



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

October 21, 2021

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an audit report on Hiawatha Water Department, Hiawatha, Iowa.

FINANCIAL HIGHLIGHTS:

The Department's receipts totaled \$5,089,258, for the year ended June 30, 2021, a 64.8% increase over the prior year. Disbursements for the year ended June 30, 2021 totaled \$4,637,334 an 82.7% increase over the prior year. The increase in receipts and disbursements is due to a note issuance and related construction project.

AUDIT FINDINGS:

Sand reported two findings related to the receipt and disbursement of taxpayer funds. The findings are found on pages 36 through 38 of this report. The findings address a lack of segregation of duties and unresolved variances in the utility reconciliations. Sand provided the Water Department with recommendations to address the findings.

One of the finding discussed above is repeated from the prior year. The Water Department Board has a fiduciary responsibility to provide oversight of the Water Department's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/audit-reports>.

#

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

JUNE 30, 2021

Hiawatha Water Department



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Rob Sand
Auditor of State

September 3, 2021

Officials of the Hiawatha Water Department
Hiawatha, Iowa

Dear Board Members:

I am pleased to submit to you the financial and compliance audit report for the Hiawatha Water Department for the year ended June 30, 2021. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the Hiawatha Water Department throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand". The signature is stylized and written in a cursive-like font.

Rob Sand
Auditor of State

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		4-5
Management’s Discussion and Analysis		6-8
Basic Financial Statement:	<u>Exhibit</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balance	A	11
Notes to Financial Statement		12-18
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balance – Budget and Actual		20-21
Notes to Other Information – Budgetary Reporting		23
Schedule of the Water Department’s Proportionate Share of the Net Pension Liability		24-25
Schedule of Water Department Contributions		26-27
Notes to Other Information – Pension Liability		28
Supplementary Information:	<u>Schedule</u>	
Combining Schedule of Cash Receipts, Disbursements and Changes in Cash Balance – Enterprise Fund Accounts	1	30-33
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 <u>Government Auditing Standards</u>		34-35
Schedule of Findings		36-38
Staff		39

Hiawatha Water Department

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Patrick White	Chairperson	Jan 2023
Carl Ransford	Vice Chairperson	Jan 2024
Troy Anderson	Trustee	Jan 2022
Ruth Hospodarsky	Trustee	Jan 2026
Robert Rampulla	Trustee	Jan 2026
Marty Recker	Superintendent	Indefinite
Sara Ries	Billing Clerk	Indefinite
Stacey Carter	Assistant Billing Clerk	Indefinite



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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, 2021, and the related Notes to Financial Statement listed in the table of contents.

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, 2021, 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 discussed 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

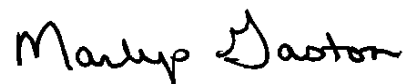
Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statement. The supplementary information included in Schedule 1 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, the Budgetary Comparison Information, the Schedule of the Water Department's Proportionate Share of the Net Pension Liability and the Schedule of Water Department Contributions on pages 6 through 8 and 20 through 28, has not been subjected to the auditing procedures applied in the audit of the 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 September 3, 2021 on our consideration of the Hiawatha Water Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Water Department's 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.



Marlys K. Gaston, CPA
Deputy Auditor of State

September 3, 2021

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, 2021. We encourage readers to consider this information in conjunction with the Water Department's financial statement, which follows.

2021 FINANCIAL HIGHLIGHTS

- The Water Department's total receipts increased 64.8%, or approximately \$2,001,000 from fiscal year 2020 to fiscal year 2021. This is largely due to proceeds received from the issuance of a sewer revenue note during the current fiscal year. Also, more water, sewer and storm water fees were collected over the prior year, as well as an insurance claim adding to non-operating receipts.
- The Water Department's total disbursements increased 82.7%, or approximately \$2,099,000, from fiscal year 2020 to fiscal year 2021. This is largely due to payments made on construction projects during FY2021. Also, more sewer and storm water fees were remitted to the City than the prior year.
- The Water Department's total cash balance increased 11.9%, or approximately \$299,000, from June 30, 2020 to June 30, 2021.

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 and the Water Department's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the individual Enterprise Fund Accounts.

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, 2020 and June 30, 2021 is presented below:

	Changes in Cash Balance	
	Year ended June 30,	
	2021	2020
Receipts:		
Interest on investments	\$ 7,476	24,623
Charges for service	1,677,101	1,537,007
Sewer and storm water fees collected for the City	1,487,287	1,357,067
Miscellaneous	191,104	169,425
Local option sales tax from the City	83,353	-
Note proceeds	1,642,937	-
Total receipts	5,089,258	3,088,122
Disbursements:		
Plant operation and maintenance	251,336	185,090
Distribution operation and maintenance	202,990	226,525
Administration	548,401	540,151
Debt service	124,374	-
Capital outlay	2,048,104	237,174
Sewer and storm water fees remitted to the City	1,462,129	1,349,269
Total disbursements	4,637,334	2,538,209
Change in cash balance before transfers	451,924	549,913
Transfers to the City	(153,350)	(87,184)
Change in cash balance	298,574	462,729
Cash balance beginning of year	2,507,524	2,044,795
Cash balance end of year	\$ 2,806,098	2,507,524

The Water Department had \$248,573 in restricted fund balance compared to \$214,986 in FY2020 which is an increase of 15.6%, or approximately \$34,000, over the prior year. The unrestricted fund balance is \$2,557,525 which is an increase of 11.6%, or approximately \$265,000 over the prior year.

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.

The cash balance increased approximately \$299,000 over the prior year, mainly due to loan proceeds.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Water Department amended its budget once.

The Water Department's charges for service receipts were \$33,398 more than budgeted and miscellaneous receipts were \$198,213 more than budgeted due to the City contributing local option sales tax of \$83,353 to help finance construction projects disbursements.

The Water Department's disbursements were \$1,888,475 less than budgeted for the year due to a delay in the start of the ground water storage tank and water main project.

DEBT ADMINISTRATION

At June 30, 2021, the Water Department had approximately \$1,542,00 of revenue notes outstanding with no revenue notes outstanding during the last year.

Debt increased as a result of the Water Department issuing state revolving loan notes for construction of a groundwater storage tank and booster station construction projects.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

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

As of and for the year ended June 30, 2021

Operating receipts:	
Charges for service	\$ 1,677,101
Miscellaneous	<u>180,238</u>
Total operating receipts	<u>1,857,339</u>
Operating disbursements:	
Business type activities:	
Plant operation and maintenance	251,336
Distribution operation and maintenance	202,990
Administration	<u>548,401</u>
Total operating disbursements	<u>1,002,727</u>
Excess of operating receipts over operating disbursements	<u>854,612</u>
Non-operating receipts (disbursements):	
Interest on investments	7,476
Sewer and storm water fees collected for the City	1,487,287
Local option sales tax from the City	83,353
Miscellaneous	10,866
Note proceeds (net of \$13,360 initiation fee)	1,642,937
Debt service	(124,374)
Capital outlay	(2,048,104)
Sewer and storm water fees remitted to the City	<u>(1,462,129)</u>
Net non-operating receipts (disbursements)	<u>(402,688)</u>
Excess of receipts over disbursements	451,924
Transfers to the City	<u>(153,350)</u>
Change in cash balance	298,574
Cash balance beginning of year	<u>2,507,524</u>
Cash balance end of year	<u>\$ 2,806,098</u>
Cash Basis Fund Balance	
Restricted for:	
Sewer and storm water fees	\$ 148,803
Debt service	13,012
Customer water deposits	<u>86,758</u>
Total restricted cash basis fund balance	248,573
Unrestricted	<u>2,557,525</u>
Total cash basis fund balance	<u>\$ 2,806,098</u>

See notes to financial statement.

Hiawatha Water Department

Notes to Financial Statement

June 30, 2021

(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 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, 2021 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 ensure 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 \$130,239. There were no limitations or restrictions on withdrawals for the IPAIT investments. The Water Department's investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

(3) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the Water Department, except for those covered by another retirement system. Employees of the Water Department are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member’s beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member’s accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS’ Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the “entry age normal” actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2021, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Water Department contributed 9.44% of covered payroll, for a total rate of 15.73%.

The Water Department’s contributions to IPERS for the year ended June 30, 2021 totaled \$36,682.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2021, the Water Department had a liability of \$343,870 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Water Department’s proportion of the net pension liability was based on the Department’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2020, the Water Department’s proportion was 0.004930%, which was an increase of 0.000273% over its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Water Department’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$52,758, \$65,635 and \$36,424, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2020 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0%	4.43%
International equity	17.5	5.15
Global smart beta equity	6.0	4.87
Core plus fixed income	28.0	(0.29)
Public credit	4.0	2.29
Cash	1.0	(0.78)
Private equity	11.0	6.54
Private real assets	7.5	4.48
Private credit	3.0	3.11
Total	<u>100.0%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Water Department will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Water Department's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Water Department's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Water Department's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Water Department's proportionate share of the net pension liability	\$ 573,375	343,870	151,434

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(4) Other Postemployment Benefits (OPEB)

Plan Description – The City of Hiawatha operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses which the Water Department participates. Group insurance benefits are established under Iowa Code Chapter 509A.13. The Water Department currently finances the benefit plan on a pay-as-you-go basis. For the year ended June 30, 2021, the City contributed \$53,876 and plan members eligible for benefits contributed \$1,271 to the plan. At June 30, 2021, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by City of Hiawatha are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy.

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. At June 30, 2021, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	3
Active employees	<u>6</u>
Total	<u>9</u>

(5) 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, 2021 is as follows:

Type of Benefit	Amount
Vacation	\$ 30,000
Sick leave	<u>11,000</u>
Total	<u>\$ 41,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2021.

(6) 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.

(7) Transfers

The detail of transfers to the City of Hiawatha for the year ended June 30, 2021 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
City of Hiawatha:		
	Enterprise:	
Debt Service	Water Operating	\$ 116,350
Capital Projects	Water Operating	5,600
Enterprise:	Enterprise:	
Sewer	Water Operating	<u>31,400</u>
Total		<u>\$ 153,350</u>

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

(8) Water Revenue Capital Loan Notes, Series 2020

A summary of changes in the note payable for the year ended June 30, 2021 is as follows:

	<u>Beginning</u>			<u>Ending</u>	<u>Due Within</u>
	<u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u>	<u>One Year</u>
Water revenue capital loan note	\$ -	1,656,297	114,000	1,542,297	112,000

On October 10, 2020, the Hiawatha Water Department entered into a state revolving fund loan and disbursement agreement with the Iowa Finance Authority (IFA) and the Iowa Department of Natural Resources for the issuance of up to \$2,672,000 of sewer revenue note with interest at 1.75% per annum. The note was issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa for the purpose of paying the cost of construction of a groundwater storage tank and booster station. The Water Department will draw down funds from IFA upon request to reimburse the Water Department for costs as they are incurred.

During the year ended June 30, 2021, the Water Department drew down \$1,656,297 of the authorized amount. An initiation fee of \$13,360 (0.50% of the authorized borrowing) was charged by IFA. The initiation fee was withheld from the first proceeds of the sewer revenue note drawn by the Water Department. The agreement requires the Water Department to annually pay a .25% servicing fee on the outstanding principal balance. A final repayment schedule has not yet been adopted. During the year ended June 30, 2021, the Water Department paid principal of \$114,000 and interest of \$9,077 leaving a balance of \$1,542,297 on the note at June 30, 2021.

The resolution providing for the issuance of the sewer revenue notes includes the following provisions.

- (a) The issuer shall maintain insurance for the benefit of the Noteholders on the insurable portions of the system in an amount that would normally be carried by private companies engaged in a similar kind of business.
- (b) The rents, rates and other charges shall be at least sufficient to meet the operation and maintenance expenses of the storage tank and booster station and to produce and maintain net receipts at a level not less than 110% of the amount of principal and interest on the revenue notes.

- (c) Money in the Revenue Fund shall be disbursed to make deposits into a separate and special fund to pay current expenses. The fund shall be known as the water utility operation and maintenance fund and shall always be sufficient to meet current expenses of the months plus 1/12th of expenses payable on an annual basis such as insurance.
- (d) Money in the Revenue Fund shall next be disbursed into a separate and special fund to payable principal and interest on the note known as the water revenue note principal and interest sinking fund. The required amount to deposited into the fund in any month shall be equal to 1/6th of the installment of interest coming due on the next interest payment plus 1/12th of the installment of principal coming due on the next principal payment date.

(9) Construction Contracts

The Water Department has entered into construction contracts totaling \$2,426,400 for ground water storage tanks and booster station improvement projects. As of June 30, 2021, costs of \$1,911,060 have been paid on the contracts. The remaining \$515,340 will be paid as work on these projects progresses.

(10) COVID-19

In March 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including that of Hiawatha Water Department, remains uncertain.

To date, the outbreak has not created a material disruption to the operations of Hiawatha Water Department. However, the extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonably estimate the potential impact to Hiawatha Water Department.

Other Information

Hiawatha Water Department
 Budgetary Comparison Schedule
 of Receipts, Disbursements and Changes in Balance -
 Budget and Actual
 Other Information

Year ended June 30, 2021

	Actual	Less Amounts not Required to be Budgeted	Net
Receipts:			
Use of money and property	\$ 7,476	-	7,476
Charges for service	3,164,388	1,487,287	1,677,101
Miscellaneous	263,591	-	263,591
Non Operating	10,866	-	10,866
Total receipts	3,446,321	1,487,287	1,959,034
Disbursements:			
Business type activities	4,637,334	1,462,129	3,175,205
Excess (deficiency) of receipts over (under) disbursements	(1,191,013)	25,158	(1,216,171)
Other financing sources, uses, net	1,489,587	-	1,489,587
Change in cash balance	298,574	25,158	273,416
Cash balance beginning of year	2,507,524	123,645	2,383,879
Cash balance end of year	\$ 2,806,098	148,803	2,657,295

See accompanying independent auditor's report.

Budget Amounts		Final to Net Variance
Original	Final	
8,000	8,000	(524)
1,593,451	1,643,703	33,398
149,135	65,378	198,213
-	-	10,866
1,750,586	1,717,081	241,953
4,701,652	5,127,262	1,952,057
(2,951,066)	(3,410,181)	2,194,010
2,926,650	2,926,650	(1,437,063)
(24,416)	(483,531)	756,947
624,866	509,075	1,874,804
600,450	25,544	2,631,751

Hiawatha Water Department

Hiawatha Water Department

Notes to Other Information – Budgetary Reporting

June 30, 2021

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, the Water Department adopted one budget amendment, increasing budgeted disbursements by \$425,610.

During the year ended June 30, 2021, disbursements did not exceed the amount budgeted.

Hiawatha Water Department

Schedule of the Water Department's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Seven Years*
(In Thousands)

Other Information

	2021	2020	2019	2018
Water Department's proportion of the net pension liability	0.004930%	0.004657%	0.004145%	0.003746%
Water Department's proportionate share of the net pension liability	\$ 344	271	262	247
Water Department's covered payroll	\$ 357	295	277	338
Water Department's proportionate share of the net pension liability as a percentage of its covered payroll	96.36%	91.86%	94.58%	73.08%
IPERS' net position as a percentage of the total pension liability	82.90%	85.45%	83.62%	82.21%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

2017	2016	2015
0.005209%	0.004795%	0.004815%
325	238	195
370	336	324
87.84%	70.83%	60.19%
81.82%	85.19%	87.61%

Hiawatha Water Department
 Schedule of Water Department Contributions
 Iowa Public Employees' Retirement System
 For the Last Ten Years
 (In Thousands)

Other Information

	2021	2020	2019	2018
Statutorily required contribution	\$ 37	34	28	25
Contributions in relation to the statutorily required contribution	(37)	(34)	(28)	(25)
Contribution deficiency (excess)	\$ -	-	-	-
Water Department's covered payroll	\$ 389	357	295	277
Contributions as a percentage of covered payroll	9.44%	9.44%	9.44%	8.93%

See accompanying independent auditor's report.

2017	2016	2015	2014	2013	2012
30	33	30	29	27	24
(30)	(33)	(30)	(29)	(27)	(24)
-	-	-	-	-	-
338	370	336	324	311	297
8.93%	8.93%	8.93%	8.93%	8.67%	8.07%

Hiawatha Water Department
Notes to Other Information – Pension Liability
Year ended June 30, 2021

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

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, 2021

	<u>Water Operating</u>	<u>Meter Deposit</u>	<u>City Waterworks</u>
Operating receipts:			
Charges for service:			
Sale of water	\$ 1,516,642	-	-
Maintenance program	121,159	-	-
Penalties	11,378	-	-
Tower contract	19,221	-	-
Midway	761	-	-
Meter charge	7,940	-	-
Total charges for service	<u>1,677,101</u>	-	-
Miscellaneous:			
Sales tax	23,041	-	-
Water excise tax	96,632	-	-
Customer deposits	-	24,500	-
Miscellaneous	36,065	-	-
Total miscellaneous	<u>155,738</u>	<u>24,500</u>	-
Total operating receipts	<u>1,832,839</u>	<u>24,500</u>	-
Operating disbursements:			
Business type activities:			
Plant operation and maintenance:			
Personal services	226,315	-	-
Contractual services	25,021	-	-
Total plant operation and maintenance	<u>251,336</u>	-	-
Distribution operation and maintenance:			
Contractual services	159,418	-	-
Commodities	43,572	-	-
Total distribution operation and maintenance	<u>202,990</u>	-	-
Administration:			
Personal services	342,786	-	-
Contractual services	127,520	29,130	-
Commodities	48,965	-	-
Total administration	<u>519,271</u>	<u>29,130</u>	-
Total operating disbursements	<u>973,597</u>	<u>29,130</u>	-
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>859,242</u>	<u>(4,630)</u>	-

Capital Improvements	Total
-	1,516,642
-	121,159
-	11,378
-	19,221
-	761
-	7,940
-	1,677,101
-	23,041
-	96,632
-	24,500
-	36,065
-	180,238
-	1,857,339
-	226,315
-	25,021
-	251,336
-	159,418
-	43,572
-	202,990
-	342,786
-	156,650
-	48,965
-	548,401
-	1,002,727
-	854,612

(Continued on next page)

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

Enterprise Fund Accounts
(continued)
As of and for the year ended June 30, 2021

	Water Operating	Meter Deposit	City Waterworks
Non-operating receipts (disbursements):			
Interest on investments	7,429	47	-
Sewer and storm water fees collected for the City	-	-	1,487,287
Local option sales tax from the City	83,353	-	-
Miscellaneous	10,866	-	-
Note proceeds (net of \$13,360 initiation fee)	-	-	-
Debt service	-	-	-
Capital outlay	(283,369)	-	-
Sewer and storm water fees remitted to the City	-	-	(1,462,129)
Total non-operating receipts (disbursements)	(181,721)	47	25,158
Excess (deficiency) of receipts over (under) disbursements	677,521	(4,583)	25,158
Transfers in (out):			
To the City:			
Debt service	(116,350)	-	-
Capital projects	(5,600)	-	-
Enterprise:			
Sewer	(31,400)	-	-
Total transfers out	(153,350)	-	-
Change in cash balance	524,171	(4,583)	25,158
Cash balance beginning of year	2,426,661	91,341	123,645
Cash balance end of year	\$ 2,950,832	86,758	148,803

See accompanying independent auditor's report.

Capital	
Improvements	Total
-	7,476
-	1,487,287
-	83,353
-	10,866
1,642,937	1,642,937
(124,374)	(124,374)
(1,764,735)	(2,048,104)
-	(1,462,129)
(246,172)	(402,688)
(246,172)	451,924
-	(116,350)
-	(5,600)
-	(31,400)
-	(153,350)
(246,172)	298,574
(134,123)	2,507,524
(380,295)	2,806,098



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

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 Government 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, 2021, and the related Notes to Financial Statement, and have issued our report thereon dated September 3, 2021. 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 as a basis for designing 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 have not been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control we consider to be material weaknesses and 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 Hiawatha Water Department's financial statements will not be prevented or detected and corrected on a timely basis. However, 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 grant agreements, non-compliance with which could have a direct and material effect on the financial statements. 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, 2021 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.

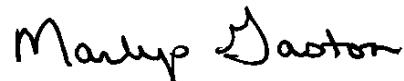
The Hiawatha Water Department's Responses to the Findings

The Hiawatha Water Department's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Hiawatha Water Department's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

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.



Marlys K. Gaston, CPA
Deputy Auditor of State

September 3, 2021

Hiawatha Water Department

Schedule of Findings

Year ended June 30, 2021

Finding Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Water Department's financial statement.

Condition – One individual has control over cash receipts, handling cash and recording cash. Additionally, one individual has control over billing, collecting, depositing, posting and reconciling utility receipts.

Cause – The Water Department has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Water Department's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – 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. The reviews should be documented by the signature or initials of the reviewer and the date of the review.

Response – With our office staff being so small, the Water Department will continue to do our best to try and find new ways to segregate the office duties.

Conclusion – Response accepted.

(B) Utility Reconciliation

Criteria – An effective internal control system provides for internal controls related to reconciling utility billings, collections and accounts receivable listings to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of accounts receivable balances.

Condition – The April 2021 utility reconciliation reported a difference of \$1,711 between the ending calculated delinquent balance and the actual listing of delinquent balances.

Hiawatha Water Department

Schedule of Findings

Year ended June 30, 2021

Cause – Policies have not been established and procedures have not been implements to resolve variances in the utility reconciliations.

Effect – This condition could result in unrecorded or misstated utility receipts, improper or unauthorized adjustments and write-offs and/or misstated accounts receivable balances.

Recommendation – Procedures should be established to ensure the accuracy of utility reconciliations and resolve variances, any.

Response – We will be sure to run the trial balance and AR audit and billing cash summary on the same day going forward to ensure totals match. We will investigate any difference noted.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Hiawatha Water Department

Schedule of Findings

Year ended June 30, 2021

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, 2021 did not exceed the amount budgeted.
- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in the 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) Restricted Donor Activity – No transactions were noted between the Water Department, Water Department officials, Water Department employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.
- (6) 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.
- (7) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (8) 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.

Hiawatha Water Department

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy
Katherine L. Rupp, CPA, Manager
David A. Slocum, CPA, Staff Auditor
Jesse K. Villalobos, Staff Auditor
Zachary T. Shaw, Assistant Auditor