



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

November 6, 2014

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an audit report on the Hiawatha Water Department, Hiawatha, Iowa.

The Water Department's receipts totaled \$2,184,720 for the year ended June 30, 2014, a 5% decrease from the prior year. The receipts included \$1,125,179 of charges for service, \$920,560 of sewer and storm water fees collected for the City, \$130,252 of miscellaneous receipts, \$6,271 of insurance proceeds and \$2,458 of interest on investments.

Disbursements for the year ended June 30, 2014 totaled \$2,207,825, a 14% increase over the prior year, and included \$1,261,250 for operations and improvements, \$31,108 for debt service and \$915,467 for sewer and storm water fees remitted to the City of Hiawatha.

The decrease in receipts is due to the sale of a well in fiscal year 2013.

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/1423-0545-B00F.pdf>

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

JUNE 30, 2014

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Hiawatha Water Department

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|----------------|-------------------------|---------------------|
| Troy Anderson | Chairperson | Jan 2016 |
| Patrick White | Vice Chairperson | Jan 2017 |
| Charles Fridal | Trustee | Jan 2015 |
| Beverly Daws | Trustee | Jan 2018 |
| Gary Casady | Trustee | Jan 2020 |
| 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:

Report on the Financial Statement

We have audited the accompanying financial statement of the Hiawatha Water Department as of and for the year ended June 30, 2014, and the related Notes to Financial Statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Water Department's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Water Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2014, and the changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, the financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statement. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statement. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statement taken as a whole.

The other information, Management's Discussion and Analysis on pages 7 through 9, has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 10, 2014 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 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 in considering the Hiawatha Water Department's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 10, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2014. We encourage readers to consider this information in conjunction with the Water Department's financial statement, which follows.

2014 FINANCIAL HIGHLIGHTS

- The Water Department's total receipts decreased 5%, or approximately \$116,000, from fiscal year 2013 to fiscal year 2014. Water rates did not change for the current year and interest on investments decreased slightly from a year ago. The Water Department sold a well during fiscal year 2013 for \$157,442.
- The Water Department's total disbursements increased 14%, or approximately \$277,000, from fiscal year 2013 to fiscal year 2014. The Water Department began major capital project activities and increased disbursements for its maintenance program in fiscal year 2014.
- The Water Department's total cash balance decreased 11%, or approximately \$100,000, from June 30, 2013 to June 30, 2014.

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 Balance presents information on the Water Department's receipts and disbursements, non-operating 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.

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

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

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 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 Balance

The purpose of the statement is to present the receipts received by the 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 Water Department's financial position by analyzing the increase or decrease in cash balance.

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 the cash balance for the years ended June 30, 2014 and June 30, 2013 is presented below:

| | Changes in Cash Balance | |
|---|-------------------------|------------|
| | Year ended June 30, | |
| | 2014 | 2013 |
| Receipts: | | |
| Interest on investments | \$ 2,458 | \$ 3,147 |
| Charges for service | 1,125,179 | 1,084,000 |
| Sewer and storm water fees collected for the City | 920,560 | 910,052 |
| Sale of well | - | 157,442 |
| Insurance proceeds | 6,271 | - |
| Miscellaneous | 130,252 | 146,223 |
| Total receipts | 2,184,720 | 2,300,864 |
| Disbursements: | | |
| Plant operation and maintenance | 202,703 | 181,554 |
| Distribution operation and maintenance | 326,428 | 165,151 |
| Administration | 443,432 | 455,277 |
| Debt service | 31,108 | 31,004 |
| Capital outlay | 288,687 | 186,088 |
| Sewer and storm water fees remitted to the City | 915,467 | 912,031 |
| Total disbursements | 2,207,825 | 1,931,105 |
| Change in cash balance before transfers | (23,105) | 369,759 |
| Transfers to the City | (77,227) | (74,997) |
| Change in cash balance | (100,332) | 294,762 |
| Cash balance beginning of year | 905,365 | 610,603 |
| Cash balance end of year | \$ 805,033 | \$ 905,365 |

The Water Department's unrestricted cash balance is available for use in the routine operations of 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 Water Department to perform specific maintenance and monitoring functions in the collection and treatment of water sources before final distribution.

BUDGETARY HIGHLIGHTS

The Water Department amended its budget one time during the year ended June 30, 2014. The amendment was approved on April 15, 2014 for the treatment plant building, purchase of equipment and system improvements not originally budgeted. The Water Department had sufficient cash balances to absorb these additional costs.

The Water Department's charges for service receipts were \$197,764 less than budgeted and miscellaneous receipts were \$37,784 more than budgeted. The budget for charges for service receipts was amended on April 15, 2014 to \$1,322,943 and the receipts did not reach the budgeted amount by the end of the fiscal year. The increase in miscellaneous receipts is due to higher than projected sales tax collections and increased meter deposits.

The Water Department's receipts for use of money and property were \$2,542 less than budgeted because the invested funds did not generate the projected earnings.

The Water Department's disbursements were \$140,190 less than budgeted for the year.

DEBT ADMINISTRATION

During fiscal year 2011, the Water Department issued a \$250,000 water revenue capital loan note, of which \$164,000 is outstanding at June 30, 2014. The Water Department paid \$23,000 of principal and \$8,108 of interest on this note in fiscal year 2014.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Pursuant to suggestions stemming from a water rate study conducted by Veenstra and Kimm, Inc., the Water Department raised water rate charges as of July 2014 due to the need for capital improvements, inflationary costs of operations and maintenance, to improve its financial position for the future and to be able to continue providing good quality water to its customers.

Current economic conditions beyond the 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.
- 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 the 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.

Basic Financial Statement

Hiawatha Water Department
Statement of Cash Receipts, Disbursements and
Changes in Cash Balance

As of and for the year ended June 30, 2014

| | |
|---|--------------|
| Operating receipts: | |
| Charges for service | \$ 1,125,179 |
| Miscellaneous | 130,252 |
| Total operating receipts | 1,255,431 |
| Operating disbursements: | |
| Business type activities: | |
| Plant operation and maintenance | 202,703 |
| Distribution operation and maintenance | 326,428 |
| Administration | 443,432 |
| Total operating disbursements | 972,563 |
| Excess of operating receipts over operating disbursements | 282,868 |
| Non-operating receipts (disbursements): | |
| Interest on investments | 2,458 |
| Sewer and storm water fees collected for the City | 920,560 |
| Insurance proceeds | 6,271 |
| Debt service | (31,108) |
| Capital outlay | (288,687) |
| Sewer and storm water fees remitted to the City | (915,467) |
| Net non-operating receipts (disbursements) | (305,973) |
| Deficiency of receipts under disbursements | (23,105) |
| Transfers to the City | (77,227) |
| Change in cash balance | (100,332) |
| Cash balance beginning of year | 905,365 |
| Cash balance end of year | \$ 805,033 |
| Cash Basis Fund Balance | |
| Restricted for: | |
| Sewer and storm water fees | \$ 87,839 |
| Water revenue sinking | 11,823 |
| Capital improvements | 108,621 |
| Customer water deposits | 81,015 |
| Total restricted cash basis fund balance | 289,298 |
| Unrestricted | 515,735 |
| Total cash basis fund balance | \$ 805,033 |

See notes to financial statement.

Hiawatha Water Department

Notes to Financial Statement

June 30, 2014

(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 statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Restricted Cash Basis Fund Balance

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) Cash and Pooled Investments

The Water Department's deposits in banks at June 30, 2014 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 \$257,885 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 |
|-------------------------|-------------------|------------|----------|---------|
| 2015 | 4.34% | \$ 24,000 | 7,118 | 31,118 |
| 2016 | 4.34 | 25,000 | 6,076 | 31,076 |
| 2017 | 4.34 | 27,000 | 4,991 | 31,991 |
| 2018 | 4.34 | 28,000 | 3,819 | 31,819 |
| 2019 | 4.34 | 29,000 | 2,604 | 31,604 |
| 2020 | 4.34 | 31,000 | 1,345 | 32,345 |
| Total | | \$ 164,000 | 25,953 | 189,953 |

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, improvement and repair 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 note is \$189,953. For the current year, principal and interest paid on the note was \$31,108 and total customer net receipts were \$282,868.

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 receipts 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 receipts at a level not less than 110% of the amount of principal and interest on the revenue note.

During the year ended June 30, 2014, monthly transfers of \$3,269 for July 2013 through December 2013 and \$2,593 for January 2014 through June 2014 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 5.95% of their annual salary and the Water Department is required to contribute 8.93% of covered salary. Contribution requirements are established by state statute. The Water Department's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$28,713, \$26,523 and \$23,917, 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, retirees and their spouses. The Water Department has 5 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 \$397 for single coverage, \$754 for employee/children, \$813 for employee/spouse and \$1,247 for family coverage. The same monthly premiums apply to retirees under the age of 65. For retirees age 65 or

older, the monthly premiums are \$203 for supplemental Medicare coverage. For the year ended June 30, 2014, the Water Department contributed \$72,074 and plan members eligible for benefits contributed \$1,380 to the plan.

(6) Compensated Absences

Water Department employees accumulate a limited amount of earned but unused vacation and sick leave hours 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 vacation and sick leave payable to employees at June 30, 2014 is as follows:

| Type of Benefit | Amount |
|-----------------|------------------|
| Vacation | \$ 50,000 |
| Sick leave | 15,000 |
| Total | <u>\$ 65,000</u> |

This liability has been computed based on rates of pay in effect at June 30, 2014.

(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. The Water Department assumes liability for any deductibles and claims in excess of coverage limitations. 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, 2014 is as follows:

| Transfer to | Transfer from | Amount |
|-------------------|-----------------|------------------|
| City of Hiawatha: | Enterprise: | |
| Debt Service | Water Operating | \$ 24,163 |
| Capital Projects | Water Operating | 35,964 |
| Enterprise: | Water Operating | 17,100 |
| Sewer | | <u>17,100</u> |
| Total | | <u>\$ 77,227</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, 2014, the total amount paid by the Water Department was \$219,781. Annual payments of \$32,214 are expected to be made for the next 6 years.

(10) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

Other Information

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

Year ended June 30, 2014

| | Actual | Less Amounts not Required to be Budgeted |
|--|------------|---|
| Receipts: | | |
| Use of money and property | \$ 2,458 | - |
| Charges for service | 2,045,739 | 920,560 |
| Miscellaneous | 136,523 | 4 |
| Total receipts | 2,184,720 | 920,564 |
| Disbursements: | | |
| Business type activities | 2,207,825 | 915,467 |
| Excess (deficiency) of receipts over (under) disbursements | (23,105) | 5,097 |
| Other financing uses, net | (77,227) | - |
| Change in cash balance | (100,332) | 5,097 |
| Cash balance beginning of year | 905,365 | 82,742 |
| Cash balance end of year | \$ 805,033 | 87,839 |

See accompanying independent auditor's report.

| Net | Budgeted Amounts | | Final to Net Variance |
|-----------|------------------|-----------|-----------------------------|
| | Original | Final | |
| 2,458 | 5,000 | 5,000 | (2,542) |
| 1,125,179 | 1,112,121 | 1,322,943 | (197,764) |
| 136,519 | 98,735 | 98,735 | 37,784 |
| 1,264,156 | 1,215,856 | 1,426,678 | (162,522) |
| 1,292,358 | 1,113,776 | 1,432,548 | 140,190 |
| (28,202) | 102,080 | (5,870) | (22,332) |
| (77,227) | (77,227) | (77,227) | - |
| (105,429) | 24,853 | (83,097) | (22,332) |
| 822,623 | 134,303 | 134,303 | 688,320 |
| 717,194 | 159,156 | 51,206 | 665,988 |

Hiawatha Water Department

Notes to Other Information – Budgetary Reporting

June 30, 2014

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 \$318,772. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements did not exceed the amount budgeted.

Supplementary Information

Hiawatha Water Department
Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Balance

Enterprise Fund Accounts

As of and for the year ended June 30, 2014

| | Water Operating | Meter Deposit |
|--|--------------------|------------------|
| Operating receipts: | | |
| Charges for service: | | |
| Sale of water | \$ 905,630 | - |
| Maintenance program | 166,276 | - |
| Penalties | 9,764 | - |
| Tower contract | 21,711 | - |
| Valve inspection fees | 1,045 | - |
| Midway | 5,332 | - |
| Meter charge | 15,421 | - |
| Total charges for service | <u>1,125,179</u> | - |
| Miscellaneous: | | |
| Sales tax | 79,285 | - |
| Customer deposits | - | 24,430 |
| Miscellaneous | 26,533 | - |
| Total miscellaneous | <u>105,818</u> | <u>24,430</u> |
| Total operating receipts | <u>1,230,997</u> | <u>24,430</u> |
| Operating disbursements: | | |
| Business type activities: | | |
| Plant operation and maintenance: | | |
| Personal services | 193,974 | - |
| Contractual services | 8,729 | - |
| Total plant operation and maintenance | <u>202,703</u> | - |
| Distribution operation and maintenance: | | |
| Contractual services | 258,843 | - |
| Commodities | 67,585 | - |
| Total distribution operation and maintenance | <u>326,428</u> | - |
| Administration: | | |
| Personal services | 279,197 | - |
| Contractual services | 115,560 | 8,730 |
| Commodities | 39,945 | - |
| Total administration | <u>434,702</u> | <u>8,730</u> |
| Total operating disbursements | <u>963,833</u> | <u>8,730</u> |
| Excess of operating receipts over operating disbursements | <u>267,164</u> | <u>15,700</u> |

| City Waterworks | Water Revenue Sinking | Capital Improvements | Total |
|--------------------|-----------------------------|-------------------------|-----------|
| - | - | - | 905,630 |
| - | - | - | 166,276 |
| - | - | - | 9,764 |
| - | - | - | 21,711 |
| - | - | - | 1,045 |
| - | - | - | 5,332 |
| - | - | - | 15,421 |
| - | - | - | 1,125,179 |
| 4 | - | - | 79,289 |
| - | - | - | 24,430 |
| - | - | - | 26,533 |
| 4 | - | - | 130,252 |
| 4 | - | - | 1,255,431 |
| - | - | - | 193,974 |
| - | - | - | 8,729 |
| - | - | - | 202,703 |
| - | - | - | 258,843 |
| - | - | - | 67,585 |
| - | - | - | 326,428 |
| - | - | - | 279,197 |
| - | - | - | 124,290 |
| - | - | - | 39,945 |
| - | - | - | 443,432 |
| - | - | - | 972,563 |
| 4 | - | - | 282,868 |

Hiawatha Water Department
Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Balance

Enterprise Fund Accounts

As of and for the year ended June 30, 2014

| | Water Operating | Meter Deposit |
|---|--------------------|------------------|
| Non-operating receipts (disbursements): | | |
| Interest on investments | 2,440 | - |
| Sewer and storm water fees collected for the City | - | - |
| Insurance proceeds | 6,271 | - |
| Debt service | - | - |
| Capital outlay | (105,066) | - |
| Sewer and storm water fees remitted to the City | - | - |
| Total non-operating receipts (disbursements) | <u>(96,355)</u> | - |
| Excess (deficiency) of receipts over (under) disbursements | <u>170,809</u> | <u>15,700</u> |
| Transfers in (out): | | |
| Enterprise: | | |
| Water Operating | - | - |
| Water Revenue Sinking | (35,174) | - |
| Capital Improvements | (90,000) | - |
| To the City: | | |
| Debt Service | (24,163) | - |
| Capital Projects | (35,964) | - |
| Enterprise: | | |
| Sewer | (17,100) | - |
| Total transfers in (out) | <u>(202,401)</u> | - |
| Change in cash balance | (31,592) | 15,700 |
| Cash balance beginning of year | 547,327 | 65,315 |
| Cash balance end of year | <u>\$ 515,735</u> | <u>81,015</u> |

See accompanying independent auditor's report.

| City Waterworks | Water Revenue Sinking | Capital Improvements | Total |
|--------------------|-----------------------------|-------------------------|-----------|
| - | - | 18 | 2,458 |
| 920,560 | - | - | 920,560 |
| - | - | - | 6,271 |
| - | (31,108) | - | (31,108) |
| - | - | (183,621) | (288,687) |
| (915,467) | - | - | (915,467) |
| 5,093 | (31,108) | (183,603) | (305,973) |
| 5,097 | (31,108) | (183,603) | (23,105) |
| - | 35,174 | 90,000 | 125,174 |
| - | - | - | (35,174) |
| - | - | - | (90,000) |
| - | - | - | (24,163) |
| - | - | - | (35,964) |
| - | - | - | (17,100) |
| - | 35,174 | 90,000 | (77,227) |
| 5,097 | 4,066 | (93,603) | (100,332) |
| 82,742 | 7,757 | 202,224 | 905,365 |
| 87,839 | 11,823 | 108,621 | 805,033 |

Hiawatha Water Department

Schedule of Indebtedness

Year ended June 30, 2014

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

See accompanying independent auditor's report.

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|
| 187,000 | - | 23,000 | 164,000 | 8,108 |

Hiawatha Water Department



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Mary Mosiman, CPA
Auditor of State

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 in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statement of the Hiawatha Water Department as of and for the year ended June 30, 2014, and the related Notes to Financial Statement, and have issued our report thereon dated October 10, 2014. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Hiawatha Water Department's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Hiawatha Water Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hiawatha Water Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control we consider to be a material weakness.

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.

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 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.

Comments involving statutory and other legal matters about the Water Department's operations for the year ended June 30, 2014 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.

Hiawatha Water Department's Responses to the Finding

The Hiawatha Water Department's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The Hiawatha Water Department's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Water Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Water Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 10, 2014

Hiawatha Water Department

Schedule of Findings

Year ended June 30, 2014

Finding Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCY:

- (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.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Hiawatha Water Department

Schedule of Findings

Year ended June 30, 2014

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, 2014 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 – No instances of non-compliance with the revenue note requirements for the year ended June 30, 2014 were noted.

Hiawatha Water Department

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Eric L. Rath, Staff Auditor
Zackary D. Kubik, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State