activities
 - Water delivery system improvements of approximately \$480,000
 - Sewer disposal system improvements of approximately \$263,000
 - Water & Sewer fund equipment acquisitions of approximately \$28,800

City of Hastings Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 1,367,783	\$ 1,367,783	\$ 119,200	\$ 119,200	\$ 1,486,983	\$ 1,486,983
Construction in Prgs	56,461	441,847	2,648	162,651	59,109	604,498
Infrastructure	2,043,129	1,439,869	5,705,609	4,928,556	7,748,738	6,368,425
Buildings and system improvements	5,896,792	1,763,796	5,350,146	5,573,962	11,246,938	7,337,758
Vehicles and equipment	2,129,495	1,582,660	435,194	425,013	2,564,689	2,007,673
Total	\$11,493,660	\$6,595,955	\$11,612,797	\$11,209,382	\$23,106,457	\$17,805,337

Additional information on the City of Hastings capital assets can be found in Note 5 on pages 35-36 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$3,183,544. Of this amount, \$2,207,432 was debt of business-type activities and \$976,112 was debt of governmental activities.

City of Hastings General Obligation and Revenue Bonds

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Accrued employee benefits	\$391,112	\$ 364,656	\$ 21,168	\$ 23,336	\$ 412,280	\$ 387,992
Notes	585,000	665,000	-	-	585,000	665,000
Bonds	-	-	2,186,264	2,515,757	2,186,264	2,515,757
Total	\$976,112	\$1,029,656	\$2,207,432	\$2,539,093	\$3,183,544	\$3,568,749

The City's total debt decreased by \$385,205 (10.8 percent) during the current fiscal year. Payments reducing principal on installment notes and bonds were offset by an increase in accrued employee benefits.

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 8 on pages 37-38 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2007-2008 fiscal year:

- The City strives to continue to provide a comprehensive array of services to its citizens. One continuing tenant of budget development is to attempt to maintain the existing variety and level of service. The City examines all functions within the budget for opportunities to improve productivity and efficiency – delivering equal and better service for lower cost.

- Wages and most benefits are expected to continue to increase at approximately the rate of general inflation.
- The cost of health benefits for current employees and retirees continues to grow at a faster pace than City revenues. The City attempts to address this issue with a premium sharing arrangement with employees (the employees pay a portion of all cost increases) and with modest benefit adjustments (such as increasing co-payments for prescription drugs). The 2007-2008 budget anticipates the continuation of recent trends. The City has also acted to change retirement health benefits such that employees hired from 2003 to 2005 will not be eligible for City payments (depending on employee group).
- The budget for the coming fiscal year anticipates a reduction in state revenue sharing from previous levels. The general condition of the state's economy, as well as continuing budget action by the State Legislature, have the potential to affect the validity of that assumption.

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 government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 201 E. State Street, Hastings, Michigan 49058.

BASIC FINANCIAL STATEMENTS

CITY OF HASTINGS

Statement of Net Assets

June 30, 2007

	Primary Government			Component Units	
	Governmental	Business-type	Total	Downtown	Local
	Activities	Activities		Development	Finance
				Authority	Authority
Assets					
Cash and pooled investments	\$ 1,792,492	\$ 1,585,526	\$ 3,378,018	\$ 225,739	\$ 64,962
Restricted cash and investments	1,019,487	877,247	1,896,734	-	-
Receivables:					
Accounts	13,481	268,117	281,598	-	-
Taxes	18,768	-	18,768	-	-
Special assessments	48,149	21,828	69,977	-	-
Due from other governmental units	333,150	-	333,150	-	-
Internal balances	(289,944)	289,944	-	-	-
Inventory	1,733	247,750	249,483	-	-
Prepaid items	103,654	5,138	108,792	-	-
Investment in joint venture	343,739	-	343,739	-	-
Capital assets not being depreciated	1,424,244	121,848	1,546,092	-	-
Capital assets being depreciated, net	10,069,416	11,490,949	21,560,365	-	-
	14,878,369	14,908,347	29,786,716	225,739	64,962
Liabilities					
Accounts payable	734,765	72,393	807,158	7,152	-
Accrued liabilities	49,769	9,401	59,170	-	-
Deposits	36,270	6,696	42,966	-	-
Accrued interest	7,240	14,745	21,985	-	-
Noncurrent liabilities:					
Compensated absences	391,112	21,168	412,280	-	-
Current portion of bonds payable	85,000	185,000	270,000	-	-
Bonds payable, net of current portion	500,000	2,001,264	2,501,264	-	-
	1,804,156	2,310,667	4,114,823	7,152	-
Net assets					
Invested in capital assets, net of related debt	10,908,660	9,426,533	20,335,193	-	-
Restricted for:					
Major streets	47,396	-	47,396	-	-
Local streets	12,338	-	12,338	-	-
Library	780,288	-	780,288	-	-
Drug enforcement	41,320	-	41,320	-	-
Police training	10,142	-	10,142	-	-
Bond covenants	-	862,502	862,502	-	-
Unrestricted	1,274,069	2,308,645	3,582,714	218,587	64,962
	\$ 13,074,213	\$ 12,597,680	\$ 25,671,893	\$ 218,587	\$ 64,962

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

CITY OF HASTINGS

Statement of Activities

For the Year Ended June 30, 2007

	Program Revenues				Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 243,840	\$ 135,003	\$ -	\$ -	\$ (108,837)
Public safety	2,463,091	357,010	1,475	36,964	(2,067,642)
Public works	775,611	-	-	143,000	(632,611)
Recreation and cultural	1,090,245	337,277	10,404	3,218,835	2,476,271
Community and economic development	565,712	38,437	-	41,014	(486,261)
Interest on long-term deb	43,764	-	-	-	(43,764)
Total governmental activities	5,182,263	867,727	11,879	3,439,813	(862,844)
Business-type activities:					
Sewer/water	1,909,140	2,959,451	-	-	1,050,311
Business incubator	146,724	45,257	-	-	(101,467)
Total business-type activities	2,055,864	3,004,708	-	-	948,844
Total primary government	\$ 7,238,127	\$ 3,872,435	\$ 11,879	\$ 3,439,813	\$ 86,000
Component units					
Downtown Development Authority	\$ 457,864	\$ -	\$ -	\$ 90,000	\$ (367,864)
Local Development Finance Authority	5,101	-	-	-	(5,101)
Total component units	\$ 462,965	\$ -	\$ -	\$ 90,000	\$ (372,965)

(Continued)

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

CITY OF HASTINGS

Statement of Activities (Concluded)

For the Year Ended June 30, 2007

	<u>Primary Government</u>			<u>Component Units</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Downtown Development Authority</u>	<u>Local Development Finance Authority</u>
Changes in net assets					
Net (expense) revenue	\$ (862,844)	\$ 948,844	\$ 86,000	\$ (367,864)	\$ (5,101)
General revenues:					
Property taxes	2,736,925	-	2,736,925	483,602	11,478
Other governmental sources	1,491,761	-	1,491,761	-	-
Unrestricted investment earnings	272,843	140,916	413,759	8,596	3,302
Miscellaneous	43,566	953	44,519	1,300	-
Transfers	(89,932)	89,932	-	-	-
 Total general revenues and transfers	 4,455,163	 231,801	 4,686,964	 493,498	 14,780
 Change in net assets	 3,592,319	 1,180,645	 4,772,964	 125,634	 9,679
Net assets, beginning of year, as restated	9,481,894	11,417,035	20,898,929	92,953	55,283
 Net assets, end of year	 \$ 13,074,213	 \$ 12,597,680	 \$ 25,671,893	 \$ 218,587	 \$ 64,962

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

CITY OF HASTINGS

**Balance Sheet
Governmental Funds**

June 30, 2007

	General Fund	Library	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 564,291	\$ 252,886	\$ 156,995	\$ 974,172
Restricted cash and investments	-	1,019,487	-	1,019,487
Receivables:				
Accounts	11,701	-	-	11,701
Taxes	18,768	-	-	18,768
Special assessments	-	-	48,149	48,149
Due from other governmental units	238,213	5,130	82,119	325,462
Inventory	1,733	-	-	1,733
Prepaid items	20,642	165	-	20,807
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ 855,348	\$ 1,277,668	\$ 287,263	\$ 2,420,279
	<hr/>	<hr/>	<hr/>	<hr/>
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 71,262	\$ 490,841	\$ 125,931	\$ 688,034
Accrued liabilities	32,417	6,539	1,987	40,943
Advance from other funds	19,106	-	-	19,106
Deferred revenue	-	-	48,149	48,149
Deposits	36,270	-	-	36,270
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	159,055	497,380	176,067	832,502
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances				
Reserved for:				
Inventory	1,733	-	-	1,733
Prepaid items	20,642	165	-	20,807
Memorial fund	-	42,213	-	42,213
Capital campaign	-	499,212	-	499,212
Unreserved:				
Undesignated, reported in nonmajor special revenue funds	-	-	111,196	111,196
Undesignated (deficit)	673,918	238,698	-	912,616
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	696,293	780,288	111,196	1,587,777
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	\$ 855,348	\$ 1,277,668	\$ 287,263	\$ 2,420,279
	<hr/>	<hr/>	<hr/>	<hr/>

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

CITY OF HASTINGS

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to the Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2007

Fund balances- total governmental funds \$ 1,587,777

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

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

Add - capital assets not being depreciated	1,212,544
Add - capital assets being depreciated, net	7,895,247

Certain assets, such as special assessments receivable are not due and
receivable in the current period and therefore are offset with deferred
revenue in the fund statements.

Add - deferred special assessments receivable	48,149
---	--------

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. The assets and liabilities of the internal service fund are
included in governmental activities.

Add - net assets of governmental activities accounted for in the internal service fund	2,220,763
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The government's investment in its joint venture is not a financial
resource, and therefore is not reported in the funds.

Add - investment in joint venture	343,739
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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.

Deduct - compensated absences	<u>(234,006)</u>
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Net assets of governmental activities	<u>\$ 13,074,213</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF HASTINGS

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the Year Ended June 30, 2007

	General Fund	Library	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 2,736,925	\$ -	\$ -	\$ 2,736,925
Special assessments	-	-	9,736	9,736
Licenses and permits	5,217	-	-	5,217
Intergovernmental revenue:				
Federal	77,978	-	143,000	220,978
State	744,412	223,302	526,113	1,493,827
Local	210,934	472,633	1,475	685,042
Charges for services	445,557	5,339	-	450,896
Fines and forfeitures	15,913	36,407	487	52,807
Rentals	65,476	-	-	65,476
Interest	114,115	114,461	15,426	244,002
Other	23,282	2,838,283	145	2,861,710
	4,439,809	3,690,425	696,382	8,826,616
Expenditures				
General government	230,019	-	-	230,019
Public safety	2,622,655	-	6,973	2,629,628
Public works	-	-	1,233,782	1,233,782
Community and economic development	708,782	-	-	708,782
Recreation and cultural	215,899	753,381	-	969,280
Capital outlay	-	4,550,545	-	4,550,545
	3,777,355	5,303,926	1,240,755	10,322,036
Revenues over (under) expenditures	662,454	(1,613,501)	(544,373)	(1,495,420)
Other financing sources (uses)				
Transfers in	17,450	293,852	352,219	663,521
Transfers (out)	(753,453)	-	-	(753,453)
	(736,003)	293,852	352,219	(89,932)
Net change in fund balances	(73,549)	(1,319,649)	(192,154)	(1,585,352)
Fund balances, beginning of year	769,842	2,099,937	303,350	3,173,129
Fund balances, end of year	\$ 696,293	\$ 780,288	\$ 111,196	\$ 1,587,777

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

CITY OF HASTINGS

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2007

Net change in fund balances - total governmental funds \$ (1,585,352)

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

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

Add - capital outlay	5,253,983
Deduct - depreciation expense	(275,472)
Deduct - loss on disposal of assets	(86,486)

Special assessments receivable are long-term in nature and are collectable over several years. However, the current receipts are reflected as revenues on the fund statements.

Deduct - decrease in deferred special assessments receivable	(9,736)
--	---------

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

Deduct - decrease in value of investment in joint venture	(55,615)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - net income from internal service funds	372,302
Deduct - increase in the accrual for compensated absences	(21,305)

Change in net assets of governmental activities	<u>\$ 3,592,319</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF HASTINGS

**Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
Budget and Actual**

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 2,820,865	\$ 2,820,865	\$ 2,736,925	\$ (83,940)
Licenses and permits	4,000	4,000	5,217	1,217
Intergovernmental revenue:				
Local	211,962	211,962	210,934	(1,028)
State	746,500	746,500	744,412	(2,088)
Federal	95,450	131,687	77,978	(53,709)
Charges for services	429,957	429,957	445,557	15,600
Fines and forfeitures	15,000	15,000	15,913	913
Rentals	63,000	63,000	65,476	2,476
Interest	40,000	40,000	114,115	74,115
Other	2,500	2,500	23,282	20,782
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	4,429,234	4,465,471	4,439,809	(25,662)
	<hr/>	<hr/>	<hr/>	<hr/>
Expenditures				
General government:				
City Council	59,300	61,047	60,063	(984)
Elections	22,880	22,920	10,032	(12,888)
Assessor	165,272	170,515	159,924	(10,591)
	<hr/>	<hr/>	<hr/>	<hr/>
Total general government	247,452	254,482	230,019	(24,463)
	<hr/>	<hr/>	<hr/>	<hr/>
Public safety:				
Police	1,772,388	1,840,535	1,816,427	(24,108)
Fire	787,212	866,643	806,228	(60,415)
	<hr/>	<hr/>	<hr/>	<hr/>
Total public safety	2,559,600	2,707,178	2,622,655	(84,523)
	<hr/>	<hr/>	<hr/>	<hr/>
Community and economic development:				
Community promotion	475,142	480,757	462,186	(18,571)
Economic development	261,329	223,555	200,995	(22,560)
Parking enforcement	45,208	46,110	45,601	(509)
	<hr/>	<hr/>	<hr/>	<hr/>
Total community and economic development	781,679	750,422	708,782	(41,640)
	<hr/>	<hr/>	<hr/>	<hr/>
Recreation and cultural	194,241	212,983	215,899	2,916
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	3,782,972	3,925,065	3,777,355	(147,710)
	<hr/>	<hr/>	<hr/>	<hr/>
Revenue over expenditures	646,262	540,406	662,454	122,048
	<hr/>	<hr/>	<hr/>	<hr/>
Other financing sources (uses)				
Transfers in	17,450	17,450	17,450	-
Transfers (out)	(849,171)	(754,320)	(753,453)	867
Proceeds on sale of capital assets	5,000	5,000	-	(5,000)
	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(826,721)	(731,870)	(736,003)	(4,133)
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balances	(180,459)	(191,464)	(73,549)	117,915
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	769,842	769,842	769,842	-
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances, end of year	\$ 589,383	\$ 578,378	\$ 696,293	\$ 117,915

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

CITY OF HASTINGS

**Statement of Revenues, Expenditures and Changes in Fund Balances
Library Special Revenue Fund
Budget and Actual**

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance With Final Budget
Revenues				
Intergovernmental revenue:				
Local	\$ 431,710	\$ 429,460	\$ 472,633	\$ 43,173
State	221,280	221,280	223,302	2,022
Charges for services	5,700	5,700	5,339	(361)
Fines and forfeitures	33,000	36,706	36,407	(299)
Interest	68,907	68,907	114,461	45,554
Other	2,534,250	2,831,087	2,838,283	7,196
Total revenues	3,294,847	3,593,140	3,690,425	97,285
Expenditures				
Recreation and culture:				
Library	4,264,599	1,078,562	753,381	(325,181)
Capital outlay	825,242	4,556,362	4,550,545	(5,817)
Revenues over (under) expenditures	(1,794,994)	(2,041,784)	(1,613,501)	428,283
Other financing sources (uses)				
Transfers in	293,852	293,852	293,852	-
Net change in fund balances	(1,501,142)	(1,747,932)	(1,319,649)	428,283
Fund balance, beginning of year	2,099,937	2,099,937	2,099,937	-
Fund balance, end of year	\$ 598,795	\$ 352,005	\$ 780,288	\$ 428,283

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

CITY OF HASTINGS

Statement of Net Assets Proprietary Funds

June 30, 2007

	Business-type Activities			Governmental Activities	
	Enterprise Funds		Total Enterprise Funds		Internal Service Funds
	Water and Sewer	Business Incubator			
Assets					
Current assets:					
Cash and pooled investments	\$ 1,459,346	\$ 126,180	\$ 1,585,526	\$ 818,320	
Restricted cash and investments	877,247	-	877,247	-	
Receivables:					
Accounts	265,556	2,561	268,117	1,780	
Special assessments	21,828	-	21,828	-	
Due from other governmental units	-	-	-	7,688	
Inventory	247,750	-	247,750	-	
Prepaid items	4,859	279	5,138	82,847	
Total current assets	2,876,586	129,020	3,005,606	910,635	
Non-current assets:					
Advance to other funds	355,977	-	355,977	19,106	
Capital assets not being depreciated	101,848	20,000	121,848	211,700	
Capital assets being depreciated, net	10,930,891	560,058	11,490,949	2,174,169	
Total non-current assets	11,388,716	580,058	11,968,774	2,404,975	
Total assets	14,265,302	709,078	14,974,380	3,315,610	
Liabilities					
Current liabilities:					
Accounts payable	66,696	5,697	72,393	46,731	
Accrued liabilities	9,225	176	9,401	8,826	
Deposits	-	6,696	6,696	-	
Accrued interest	14,745	-	14,745	7,240	
Compensated absences	20,894	274	21,168	157,106	
Current portion of bonds payable	185,000	-	185,000	85,000	
Total current liabilities	296,560	12,843	309,403	304,903	
Long-term liabilities:					
Advance from other funds	-	66,033	66,033	289,944	
Bonds payable, net of current maturities	2,040,000	-	2,040,000	500,000	
Unamortized discount on bonds payable	(38,736)	-	(38,736)	-	
Total long-term liabilities	2,001,264	66,033	2,067,297	789,944	
Total liabilities	2,297,824	78,876	2,376,700	1,094,847	
Net assets					
Invested in capital assets, net of related debt	8,846,475	580,058	9,426,533	1,800,869	
Restricted for bond covenants	862,502	-	862,502	-	
Unrestricted	2,258,501	50,144	2,308,645	419,894	
Total net assets	\$ 11,967,478	\$ 630,202	\$ 12,597,680	\$ 2,220,763	

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

CITY OF HASTINGS

Statement of Revenues, Expenses and Changes in Net Assets Proprietary Funds

For the Year Ended June 30, 2007

	Business-type Activities			Governmental
	Enterprise Funds		Total	Activities
	Water and Sewer	Business Incubator	Enterprise Funds	Internal Service Funds
Operating revenues				
Charges for services	\$ 2,960,404	\$ 8,518	\$ 2,968,922	\$ 2,105,543
Rentals	-	36,739	36,739	-
Total operating revenues	2,960,404	45,257	3,005,661	2,105,543
Operating expenses				
Personnel services	484,787	12,974	497,761	913,893
Professional and contractual services	116,142	2,461	118,603	170,535
Materials and supplies	183,389	2,851	186,240	227,236
Utilities	165,884	61,944	227,828	72,439
Repairs and maintenance	112,337	10,875	123,212	61,873
Insurance and bonds	-	-	-	75,345
Equipment rental	80,438	405	80,843	21,418
Depreciation	350,051	25,590	375,641	164,672
Administrative services	255,509	7,276	262,785	27,163
Bad debts	-	8,248	8,248	-
Miscellaneous	45,234	9,925	55,159	3,863
Total operating expenses	1,793,771	142,549	1,936,320	1,738,437
Operating income (loss)	1,166,633	(97,292)	1,069,341	367,106
Nonoperating revenues (expenses)				
Interest income	140,916	-	140,916	28,841
Gain on sale of assets	-	-	-	2,000
Miscellaneous revenue	-	-	-	16,793
Interest expense	(115,369)	(4,175)	(119,544)	(42,438)
Total non-operating revenues (expenses)	25,547	(4,175)	21,372	5,196
Net income before transfers	1,192,180	(101,467)	1,090,713	372,302
Transfers				
Transfers out	(17,450)	-	(17,450)	-
Transfers in	1,000	106,382	107,382	-
Total transfers	(16,450)	106,382	89,932	-
Change in net assets	1,175,730	4,915	1,180,645	372,302
Net assets, beginning of year	10,791,748	625,287	11,417,035	1,848,461
Net assets, end of year	\$ 11,967,478	\$ 630,202	\$ 12,597,680	\$ 2,220,763

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

CITY OF HASTINGS

**Statement of Cash Flows
Proprietary Funds**

For the Year Ended June 30, 2007

	Business-type Activities		Total Enterprise Funds	Governmental
	Enterprise Funds			Activities
	Water and Sewer	Business Incubator		Internal Service Funds
Cash flows from operating activities				
Cash received from customers	\$ 2,940,019	\$ 62,488	\$ 3,002,507	\$ -
Cash received from other miscellaneous sources	-	-	-	16,793
Cash payments to other funds	-	-	-	2,117,682
Cash payments to suppliers for goods and services	(1,112,430)	(103,956)	(1,216,386)	(710,827)
Cash payments to employees for services	(484,860)	(13,236)	(498,096)	(907,284)
Net cash provided by (used in) operating activities	1,342,729	(54,704)	1,288,025	516,364
Cash flows from non-capital financing activities				
Transfers from other funds	1,000	106,382	107,382	-
Transfers to other funds	(17,450)	-	(17,450)	-
Advance from other funds	-	(6,500)	(6,500)	(56,337)
Net cash (used in) provided by non-capital financing activities	(16,450)	99,882	83,432	(56,337)
Cash flows from capital and related financing activities				
Acquisitions of capital assets	(779,056)	-	(779,056)	(170,352)
Proceeds from sale of capital assets	-	-	-	2,000
Principal paid on long-term debt	(335,000)	-	(335,000)	(80,000)
Interest and fiscal charges	(116,110)	(4,175)	(120,285)	(42,438)
Net cash used in capital and related financing activities	(1,230,166)	(4,175)	(1,234,341)	(290,790)
Cash flows from investing activities				
Interest income	140,916	-	140,916	28,841
Net increase in cash and pooled investments	237,029	41,003	278,032	198,078
Cash and pooled investments, beginning of year	2,099,564	85,177	2,184,741	620,242
Cash and pooled investments, end of year	\$ 2,336,593	\$ 126,180	\$ 2,462,773	\$ 818,320
Statement of net asset classification of cash and cash equivalents				
Cash and pooled investments	\$ 1,459,346	\$ 126,180	\$ 1,585,526	\$ 818,320
Restricted cash and investments	877,247	-	877,247	-
Total cash and cash equivalents	\$ 2,336,593	\$ 126,180	\$ 2,462,773	\$ 818,320
Reconciliation of operating income to net cash provided by operating activities				
Operating income (loss)	\$ 1,166,633	\$ (97,292)	\$ 1,069,341	\$ 367,106
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	350,051	25,590	375,641	164,672
Miscellaneous receipts	-	-	-	16,793
Changes in assets and liabilities which provided (used) cash:				
Accounts receivable	(22,795)	13,799	(8,996)	(139)
Special assessments receivable	2,410	-	2,410	-
Due from other governmental units	-	-	-	(1,322)
Due from other funds	-	-	-	6,662
Inventory and prepaid items	(178,831)	(17)	(178,848)	(190)
Advance to other funds	62,836	-	62,836	5,477
Accounts payable	(37,502)	46	(37,456)	(49,304)
Accrued liabilities	1,936	(103)	1,833	1,458
Deposits	-	3,432	3,432	-
Compensated absences	(2,009)	(159)	(2,168)	5,151
Net cash provided by (used in) operating activities	\$ 1,342,729	\$ (54,704)	\$ 1,288,025	\$ 516,364

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

CITY OF HASTINGS

Statement of Fiduciary Assets and Liabilities Agency Funds

June 30, 2007

Assets

Cash and pooled investments	\$ 2,426
Accounts receivable	<u>1,032</u>

Total assets	<u><u>\$ 3,458</u></u>
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Liabilities

Due to other governmental units	<u><u>\$ 3,458</u></u>
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The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hastings (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), highways and streets, sanitation, health and social services, recreation and cultural, public improvements, and general administrative services.

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

The Reporting Entity

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

Discretely Presented Component Units

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

Local Development Finance Authority and Brownfield Redevelopment Authority – The Local Development Finance Authority and Brownfield Redevelopment Authority were 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. There is no activity in the current year for the Brownfield Redevelopment Authority. The members of the governing board of the Local Development Finance Authority and Brownfield Redevelopment Authority are appointed by the City Council. The budgets and expenditures of the Local Development Finance Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Local Development Finance Authority.

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

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2007

Joint Venture

The City of Hastings has an equity investment in the Airport Commission (“the Commission”) (a joint venture as defined by GASB Statement No. 14). 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 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 City is designated as the agent for any federal or state airport aid.

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 approximately \$22,300 for its operations. The City of Hastings’ equity in this joint venture as of June 30, 2007 is \$343,739, 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, Hastings, MI 49058.

Government-Wide and Fund Financial Statements

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

Notes to Financial Statements

For the Year Ended June 30, 2007

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 City 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 all financial resources of the general government, except those required to be accounted for in another fund.

The *Library Fund* is utilized to account for the operations and activities related to the Library and the Library Capital Campaign.

The City reports the following major proprietary funds:

Water and Sewer Fund – This 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.

Business Incubator Fund – This fund is used to account for activities provided to private companies to enhance business growth in the City.

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2007

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for revenue from specific revenue sources (other than major capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

The *Internal Service Funds* are used to 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.

The *Agency Funds* are used to account for assets held on behalf of outside parties, including other governments.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and 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.

Budgets and Budgetary Accounting

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

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

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2007

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, 2007. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Any amendments to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council.
6. Budgets for expenditures are adopted at the functional level.
7. Budgeted amounts are as originally adopted, or as amended by the City Council.

Cash and Cash Equivalents

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.

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 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.

Capital Assets

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

Notes to Financial Statements

For the Year Ended June 30, 2007

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:

	<u>Years</u>
Water distribution system	67
Sewage disposal system	67
Buildings and building improvements	30 - 50
Land improvements	10 - 20
Machinery, equipment, and vehicles	5 - 10

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 assets. For new bond issuances of governmental funds after the implementation of GASB Statement No. 34 and all proprietary fund bond issues, bond premiums and discounts, as well as issuance costs, 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, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Restricted Assets

Restricted assets are those assets set aside as required by the Enterprise Fund revenue bonds. These bonds require amounts to be set aside for construction, principal, interest expense, operations and maintenance, and a bond reserve.

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1st. 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.

Fund Equity

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

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2007

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 (when the time is used or employment is terminated).

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. During the year ended June 30, 2007, the City carried 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.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

During the year ended June 30, 2007 the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General fund			
Economic development	\$ 212,983	\$ 215,899	\$ 2,916
Drug Enforcement Fund			
Public safety	-	32	32

3. DEFICIT NET ASSETS

The Administrative Services Funds ended the year with a deficit unrestricted net assets of \$64,024. It is the City's intention to eliminate this deficit by generation of revenues in excess of expenditures in future years, and to file a deficit elimination plan update with the State of Michigan Department of Treasury.

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2007

4. DEPOSITS AND INVESTMENTS

The captions on the government-wide and fund statements relating to cash and cash equivalents and deposits are as follows:

	Primary Government	Component Units	Fiduciary Funds	Total
Cash and pooled investments	\$3,378,018	\$290,701	\$2,426	\$3,671,145
Restricted cash and investments	1,896,734	-	-	1,896,734
Total	\$5,274,752	\$290,701	\$2,426	\$5,567,879

Deposits and investments consist of the following at June 30, 2007:

Checking and savings accounts	\$ 913,397
Certificates of deposit (due within one year)	3,369,447
Investments	1,282,971
Petty cash	2,064
Total	\$5,567,879

These deposits are in six (6) 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.

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, \$3,817,233 of the City's bank balance of \$4,319,657 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following investments:

	Maturity	Fair Value	Rating
Commercial Paper:			
General Electric Capital Corp.	8/29/07	\$ 297,408	AAA/Aaa
General Electric Capital Corp	8/29/07	247,831	AAA/Aaa
MBIA Class Fund	N/A	737,732	AAA/V1+
		\$1,282,971	

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2007

Investment Risk

Interest Rate Risk. 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 rating on the City’s investments are identified above.

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.

Concentration of Credit Risk. 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 12/31/97.

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2007

5. CAPITAL ASSETS

Changes in capital assets for the year ending June 30, 2007, are as follows:

	Balance July 1, 2006	Additions	Dispositions	Balance June 30, 2007
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 1,367,783	\$ -	\$ -	\$ 1,367,783
Construction in progress	441,847	56,323	441,709	56,461
Total capital assets, not being depreciated	1,809,630	56,323	441,709	1,424,244
Capital assets, being depreciated:				
Land improvements	1,541,686	668,363	-	2,210,049
Buildings and improvements	2,634,904	4,242,534	-	6,877,438
Machinery, vehicles and equipment	3,892,086	898,824	217,290	4,573,620
	8,068,676	5,809,721	217,290	13,661,107
Less accumulated depreciation for:				
Land improvements	101,817	65,103	-	166,920
Buildings and improvements	871,108	109,538	-	980,646
Machinery, vehicles and equipment	2,309,426	265,503	130,804	2,444,125
Total accumulated depreciation	3,282,351	440,144	130,804	3,591,691
Net capital assets, being depreciated	4,786,325	5,369,577	86,486	10,069,416
Net capital assets - governmental activities	\$ 6,595,955	\$ 5,425,900	\$ 528,195	\$ 11,493,660
Business-type activities				
Capital assets not being depreciated:				
Land	\$ 119,200	\$ -	\$ -	\$ 119,200
Construction in progress	162,651	2,648	162,651	2,648
Total capital assets not being depreciated	281,851	2,648	162,651	121,848
Capital assets being depreciated:				
Water system	5,478,408	642,296	-	6,120,704
Sewer system	2,032,904	263,328	-	2,296,232
Land improvements	-	1,054	-	1,054
Buildings and improvements	8,801,983	4,638	-	8,806,621
Machinery and equipment	682,771	27,743	-	710,514
Total capital assets being depreciated	16,996,066	939,059	-	17,935,125
Less accumulated depreciation for:				
Water system	2,139,243	89,010	-	2,228,253
Sewer system	443,513	40,589	-	484,102
Land improvements	-	26	-	26
Buildings and improvements	3,228,021	228,454	-	3,456,475
Machinery and equipment	257,758	17,562	-	275,320
Total accumulated depreciation	6,068,535	375,641	-	6,444,176
Net capital assets being depreciated	10,927,531	563,418	-	11,490,949
Net capital assets – business-type activities	\$ 11,209,382	\$ 566,066	\$ 162,651	\$ 11,612,797

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2007

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

Governmental activities:	
General government	\$ 8,860
Public safety	60,464
Public works	18,657
Recreation and cultural	152,730
Community and economic development	34,761
Internal service funds	<u>164,672</u>
Total depreciation expense – governmental activities	<u>\$ 440,144</u>
Business-type activities:	
Water and sewer	\$ 350,051
Business incubator	<u>25,590</u>
Total depreciation expense – business type activities	<u>\$ 375,641</u>

6. INTERFUND RECEIVABLES AND PAYABLES

	Due From Other Funds	Due to Other Funds
Advances:		
General Fund	\$ -	\$ 19,106
Water and Sewer	355,977	-
Business Incubator	-	66,033
Equipment Pool Internal Service Fund	19,106	226,145
Administrative Services Internal Service Fund	-	<u>63,799</u>
	<u>\$375,083</u>	<u>\$375,083</u>

Interfund balances primarily reflect loans made from funds with cash and cash equivalents to those funds requiring temporary cash flow needs.

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2007

7. INTERFUND TRANSFERS

The composition of transfers for the year ended June 30, 2007, is as follows:

	Transfers In	Transfers Out
Governmental Funds:		
General Fund	\$ 17,450	\$ 753,453
Library Fund	293,852	-
Nonmajor Funds	352,219	-
Enterprise Funds:		
Water and Sewer Fund	1,000	17,450
Business Incubator	106,382	-
Total	\$ 770,903	\$ 770,903

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.

8. LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Due Within One Year
Governmental activities					
Installment purchase agreement payable through 2013 with interest at 4.95%	\$ 665,000	\$ -	\$ 80,000	\$ 585,000	\$ 85,000
Compensated absences	364,656	233,093	206,637	391,112	212,836
Total governmental activities	\$ 1,029,656	\$ 233,093	\$ 286,637	\$ 976,112	\$ 297,836
Business-type activities					
1992 revenue bonds payable through 2007 with interest at 6.4%	\$ 175,000	\$ -	\$ 175,000	\$ -	\$ -
2006 refunding revenue bonds payable through 2017 with interest varying from 3.8% to 4.0%	2,385,000	-	160,000	2,225,000	185,000
Total installment debt	2,560,000	-	335,000	2,225,000	185,000
Unamortized discount and deferred refunding costs	(44,243)	5,507	-	(38,736)	3,873
Compensated absences	23,336	17,942	20,110	21,168	21,168
Total business-type activities	\$ 2,539,093	\$ 23,449	\$ 355,110	\$ 2,207,432	\$ 210,041

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2007

The annual requirements, excluding compensated absences and unamortized discounts, to maturity on the total long-term obligations outstanding at June 30, 2007 are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 85,000	\$ 26,854	\$ 185,000	\$ 88,470
2009	100,000	22,275	195,000	81,070
2010	100,000	17,325	200,000	73,270
2011	100,000	12,375	210,000	65,270
2012	100,000	7,425	215,000	56,870
2013-2017	100,000	2,475	1,220,000	147,550
	<u>\$ 585,000</u>	<u>\$ 88,729</u>	<u>\$ 2,225,000</u>	<u>\$ 512,500</u>

Advance Refunding

During fiscal year 2006, the City refunded \$2,505,000 of City of Hastings 1997 water/sewer revenue bonds to provide resources to purchase U.S. Government securities that were placed in an escrow fund for the purpose of generating resources for all future debt service payments on \$2,505,000 on refunded debt. As a result, the refunded bonds are considered defeased and the liability has been removed from the statement of net assets. The refunding resulted in a savings of \$210,750 and an economic gain of \$117,754.

9. DEFINED BENEFIT PENSION PLAN

Municipal Employees Retirement System of Michigan

The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering full-time City employees. The System is administered by the MERS retirement board. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate; the current rate ranges from 0% to 19.28% of annual covered payroll, depending on division. Employee contributions range from 0% to 6.4%. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adoption by the City.

For the year ended June 30, 2007 the City's annual pension cost for MERS of \$402,658 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment of 20% of the difference between assumed earnings and market value (5 year seniority) to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 30 years.

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2007

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$330,431	100%	\$ -
2005	370,171	100%	-
2006	402,658	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/04	\$8,204,231	\$11,576,559	\$3,372,328	71%	\$2,193,664	154%
12/31/05	8,441,080	12,273,095	3,832,015	69%	2,276,369	168%
12/31/06	8,831,735	12,967,213	4,135,478	68%	2,320,357	178%

10. OTHER POST-EMPLOYMENT BENEFITS

The City provides healthcare benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 38 retirees are eligible. Depending on the bargaining unit, employees hired after dates between 2003 through 2005 will not be eligible for post employment health benefits. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with no contribution required by the participant for retirees before 1992. After 1992, the retirees are required to contribute 10 percent of the premium. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due. During the fiscal year ended June 30, 2007, expenses relating to other post-employment benefits amounted to approximately \$310,000.

11. LITIGATION

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

12. COMMITMENT

At June 30, 2007, the City had outstanding contracts totaling approximately \$428,950 for construction of the Library.

CITY OF HASTINGS

Notes to Financial Statements

For the Year Ended June 30, 2007

13. PRIOR PERIOD ADJUSTMENT

Beginning net assets of the governmental activities were increased by \$229,639 to adjust beginning accumulated depreciation to the properly account for certain capital assets disposed of in prior years.

* * * * *

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

NONMAJOR GOVERNMENTAL FUNDS

CITY OF HASTINGS

**Combining Balance Sheet
Nonmajor Governmental Funds**

June 30, 2007

	Special Revenue				Totals
	Major Streets	Local Streets	Drug Enforcement	Police Training and Drug Awareness	
Assets					
Cash and pooled investments	\$ 109,578	\$ (4,045)	\$ 41,320	\$ 10,142	\$ 156,995
Receivables:					
Special assessments	-	48,149	-	-	48,149
Due from other governmental units	58,208	23,911	-	-	82,119
Total assets	\$ 167,786	\$ 68,015	\$ 41,320	\$ 10,142	\$ 287,263
Liabilities and fund balances					
Liabilities					
Accounts payable	\$ 119,134	\$ 6,797	\$ -	\$ -	\$ 125,931
Accrued liabilities	1,256	731	-	-	1,987
Deferred revenue	-	48,149	-	-	48,149
Total liabilities	120,390	55,677	-	-	176,067
Fund balances					
Unreserved - undesignated	47,396	12,338	41,320	10,142	111,196
Total liabilities and fund balances	\$ 167,786	\$ 68,015	\$ 41,320	\$ 10,142	\$ 287,263

CITY OF HASTINGS

**Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds**

For the Year Ended June 30, 2007

	Special Revenue				Totals
	Major Streets	Local Streets	Drug Enforcement	Police Training and Drug Awareness	
Revenues					
Special assessments	\$ -	\$ 9,736	\$ -	\$ -	\$ 9,736
Intergovernmental revenue:					
Federal	143,000	-	-	-	143,000
State	354,525	168,586	-	3,002	526,113
Local	-	-	-	1,475	1,475
Fines and forfeitures	-	-	487	-	487
Interest	9,220	4,094	1,726	386	15,426
Other	-	130	15	-	145
Total revenues	506,745	182,546	2,228	4,863	696,382
Expenditures					
Public safety	-	-	32	6,941	6,973
Public works	726,492	507,290	-	-	1,233,782
Total expenditures	726,492	507,290	32	6,941	1,240,755
Revenues over (under) expenditures	(219,747)	(324,744)	2,196	(2,078)	(544,373)
Other financing sources (uses)					
Transfers in	86,962	263,207	-	2,050	352,219
Net change in fund balances	(132,785)	(61,537)	2,196	(28)	(192,154)
Fund balances, beginning of year	180,181	73,875	39,124	10,170	303,350
Fund balances, end of year	\$ 47,396	\$ 12,338	\$ 41,320	\$ 10,142	\$ 111,196

CITY OF HASTINGS

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Major Streets Special Revenue Fund
Budget and Actual**

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance With Final Budget
Revenues				
Intergovernmental revenue:				
Local	\$ 75,000	\$ -	\$ -	\$ -
Federal	718,000	143,000	143,000	-
State	366,961	366,961	354,525	(12,436)
Interest	1,000	1,000	9,220	8,220
Total revenues	<u>1,160,961</u>	<u>510,961</u>	<u>506,745</u>	<u>(4,216)</u>
Expenditures				
Public works:				
Construction	1,097,271	367,291	315,825	(51,466)
Routine maintenance	405,255	410,813	410,667	(146)
Total expenditures	<u>1,502,526</u>	<u>778,104</u>	<u>726,492</u>	<u>(51,612)</u>
Revenues over (under) expenditures	(341,565)	(267,143)	(219,747)	47,396
Other financing sources (uses)				
Transfers in	210,925	86,962	86,962	-
Net change in fund balances	(130,640)	(180,181)	(132,785)	47,396
Fund balance, beginning of year	<u>180,181</u>	<u>180,181</u>	<u>180,181</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 49,541</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 47,396</u></u>	<u><u>\$ 47,396</u></u>

CITY OF HASTINGS

Schedule of Revenues, Expenditures and Changes in Fund Balance Local Streets Special Revenue Fund Budget and Actual

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance With Final Budget
Revenues				
Special assessments	\$ 15,883	\$ 15,883	\$ 9,736	\$ (6,147)
Intergovernmental revenue:				
State	175,840	175,840	168,586	(7,254)
Interest	1,000	1,000	4,094	3,094
Other	-	-	130	130
Total revenues	192,723	192,723	182,546	(10,177)
Expenditures				
Public works:				
Construction	215	79,815	76,593	(3,222)
Routine maintenance	444,047	449,990	430,697	(19,293)
Total expenditures	444,262	529,805	507,290	(22,515)
Revenues over (under) expenditures	(251,539)	(337,082)	(324,744)	12,338
Other financing sources				
Transfers in	251,723	263,207	263,207	-
Net change in fund balances	184	(73,875)	(61,537)	12,338
Fund balance, beginning of year	73,875	73,875	73,875	-
Fund balance, end of year	\$ 74,059	\$ -	\$ 12,338	\$ 12,338

CITY OF HASTINGS

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Drug Enforcement Special Revenue Fund
Budget and Actual**

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance With Final Budget
Revenues				
Fines and forfeitures	\$ 300	\$ 300	\$ 487	\$ 187
Interest	165	165	1,726	1,561
Other	-	-	15	15
	<hr/>			
Total revenues	465	465	2,228	1,763
Expenditures				
Public safety	-	-	32	32
	<hr/>			
Net change in fund balances	465	465	2,196	1,731
Fund balance, beginning of year	39,124	39,124	39,124	-
	<hr/>			
Fund balance, end of year	\$ 39,589	\$ 39,589	\$ 41,320	\$ 1,731
	<hr/> <hr/>			

CITY OF HASTINGS

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Police Training and Drug Awareness Special Revenue Fund
Budget and Actual**

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance With Final Budget
Revenues				
Intergovernmental:				
State	\$ 3,000	\$ 3,000	\$ 3,002	\$ 2
Local	2,388	2,388	1,475	(913)
Interest	100	100	386	286
Other	400	400	-	(400)
Total revenues	5,888	5,888	4,863	(1,025)
Expenditures				
Public safety:				
Police training	7,320	7,820	6,941	(879)
Revenues under expenditures	(1,432)	(1,932)	(2,078)	(146)
Other financing sources				
Transfers in	2,050	2,050	2,050	-
Net change in fund balances	618	118	(28)	(146)
Fund balance, beginning of year	10,170	10,170	10,170	-
Fund balance, end of year	\$ 10,788	\$ 10,288	\$ 10,142	\$ (146)

INTERNAL SERVICE FUNDS

CITY OF HASTINGS

Combining Statement of Net Assets Internal Service Funds

June 30, 2007

	Equipment Pool	Administrative Services	Total
Assets			
Current assets:			
Cash and pooled investments	\$ 694,035	\$ 124,285	\$ 818,320
Accounts receivable	-	1,780	1,780
Due from other governmental units	7,688	-	7,688
Prepaid items	2,206	80,641	82,847
Total current assets	703,929	206,706	910,635
Non-current assets:			
Advance to other funds	19,106	-	19,106
Capital assets not being depreciated	59,700	152,000	211,700
Capital assets being depreciated, net	899,272	1,274,897	2,174,169
Total non-current assets	978,078	1,426,897	2,404,975
Total assets	1,682,007	1,633,603	3,315,610
Liabilities			
Current liabilities:			
Accounts payable	5,615	41,116	46,731
Accrued liabilities	690	8,136	8,826
Accrued interest	-	7,240	7,240
Compensated absences	6,667	150,439	157,106
Current portion of bonds payable	-	85,000	85,000
Total current liabilities	12,972	291,931	304,903
Long-term liabilities:			
Advance from other funds	226,145	63,799	289,944
Bonds payable, net of current maturities	-	500,000	500,000
Total long-term liabilities	226,145	563,799	789,944
Total liabilities	239,117	855,730	1,094,847
Net assets			
Invested in capital assets, net of related debt	958,972	841,897	1,800,869
Unrestricted (deficit)	483,918	(64,024)	419,894
Total net assets	\$ 1,442,890	\$ 777,873	\$ 2,220,763

CITY OF HASTINGS

Combining Statement of Revenues, Expenses and Changes in Net Assets Internal Service Funds

For the Year Ended June 30, 2007

	Equipment Pool	Administrative Services	Total
Operating revenues			
Charges for services	\$ 625,420	\$ 1,480,123	\$ 2,105,543
Operating expenses			
Personnel services	62,858	851,035	913,893
Professional and contractual services	1,059	169,476	170,535
Materials and supplies	178,371	48,865	227,236
Utilities	24,158	48,281	72,439
Repairs and maintenance	38,193	23,680	61,873
Insurance and bonds	20,504	54,841	75,345
Equipment rental	4,791	16,627	21,418
Depreciation	100,237	64,435	164,672
Administrative services	27,163	-	27,163
Miscellaneous	2,052	1,811	3,863
	459,386	1,279,051	1,738,437
Total operating expenses			
Operating income	166,034	201,072	367,106
Nonoperating revenues (expenses)			
Interest income	30,628	(1,787)	28,841
Gain on sale of capital assets	2,000	-	2,000
Miscellaneous	-	16,793	16,793
Interest expense	(7,907)	(34,531)	(42,438)
	24,721	(19,525)	5,196
Total non-operating revenues (expenses)			
Change in net assets	190,755	181,547	372,302
Net assets, beginning of year	1,252,135	596,326	1,848,461
Net assets, end of year	\$ 1,442,890	\$ 777,873	\$ 2,220,763

CITY OF HASTINGS

Combining Statement of Cash Flows Internal Service Funds

For the Year Ended June 30, 2007

	Equipment Pool	Administrative Services	Total
Cash flows from operating activities			
Cash received from other funds	\$ 630,897	\$ 1,486,785	\$ 2,117,682
Cash received from other miscellaneous sources	-	16,793	16,793
Cash payments to suppliers for goods and services	(297,585)	(413,242)	(710,827)
Cash payments to employees for services	(63,190)	(844,094)	(907,284)
Net cash provided by operating activities	270,122	246,242	516,364
Cash flows from non-capital financing activities			
Advance from other funds	(68,945)	12,608	(56,337)
Cash flows from capital and related financing activities			
Acquisitions of capital assets	(122,530)	(47,822)	(170,352)
Proceeds from sale of capital assets	2,000	-	2,000
Principal paid on long-term debt	-	(80,000)	(80,000)
Interest and fiscal charges	(7,907)	(34,531)	(42,438)
Net cash used in capital and related financing activities	(128,437)	(162,353)	(290,790)
Cash flows from investing activities			
Interest income	30,628	(1,787)	28,841
Net increase in cash and pooled investments	103,368	94,710	198,078
Cash and pooled investments, beginning of year	590,667	29,575	620,242
Cash and pooled investments, end of year	\$ 694,035	\$ 124,285	\$ 818,320
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 166,034	\$ 201,072	\$ 367,106
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	100,237	64,435	164,672
Miscellaneous receipts	-	16,793	16,793
Changes in assets and liabilities which provided (used) cash:			
Accounts receivable	-	(139)	(139)
Prepaid items	(153)	(37)	(190)
Due from other governmental units	(1,322)	-	(1,322)
Due from other funds	-	6,662	6,662
Advance to other funds	5,477	-	5,477
Accounts payable	181	(49,485)	(49,304)
Accrued interest payable	-	-	-
Accrued payroll liabilities	253	1,205	1,458
Compensated absences	(585)	5,736	5,151
Net cash provided by operating activities	\$ 270,122	\$ 246,242	\$ 516,364

AGENCY FUNDS

CITY OF HASTINGS

Combining Statement of Assets and Liabilities Agency Funds

June 30, 2007

	Tax		
	Collections	Payroll	Total
Assets			
Cash and pooled investments	\$ 328	\$ 2,098	\$ 2,426
Accounts receivable	169	863	1,032
Total assets	<u>\$ 497</u>	<u>\$ 2,961</u>	<u>\$ 3,458</u>
Liabilities			
Due to other governmental units	<u>\$ 497</u>	<u>\$ 2,961</u>	<u>\$ 3,458</u>

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

COMPONENT UNITS

CITY OF HASTINGS

**Downtown Development Authority
Statement of Net Assets and Governmental Fund Balance Sheet**

June 30, 2007

	Operating Fund	Adjustments	Statement of Net Assets
Assets			
Cash	<u>\$ 225,739</u>	\$ -	\$ 225,739
Liabilities			
Accounts payable	\$ 7,152	<u>-</u>	<u>7,152</u>
Fund balance			
Unreserved - undesignated	<u>218,587</u>	<u>(218,587)</u>	
Total liabilities and fund balance	<u>\$ 225,739</u>	<u>(225,739)</u>	
Net assets			
Unrestricted		<u>\$ 218,587</u>	<u>\$ 218,587</u>

CITY OF HASTINGS

**Downtown Development Authority
Statement of Activities and Governmental Fund Revenues, Expenditures
and Changes in Fund Balance**

For the Year Ended June 30, 2007

	Operating Fund	Adjustments	Statement of Activities
	<hr/>	<hr/>	<hr/>
Revenues			
Intergovernmental:			
Federal	\$ 90,000	\$ -	\$ 90,000
Taxes	483,602	-	483,602
Interest	8,596	-	8,596
Other	1,300	-	1,300
	<hr/>		<hr/>
Total revenues	583,498	-	583,498
	<hr/>		<hr/>
Expenditures/expenses			
Transfer to primary government	230,934	-	230,934
Capital outlay	225,911	-	225,911
Other	1,019	-	1,019
	<hr/>		<hr/>
Total expenditures/expenses	457,864	-	457,864
	<hr/>		<hr/>
Changes in fund balances/net assets	125,634	-	125,634
	<hr/>		<hr/>
Fund balances/net assets, beginning of year	92,953	-	92,953
	<hr/>		<hr/>
Fund balances/net assets, end of year	\$ 218,587	\$ -	\$ 218,587
	<hr/> <hr/>		<hr/> <hr/>

CITY OF HASTINGS

**Local Development Finance Authority
Statement of Net Assets and Governmental Fund Balance Sheet**

June 30, 2007

	Operating Fund	Adjustments	Statement of Net Assets
Assets			
Cash	<u>\$ 64,962</u>	\$ -	<u>\$ 64,962</u>
Fund balance			
Unreserved - undesignated	<u>64,962</u>	<u>(64,962)</u>	
Total liabilities and fund balance	<u>\$ 64,962</u>	<u>(64,962)</u>	
Net assets			
Unrestricted		<u>\$ 64,962</u>	<u>\$ 64,962</u>

CITY OF HASTINGS

Local Development Finance Authority Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2007

	Operating Fund	Adjustments	Statement of Activities
Revenues			
Taxes	\$ 11,478	\$ -	\$ 11,478
Interest	3,302	-	3,302
Total revenues	14,780	-	14,780
Expenditures/expenses			
Capital outlay	5,101	-	5,101
Changes in fund balances/net assets	9,679	-	9,679
Fund balances/net assets, beginning of year	55,283	-	55,283
Fund balances/net assets, end of year	<u>\$ 64,962</u>	<u>\$ -</u>	<u>\$ 64,962</u>

INTERNAL CONTROL AND COMPLIANCE



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

November 7, 2007

Honorable Mayor and
Members of the City Council
Hastings, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Hastings, Michigan, as of and for the year ended June 30, 2007 which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Finding 2007-1 – Material Audit Adjustments

- Criteria:** Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).
- Condition:** During our audit, we identified various material adjustments (which were approved and posted by management) to correctly state the City’s general ledger to the appropriate balances. These adjustments included properly accruing and capitalizing a street project completed on the City’s behalf by the Michigan Department of Transportation. Management also identified and posted a material prior period adjustment to restate beginning accumulated depreciation for library collections disposed of in prior years.
- Cause:** This condition was the result of various routine errors in reconciling the general ledger and closing out the fiscal year.
- Effect:** As a result of this condition, the City’s accounting records were initially misstated by amounts material to the financial statements. Ultimately, all misstatements were corrected.
- Recommendation:** We recommend that management carefully review all financial information before the audit to reduce the likelihood of future adjustments.
- View of Responsible Officials:** City of Hastings management agrees that it is responsible to carefully review all financial information prior to the audit. We further agree and accept the goal of reinforcing our efforts in this regard to reduce the likelihood of such adjustments in future periods.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we consider item 2007-1 described above to be a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to the City Council of the City of Hastings, Michigan in a separate letter dated November 7, 2007.

The City of Hastings, Michigan's response to the finding identified in our audit is described above. We did not audit the City of Hastings, Michigan's response, and accordingly, we express no opinion on it.

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

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive style with a large, prominent 'L' at the beginning.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

November 7, 2007

To the City Council of the
City of Hastings
Hastings, Michigan

We have audited the financial statements of the City of Hastings for the year ended June 30, 2007, and have issued our report thereon dated November 7, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated June 5, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Hastings. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Hastings' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Hastings are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of Hastings during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the original cost and accumulated depreciation of its infrastructure capital assets is based on current replacement costs, and an assumed rate of inflation from the dates of original acquisition/construction.
- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

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

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Hastings' financial reporting process (that is, cause future financial statements to be materially misstated). We proposed a journal entry, which was recorded by management, which in our judgment, had a significant effect on the City of Hastings' financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as City of Hastings's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

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

This letter and the accompanying memorandum are intended for the use of the City Council, management, and federal awarding agencies and pass-through entities and are not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Lehmann Johnson". The signature is written in black ink and is positioned to the right of the "Very truly yours," text.

City of Hastings

Comments and Recommendations

For the Year Ended June 30, 2007

In planning and performing our audit of the financial statements of the City of Hastings as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in which are described in our 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*.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be material weaknesses are described in our 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*.

Other Matters

Capitalization of Library Books

During our audit we noted that the City capitalizes all its purchases of library books. We also noted that each year a portion of the capitalized books are disposed of and written off. Generally accepted accounting principles allow governments the option of capitalizing collections such as library books. However, given the difficulty of accounting for disposals, many libraries elect not to do so. We recommend that the City carefully consider whether its current capitalization policy should be revised to streamline the accounting for library collections.

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