

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

March 7, 2013

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Hastings, Iowa.

The City's receipts totaled \$177,831 for the year ended June 30, 2011. The receipts included \$45,811 in property tax, \$10,771 from local option sales tax, \$391 from unrestricted interest on investments, \$55,342 from charges for service, \$45,498 from operating grants, contributions and restricted interest, \$18,624 from capital grants, contributions and restricted interest and \$1,394 from other general receipts.

Disbursements for the year totaled \$175,926, and included \$49,403 for general government, \$20,787 for public safety and \$20,240 for public works. Also, disbursements for business type activities totaled \$48,417.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1122-0618-B00F.pdf>.

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CITY OF HASTINGS
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2011

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City of Hastings

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Troy Hatcher	Mayor	Jan 2012
Alan Crouse	Mayor Pro Tem	Jan 2012
Ryan Campbell	Council Member	(Resigned)
Michael Moraine (Appointed)	Council Member	Nov 2011
Kindra Cooperstone	Council Member	Jan 2012
Christine Courtier	Council Member	Jan 2012
Eva Hall	Council Member	Jan 2012
Lana Moyers	Clerk	Indefinite
Matthew Woods	Attorney	Jan 2012

City of Hastings



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hastings, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards 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 our audit provides a reasonable basis for our opinions.

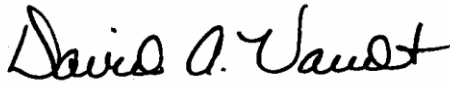
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hastings as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

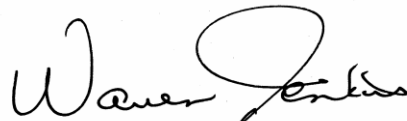
In accordance with Government Auditing Standards, we have also issued our report dated February 6, 2013 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 28 through 30 are not required parts of the basic financial statements, but are 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. 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's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 6, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Hastings provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2011 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased approximately \$5,000 during the year, primarily due to a decrease in receipts for property tax and contributions related to projects.
- The cash basis net assets of the City's business type activities increased approximately \$6,900 during the year, due primarily to sewer connection fee collections and a water rate increase.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term, as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison to the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information that helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$71,154 to \$66,149, primarily due to an increase in capital project expenses. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2011
Receipts:	
Program receipts:	
Charges for service	\$ 70
Operating grants, contributions and restricted interest	45,498
Capital grants and contributions	18,624
General receipts:	
Property tax	45,811
Local option sales tax	10,771
Unrestricted interest on investments	336
Miscellaneous	1,394
Total receipts	<u>122,504</u>
Disbursements:	
Public safety	20,787
Public works	20,240
Health and social services	151
Culture and recreation	8,731
Community and economic development	4,927
General government	49,403
Debt service	5,100
Capital projects	18,170
Total disbursements	<u>127,509</u>
Change in cash basis net assets	(5,005)
Cash basis net assets beginning of year	<u>71,154</u>
Cash basis net assets end of year	<u>\$ 66,149</u>

Total business type activities cash basis net assets increased approximately \$6,900 over a year ago, from \$58,756 to \$65,666.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2011
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 48,817
Sewer	6,455
General receipts:	
Unrestricted interest on investments	55
Total receipts	<u>55,327</u>
Disbursements:	
Water	<u>48,417</u>
Change in cash basis net assets	6,910
Cash basis net assets beginning of year	<u>58,756</u>
Cash basis net assets end of year	<u>\$ 65,666</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Hastings completed the year, its governmental funds reported a combined fund balance of \$66,149, a decrease of \$5,005 from last year's total of \$71,154. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$16,206 from the prior year to \$24,971 due to an increase in insurance costs, legal costs and community center repairs and a decrease in property tax receipts and contributions related to projects.
- The Special Revenue, Road Use Tax Fund cash balance increased \$2,226 to \$2,607. The City uses this money to upgrade the condition of all City roads.
- The Debt Service Fund cash balance increased \$8,269 to \$10,422. The increase was due to the City levying property tax to pay the water revenue bonds from the Debt Service Fund rather than the Enterprise, Water Fund. The actual disbursement was moved to the Water Fund to properly report the disbursements. The City plans to make the proper adjustments.
- The Capital Projects Fund cash balance increased \$454 to (\$377). The City uses this fund to build and maintain the sewer project.
- The Permanent, Cemetery Perpetual Care Fund increased \$287 to \$25,486 due to perpetual care requirements.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$455 to \$54,247. There was an increase in water rates during the fiscal year and the payment of the water revenue bonds was moved to the Water Fund for proper reporting of the disbursements.
- The Enterprise, Sewer Fund cash balance increased \$6,455 to \$11,419 due to the receipt of sewer application fees. The application fees are a condition of receiving project funding from the federal government.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 9, 2011 and resulted in an increase in operating disbursements of \$191,455 relating to the public safety, culture and recreation, community and economic development, general government and capital projects functions, as well as the business type activities function. The City also increased the budget for intergovernmental and charges for service to fund a portion of the disbursements.

The City's receipts were \$93,350 less than budgeted, primarily due to fewer grant receipts for the capital sewer project than anticipated.

Total disbursements were \$155,573 less than the amended budget. This was primarily due to the City budgeting more disbursements in the capital projects function than were necessary as a result of delays for the sewer project.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$195,115 of general obligation loan agreements and other long-term debt outstanding, compared to \$207,795 last year. The chart below segregates the City's debt into its component parts.

	Outstanding Debt at Year-End	
	June 30,	
	2011	2010
General obligation loan agreements	\$ 69,801	79,393
Water revenue bonds	125,314	128,402
Total	\$ 195,115	207,795

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$69,801 is approximately \$177,000 below its constitutional debt limit of approximately \$247,300.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Hastings' elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities. The City's fiscal year 2012 taxable valuation has decreased approximately \$96,500 from fiscal year 2011. One of the factors considered is the economy. Unemployment in the county as of June 2011 stands at 4.4% versus 4.5% at June 2010. This compares with the State's unemployment rate of 6.0% and the national rate of 9.1%.

The fiscal year 2012 budget contains total receipts of \$160,944 and disbursements of \$156,617. This budget is less than the amended fiscal year 2011 budget which contained total receipts of \$271,181 and disbursements of \$331,499.

The fiscal year 2012 property tax levy is \$17.14407 per \$1,000 of taxable valuation, a decrease from \$17.21384 per \$1,000 of taxable valuation for fiscal year 2011.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$4,000 by the close of fiscal year 2012.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Troy Hatcher, Mayor, 401 Indian Avenue, P.O. Box 703, Hastings, Iowa 51540.

Basic Financial Statements

City of Hastings

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants and Contributions
Functions/Programs:				
Governmental activities:				
Public safety	\$ 20,787	45	14,927	-
Public works	20,240	-	17,769	-
Health and social services	151	-	-	-
Culture and recreation	8,731	-	7,802	-
Community and economic development	4,927	25	5,000	-
General government	49,403	-	-	-
Debt service	5,100	-	-	-
Capital projects	18,170	-	-	18,624
Total governmental activities	127,509	70	45,498	18,624
Business type activities:				
Water	48,417	48,817	-	-
Sewer	-	6,455	-	-
Total business type activities	48,417	55,272	-	-
Total	\$ 175,926	55,342	45,498	18,624

General Receipts:

Property and other city tax levied for:
 General purposes
 Debt service
 Local option sales tax
 Unrestricted interest on investments
 Miscellaneous
 Total general receipts
 Change in cash basis net assets
 Cash basis net assets beginning of year
 Cash basis net assets end of year

Cash Basis Net Assets

Nonspendable
 Restricted:
 Streets
 Employee benefits
 Local option sales tax
 Debt service
 Fire department
 Cemetery
 Capital improvements
 Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(5,815)	-	(5,815)
(2,471)	-	(2,471)
(151)	-	(151)
(929)	-	(929)
98	-	98
(49,403)	-	(49,403)
(5,100)	-	(5,100)
454	-	454
<u>(63,317)</u>	<u>-</u>	<u>(63,317)</u>
-	400	400
-	6,455	6,455
-	6,855	6,855
<u>(63,317)</u>	<u>6,855</u>	<u>(56,462)</u>
32,442	-	32,442
13,369	-	13,369
10,771	-	10,771
336	55	391
1,394	-	1,394
<u>58,312</u>	<u>55</u>	<u>58,367</u>
(5,005)	6,910	1,905
71,154	58,756	129,910
<u>\$ 66,149</u>	<u>65,666</u>	<u>131,815</u>
\$ 25,486	-	25,486
2,607	-	2,607
2,269	-	2,269
771	-	771
10,422	8,866	19,288
7,805	-	7,805
4,715	-	4,715
-	11,419	11,419
12,074	45,381	57,455
<u>\$ 66,149</u>	<u>65,666</u>	<u>131,815</u>

City of Hastings

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue		
	General	Road Use Tax	Debt Service
Receipts:			
Property tax	\$ 29,852	-	13,369
Other city tax	-	-	-
Licenses and permits	70	-	-
Use of money and property	711	-	-
Intergovernmental	13,220	16,789	-
Miscellaneous	15,241	-	-
Total receipts	59,094	16,789	13,369
Disbursements:			
Operating:			
Public safety	20,787	-	-
Public works	3,891	16,349	-
Health and social services	151	-	-
Culture and recreation	8,731	-	-
Community and economic development	4,927	-	-
General government	49,403	-	-
Debt service	-	-	5,100
Capital projects	-	-	-
Total disbursements	87,890	16,349	5,100
Excess (deficiency) of receipts over (under) disbursements	(28,796)	440	8,269
Other financing sources (uses):			
Operating transfers in	12,590	1,786	-
Operating transfers out	-	-	-
Total other financing sources (uses)	12,590	1,786	-
Change in cash balances	(16,206)	2,226	8,269
Cash balances beginning of year	41,177	381	2,153
Cash balances end of year	\$ 24,971	2,607	10,422
Cash Basis Fund Balances			
Nonspendable	\$ -	-	-
Restricted for:			
Streets	-	2,607	-
Employee benefits	-	-	-
Local option sales tax	-	-	-
Debt service	-	-	10,422
Fire department	7,805	-	-
Cemetery	4,715	-	-
Unassigned	12,451	-	-
Total cash basis fund balances	\$ 24,971	2,607	10,422

See notes to financial statements.

Capital Projects	Permanent Cemetery	Nonmajor	Total
Sewer Project	Perpetual Care		
-	-	2,590	45,811
-	-	10,771	10,771
-	-	-	70
-	2	-	713
18,624	-	980	49,613
-	285	-	15,526
18,624	287	14,341	122,504
-	-	-	20,787
-	-	-	20,240
-	-	-	151
-	-	-	8,731
-	-	-	4,927
-	-	-	49,403
-	-	-	5,100
18,170	-	-	18,170
18,170	-	-	127,509
454	287	14,341	(5,005)
-	-	-	14,376
-	-	(14,376)	(14,376)
-	-	(14,376)	-
454	287	(35)	(5,005)
(831)	25,199	3,075	71,154
(377)	25,486	3,040	66,149
-	25,486	-	25,486
-	-	-	2,607
-	-	2,269	2,269
-	-	771	771
-	-	-	10,422
-	-	-	7,805
-	-	-	4,715
(377)	-	-	12,074
(377)	25,486	3,040	66,149

Exhibit C

City of Hastings

Statement of Cash -
Receipts, Disbursements, and Changes in Cash Balances -
Proprietary Funds

As of and for the year ended June 30, 2011

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 48,817	6,455	55,272
Operating disbursements:			
Business type activities	37,551	-	37,551
Excess of operating receipts over operating disbursements	11,266	6,455	17,721
Non-operating receipts (disbursements):			
Interest on investments	55	-	55
Iowa Department of Natural Resources fine	(2,000)	-	(2,000)
Debt service	(8,866)	-	(8,866)
Total non-operating disbursements	(10,811)	-	(10,811)
Net change in cash balances	455	6,455	6,910
Cash balances beginning of year	53,792	4,964	58,756
Cash balances end of year	\$ 54,247	11,419	65,666
Cash Basis Fund Balances			
Restricted for:			
Debt service	\$ 8,866	-	8,866
Capital improvements	-	11,419	11,419
Unrestricted	45,381	-	45,381
Total cash basis fund balances	\$ 54,247	11,419	65,666

See notes to financial statements.

City of Hastings

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Hastings is a political subdivision of the State of Iowa located in Mills County. It was first incorporated in 1879 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Hastings has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Mills County Assessor's Conference Board, Mills County Joint E911 Service Board and the Mills County Emergency Management Commission.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

The Special Revenue, Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities, with the exception of those financed through Enterprise Funds.

The Permanent Fund is used to account for the irrevocable trust fund for the perpetual care and maintenance of the cemetery. The trust principal can never be spent.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications—committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Disbursements during the year ended June 30, 2011 exceeded the amount budgeted in the culture and recreation function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Notes Payable

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 3,227	5,639	8,866
2013	3,372	5,494	8,866
2014	3,524	5,342	8,866
2015	3,682	5,184	8,866
2016	3,848	5,018	8,866
2017 - 2021	21,999	22,331	44,330
2022 - 2026	27,415	16,915	44,330
2027 - 2031	34,164	10,166	44,330
2032 - 2034	24,083	2,184	26,267
Total	\$ 125,314	78,273	203,587

Water Revenue Notes – On February 18, 2005, the City entered an agreement with the U.S. Department of Agriculture - Rural Development for the issuance of \$160,000 of water revenue notes with interest at 4.5% per annum. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of constructing improvements and extensions to the City's water system. The notes are payable solely from water customer net receipts and are payable through 2034. Annual principal and interest payments on the notes are expected to require less than 79% of net receipts. The total principal and interest remaining to be paid on the notes is \$203,587. For the current year, principal and interest paid and total customer net receipts were \$8,866 and \$11,266, respectively.

The resolution providing for the issuance of the water revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a water revenue note sinking account for the purpose of making principal and interest payments when due.

- (c) A reserve fund shall be established and maintained with payments made each month until the minimum balance of \$8,866 has been accumulated.
- (d) User rates shall be established and charged to customers of the Utility, including the City, at a level sufficient to pay the expenses and operation and maintenance of the Utility and to leave a balance of net revenues sufficient at all times to pay the principal of and interest on all outstanding water revenue obligations.

During fiscal year 2011, the City had not established a sinking account or reserve account and had paid the water revenue notes from general taxation receipts rather than from water revenue funds. The disbursement was corrected for reporting purposes. In addition, usage rates are not being charged to the City or to a local church as required.

(4) Loan Agreements

On September 5, 2006, the City entered into a loan agreement for \$45,000 to purchase a fire station. The loan requires monthly installments of \$425, including interest at 7.75% per annum, with the final payment of \$35,764 due September 15, 2011. During the year ended June 30, 2011, the City paid principal of \$2,222 and interest of \$2,878. On September 15, 2011, the City refinanced principal of \$35,334 with interest at 6% per annum. The loan still requires \$425 monthly installment payments with the final payment of \$18,511 due on September 15, 2016. On February 9, 2012, the bank lowered the interest rate to 3.5% per annum. The unpaid principal balance at June 30, 2011 was \$35,911. The loan will be paid from future collections of a debt service levy on all taxable property in the City.

On May 15, 2008, the City entered into a loan agreement for \$11,000 to purchase a fire truck. The loan requires annual installments of \$2,682, including interest at 6.50% per annum, with the final payment due August 1, 2013. During the year ended June 30, 2011, the City paid principal of \$2,085 and interest of \$597. The unpaid principal balance at June 30, 2011 was \$7,101. The loan will be paid by the Hastings Volunteer Fire Department, a separate account within the General Fund.

On January 21, 2010, the City entered into a loan agreement for \$32,000 to purchase a dump truck. The loan requires annual installments of \$6,353, including interest at 6.0% per annum, with the final payment due on August 20, 2015. On February 9, 2012, the bank lowered the interest rate to 3.5% per annum. During the year ended June 30, 2011, the City paid principal of \$5,211 and interest of \$1,140. The unpaid principal balance at June 30, 2011 was \$26,789. The loan will be paid from the General Fund and the Special Revenue, Road Use Tax Fund.

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2011 was \$2,126, equal to the required contribution for the year.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 10,000
	Employee Benefits	2,590
		<u>12,590</u>
Special Revenue:		
Road Use Tax	I-Jobs	1,786
Total		<u>\$ 14,376</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2011 were \$5,816.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year following withdrawal.

The City also carries commercial insurance purchased from another insurer for coverage associated with workmen's compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Deficit Balance

The Capital Projects Fund had a deficit balance of \$377 at June 30, 2011. The deficit is expected to be eliminated by a transfer from the General Fund in fiscal year 2013.

(9) Subsequent Events

On September 15, 2011, the City refinanced \$35,334 of the fire station loan at 6.0% per annum, which was subsequently lowered to 3.5% per annum.

On March 28, 2012, the City entered into a project loan agreement anticipation note with Malvern Trust & Savings Bank to borrow up to \$555,000 to pay costs in connection with constructing the sewer project. The note is payable from future proceeds of an authorized revenue note loan agreement and grant which are payable solely and only from future sewer revenues.

On March 30, 2012, the City contracted with Crain Construction Company for the construction of sewer services and sanitary sewer collection system for \$788,450.

On March 30, 2012, the City contracted with King Construction Company for the construction of a wastewater treatment lagoon for \$384,981.

City of Hastings

Required Supplementary Information

City of Hastings
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 45,811	-
Other city tax	10,771	-
Licenses and permits	70	-
Use of money and property	713	55
Intergovernmental	49,613	-
Charges for service	-	55,272
Special assessments	-	-
Miscellaneous	15,526	-
Total receipts	<u>122,504</u>	<u>55,327</u>
Disbursements:		
Public safety	20,787	-
Public works	20,240	-
Health and social services	151	-
Culture and recreation	8,731	-
Community and economic development	4,927	-
General government	49,403	-
Debt service	5,100	-
Capital projects	18,170	-
Business type activities	-	48,417
Total disbursements	<u>127,509</u>	<u>48,417</u>
Excess (deficiency) of receipts over (under) disbursements	(5,005)	6,910
Balances beginning of year	71,154	58,756
Balances end of year	<u>\$ 66,149</u>	<u>65,666</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
45,811	45,635	45,635	176
10,771	11,969	11,969	(1,198)
70	-	-	70
768	250	250	518
49,613	24,300	174,155	(124,542)
55,272	33,642	38,672	16,600
-	500	500	(500)
15,526	-	-	15,526
177,831	116,296	271,181	(93,350)
20,787	17,756	23,756	2,969
20,240	27,158	27,158	6,918
151	300	300	149
8,731	2,400	3,700	(5,031)
4,927	2,500	5,000	73
49,403	42,799	58,299	8,896
5,100	13,966	13,966	8,866
18,170	500	150,500	132,330
48,417	32,665	48,820	403
175,926	140,044	331,499	155,573
1,905	(23,748)	(60,318)	62,223
129,910	112,152	98,962	30,948
131,815	88,404	38,644	93,171

City of Hastings

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$191,455. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amount budgeted in the culture and recreation function.

Other Supplementary Information

Schedule 1

City of Hastings

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue			Total
	Employee Benefits	I-Jobs	Local Option Sales Tax	
Receipts:				
Property tax	\$ 2,590	-	-	2,590
Other city tax	-	-	10,771	10,771
Intergovernmental	-	980	-	980
Total receipts	2,590	980	10,771	14,341
Disbursements:				
None	-	-	-	-
Excess of receipts over disbursements	2,590	980	10,771	14,341
Other financing uses:				
Operating transfers out	(2,590)	(1,786)	(10,000)	(14,376)
Change in cash balances	-	(806)	771	(35)
Cash balances beginning of year	2,269	806	-	3,075
Cash balances end of year	\$ 2,269	-	771	3,040
Cash Basis Fund Balances				
Restricted for:				
Employee benefits	\$ 2,269	-	-	2,269
Local option sales tax	-	-	771	771
Total cash basis fund balances	\$ 2,269	-	771	3,040

See accompanying independent auditor's report.

City of Hastings

City of Hastings
Schedule of Indebtedness
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue notes:			
Water	Feb 18, 2005	4.50%	\$ 160,000
Loan agreements:			
Fire station	Sep 5, 2006	7.75%	\$ 45,000
Fire truck	May 15, 2008	6.50	11,000
Dump truck	Jan 21, 2010	6.00	32,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
128,402	3,088	125,314	5,778
38,207	2,296	35,911	2,804
9,186	2,085	7,101	597
32,000	5,211	26,789	1,142
\$ 79,393	9,592	69,801	4,543

Schedule 3

City of Hastings

Note Maturities

June 30, 2011

Year Ending June 30,	Water Revenue Notes	
	Issued Feb 18, 2005	
	Interest Rates	Amount
2012	4.5%	\$ 3,227
2013	4.5	3,372
2014	4.5	3,524
2015	4.5	3,682
2016	4.5	3,848
2017	4.5	4,021
2018	4.5	4,202
2019	4.5	4,392
2020	4.5	4,589
2021	4.5	4,795
2022	4.5	5,011
2023	4.5	5,237
2024	4.5	5,472
2025	4.5	5,719
2026	4.5	5,976
2027	4.5	6,245
2028	4.5	6,526
2029	4.5	6,820
2030	4.5	7,126
2031	4.5	7,447
2032	4.5	7,782
2033	4.5	8,133
2034	4.5	8,168
Total		<u>\$ 125,314</u>

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hastings, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 6, 2013. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards 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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Hastings' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) through (F) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (G) through (J) to be significant deficiencies.

Compliance and Other Matters

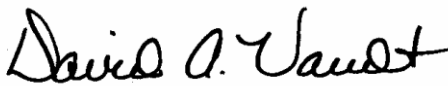
As part of obtaining reasonable assurance about whether the City of Hastings' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material 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 non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

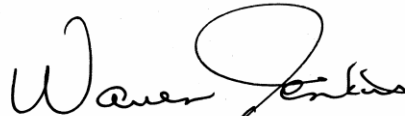
The City of Hastings' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Hastings' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Hastings and other parties to whom the City of Hastings may report and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Hastings during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 6, 2013

City of Hastings

Schedule of Findings

Year ended June 30, 2011

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One person has control over each of the following areas for the City:
- (1) Accounting system – performing all general accounting functions, including journal entries and having custody of City assets.
 - (2) Cash and petty cash – reconciling bank accounts, initiating and recording cash receipt and disbursement transactions and long term debt. Bank reconciliations were not reviewed by an independent person.
 - (3) Investments – investing, recording and custody.
 - (4) Long term debt – recording and reconciling.
 - (5) Receipts – collecting, depositing, journalizing and posting.
 - (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
 - (7) Disbursements – purchasing, check signing, recording and reconciling.
 - (8) Payroll – recordkeeping, preparation and distribution.
 - (9) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.
 - (10) Financial reporting – preparing, reconciling, and distributing.

For the Hastings Fire Department and Hastings Cemetery Association, one person has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – posting, reconciling and check writing.
- (3) Cash and investments – handling and recording cash and investments.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by the signature or initials of the independent reviewer and the date of the review.

City of Hastings

Schedule of Findings

Year ended June 30, 2011

Response – The City Council will discuss further ways to segregate duties for all entities.

Conclusion – Response accepted.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The Council or a Council designated independent person should review the reconciliations and monitor delinquencies.

Response – An effort will be made to reconcile in the future.

Conclusion – Response accepted.

- (C) Accounting Procedures Manual – The City does not have a current accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.
- (4) Ensure City accounts are appropriately utilized.

Response – A manual is being developed.

Conclusion – Response accepted.

- (D) Separately Maintained Records – The Hastings Volunteer Fire Department and the Hastings Cemetery Association maintain bank accounts for fundraiser, donation and cemetery perpetual care activity separate from the City Clerk's accounting records. The transactions and the resulting balances were not included in the City's accounting records and were not included in the City's annual budget or monthly financial reports. However, the transactions and the resulting balances are included in these financial statements.

City of Hastings

Schedule of Findings

Year ended June 30, 2011

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and annual budget and should be reported to the City Council on a monthly basis.

Response – The City will work with the Fire Department and the Cemetery Association to comply with this recommendation.

Conclusion – Response accepted.

- (E) Hastings Volunteer Fire Department and Hastings Cemetery Association – Bank reconciliations were not prepared during the year ended June 30, 2011. Receipts were not issued. In addition, detailed supporting documentation for disbursements was not retained.

Recommendation – The Hastings Volunteer Fire Department and the Hastings Cemetery Association should ensure monthly bank reconciliations are prepared, retained and reviewed by an independent person, as evidenced by the signature or initials of the reviewer and the date of the review. Prenumbered receipts should be issued for all collections at the time of the collection to provide additional control over the proper collection and recording of all money received. All disbursements should be supported by original invoices or other supporting documentation.

Response – Changes have been made in these departments to comply with this recommendation.

Conclusion – Response accepted.

- (F) Financial Reporting of Corrections – During the year ended June 30, 2011, several corrections to the financial accounting system were made for errors made in prior years. Supporting documentation for these corrections was not maintained. Therefore, we were unable to determine the accuracy of these corrections.

Recommendation – Supporting documentation for corrections should be maintained.

Response – The City will comply in the future.

Conclusion – Response accepted.

- (G) Computer Systems – During our review of internal control, the existing control activities in the City’s computer systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with written accounting policies, applicable laws and regulations. The City does not have written policies for:

- requiring time out/log off or screen saver passwords to protect computer terminals when not in use.

City of Hastings

Schedule of Findings

Year ended June 30, 2011

- requiring use of passwords and requiring passwords to be changed at least every 60 to 90 days.
- maintaining password privacy and confidentiality.
- requiring the use of anti-virus programs on the computers.
- ensuring only software licensed to the City is installed on computers.
- usage of the internet.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over its computer systems.

Response – Passwords were being changed and anti-virus is used, but a policy is needed and will be set by the Council.

Conclusion – Response accepted.

- (H) Receipts – Receipts were not issued for all collections. Because receipts were not consistently prepared, we were unable to determine if all collections were properly deposited.

Recommendation – Prenumbered receipts should be issued for all collections at the time of collection to provide additional control over the collection and recording of all money. The City should review procedures for receipting.

Response – Prenumbered carbon receipts will now be used for all receipts.

Conclusion – Response accepted.

- (I) Store Credit – The City has store credit available for use by employees while on City business. The City has not adopted a formal policy to regulate the use of the store credit and to establish procedures for the proper accounting of store credit charges.

Recommendation – The City should adopt a formal written policy regulating the use of store credit. The policy, at a minimum, should address who is allowed to use store credit and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – A policy regulating who can purchase and a dollar amount will be set by the Council.

Conclusion – Response accepted.

- (J) Payroll – Although time sheets were maintained for all employees, there was no indication the time sheets had been reviewed and approved by the appropriate supervisory personnel prior to preparation of the payroll. In addition, employee vacation and compensatory time hours are not adequately tracked or reviewed. In addition, the City does not have a compensated absence policy.

City of Hastings

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Year ended June 30, 2011

Recommendation – Time sheets and vacation and compensatory time should be reviewed and approved by appropriate supervisory personnel prior to preparation of payroll. The approval should be evidenced by the signature or initials of the reviewer and the date of the review. The City should develop a policy for compensated absences.

Response – A compensated absences policy was passed by resolution on August 13, 2012 and the City will have at least one City Council member review all time cards before payroll is completed.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Hastings

Schedule of Findings

Year ended June 30, 2011

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amount budgeted in the culture and recreation function. In addition, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development, capital projects and business type activities functions prior to the budget amendment. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in sufficient amounts as required by Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The Fire Department and Cemetery Association budget will be included in the future and budgets will be amended prior to exceeding the budget.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Council Minutes – Except as noted, no transactions were found which we believe should have been approved in the City Council minutes but were not.

Transfers between funds were not approved by the City Council prior to making the transfer between funds.

Although minutes of City Council proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City Council should approve all fund/account transfers prior to the actual transfer and document approval and amount(s) as part of the minutes record. The City Council should publish minutes within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Response – Transfers are now approved by Council before transfer is made. Publishing is no longer required by Iowa Code due to the City now having a population less than 200. However, minutes will be posted within the fifteen day period.

Conclusion – Response accepted.

City of Hastings

Schedule of Findings

Year ended June 30, 2011

- (7) Deposits and Investments – The City has not approved a written investment policy as required by Chapter 12B.10B of the Code of Iowa

A resolution naming official depositories has been approved by the City. However, maximum deposit amounts for each bank were not included in the depository resolution.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12.10B of the Code of Iowa. The City should also adopt a depository resolution which establishes maximum deposit amounts for each bank.

Response – The Council will consider passing a written investment policy and a new depository resolution which will include maximum deposit amounts.

Conclusion – Response accepted.

- (8) Revenue Notes – The following instances of non-compliance with the water revenue note requirements were noted:

- a. The City's water revenue note resolution requires a sinking account be established and payments are to be made into the sinking account in equal monthly installments on the first day of each month. The City has not established or made the required transfers to a water sinking account.
- b. The City's water revenue note resolution requires the City to establish and accumulate up to \$8,866 in a reserve account by making monthly payments of \$74 until the reserve requirement has been met. The City has not established or made the required transfers to a water reserve account.
- c. The City's water revenue note resolution requires all users of the system, including the City, be charged for usage. The City is not being charged for usage. In addition, the City has not been charging a local church for water usage.

Recommendation – The City should comply with the note resolution by establishing the required accounts, making the required transfers and charging all users of the system.

Response – The funds for the sinking and reserve accounts are available and separate fund accounts will be put in place to account for these fund balances. The church is now being charged for their usage.

Conclusion – Response accepted.

- (9) Water Revenue Note Payment – The principal and interest payment for the water revenue notes was made from the Debt Service Fund for the year ended June 30, 2011. The water revenue note resolution states the notes are not payable in any manner from taxation. In addition, the debt service tax levy was calculated using the revenue note debt so the property tax received was more than necessary. As a result, the City's cash balance for the Water Fund is overstated and the cash balance for the Debt Service Fund is understated. This was properly adjusted for reporting purposes.

City of Hastings

Schedule of Findings

Year ended June 30, 2011

Recommendation – The City should consult legal counsel regarding the debt service levy. The City should make the corrective transfer so the City’s records will be correct. In the future, the City should pay the water revenue notes from the Water Fund.

Response – The City will contact an attorney. The debt service ley has been corrected for the fiscal year 2013 budget.

Conclusion – Response accepted.

- (10) Utility Application Fee – Chapter 384.38(3)(a) of the Code of Iowa provides a City may establish fees for connection of property to the city sewer by ordinance or by resolution adopted as an ordinance after twenty days’ notice published in accordance with section 362.3 and a public hearing. The City approved resolution 2010-21 on May 10, 2010 for an application fee of \$150 for the sewer installation rather than by ordinance.

Recommendation – The City should consult legal counsel for proper disposition of this matter.

Response – The City will consult with the City Attorney.

Conclusion – Response accepted.

- (11) Hastings Cemetery Association – The following instances of non-compliance by the Cemetery were noted:

- a. An annual report for the Hastings Cemetery Association perpetual care cemetery was not filed with the Insurance Commissioner as required by Chapter 523I.813 of the Code of Iowa.
- b. The Cemetery did not maintain a registry of individuals who have purchased items subject to the perpetual care requirements of Iowa law, including the amount deposited in trust for each individual. The registry is to include all transactions made on or after July 1, 1995.
- c. Chapter 523I.807 of the Iowa Code states twenty percent of the gross selling price received for each sale of interment rights shall be placed in a perpetual account. During the fiscal year ended June 30, 2011, no funds were deposited into the Perpetual Care Fund. Instead, all funds received were combined with the operating funds.
- d. The Association did not prepare the required IRS Form 1099s for outside services of \$600 or more provided by independent contractors.
- e. A City employee was hired to mow the Cemetery and was paid directly by the Association. However, since the Association is considered part of the City, the payment should have been made through payroll so all applicable payroll taxes were properly accounted for.

City of Hastings

Schedule of Findings

Year ended June 30, 2011

Recommendation – The Hastings Cemetery Association should properly submit annual reports to the Insurance Commissioner. The Association should comply with registry requirements. All perpetual care funds should be transferred to the Perpetual Care Fund. In addition, the City, on behalf of the Association, should submit 1099 forms for outside services of \$600 or more for independent contractors and ensure payments to employees are properly reported on IRS Form W-2. The City should also consult legal counsel for the proper disposition of these matters.

Response – The City will work with the Hastings Cemetery Association to resolve these issues.

Conclusion – Response accepted.

- (12) Financial Condition – The Capital Projects Fund had a deficit balance at June 30, 2011 of \$377.

Recommendation – The City should continue to investigate alternatives to eliminate the deficit to return the Capital Projects Fund to a sound financial condition.

Response – Funds will be transferred to correct this deficit balance.

Conclusion – Response accepted.

- (13) Annual Financial Report – The City's Annual Financial Report was prepared and filed timely for the year ended June 30, 2011. However, certain disbursements and fund balances do not materially agree with City records. In addition, the general obligation debt reported on the Annual Financial Report was materially understated.

Recommendation – The beginning balances reported on the City's Annual Financial Report for the year ended June 30, 2011 should be amended to correct material errors and the amounts reported should be supported by the City's records. In addition, the general obligation debt should be properly reported.

Response – The City will work to comply with this recommendation.

Conclusion – Response accepted.

- (14) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The Hastings Volunteer Fire Department and the Hastings Cemetery Association did not receive an image of the back of each cancelled check.

Recommendation – The Hastings Volunteer Fire Department and the Hastings Cemetery Association should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Response – The banks will be notified that this is needed.

Conclusion – Response accepted.

City of Hastings

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Year ended June 30, 2011

- (15) Private Use of Public Property – Article III, Section 31 of the Constitution of Iowa prohibits the appropriation of public money or property for private purposes. Based upon inquiry of City staff, management has allegedly permitted use of City equipment for personal use. No direct evidence was submitted to corroborate these allegations. However, based upon inquiry of the Mayor, city residents have used City equipment for personal use.

Recommendation – The City should review and revise its internal control over use of City equipment. The restrictions on personal use of City property, time or personnel should extend to all employees, City Council members and residents.

Response – A resolution is being put in place to correct this.

Conclusion – Response accepted.

- (16) Bank Loan Agreement – On January 21, 2010, the City entered into a bank loan for \$32,000 for a dump truck. However, the City did not comply with the provisions of Chapters 384.24A and 384.25 of the Code of Iowa which require certain authorization procedures to be followed, including publication of a notice of intended action and the time and place of the meeting.

Recommendation – The City should comply with Chapters 384.24A and 384.25 of the Code of Iowa when entering into loan agreements.

Response – The City will comply with the Iowa Code procedures in regard to entering into any future loan agreements.

Conclusion – Response accepted.

- (17) Petition for Audit – Except as noted, all items included in the petition for audit have been resolved.

City of Hastings

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Dorothy O. Stover, Senior Auditor
Jamie T. Reuter, Staff Auditor
Lacey D. Kriegel, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State