



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

David A. Vaudt, CPA  
Auditor of State

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**NEWS RELEASE**

FOR RELEASE

December 5, 2007

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$12,245,439 for the year ended June 30, 2007, a 27 percent increase over 2006. The receipts included \$3,073,159 in property tax, \$1,259,141 from tax increment financing, \$986,015 from charges for service, \$841,735 from operating grants, contributions and restricted interest, \$390,358 from capital grants, contributions and restricted interest, \$138,581 from unrestricted interest on investments, \$5,475,922 from bond proceeds, \$19,441 from other general receipts and \$61,087 from component unit transfers.

Disbursements for the year totaled \$12,254,113, a 32 percent increase over the prior year, and included \$5,739,313 for capital projects, \$2,087,763 for debt service and \$1,559,729 for public safety. Also, disbursements for business type activities totaled \$649,366.

The significant increase in receipts is due primarily to the sale of general obligation capital loan bonds in 2007 for the construction of a new city hall. The significant increase in disbursements is due primarily to an increase in costs associated with various capital project activity, such as the new city hall and the Cedar Point Road projects.

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

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**CITY OF HIAWATHA**

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

**JUNE 30, 2007**

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## City of Hiawatha

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Thomas C. Patterson	Mayor	Jan 2008
Richard Olsen	Mayor Pro tem	Jan 2008
Tim Conklin	Council Member	Jan 2008
Nancy Melsa	Council Member	Jan 2008
Thomas A. Theis	Council Member	Jan 2010
Darryl Bradley	Council Member	Jan 2010
Dave Van Dee	City Administrator	Indefinite
Laurie A. Hebl	Finance Director	Indefinite
Linda J. Bendixen	City Clerk	Retired
Kimberly Downs (Appointed)	City Clerk	Indefinite
Kimberly Downs	Deputy City Clerk	Resigned
Cindy Kudrna (Appointed)	Deputy Clerk	Indefinite
Randal Scholer	City Attorney	Indefinite
Charlie Fridal	Water Board Chairperson	Jan 2009
James Lavenz	Water Board Trustee	Jan 2010
Sandy Brewer	Water Board Trustee	Jan 2010
Robert Rampulla	Water Board Trustee	Jan 2011
Richard Larson	Water Board Trustee	Jan 2013
Carl Ransford	Water Superintendent	Indefinite
Debra Larson	Billing Clerk	Indefinite
Sara Ries	Assistant Billing Clerk	Indefinite

**City of Hiawatha**



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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hiawatha, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Hiawatha's management. Our responsibility is to express opinions on these financial statements 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

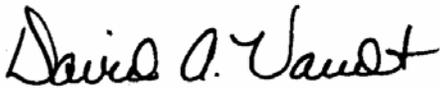
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hiawatha as of June 30, 2007, and the respective changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 12, 2007 on our consideration of the City of Hiawatha'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 internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hiawatha's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

October 12, 2007

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Hiawatha provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2006 FINANCIAL HIGHLIGHTS

- Receipts for the City's governmental activities increased 29%, or approximately \$2,621,000, from fiscal 2006 to fiscal 2007. Although operating and capital grants, contributions and restricted interest decreased approximately \$275,000, note and bond proceeds and property and other city tax increased \$2,503,407 and \$399,149, respectively.
- Disbursements for the City's governmental activities increased 38%, or approximately \$3,200,000, in fiscal 2007 over fiscal year 2006. The main contributing factor for this increase was an increase in capital projects activity of approximately \$2,706,000.
- The City's total cash basis net assets decreased less than 1%, or approximately \$9,000, from June 30, 2006 to June 30, 2007. Of this amount, the net assets of the governmental activities increased approximately \$19,000 and the net assets of the business type activities decreased approximately \$28,000.

### USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

## **BASIS OF ACCOUNTING**

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

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

The Statement of Activities and Net Assets is divided into the following activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, debt proceeds and state and federal grants finance most of these activities.
- Business Type Activities include the sanitary sewer system. These activities are financed primarily by user charges.
- Component Unit includes the Hiawatha Water Department, which accounts for the activities of the waterworks.

### *Fund Financial Statements*

The City has two kinds of funds:

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

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Fund. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide information for the Sewer Revenue Fund, considered to be a major fund of the City.

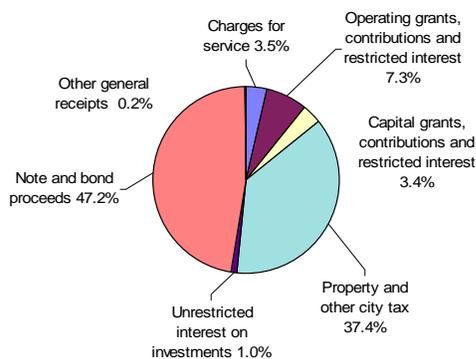
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

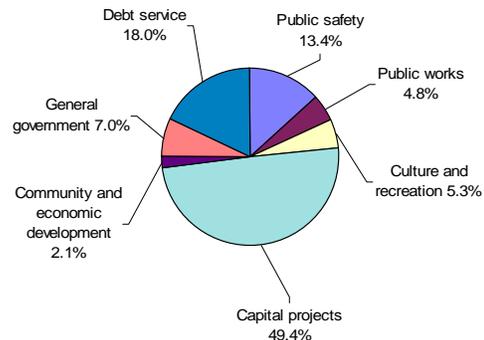
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased approximately \$19,000 from a year ago, from \$6,742,041 to \$6,761,603. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2007	2006
<b>Receipts:</b>		
<b>Program receipts:</b>		
Charges for service	\$ 409,371	397,835
Operating grants, contributions and restricted interest	841,735	885,579
Capital grants, contributions and restricted interest	390,358	621,963
<b>General receipts:</b>		
Property and other city tax	4,332,300	3,933,151
Unrestricted interest on investments	113,295	85,878
Note and bond proceeds	5,475,922	2,972,515
Other general receipts	19,441	64,092
<b>Total receipts</b>	<b>11,582,422</b>	<b>8,961,013</b>
<b>Disbursements:</b>		
Public safety	1,559,729	1,491,960
Public works	556,117	564,141
Culture and recreation	613,194	575,425
Community and economic development	238,221	232,505
General government	810,410	785,661
Debt service	2,087,763	1,721,654
Capital projects	5,739,313	3,033,380
<b>Total disbursements</b>	<b>11,604,747</b>	<b>8,404,726</b>
Increase (decrease) in cash basis net assets before transfers	(22,325)	556,287
Transfers, net	41,887	(86,395)
Increase in cash basis net assets	19,562	469,892
Cash basis net assets beginning of year	6,742,041	6,272,149
Cash basis net assets end of year	<b>\$ 6,761,603</b>	<b>6,742,041</b>

**Receipts by Source**



**Disbursements by Function**



The City's total receipts for governmental activities increased 29%, or approximately \$2,621,000. The total cost of all programs and services increased approximately \$3,200,000. The increase in receipts was primarily the result of the sale of general obligation bonds. The increase in disbursements was primarily due to increased capital projects activity over FY06.

The cost of all governmental activities this year was \$11,604,747. However, as shown in the Statement of Activities and Net Assets, the amount financed by taxes for these activities was \$4,332,300 with the remainder paid for with user fees, grants, contributions, interest income, fund balances and bond proceeds.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 576,644	604,483
General receipts:		
Unrestricted interest on investments	25,286	20,857
Total receipts	601,930	625,340
Disbursements:		
Sewer	649,366	886,010
Decrease in cash basis net assets before transfers	(47,436)	(260,670)
Transfers, net	19,200	147,688
Decrease in cash basis net assets	(28,236)	(112,982)
Cash basis net assets beginning of year	638,434	751,416
Cash basis net assets end of year	\$ 610,198	638,434

The business type activities receipts for the fiscal year were \$601,930 compared to \$625,340 last year. Disbursements for the fiscal year decreased 27% to \$649,366. The significant decrease in disbursements was due to Third Avenue basin repairs totaling \$154,000, a one time payout to the City of Cedar Rapids for sewer and operation maintenance totaling \$208,000 and a decrease in operating supplies totaling \$51,000 due to recent subdivision development, all of which occurred in fiscal year 2006. In addition, the City's sewer and operation maintenance contract with the City of Cedar Rapids increased to \$538,000 due to the increased demand on the sewer system. The cash balance decreased 4%, or \$28,000, from the prior year.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Hiawatha completed the year, its governmental funds reported a combined fund balance of \$6,761,603, an increase of \$19,562 over last year's total. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$208,691 from the prior year to \$973,203. This increase can be attributed to increased collections and holding the line on disbursements.

- The Special Revenue, Urban Renewal Tax Increment Fund had a cash balance of \$161,267 at the end of the fiscal year, which represents a decrease of \$693,299 from the previous year. The decrease was the result of tax increment financing collections received from the County in fiscal 2007 and 2006 used to pay off TIF indebtedness certified to the County Auditor.
- The Debt Service Fund cash balance decreased \$147,746 to \$6,808 during the fiscal year. As always, the debt service tax levy was calculated to “break-even” based on actual and estimated obligations.
- The Capital Projects Fund is a combination of several sub-funds, including: the Projects Fund, the Library Project Fund, the Local Option Sales Tax (LOST) Projects Fund and the TIF Projects Fund. The fiscal year 2007 total cash balance for the Capital Projects Fund was \$4,994,606, an increase of \$582,472 over the prior year. The main contributing factor to this significant increase is the issuance of general obligation bonds in fiscal year 2007 to fund projects.

### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Sewer Revenue Fund cash balance decreased 4% to \$610,198 due to reconstruction projects included in the City’s capital improvement plan. Sewer service fees were adjusted in accordance with the sewer rate study’s recommendations. The new fee schedule went into effect in July 2006.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended the budget once. The amendment was approved on May 4, 2007. The amendment resulted in an increase in operating disbursements of \$2,815,737 related to the undertaking of several capital projects and increased debt service costs. The City had adequate funding to cover these additional costs.

The City’s receipts were \$291,213 more than budgeted. This was primarily due to the City under budgeting in the areas of use of money and property, tax increment financing and miscellaneous receipts.

Total disbursements were \$2,570,533 less than the amended budget. The actual disbursements for the public works, capital projects and business type activities functions were \$92,058, \$1,983,037 and \$259,109, respectively, less than the amended budget. This was primarily due to resignations, road work not progressing as anticipated and city hall projects not completed.

### **DEBT ADMINISTRATION**

At June 30, 2007, the City had \$14,305,000 in general obligation capital loan notes and bonds outstanding, compared to \$10,340,000 last year.

Debt increased as a result of issuing general obligation bonds to fund various capital projects.

The City has obtained a bond rating and has continued to obtain favorable rates comparable to between aa and aaa ratings. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of \$14,340,000 is significantly below its constitutional debt limit of approximately \$20,300,000.

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

The City of Hiawatha's elected officials considered many factors when setting the fiscal year 2008 budget, tax rates and fees charged for various City activities. One of those factors is the economy. The City of Hiawatha is located in Linn County, Iowa. The County unemployment rate in June, 2007 was 3.6% versus 3.2% percent a year ago. This compares with the State's unemployment rate of 3.4% and the national rate of 4.6% percent.

The Consumer Price Index for urban consumers in June, 2007 was 4.2% higher than the previous year.

These indicators were taken into account when adopting the budget for fiscal year 2008. Total projected revenues, including beginning balances available for appropriation in the budget, are \$10,607,013, a decrease of 30% from the final 2007 budget. This revenue decrease is primarily attributable to decreases in intergovernmental grants and the issuance of notes. The City will use our resources to finance programs we currently offer and fund our capital improvements. Budgeted disbursements (not including transfers) are expected to decrease 5% to \$14,822,224 from the final 2007 budget. The City has added no major new programs to the 2008 budget. However, it should be noted the most significant change is in the capital projects program.

If the budget estimates are realized, the City's cash balance is expected to decrease by \$4,215,711 by the close of fiscal year 2008. However, actual fiscal year 2007 ending balances exceeded the budgeted figures by \$1,688,385. Therefore, this results in a net decrease of \$2,527,326 and sufficient balances remain.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Finance Director Laurie Hebl or City Administrator Dave Van Dee, 81 Emmons Street, Hiawatha, Iowa 52233-1697.

## **Basic Financial Statements**

City of Hiawatha

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2007

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 1,559,729	348,921	114,611	-
Public works	556,117	5,120	584,341	95,797
Culture and recreation	613,194	45,689	98,965	-
Community and economic development	238,221	-	-	-
General government	810,410	9,641	-	-
Debt service	2,087,763	-	32,212	294,561
Capital projects	5,739,313	-	11,606	-
Total governmental activities	11,604,747	409,371	841,735	390,358
Business type activities:				
Sewer	649,366	576,644	-	-
Total primary government	\$ 12,254,113	986,015	841,735	390,358
Component unit:				
Hiawatha Waterworks	\$ 779,611	808,051	-	-
<b>General Receipts:</b>				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Unrestricted interest on investments				
Bond proceeds				
Miscellaneous				
Component unit transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Sewer and storm water fees				
Customer water deposits				
Capital projects				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets				Component Unit
Primary Government			Total	Hiawatha Water Department
Governmental Activities	Business Type Activities			
(1,096,197)	-	(1,096,197)	-	
129,141	-	129,141	-	
(468,540)	-	(468,540)	-	
(238,221)	-	(238,221)	-	
(800,769)	-	(800,769)	-	
(1,760,990)	-	(1,760,990)	-	
(5,727,707)	-	(5,727,707)	-	
(9,963,283)	-	(9,963,283)	-	
-	(72,722)	(72,722)	-	
(9,963,283)	(72,722)	(10,036,005)	-	
-	-	-	28,440	
2,345,565	-	2,345,565	-	
1,259,141	-	1,259,141	-	
727,594	-	727,594	-	
113,295	25,286	138,581	34,586	
5,475,922	-	5,475,922	-	
19,441	-	19,441	-	
41,887	19,200	61,087	(61,087)	
9,982,845	44,486	10,027,331	(26,501)	
19,562	(28,236)	(8,674)	1,939	
6,742,041	638,434	7,380,475	697,209	
\$ 6,761,603	610,198	7,371,801	699,148	
\$ -	-	-	13,978	
-	-	-	104,528	
4,994,606	-	4,994,606	175,676	
43,653	-	43,653	-	
161,267	-	161,267	-	
6,808	-	6,808	-	
582,066	109,676	691,742	-	
973,203	500,522	1,473,725	404,966	
\$ 6,761,603	610,198	7,371,801	699,148	

City of Hiawatha

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

As of and for the year ended June 30, 2007

	Special Revenue		
	General	Urban	
		Renewal Tax Increment	Debt Service
Receipts:			
Property tax	\$ 1,857,981	-	719,409
Tax increment financing	-	1,259,141	-
Other city tax	97,572	-	8,184
Licenses and permits	165,811	-	-
Use of money and property	116,073	18,242	32,212
Intergovernmental	164,564	-	-
Charges for service	155,341	-	-
Special assessments	-	-	978
Miscellaneous	84,250	-	-
Total receipts	2,641,592	1,277,383	760,783
Disbursements:			
Operating:			
Public safety	1,266,349	-	-
Public works	34,512	-	-
Culture and recreation	542,556	-	-
Community and economic development	42	238,179	-
General government	744,848	-	-
Debt service	-	-	2,087,763
Capital projects	-	-	-
Total disbursements	2,588,307	238,179	2,087,763
Excess (deficiency) of receipts over (under) disbursements	53,285	1,039,204	(1,326,980)
Other financing sources (uses):			
Bond proceeds, net of \$3,178 discount and \$20,900 underwriter insurance	-	-	-
Operating transfers in	195,156	-	1,137,347
Operating transfers out	(39,750)	(1,732,503)	-
Component unit transfers in	-	-	41,887
Total other financing sources (uses)	155,406	(1,732,503)	1,179,234
Net change in cash balances	208,691	(693,299)	(147,746)
Cash balances beginning of year	764,512	854,566	154,554
Cash balances end of year	\$ 973,203	161,267	6,808
<b>Cash Basis Fund Balances</b>			
Reserved for debt service	\$ -	-	6,808
Unreserved:			
General fund	973,203	-	-
Special revenue funds	-	161,267	-
Capital projects fund	-	-	-
Total cash basis fund balances	\$ 973,203	161,267	6,808

See notes to financial statements.

Capital Projects	Nonmajor	Total
-	385,240	2,962,630
-	-	1,259,141
-	4,771	110,527
-	-	165,811
293,583	20,229	480,339
140,674	541,491	846,729
-	-	155,341
-	-	978
11,606	29,148	125,004
445,863	980,879	6,106,500
-	293,380	1,559,729
-	521,605	556,117
-	70,638	613,194
-	-	238,221
-	65,562	810,410
-	-	2,087,763
5,739,313	-	5,739,313
5,739,313	951,185	11,604,747
(5,293,450)	29,694	(5,498,247)
5,475,922	-	5,475,922
400,000	102,500	1,835,003
-	(62,750)	(1,835,003)
-	-	41,887
5,875,922	39,750	5,517,809
582,472	69,444	19,562
4,412,134	556,275	6,742,041
4,994,606	625,719	6,761,603
-	-	6,808
-	-	973,203
-	625,719	786,986
4,994,606	-	4,994,606
4,994,606	625,719	6,761,603

**Exhibit C**

## City of Hiawatha

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Fund

As of and for the year ended June 30, 2007

	<u>Enterprise Sewer Revenue</u>
Operating receipts:	
Charges for service	\$ 576,644
Operating disbursements:	
Business type activities	<u>649,366</u>
Deficiency of operating receipts under operating disbursements	(72,722)
Non-operating receipts:	
Interest on investments	<u>25,286</u>
Deficiency of receipts under disbursements	(47,436)
Other financing sources:	
Component unit transfers in	<u>19,200</u>
Net change in cash balances	(28,236)
Cash balances beginning of year	<u>638,434</u>
Cash balances end of year	<u>\$ 610,198</u>
<b>Cash Basis Fund Balances</b>	
Reserved for vehicle /equipment purchases	\$ 109,676
Unreserved	<u>500,522</u>
Total cash basis fund balances	<u>\$ 610,198</u>

See notes to financial statements.

City of Hiawatha

Notes to Financial Statements

June 30, 2007

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

The City of Hiawatha is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1950 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Hiawatha has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Hiawatha (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

The Hiawatha Water Department is presented in a separate column to emphasize it is legally separate from the City, but is financially accountable to the City or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

The Hiawatha Water Department was established to operate the City's waterworks facilities. The Water Department is governed by a five member board of trustees appointed by the Mayor and approved by the City Council. Title to all property of the Water Department is held in the name of the City. A financial benefit/burden relationship exists between the City and the Water Department in that the City is authorized by statute to issue general obligation debt for a City utility and may certify taxes for the payment of the debt. The Water Department is presented as a discretely presented component unit in these financial statements.

## Jointly Governed Organizations

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

### B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

The Special Revenue, Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary fund:

The Sewer Revenue Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

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

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$7,060,000 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

**(3) Bonds and Notes Payable**

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

Year Ending June 30,	General Obligation Notes		General Obligation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2008	\$ 1,145,000	287,179	480,000	257,455	1,625,000
2009	1,030,000	250,921	505,000	235,805	1,535,000	486,726
2010	1,065,000	216,134	380,000	212,932	1,445,000	429,066
2011	1,110,000	178,619	225,000	195,000	1,335,000	373,619
2012	1,020,000	137,956	235,000	186,000	1,255,000	323,956
2013 - 2017	2,695,000	218,793	1,305,000	782,200	4,000,000	1,000,993
2018 - 2022	-	-	1,590,000	499,800	1,590,000	499,800
2023 - 2026	-	-	1,520,000	155,400	1,520,000	155,400
Total	\$ 8,065,000	1,289,602	6,240,000	2,524,592	14,305,000	3,814,194

During the year ended June 30, 2007, the City retired \$1,535,000 of notes and bonds.

**(4) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$113,642, \$113,771 and \$105,415, respectively, equal to the required contributions for each year.

**(5) Compensated Absences**

City 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 City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 73,000
Sick leave	21,000
Total	\$ 94,000

This liability has been computed based on rates of pay in effect at June 30, 2007.

**(6) Construction Contracts**

The City entered into various construction contracts during the year. Unpaid contract commitments as of June 30, 2007 totaled \$4,698,000, which will be paid as work on the projects progresses.

**(7) Rebate Agreements**

The City has 12 active tax increment financing agreements. The City agreed to assist in urban renewal projects by rebating incremental taxes paid by the participating companies with respect to the improvements set forth in the urban renewal plan. The incremental taxes to be received by the City under Chapter 403.19 of the Code of Iowa from the participating companies will be rebated for a period of up to five years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The total amount that will be rebated in any fiscal year for the active increment financing agreements is not to exceed \$416,250. The actual amount rebated during the year ended June 30, 2007 was \$218,026.

**(8) Sewer Maintenance Agreement**

The City entered into an agreement with the City of Cedar Rapids to discharge all waste collected in its sanitary sewer maintenance system into the City of Cedar Rapids' interceptor for treatment. The City of Hiawatha agreed to share the operation, maintenance and construction costs of the water pollution control facility of the City of Cedar Rapids. The City of Hiawatha's share of the operation and maintenance costs for the year ended June 30, 2007 totaled \$538,070.

**(9) Industrial Development Revenue Bonds**

The City has issued a total of \$2,142,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$1,648,103 is outstanding at June 30, 2007. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

**(10) Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 556 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2007 were \$77,443.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claims and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2007, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

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

**(11) Solid Waste Agreement**

On October 19, 1994, the City entered into a 28E Agreement with Cedar Rapids/Linn County Solid Waste Agency to be an associate member of the Agency. The Cedar Rapids/Linn County Solid Waste Agency was created under Iowa Code Chapter 28E by the City of Cedar Rapids and Linn County to provide for the proper and efficient management and disposal of solid waste. The 28E Agreement between the City of Cedar Rapids and Linn County became fully operative on July 1, 1994 and shall continue until June 30, 2044. At termination, each member and associate member shall make such guarantees as are necessary to facilitate closure of all solid waste disposal sites. All solid waste fees are collected by private solid waste handlers who are licensed by the City.

**(12) Interfund Transfers**

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

Transfer to	Transfer from	Amount
General	Special Revenue: Urban Renewal Tax Increment	\$ 195,156
Debt Service	Special Revenue: Urban Renewal Tax Increment	1,137,347
Capital Projects	Special Revenue: Urban Renewal Tax Increment	400,000
Special Revenue: Equipment Reserve	General Special Revenue: Road Use Tax	39,750 62,750
		102,500
Total		\$ 1,835,003
<u>Transfers from component unit:</u>		
Debt Service	Water Operating	\$ 41,887
Enterprise	Water Operating	19,200
Total		\$ 61,087

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

**(13) Subsequent Events**

On July 3, 2007, the City awarded construction contracts for the Fay M. Clark Memorial Park pavilion/restroom and for 2007 crack and joint sealing services for \$81,140 and \$11,363, respectively.

On August 15, 2007, the City accepted furniture bid packages for the new city hall totaling \$119,734. Additionally, the City approved the purchase of an ambulance at a cost not to exceed \$122,705.

On September 19, 2007, the City authorized the issuance of \$2,600,000 of general obligation capital loan notes series 2007 to provide funds to the pay costs of acquiring equipment for the Municipal Fire Department and for street, sanitary sewer, storm sewer and park improvements.

**City of Hiawatha**

**Required Supplementary Information**

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

Required Supplementary Information

Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Fund Actual	Component Unit Actual	Less Funds not Required to be Budgeted
<b>Receipts:</b>				
Property tax	\$ 2,962,630	-	-	-
Tax increment financing	1,259,141	-	-	-
Other city tax	110,527	-	-	-
Licenses and permits	165,811	-	-	-
Use of money and property	480,339	25,286	34,587	-
Intergovernmental	846,729	-	-	-
Charges for service	155,341	576,644	1,301,963	575,412
Special assessments	978	-	-	-
Miscellaneous	125,004	-	81,500	-
Total receipts	<u>6,106,500</u>	<u>601,930</u>	<u>1,418,050</u>	<u>575,412</u>
<b>Disbursements:</b>				
Public safety	1,559,729	-	-	-
Public works	556,117	-	-	-
Culture and recreation	613,194	-	-	-
Community and economic development	238,221	-	-	-
General government	810,410	-	-	-
Debt service	2,087,763	-	-	-
Capital projects	5,739,313	-	-	-
Business type activities	-	649,366	1,355,023	576,012
Total disbursements	<u>11,604,747</u>	<u>649,366</u>	<u>1,355,023</u>	<u>576,012</u>
Excess (deficiency) of receipts over (under) disbursements	(5,498,247)	(47,436)	63,027	(600)
Other financing sources (uses), net	5,517,809	19,200	(61,088)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	19,562	(28,236)	1,939	(600)
Balances beginning of year	6,742,041	638,434	697,209	14,578
Balances end of year	<u>\$ 6,761,603</u>	<u>610,198</u>	<u>699,148</u>	<u>13,978</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
2,962,630	2,941,731	2,941,731	20,899
█ 1,259,141	1,226,190	1,226,190	32,951
110,527	94,546	101,546	8,981
165,811	152,200	139,350	26,461
█ 540,212	69,193	423,673	█ 116,539
846,729	686,378	837,625	9,104
1,458,536	1,509,297	1,429,358	29,178
978	-	974	4
206,504	140,958	159,408	47,096
7,551,068	6,820,493	7,259,855	291,213
1,559,729	1,643,081	1,644,052	84,323
556,117	575,644	648,175	92,058
613,194	661,262	662,700	49,506
238,221	385,850	301,205	62,984
810,410	772,086	849,125	38,715
2,087,763	1,919,678	2,088,564	801
5,739,313	5,088,500	7,722,350	1,983,037
1,428,377	1,741,819	1,687,486	259,109
13,033,124	12,787,920	15,603,657	2,570,533
(5,482,056)	(5,967,427)	(8,343,802)	2,861,746
5,475,921	3,000,000	5,475,921	-
(6,135) █	(2,967,427)	(2,867,881)	2,861,746
8,063,106	5,890,138	8,077,684	(14,578)
8,056,971	2,922,711	5,209,803	2,847,168

City of Hiawatha

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. However, the sewer and storm water fees collected by the Hiawatha Waterworks and remitted to the City of Hiawatha have been deducted in the column “Less Funds not Required to be Budgeted” since these are intra agency transactions not required to be budgeted. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$2,815,737. The budget amendment is reflected in the final budgeted amounts.

Disbursements during the year ended June 30, 2007 did not exceed the amounts budgeted.

**Other Supplementary Information**

City of Hiawatha

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

As of and for the year ended June 30, 2007

	Road Use Tax	Employee Benefits	Special Police Forfeiture
Receipts:			
Property tax	\$ -	385,240	-
Other city tax	-	4,771	-
Use of money and property	-	-	-
Intergovernmental	541,491	-	-
Miscellaneous	-	-	2,937
Total receipts	541,491	390,011	2,937
Disbursements:			
Operating:			
Public safety	-	253,297	50
Public works	521,605	-	-
Culture and recreation	-	70,638	-
General government	-	65,562	-
Total disbursements	521,605	389,497	50
Excess (deficiency) of receipts over (under) disbursements	19,886	514	2,887
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	(62,750)	-	-
Total other financing sources (uses)	(62,750)	-	-
Net change in cash balances	(42,864)	514	2,887
Cash balances beginning of year	86,517	33,902	3,783
Cash balances end of year	\$ 43,653	34,416	6,670
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special revenue funds	\$ 43,653	34,416	6,670

See accompanying independent auditor's report.

Revenue			
Fire Department Trust	K-9 Donations	Equipment Reserve	Total
-	-	-	385,240
-	-	-	4,771
-	-	20,229	20,229
-	-	-	541,491
3,090	500	22,621	29,148
3,090	500	42,850	980,879
500	817	38,716	293,380
-	-	-	521,605
-	-	-	70,638
-	-	-	65,562
500	817	38,716	951,185
2,590	(317)	4,134	29,694
-	-	102,500	102,500
-	-	-	(62,750)
-	-	102,500	39,750
2,590	(317)	106,634	69,444
3,504	8,420	420,149	556,275
6,094	8,103	526,783	625,719
6,094	8,103	526,783	625,719

City of Hiawatha  
 Schedule of Indebtedness  
 Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Capital loan note series 2001	Jun 15, 2001	4.50-4.60%	\$ 995,000
Capital loan note series 2002	Jul 1, 2002	2.85-4.20	995,000
Capital loan note series 2003	Apr 1, 2003	1.50-3.55	1,980,000
Capital loan note series 2004	May 1, 2004	1.40-3.85	2,160,000
Capital loan note series 2005	Mar 1, 2005	2.50-3.70	2,930,000
Capital loan note series 2006	May 1, 2006	3.750-3.875	2,995,000
Total			
General obligation bonds:			
Series 1998A	Dec 1, 1998	4.00-4.20%	\$ 1,200,000
Municipal equipment and improvements Series 2006B	Jun 1, 2000	5.55-5.65	1,300,000
	Sep 1, 2006	4.00	5,500,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
555,000	-	100,000	455,000	24,480
645,000	-	95,000	550,000	25,077
1,145,000	-	150,000	995,000	33,992
1,390,000	-	300,000	1,090,000	42,680
2,600,000	-	375,000	2,225,000	84,767
2,995,000	-	245,000	2,750,000	122,521
<b>\$ 9,330,000</b>	-	1,265,000	8,065,000	333,517
405,000	-	130,000	275,000	16,812
605,000	-	140,000	465,000	33,742
-	5,500,000	-	5,500,000	165,000
<b>\$ 1,010,000</b>	5,500,000	270,000	6,240,000	215,554

City of Hiawatha  
 Bond and Note Maturities  
 June 30, 2007

Year Ending June 30,	Capital Loan Note Series 2001 Issued Jun 15, 2001		Capital Loan Note Series 2002 Issued Jul 1, 2002		General Obligation Notes Capital Loan Note Series 2003 Issued Apr 1, 2003	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2008	4.30%	\$ 105,000	3.65%	\$ 100,000	2.40%	\$ 155,000
2009	4.40	110,000	3.85	105,000	2.75	160,000
2010	4.50	115,000	4.00	110,000	3.00	165,000
2011	4.60	125,000	4.10	115,000	3.35	165,000
2012		-	4.20	120,000	3.40	170,000
2013		-		-	3.55	180,000
2014		-		-		-
2015		-		-		-
2016		-		-		-
Total		<u>\$ 455,000</u>		<u>\$ 550,000</u>		<u>\$ 995,000</u>

See accompanying independent auditor's report.

Capital Loan Note Series 2004 Issued May 1, 2004		Capital Loan Note Series 2005 Issued Mar 1, 2005		Capital Loan Note Series 2006 Issued May 1, 2006		Total
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2.55%	\$ 145,000	2.875%	\$ 380,000	3.750%	\$ 260,000	1,145,000
2.80	145,000	3.050	240,000	3.750	270,000	1,030,000
3.10	150,000	3.200	245,000	3.750	280,000	1,065,000
3.35	155,000	3.300	255,000	3.750	295,000	1,110,000
3.55	160,000	3.500	265,000	3.750	305,000	1,020,000
3.70	165,000	3.600	270,000	3.750	315,000	930,000
3.85	170,000	3.650	280,000	3.750	330,000	780,000
	-	3.700	290,000	3.850	340,000	630,000
	-		-	3.875	355,000	355,000
	<u>\$ 1,090,000</u>		<u>\$ 2,225,000</u>		<u>\$ 2,750,000</u>	<u>8,065,000</u>

**Schedule 3**

City of Hiawatha  
Bond and Note Maturities  
June 30, 2007

General Obligation Bonds							
Year Ending June 30,	Series 1998A Issued Dec 1, 1998		Municipal Equipment and Improvements Issued Jun 1, 2000		Series 2006B Issued Sep 1, 2006		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2008	4.15%	\$ 135,000	5.55%	\$ 145,000	4.00%	\$ 200,000	480,000
2009	4.20	140,000	5.55	155,000	4.00	210,000	505,000
2010		-	5.65	165,000	4.00	215,000	380,000
2011		-		-	4.00	225,000	225,000
2012		-		-	4.00	235,000	235,000
2013		-		-	4.00	245,000	245,000
2014		-		-	4.00	250,000	250,000
2015		-		-	4.00	260,000	260,000
2016		-		-	4.00	270,000	270,000
2017		-		-	4.00	280,000	280,000
2018		-		-	4.00	295,000	295,000
2019		-		-	4.00	305,000	305,000
2020		-		-	4.00	315,000	315,000
2021		-		-	4.00	330,000	330,000
2022		-		-	4.00	345,000	345,000
2023		-		-	4.00	355,000	355,000
2024		-		-	4.00	370,000	370,000
2025		-		-	4.00	390,000	390,000
2026		-		-	4.00	405,000	405,000
Total		<u>\$ 275,000</u>		<u>\$ 465,000</u>		<u>\$ 5,500,000</u>	<u>6,240,000</u>

See accompanying independent auditor's report.

## City of Hiawatha

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Five Years

	2007	2006	2005	2004	2003
Receipts:					
Property tax	\$ 2,962,630	2,823,023	2,534,194	2,113,627	1,918,938
Tax increment financing	1,259,141	1,074,664	1,740,411	1,420,403	1,505,996
Other city tax	110,527	95,052	98,650	131,656	685,654
Licenses and permits	165,811	148,478	150,730	144,275	130,544
Use of money and property	480,339	227,022	111,865	59,232	63,679
Intergovernmental	846,729	1,361,067	707,753	963,519	727,261
Charges for service	155,341	135,417	36,516	51,259	42,332
Special assessments	978	985	84,147	140	101,715
Miscellaneous	125,004	122,790	109,488	130,654	99,050
Total	\$ 6,106,500	5,988,498	5,573,754	5,014,765	5,275,169
Disbursements:					
Operating:					
Public safety	\$ 1,559,729	1,491,960	1,365,250	1,025,310	802,089
Public works	556,117	564,141	434,043	423,936	412,802
Culture and recreation	613,194	575,425	514,466	406,993	372,715
Community and economic development	238,221	232,505	590,473	696,232	731,619
General government	810,410	785,661	651,414	654,196	599,362
Debt service	2,087,763	1,721,654	1,911,863	2,024,166	1,752,589
Capital projects	5,739,313	3,033,380	1,973,326	2,664,191	770,297
Total	\$ 11,604,747	8,404,726	7,440,835	7,895,024	5,441,473

See accompanying independent auditor's report.

**City of Hiawatha**



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hiawatha, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 12, 2007. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

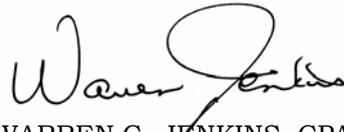
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

October 12, 2007

City of Hiawatha  
Schedule of Findings  
Year ended June 30, 2007

**Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

No material weaknesses in internal control over financial reporting were noted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2007 did not exceed the amounts 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 City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council 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 City’s investment policy were noted.

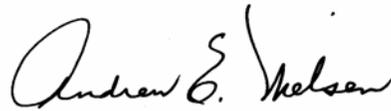
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City of Hiawatha

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager  
John G. Vanis, CGFM, Senior Auditor  
Brad A. Meisterling, Staff Auditor  
Brian E. Aronson, Intern

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State