



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

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**NEWS RELEASE**

FOR RELEASE

November 17, 2011

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the Hiawatha Water Department, Hiawatha, Iowa.

The Water Department's receipts totaled \$2,110,248 for the year ended June 30, 2011, a 34% increase over the prior year. The receipts included \$895,499 in charges for service, \$846,664 in sewer and storm water fees collected for the City, \$250,000 in loan proceeds and \$3,466 in interest on investments.

Disbursements for the year totaled \$1,827,296, a 19% increase over the prior year, and included \$964,598 for operations and improvements, \$32,103 for debt service and \$830,595 for sewer and storm water fees remitted to the City of Hiawatha.

The significant increase in receipts is due to an increase in water and sewer rates and the receipt of note proceeds. The significant increase in disbursements is due primarily to an increase in capital outlay and an increase in sewer and storm water fees remitted to the City.

A copy of the audit report is available for review in the Water Department's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1123-0545-B00F.pdf>.

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**HIAWATHA WATER DEPARTMENT**  
**INDEPENDENT AUDITOR'S REPORTS**  
**FINANCIAL STATEMENT AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2011**

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## Hiawatha Water Department

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gary Casady	Chairperson	Jan 2014
Beverly Daws	Trustee	Jan 2012
Charles Fridal	Trustee	Jan 2015
Troy Anderson	Trustee	Jan 2016
Patrick White	Trustee	Jan 2017
Carl Ransford	Superintendent	Indefinite
Debra Larson	Billing Clerk	Indefinite
Sara Ries	Assistant Billing Clerk	Indefinite

**Hiawatha Water Department**



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## Independent Auditor's Report

To the Board of Trustees of the  
Hiawatha Water Department:

We have audited the accompanying financial statement of the Hiawatha Water Department, Hiawatha, Iowa, as of and for the year ended June 30, 2011. This financial statement is the responsibility of Water Department officials. Our responsibility is to express an opinion on the financial statement based on our audit.

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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 opinion.

As described in Note 1, this financial statement was 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 discussed in Note 1, the financial statement of the Hiawatha Water Department is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Hiawatha that is attributable to the transactions of the Water Department.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the Hiawatha Water Department as of June 30, 2011, and the changes in its 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 October 25, 2011 on our consideration of the Hiawatha Water Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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 9 and pages 20 through 22 are not required parts of the financial statement, 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 an opinion on the financial statement taken as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in our audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

October 25, 2011

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The Hiawatha Water Department provides this Management's Discussion and Analysis of its financial statement. 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 Water Department's financial statement, which follows.

### **2011 FINANCIAL HIGHLIGHTS**

- The Water Department's total receipts increased 34%, or approximately \$535,000, from fiscal year 2010 to fiscal year 2011. Water rates increased for the current year and interest on investments increased slightly from a year ago.
- The Water Department's total disbursements and transfers increased 19%, or approximately \$286,000, from fiscal year 2010 to fiscal year 2011 due to having more major capital project activities in fiscal year 2011. The Water Department also remitted approximately \$160,000 of additional sewer and storm water fees to the City as a result of higher collections.
- The Water Department's total cash basis net assets increased 57%, or approximately \$206,000, from June 30, 2010 to June 30, 2011.

### **USING THIS ANNUAL REPORT**

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

Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Water Department's financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information on the Hiawatha Water Department's receipts and disbursements and whether the Water Department's cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

Required Supplementary Information further explains and supports the financial statement with a comparison of the Water Department's budget for the year.

Other Supplementary Information provides detailed information about the individual Enterprise Fund Accounts and the Water Department's indebtedness.

### **BASIS OF ACCOUNTING**

The Hiawatha Water Department maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Water Department is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does 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.

## FINANCIAL ANALYSIS OF THE HIAWATHA WATER DEPARTMENT

### *Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets*

The purpose of the statement is to present the receipts received by the Hiawatha Water Department and the disbursements paid by the Water Department, both operating and non-operating. The statement also presents a fiscal snapshot of the Water Department's cash balance at year end. Over time, readers of the financial statement are able to determine the Hiawatha Water Department's financial position by analyzing the increase and decrease in cash basis net assets.

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, rent for space on the water tower, taps and miscellaneous fees. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2011 and June 30, 2010 is presented below:

Changes in Cash Basis Net Assets		
	Year ended June 30,	
	2011	2010
<b>Receipts:</b>		
Interest on investments	\$ 3,466	2,291
Charges for service	895,499	789,435
Sewer and storm water fees collected for the City	846,664	667,647
Note proceeds	250,000	-
Miscellaneous	114,619	115,756
Total receipts	<u>2,110,248</u>	<u>1,575,129</u>
<b>Disbursements:</b>		
Plant operation and maintenance	173,856	203,789
Distribution operation and maintenance	145,196	139,654
Administration	395,730	388,401
Debt service	32,103	-
Capital outlay	249,816	139,248
Sewer and storm water fees remitted to the City	830,595	670,365
Total disbursements	<u>1,827,296</u>	<u>1,541,457</u>
Change in cash basis net assets before transfers	282,952	33,672
Transfers to the City of Hiawatha	<u>(77,178)</u>	<u>(77,801)</u>
Change in cash basis net assets	205,774	(44,129)
Cash basis net assets beginning of year	<u>358,935</u>	<u>403,064</u>
Cash basis net assets end of year	<u>\$ 564,709</u>	<u>358,935</u>

The Water Department's unrestricted net assets are available for use in the routine operations for the plant, distribution and administrative areas of the Water Department and for the capital improvements to the plant and distribution areas. State and federal laws and regulations require the Hiawatha Water Department to perform specific maintenance and monitoring functions in the collection and treatment of water sources before final distribution.

## **BUDGETARY HIGHLIGHTS**

The Hiawatha Water Department amended its budget once during the fiscal year ended June 30, 2011 due to the issuance of the capital loan note and corresponding project disbursements which resulted in an increase of \$250,000 in receipts and disbursements.

The Water Department's charges for service and miscellaneous receipts were \$66,880 and \$40,571, respectively, more than budgeted. The increase in charges for service receipts is due to higher than projected water fee collections. The increase in miscellaneous receipts is due to higher than projected water construction fees.

The Water Department's receipts for use of money and property were \$8,534 less than budgeted as a result of invested funds not generating the projected earnings.

The Water Department's disbursements were \$177,766 less than budgeted for the year. This was primarily due to the Water Department budgeting for capital project improvements not completed and paid for in fiscal year 2011.

## **DEBT ADMINISTRATION**

During fiscal year 2011, the Hiawatha Water Department issued a \$250,000 water revenue capital loan note, of which \$230,000 is outstanding at June 30, 2011. In addition, during fiscal years 2010 and 2011, the Water Department transferred to the City of Hiawatha amounts approximating 5% and 8%, respectively, of the principal and interest coming due on the City's general obligation notes issued April 1, 2008 and June 15, 2010, respectively. These amounts represent the Water Department's pro rata share of note proceeds used to finance improvements and extensions to the utility.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The Hiawatha Water Department raised the water rate charges as of July 2010 to improve its financial position for the next fiscal year and to be able to continue providing good quality water to our customers.

Current economic conditions beyond the Hiawatha Water Department's Trustees control play a significant role in the daily operations of the water plant and distribution services. These conditions include, but are not limited to:

- the need to constantly maintain facilities, wells, vehicles and machinery,
- the need to comply with federal and state regulations for the production of water and well-head protection,
- the need to maintain up-to-date technology at a reasonable cost and
- the fluctuation of the cost of the chemicals and energy used to produce quality water.

## **CONTACTING THE WATER DEPARTMENT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Hiawatha Water Department's finances and to show the Water Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hiawatha Water Department, 101 Emmons Street, PO Box 485, Hiawatha, Iowa 52233.

**Hiawatha Water Department**

## **Financial Statement**

**Hiawatha Water Department**

Hiawatha Water Department  
Statement of Cash Receipts, Disbursements and  
Changes in Cash Basis Net Assets

As of and for the year ended June 30, 2011

Operating receipts:	
Charges for service	\$ 895,499
Miscellaneous	114,619
Total operating receipts	<u>1,010,118</u>
Operating disbursements:	
Business type activities:	
Plant operation and maintenance	173,856
Distribution operation and maintenance	145,196
Administration	395,730
Total operating disbursements	<u>714,782</u>
Excess of operating receipts over operating disbursements	<u>295,336</u>
Non-operating receipts (disbursements):	
Interest on investments	3,466
Sewer and storm water fees collected for the City	846,664
Note proceeds	250,000
Debt service	(32,103)
Capital outlay	(249,816)
Sewer and storm water fees remitted to the City	(830,595)
Net non-operating receipts (disbursements)	<u>(12,384)</u>
Excess of receipts over disbursements	282,952
Transfers to the City of Hiawatha	<u>(77,178)</u>
Change in cash basis net assets	205,774
Cash basis net assets beginning of year	<u>358,935</u>
Cash basis net assets end of year	<u><u>\$ 564,709</u></u>
<b>Cash Basis Net Assets</b>	
Restricted:	
Sewer and storm water fees	\$ 88,397
Capital improvements	37,854
Customer water deposits	68,112
Total restricted net assets	<u>194,363</u>
Unrestricted	<u>370,346</u>
Total cash basis net assets	<u><u>\$ 564,709</u></u>

See notes to financial statement.

Hiawatha Water Department

Notes to Financial Statement

June 30, 2011

**(1) Summary of Significant Accounting Policies**

A. Reporting Entity

The Hiawatha Water Department is a component unit of the City of Hiawatha, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Water Department is governed by a five-member Board of Trustees appointed by the Mayor and approved by the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Water Department are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise 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 an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. Basis of Accounting

The Water Department maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Water Department is 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.

D. Restricted Assets and Net Assets

Funds set aside for sewer and storm water fees, capital improvements and customer water deposits are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

**(2) Cash and Pooled Investments**

The Water Department'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 Water Department 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 Board of Trustees; 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 Water Department had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$160,512 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The Water Department's investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

**(3) Note Payable**

Annual debt service requirements to maturity for the water revenue capital loan note is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2012	4.34%	\$ 21,000	9,982	30,982
2013	4.34	22,000	9,071	31,071
2014	4.34	23,000	8,116	31,116
2015	4.34	24,000	7,118	31,118
2016	4.34	25,000	6,076	31,076
2017-2020	4.34	115,000	12,759	127,759
Total		\$ 230,000	53,122	283,122

Water Revenue Capital Loan Note

The Water Department has pledged future water customer receipts, net of specified operating disbursements, to repay a \$250,000 water revenue capital loan note issued September 15, 2010. Proceeds from the note provided financing for the construction, reconstruction, extension, improving and repairing all or part of the water utility, including construction of water mains. The note is payable solely from water customer net receipts and is payable through 2020. Annual principal and interest payments on the note are expected to require less than 11% of net receipts. The total principal and interest remaining to be paid on the notes is \$283,122. For the current year, principal and interest paid on the notes was \$27,716 and total customer net receipts were \$295,336.

The resolution providing for the issuance of the water revenue capital loan note includes the following provisions.

- (a) The Water Department shall establish, impose, adjust and provide for the collection of rates to be charged to customers of the Utility to produce gross revenues at least sufficient to pay the expenses of operation and maintenance of the Utility and to leave a balance of net operating revenues at least sufficient to pay the principal and interest on the note as they come due.

- (b) The note will only be redeemed from the future earnings of the water system and the note holder holds a lien on the future earnings of the funds.
- (c) Sufficient monthly transfers shall be made to a separate water revenue note sinking account within the Enterprise Fund for the purpose of making the note principal and interest payments when due.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted account noted above can be used to retire any subordinate obligations and then can be used for any lawful purpose.
- (e) The rents, rates and other charges will be at least sufficient to meet the operation and maintenance expenses of the water system and to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue note.

During fiscal year 2011, no transfers were made to a separate water revenue note sinking account.

**(4) Pension and Retirement Benefits**

The Water Department 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 Water Department is required to contribute 6.95% of covered salary. Contribution requirements are established by state statute. The Water Department's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$19,485, \$18,898 and \$16,924, respectively, equal to the required contributions for each year.

**(5) Other Postemployment Benefits (OPEB)**

Plan Description - The City of Hiawatha operates a single-employer health benefit plan in which the Water Department participates. The plan provides medical/prescription drug benefits for employees and retirees and their spouses. The Water Department has 6 active and 1 retired member in the plan. Retired participants must be age 65 or older and be a full-time employee of the City of Hiawatha for 15 continuous years or, if under age 65, be a full-time employee of the City of Hiawatha for 25 continuous years at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. For retirees under age 65, the City pays the same premium for the medical/prescription drug benefits as active employees. For retirees age 65 or older, the City pays a reduced premium for supplemental Medicare coverage and, as an added benefit, the single rate premium for a qualifying spouse for up to 3 years.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City of Hiawatha. The City currently finances the benefit plan on a month-to-month basis. The most recent active member monthly premiums for the Water Department and plan members are \$439 for single coverage, \$831 for employee/children, \$900 for employee/spouse and \$1,348 for family coverage. The same monthly premiums apply to retirees under the age of 65. For retirees age 65 or older, the monthly premiums range from \$132 to \$195 for supplemental Medicare coverage. For the year ended June 30, 2011, the Water Department contributed \$93,551 and plan members eligible for benefits contributed \$1,871 to the plan.

**(6) Compensated Absences**

Water Department employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Water Department until used or paid. The Water Department's approximate liability for earned compensated absences payable to employees at June 30, 2011 is \$13,200. This liability has been computed based on rates of pay in effect at June 30, 2011.

**(7) Risk Management**

The Water Department is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Transfers**

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

Transfer to	Transfer from	Amount
City of Hiawatha:		
Debt Service	Enterprise:	
	Water Operating	\$ 24,614
Capital Projects	Water Operating	34,464
Enterprise:		
Sewer Revenue	Water Operating	18,100
Total		<u>\$ 77,178</u>

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

**(9) Construction Contracts/Commitments**

During the year ended June 30, 2005, the Water Department entered into a project in conjunction with the City of Hiawatha to build a public works building. The total amount of the project is \$1,636,260 and the portion of costs to be paid by the Water Department is \$409,065. As of June 30, 2011, the total amount paid by the Water Department was \$119,139. Annual payments of \$32,214 are expected to be made for the next 9 years.

**Hiawatha Water Department**

**Required Supplementary Information**

Hiawatha Water Department  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements and Changes in Balances -  
 Budget and Actual (Cash Basis)  
 Required Supplementary Information

Year ended June 30, 2011

	Actual	Less Amounts not Required to be Budgeted
Receipts:		
Use of money and property	\$ 3,466	-
Charges for service	1,742,163	846,664
Miscellaneous	114,619	-
Total receipts	1,860,248	846,664
Disbursements:		
Business type activities	1,827,296	830,595
Excess (deficiency) of receipts over (under) disbursements	32,952	16,069
Other financing uses, net	172,822	-
Change in cash basis net assets	205,774	16,069
Cash basis net assets beginning of year	358,935	72,328
Cash basis net assets end of year	\$ 564,709	88,397

See accompanying independent auditor's report.

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Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
3,466	12,000	12,000	(8,534)
895,499	828,619	828,619	66,880
114,619	74,048	74,048	40,571
1,013,584	914,667	914,667	98,917
996,701	924,467	1,174,467	177,766
16,883	(9,800)	(259,800)	276,683
172,822	(77,178)	172,822	-
189,705	(86,978)	(86,978)	276,683
286,607	328,678	328,678	(42,071)
476,312	241,700	241,700	234,612

Hiawatha Water Department

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

The Hiawatha Water Department prepares a budget on the cash basis of accounting for all funds except sewer and storm water fees collected for and remitted to the City and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget, which includes the Water Department, on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund. The Water Department's disbursements are budgeted in the business type activities function. During the year, one budget amendment increased budgeted disbursements by \$250,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements did not exceed the amount budgeted.

**Other Supplementary Information**

Hiawatha Water Department  
Combining Schedule of Cash Receipts, Disbursements  
and Changes in Cash Basis Net Assets

Enterprise Fund Accounts

As of and for the year ended June 30, 2011

	Water Operating	Meter Deposit
Operating receipts:		
Charges for service:		
Sale of water	\$ 850,194	-
Penalties	11,739	-
Tower contract	19,578	-
Midway	4,833	-
Meter charge	9,155	-
Total charges for service	<u>895,499</u>	<u>-</u>
Miscellaneous:		
Sales tax	68,367	-
Customer deposits	-	17,917
Miscellaneous	28,335	-
Total miscellaneous	<u>96,702</u>	<u>17,917</u>
Total operating receipts	<u>992,201</u>	<u>17,917</u>
Operating disbursements:		
Business type activities:		
Plant operation and maintenance:		
Personal services	151,720	-
Contractual services	22,136	-
Total plant operation and maintenance	<u>173,856</u>	<u>-</u>
Distribution operation and maintenance:		
Contractual services	98,543	-
Commodities	46,653	-
Total distribuion operation and maintenance	<u>145,196</u>	<u>-</u>
Administration:		
Personal services	262,974	-
Contractual services	96,039	5,358
Commodities	31,359	-
Total administration	<u>390,372</u>	<u>5,358</u>
Total operating disbursements	<u>709,424</u>	<u>5,358</u>
Excess of operating receipts over operating disbursements	<u>282,777</u>	<u>12,559</u>

City Waterworks	Capital Improvements	Total
-	-	850,194
-	-	11,739
-	-	19,578
-	-	4,833
-	-	9,155
-	-	895,499
-	-	68,367
-	-	17,917
-	-	28,335
-	-	114,619
-	-	1,010,118
-	-	151,720
-	-	22,136
-	-	173,856
-	-	98,543
-	-	46,653
-	-	145,196
-	-	262,974
-	-	101,397
-	-	31,359
-	-	395,730
-	-	714,782
-	-	295,336

Hiawatha Water Department  
Combining Schedule of Cash Receipts, Disbursements  
and Changes in Cash Basis Net Assets

Enterprise Fund Accounts

As of and for the year ended June 30, 2011

	Water Operating	Meter Deposit
Non-operating receipts (disbursements):		
Interest on investments	2,714	-
Sewer and storm water fees collected for the City	-	-
Note proceeds	50,000	-
Debt service	(27,716)	-
Capital outlay	(41,305)	-
Sewer and storm water fees remitted to the City	-	-
Total non-operating receipts (disbursements)	(16,307)	-
Excess (deficiency) of receipts over (under) disbursements	266,470	12,559
Transfers in (out):		
Enterprise:		
Water Operating	-	(30,000)
Meter Deposit	30,000	-
Capital Improvements	(50,000)	-
To the City of Hiawatha:		
Debt Service	(24,614)	-
Capital Projects	(34,464)	-
Enterprise:		
Sewer Revenue	(18,100)	-
Total transfers in (out)	(97,178)	(30,000)
Change in cash basis net assets	169,292	(17,441)
Cash basis net assets beginning of year	201,054	85,553
Cash basis net assets end of year	\$ 370,346	68,112

See accompanying independent auditor's report.

City Waterworks	Capital Improvements	Total
-	752	3,466
846,664	-	846,664
-	200,000	250,000
-	(4,387)	(32,103)
-	(208,511)	(249,816)
(830,595)	-	(830,595)
16,069	(12,146)	(12,384)
16,069	(12,146)	282,952
-	50,000	20,000
-	-	30,000
-	-	(50,000)
-	-	(24,614)
-	-	(34,464)
-	-	(18,100)
-	50,000	(77,178)
16,069	37,854	205,774
72,328	-	358,935
88,397	37,854	564,709

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Hiawatha Water Department  
Schedule of Indebtedness  
Year ended June 30, 2011

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Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Water revenue: Capital loan note series 2010	Sep 15, 2010	4.34%	\$ 250,000

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See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
-	250,000	20,000	230,000	7,716

**Hiawatha Water Department**



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

To the Board of Trustees of the  
Hiawatha Water Department:

We have audited the accompanying financial statement of the Hiawatha Water Department, Hiawatha, Iowa, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 25, 2011. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. 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

In planning and performing our audit, we considered the Hiawatha Water Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the Water Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Water Department'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 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 discussed in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting we consider to be a material weakness and another deficiency we consider to be a significant deficiency.

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 Hiawatha Water Department's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item (A) to be a material weakness.

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 deficiency described in the accompanying Schedule of Findings as item (B) to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hiawatha Water Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and other matters, 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 an immaterial instance of non-compliance or other matters which is described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Water Department's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Water Department. 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 Hiawatha Water Department's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Water Department's responses, we did not audit the Water Department's 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 customers of the Hiawatha Water Department and other parties to whom the Hiawatha Water Department may report. This report 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 Hiawatha Water Department 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

October 25, 2011

Hiawatha Water Department

Schedule of Findings

Year ended June 30, 2011

**Findings Related to the Financial Statement:**

**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 individual has control over cash receipts, handling cash and recording cash.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Water Department should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel, including Water Department officials.

Response – We will continue to segregate duties as much as possible.

Conclusion – Response accepted.

- (B) Delinquent Account Reconciliation – The Water Department does not perform a detailed delinquent account reconciliation to ensure all delinquent accounts are billed accurately.

Recommendation – The Water Department should perform a detailed delinquent account reconciliation to ensure all delinquent accounts are billed accurately.

Response – We will try running the account reconciliation at a different time.

Conclusion – Response accepted.

**INSTANCE OF NON-COMPLIANCE:**

No matters were noted.

Hiawatha Water Department

Schedule of Findings

Year ended June 30, 2011

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – The budget certified by the City of Hiawatha includes an amount for the Hiawatha Water Department. Disbursements during the year ended June 30, 2011 did not exceed the amount budgeted.
- (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 Water Department money for travel expenses of spouses of Water Department officials or employees were noted.
- (4) Business Transactions – No business transactions between the Water Department and Water Department officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of Water Department officials and employees is carried by the City of Hiawatha in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Water Department’s investment policy were noted.
- (8) Revenue Note - The Water Department’s water revenue capital loan note resolution, Section 16, states payments are to be made into a separate sinking account in equal monthly installments to pay the principal and interest requirements for the fiscal year. A separate sinking account has not been established. However, the Water Department did pay the required principal and interest payments timely.

Recommendation – The Water Department should establish a separate sinking account and make timely payments to the sinking account as required by the note resolution.

Response – A separate sinking account has been established for monthly transfers as required.

Conclusion – Response accepted.

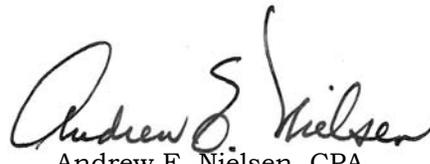
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Hiawatha Water Department

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager  
Tracey L. Gerrish, Staff Auditor  
William B. Corley, 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