



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

December 22, 2008

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 \$11,740,968 for the year ended June 30, 2008, a 4 percent decrease from 2007. The receipts included \$3,414,573 in property tax, \$1,478,473 from tax increment financing, \$1,058,380 from charges for service, \$799,097 from operating grants, contributions and restricted interest, \$126,120 from capital grants, contributions and restricted interest, \$80,704 from unrestricted interest on investments, \$4,674,008 from note proceeds, \$27,750 from other general receipts and \$81,863 from component unit transfers.

Disbursements for the year totaled \$15,365,833, a 25 percent increase over the prior year, and included \$7,246,612 for capital projects, \$3,359,489 for debt service and \$1,735,730 for public safety. Also, disbursements for business type activities totaled \$691,593.

The decrease in receipts is due primarily to receiving fewer capital grants in 2008. In addition, the note proceeds received in 2008 for refunding prior note issues were approximately \$800,000 less than the bond proceeds received in 2007 for the construction of a new city hall. The significant increase in disbursements is due primarily to increased capital projects activity, such as the new city hall and the Cedar Point Road projects.

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

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CITY OF HIAWATHA

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

JUNE 30, 2008

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City of Hiawatha

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2008)		
Thomas C. Patterson	Mayor	Jan 2008
Richard Olson	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	Deceased
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
Sandy Brewer	Water Board Chairperson	Jan 2011
Charles Fridal	Water Board Trustee	Jan 2009
James Lavenz	Water Board Trustee	Jan 2010
Robert Rampulla	Water Board Trustee	Jan 2012
Richard Larson	Water Board Trustee	Jan 2014
Carl Ransford	Water Superintendent	Indefinite
Debra Larson	Billing Clerk	Indefinite
Sara Ries	Assistant Billing Clerk	Indefinite

City of Hiawatha

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(After January 2008)		
Thomas A. Theis	Mayor	Jan 2012
Linda J. Bendixen	Mayor Pro tem	Jan 2012
Martin Bruns	Council Member	Jan 2010
Robert Rampulla (Appointed)	Council Member	Nov 2009
Richard Olson	Council Member	Jan 2012
Nancy Melsa	Council Member	Jan 2012
Dave Van Dee	City Administrator	Indefinite
Laurie A. Hebl	Finance Director	Indefinite
Kimberly Downs	City Clerk	Indefinite
Cindy Kudrna	Deputy Clerk	Indefinite
Randal Scholer	City Attorney	Indefinite
Sandra Brewer	Water Board Chairperson	Jan 2011
Charles Fridal	Water Board Trustee	Jan 2009
Troy Anderson	Water Board Trustee	Jan 2010
Bev Daws	Water Board Trustee	Jan 2012
Richard Larson	Water Board Trustee	Jan 2014
Carl Ransford	Water Superintendent	Indefinite
Debra Larson	Billing Clerk	Indefinite
Sara Ries	Assistant Billing Clerk	Indefinite



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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, 2008, 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.

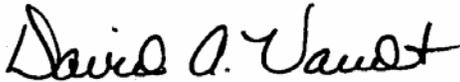
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

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, 2008, 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.

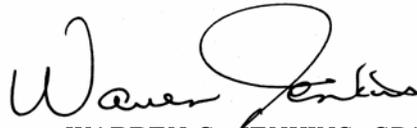
In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2008 on our consideration of the City of Hiawatha's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 five years ended June 30, 2007 (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 21, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Receipts for the City's governmental activities decreased 5%, or approximately \$544,000, from fiscal 2007 to fiscal 2008. The main contributing factors for the decrease are a reduction in operating and capital grants, contributions and restricted interest of approximately \$307,000 and a reduction in note/bond proceeds of approximately \$800,000.
- Disbursements for the City's governmental activities increased 26%, or approximately \$3,069,000, in fiscal 2008 over fiscal year 2007. The main contributing factors for this increase was an increase in capital projects activity of approximately \$1,507,000 and an increase in debt service of approximately \$1,272,000.
- The City's total cash basis net assets decreased 49%, or approximately \$3,625,000, from June 30, 2007 to June 30, 2008. Of this amount, the net assets of the governmental activities decreased approximately \$3,462,000 and the net assets of the business type activities decreased approximately \$163,000.

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.

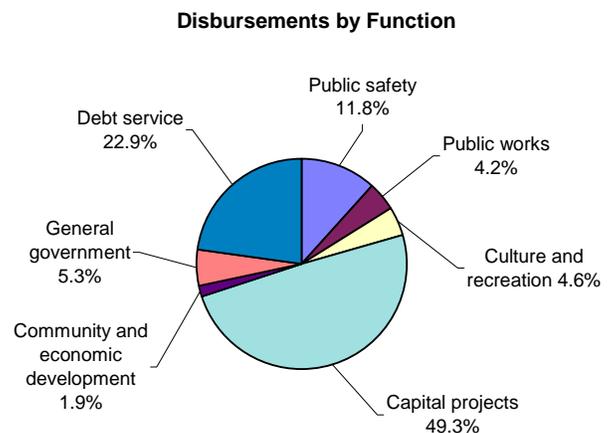
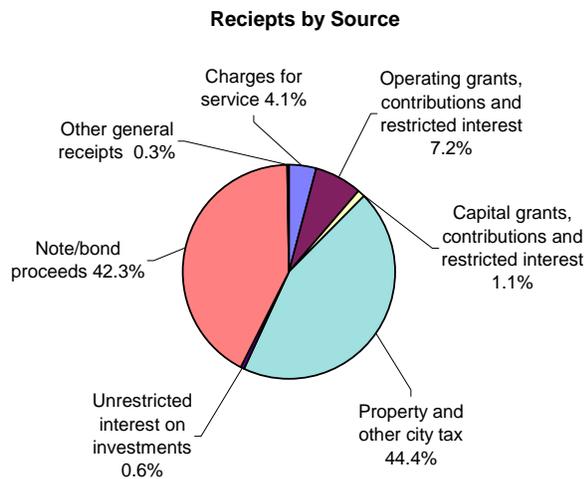
2) Proprietary funds account for the City's Enterprise Fund. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide information for the Sewer Revenue Fund, considered to be a major fund of the City.

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 decreased approximately \$3,462,000 from a year ago, from \$6,761,603 to \$3,299,829. 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,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service	\$ 455,542	409,371
Operating grants, contributions and restricted interest	799,097	841,735
Capital grants, contributions and restricted interest	126,120	390,358
General receipts:		
Property and other city tax	4,893,046	4,332,300
Unrestricted interest on investments	62,990	113,295
Note/bond proceeds	4,674,008	5,475,922
Other general receipts	27,750	19,441
Total receipts	11,038,553	11,582,422
Disbursements:		
Public safety	1,735,730	1,559,729
Public works	611,525	556,117
Culture and recreation	670,286	613,194
Community and economic development	278,561	238,221
General government	772,037	810,410
Debt service	3,359,489	2,087,763
Capital projects	7,246,612	5,739,313
Total disbursements	14,674,240	11,604,747
Increase (decrease) in cash basis net assets before transfers	(3,635,687)	(22,325)
Transfers, net	173,913	41,887
Increase (decrease) in cash basis net assets	(3,461,774)	19,562
Cash basis net assets beginning of year	6,761,603	6,742,041
Cash basis net assets end of year	\$ 3,299,829	6,761,603



The City's total receipts for governmental activities decreased 5%, or approximately \$544,000. The total cost of all programs and services increased approximately \$3,069,000. The decrease in receipts was primarily the result of a decrease in operating and capital grants, contributions and restricted interest and a decrease in the amount of note proceeds received in 2008 compared to bond proceeds received in 2007. The increase in disbursements was primarily due to an increase in capital projects activity over FY07.

The cost of all governmental activities this year was \$14,674,240. However, as shown in the Statement of Activities and Net Assets, the amount financed by taxes for these activities was \$4,893,046, with the remainder paid for with user fees, grants, contributions, interest on investments, fund balances and note proceeds.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 602,838	576,644
General receipts:		
Unrestricted interest on investments	17,714	25,286
Total receipts	620,552	601,930
Disbursements:		
Sewer	691,593	649,366
Decrease in cash basis net assets before transfers	(71,041)	(47,436)
Transfers, net	(92,050)	19,200
Decrease in cash basis net assets	(163,091)	(28,236)
Cash basis net assets beginning of year	610,198	638,434
Cash basis net assets end of year	\$ 447,107	610,198

The business type activities receipts for the fiscal year were \$620,552 compared to \$601,930 last year. Disbursements for the fiscal year increased 7% to \$691,593. The increase in disbursements was due to Dry Creek basin repairs totaling \$172,000 and an increase of approximately \$22,000 for sewer monitoring projects occurring in 2008. In addition, the City's sewer and operation maintenance contract with the City of Cedar Rapids decreased \$156,000 to \$382,000 due to less demand on the sewer system. The Sewer Revenue Fund also transferred \$105,000 to the Capital Projects Fund for the Public Works Facility project. As a result of these items, the cash balance decreased 27%, or \$163,091, 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 \$3,299,829, a decrease of approximately \$3,462,000 from 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 decreased \$86,364 from the prior year to \$886,839. This decrease can be attributed to an increase in staff for the police department, the fire department, the ambulance service and building and housing department.
- The Special Revenue, Urban Renewal Tax Increment Fund had a cash balance of \$115,363 at the end of the fiscal year, which represents a decrease of \$45,904 from the previous year. The decrease was the result of tax increment financing collections used to pay an increase in TIF rebate agreements in 2008 over 2007.

- The Special Revenue, Equipment Reserve Fund had a cash balance of \$580,987 at the end of the fiscal year, which represents an increase of \$54,204 from the previous year. The increase is due to the contributions from City departments to be used to purchase city vehicles and equipment in the future exceeding the vehicle and equipment purchases in fiscal year 2008.
- The Debt Service Fund cash balance increased \$3,787 to \$10,595 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 2008 total cash balance for the Capital Projects Fund was \$1,565,329, a decrease of \$3,429,277 under the prior year. The main contributing factor to this significant decrease is the difference between the fiscal year 2008 costs associated with various capital project activities, such as the new city hall and the Cedar Point Road projects, and the long-term debt proceeds for those projects received in prior fiscal years.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Revenue Fund cash balance decreased 27% to \$447,107 due to reconstruction projects included in the City’s capital improvement plan and the purchase of a new truck for the Hiawatha Water Department.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended the budget once. The amendment was approved on May 9, 2008. The amendment resulted in an increase in operating disbursements of \$2,476,989 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 \$187,134 more than budgeted. This was primarily due to the City under budgeting in the areas of tax increment financing, use of money and property and miscellaneous receipts.

Total disbursements were \$1,000,476 less than the amended budget. The actual disbursements for the public safety, capital projects and business type activities functions were \$73,119, \$711,165 and \$79,750, respectively, less than the amended budget. This was primarily due to road work not progressing as anticipated and city hall projects not completed.

The City exceeded the amount budgeted in the debt service function for the year ended June 30, 2008 due to debt obligations exceeding the amount budgeted.

DEBT ADMINISTRATION

At June 30, 2008, the City had \$16,260,000 in general obligation capital loan notes and bonds outstanding, compared to \$14,305,000 last year.

Debt increased as a result of issuing two general obligation capital loan notes, one of which was used to refund two general obligation capital loan notes and one general obligation bond issue.

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 \$16,260,000 is significantly below its constitutional debt limit of approximately \$20,990,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Hiawatha's elected officials considered many factors when setting the fiscal year 2009 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, 2008 was 3.9% versus 3.6% percent a year ago. This compares with the State's unemployment rate of 4.0% and the national rate of 5.5% percent.

The Consumer Price Index for urban consumers in June, 2008 was 5.0% higher than the previous year.

These indicators were taken into account when adopting the budget for fiscal year 2009. Total projected revenues, including beginning balances available for appropriation in the budget, are \$13,746,077, an increase of 11% from the final 2008 budget. This revenue increase is primarily attributable to increases in the tax base 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 32% to \$11,731,421 from the final 2008 budget. The City has added no major new programs to the 2009 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 \$1,440,925 by the close of fiscal year 2009. However, actual fiscal year 2008 ending balances exceeded the budgeted figures by \$1,173,651. Therefore, taking this into account, the net result is a decrease of \$267,274 with sufficient balances remaining.

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, 2008

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,735,730	396,829	17,357	-
Public works	611,525	6,440	646,127	-
Culture and recreation	670,286	48,016	107,967	-
Community and economic development	278,561	-	-	-
General government	772,037	4,257	-	-
Debt service	3,359,489	-	15,771	126,120
Capital projects	7,246,612	-	11,875	-
Total governmental activities	14,674,240	455,542	799,097	126,120
Business type activities:				
Sewer	691,593	602,838	-	-
Total primary government	\$ 15,365,833	1,058,380	799,097	126,120
Component unit:				
Hiawatha Waterworks	\$ 933,404	853,157	-	-
General Receipts:				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Unrestricted interest on investments				
Note proceeds				
Miscellaneous				
Component unit and other 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				
Cash Basis Net Assets				
Restricted:				
Sewer and storm water fees				
Customer water deposits				
Capital projects				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

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			
(1,321,544)	-	(1,321,544)	-	
41,042	-	41,042	-	
(514,303)	-	(514,303)	-	
(278,561)	-	(278,561)	-	
(767,780)	-	(767,780)	-	
(3,217,598)	-	(3,217,598)	-	
(7,234,737)	-	(7,234,737)	-	
(13,293,481)	-	(13,293,481)	-	
-	(88,755)	(88,755)	-	
(13,293,481)	(88,755)	(13,382,236)	-	
-	-	-	(80,247)	
2,482,076	-	2,482,076	-	
1,478,473	-	1,478,473	-	
932,497	-	932,497	-	
62,990	17,714	80,704	32,313	
4,674,008	-	4,674,008	-	
27,750	-	27,750	-	
173,913	(92,050)	81,863	(81,863)	
9,831,707	(74,336)	9,757,371	(49,550)	
(3,461,774)	(163,091)	(3,624,865)	(129,797)	
6,761,603	610,198	7,371,801	699,148	
\$ 3,299,829	447,107	3,746,936	569,351	
\$ -	-	-	14,582	
-	-	-	117,261	
1,565,329	-	1,565,329	-	
54,135	-	54,135	-	
115,363	-	115,363	-	
10,595	-	10,595	-	
667,568	110,899	778,467	-	
886,839	336,208	1,223,047	437,508	
\$ 3,299,829	447,107	3,746,936	569,351	

City of Hiawatha

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

As of and for the year ended June 30, 2008

	Special Revenue		
	General	Urban Renewal Tax Increment	Equipment Reserve
Receipts:			
Property tax	\$ 1,890,556	-	-
Tax increment financing	-	1,478,473	-
Other city tax	101,177	-	-
Licenses and permits	169,797	-	-
Use of money and property	82,777	-	20,569
Intergovernmental	117,840	-	-
Charges for service	203,131	-	-
Special assessments	-	-	-
Miscellaneous	81,280	-	68,942
Total receipts	<u>2,646,558</u>	<u>1,478,473</u>	<u>89,511</u>
Disbursements:			
Operating:			
Public safety	1,366,126	-	65,089
Public works	36,924	-	92,968
Culture and recreation	578,399	-	-
Community and economic development	62	278,499	-
General government	699,411	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>2,680,922</u>	<u>278,499</u>	<u>158,057</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(34,364)</u>	<u>1,199,974</u>	<u>(68,546)</u>
Other financing sources (uses):			
Note proceeds, net of \$25,992 discount	-	-	-
Operating transfers in	-	-	119,500
Operating transfers out	(52,000)	(1,245,878)	-
Component unit transfers in	-	-	3,250
Total other financing sources (uses)	<u>(52,000)</u>	<u>(1,245,878)</u>	<u>122,750</u>
Net change in cash balances	(86,364)	(45,904)	54,204
Cash balances beginning of year	973,203	161,267	526,783
Cash balances end of year	<u>\$ 886,839</u>	<u>115,363</u>	<u>580,987</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	886,839	-	-
Special revenue funds	-	115,363	580,987
Capital projects fund	-	-	-
Total cash basis fund balances	<u>\$ 886,839</u>	<u>115,363</u>	<u>580,987</u>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
923,204	-	484,904	3,298,664
-	-	-	1,478,473
9,293	-	5,439	115,909
-	-	-	169,797
15,770	125,119	1,073	245,308
-	-	556,615	674,455
-	-	-	203,131
1,001	-	-	1,001
-	18,675	8,910	177,807
949,268	143,794	1,056,941	6,364,545
-	-	304,515	1,735,730
-	-	481,633	611,525
-	-	91,887	670,286
-	-	-	278,561
-	-	72,626	772,037
3,359,489	-	-	3,359,489
-	7,246,612	-	7,246,612
3,359,489	7,246,612	950,661	14,674,240
(2,410,221)	(7,102,818)	106,280	(8,309,695)
1,127,967	3,546,041	-	4,674,008
1,245,878	105,000	-	1,470,378
-	-	(64,500)	(1,362,378)
40,163	22,500	-	65,913
2,414,008	3,673,541	(64,500)	4,847,921
3,787	(3,429,277)	41,780	(3,461,774)
6,808	4,994,606	98,936	6,761,603
10,595	1,565,329	140,716	3,299,829
10,595	-	-	10,595
-	-	-	886,839
-	-	140,716	837,066
-	1,565,329	-	1,565,329
10,595	1,565,329	140,716	3,299,829

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, 2008

	<u>Enterprise</u>
	Sewer
	<u>Revenue</u>
Operating receipts:	
Charges for service	\$ 602,838
Operating disbursements:	
Business type activities	<u>691,593</u>
Deficiency of operating receipts under operating disbursements	(88,755)
Non-operating receipts:	
Interest on investments	<u>17,714</u>
Deficiency of receipts under disbursements	<u>(71,041)</u>
Other financing sources (uses):	
Component unit transfers in	15,950
Operating transfer in	7,500
Operating transfer out	<u>(115,500)</u>
Total other financing sources (uses)	<u>(92,050)</u>
Net change in cash balances	(163,091)
Cash balances beginning of year	<u>610,198</u>
Cash balances end of year	<u>\$ 447,107</u>
Cash Basis Fund Balances	
Reserved for vehicle/equipment purchases	\$ 110,899
Unreserved	<u>336,208</u>
Total cash basis fund balances	<u>\$ 447,107</u>

See notes to financial statements.

City of Hiawatha

Notes to Financial Statements

June 30, 2008

(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 Special Revenue, Equipment Reserve Fund is used to purchase City vehicles and equipment.

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, 2008, disbursements exceeded the amount budgeted in the debt service function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 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 \$3,495,000 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
2009	\$ 1,420,000	382,552	350,000	217,880	1,770,000	600,432
2010	1,590,000	329,579	215,000	203,600	1,805,000	533,179
2011	1,420,000	280,376	225,000	195,000	1,645,000	475,376
2012	1,365,000	233,134	235,000	186,000	1,600,000	419,134
2013	1,295,000	185,554	245,000	176,600	1,540,000	362,154
2014 - 2018	3,730,000	338,961	1,355,000	730,000	5,085,000	1,068,961
2019 - 2023	-	-	1,650,000	436,200	1,650,000	436,200
2024 - 2026	-	-	1,165,000	94,600	1,165,000	94,600
Total	\$10,820,000	1,750,156	5,440,000	2,239,880	16,260,000	3,990,036

In April 2008, the City issued \$2,100,000 of general obligation capital loan notes. The City used \$1,470,000 of the proceeds of the notes to retire the outstanding balances of the 2001 general obligation capital loan notes of \$455,000, the 2002 general obligation capital loan notes of \$550,000 and the 2000 general obligation bonds of \$465,000.

The City refunded the notes/bonds to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$26,533.

During the year ended June 30, 2008, the City retired \$2,745,000 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 3.90% of their annual covered salary and the City is required to contribute 6.05% 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, 2008, 2007 and 2006 were \$131,894, \$113,642 and \$113,771, 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, 2008, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 101,700
Sick leave	<u>15,900</u>
Total	<u>\$ 111,600</u>

This liability has been computed based on rates of pay in effect at June 30, 2008.

(6) Construction Contracts

The City entered into various construction contracts during the year. Unpaid contract commitments as of June 30, 2008 totaled \$1,114,947, which will be paid as work on the projects progresses.

(7) Rebate Agreements

The City has nine 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 tax increment financing agreements is not to exceed \$361,691. The actual amount rebated during the year ended June 30, 2008 was \$257,621.

(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, 2008 totaled \$382,483.

(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 \$1,559,880 is outstanding at June 30, 2008. 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 563 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 200 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, 2008 were \$71,455.

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 \$10,000,000 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, 2008, 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, 2008 is as follows:

Transfer to	Transfer from	Amount
Enterprise:		
Sewer Revenue	General	\$ 7,500
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	1,245,878
Capital Projects	Enterprise:	
	Sewer Revenue	105,000
Special Revenue:		
Equipment Reserve	General	44,500
	Special Revenue:	
	Road Use Tax	64,500
	Enterprise:	
	Sewer Revenue	10,500
		119,500
Total		\$ 1,477,878
<u>Transfers from component unit:</u>		
Debt Service	Water Operating	\$ 40,163
Special Revenue:		
Equipment Reserve	Water Operating	3,250
Capital Projects	Water Operating	22,500
Enterprise:		
Sewer Revenue	Water Operating	15,950
Total		\$ 81,863

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

In September 2008, the City entered into a construction contract for \$448,880 for a Mitchell Drive pump station and force main extension/bypass project. In October 2008, the City also entered into a construction contract for \$90,850 for an 8th Avenue water main and sub-drain project.

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, 2008

	Governmental Funds Actual	Proprietary Fund Actual	Component Unit Actual
Receipts:			
Property tax	\$ 3,298,664	-	-
Tax increment financing	1,478,473	-	-
Other city tax	115,909	-	-
Licenses and permits	169,797	-	-
Use of money and property	245,308	17,714	32,313
Intergovernmental	674,455	-	-
Charges for service	203,131	602,838	1,366,129
Special assessments	1,001	-	-
Miscellaneous	177,807	-	89,836
Total receipts	6,364,545	620,552	1,488,278
Disbursements:			
Public safety	1,735,730	-	-
Public works	611,525	-	-
Culture and recreation	670,286	-	-
Community and economic development	278,561	-	-
General government	772,037	-	-
Debt service	3,359,489	-	-
Capital projects	7,246,612	-	-
Business type activities	-	691,593	1,536,212
Total disbursements	14,674,240	691,593	1,536,212
Excess (deficiency) of receipts over (under) disbursements	(8,309,695)	(71,041)	(47,934)
Other financing sources (uses), net	4,847,921	(92,050)	(81,863)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(3,461,774)	(163,091)	(129,797)
Balances beginning of year	6,761,603	610,198	699,148
Balances end of year	\$ 3,299,829	447,107	569,351

See accompanying independent auditor's report.

Less Funds not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
		Original	Final	
-	3,298,664	3,266,207	3,266,207	32,457
-	1,478,473	1,413,829	1,413,829	64,644
-	115,909	97,124	112,124	3,785
-	169,797	138,950	164,250	5,547
-	295,335	201,385	262,033	33,302
-	674,455	834,619	676,750	(2,295)
603,412	1,568,686	1,560,128	1,554,893	13,793
-	1,001	-	1,000	1
-	267,643	156,771	231,743	35,900
603,412	7,869,963	7,669,013	7,682,829	187,134
-	1,735,730	1,764,866	1,808,849	73,119
-	611,525	559,625	655,378	43,853
-	670,286	735,275	711,671	41,385
-	278,561	283,900	287,821	9,260
-	772,037	842,500	814,043	42,006
-	3,359,489	2,179,635	3,359,427	(62)
-	7,246,612	6,558,000	7,957,777	711,165
602,808	1,624,997	1,898,923	1,704,747	79,750
602,808	16,299,237	14,822,724	17,299,713	1,000,476
604	(8,429,274)	(7,153,711)	(9,616,884)	1,187,610
-	4,674,008	2,938,000	4,673,989	19
604	(3,755,266)	(4,215,711)	(4,942,895)	1,187,629
13,978	8,056,971	6,382,530	8,070,949	(13,978)
14,582	4,301,705	2,166,819	3,128,054	1,173,651

City of Hiawatha

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

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, including the discretely presented component unit. 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 \$2,476,989. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amount budgeted in the debt service function.

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, 2008

	Road	Employee	Special
	Use	Benefits	Police
	Tax		Forfeiture
Receipts:			
Property tax	\$ -	484,904	-
Other city tax	-	5,439	-
Use of money and property	-	912	-
Intergovernmental	556,615	-	-
Miscellaneous	-	-	5,484
Total receipts	556,615	491,255	5,484
Disbursements:			
Operating:			
Public safety	-	291,734	9,999
Public works	481,633	-	-
Culture and recreation	-	91,887	-
General government	-	72,626	-
Total disbursements	481,633	456,247	9,999
Excess (deficiency) of receipts over (under) disbursements	74,982	35,008	(4,515)
Operating transfers out	(64,500)	-	-
Net change in cash balances	10,482	35,008	(4,515)
Cash balances beginning of year	43,653	34,416	6,670
Cash balances end of year	\$ 54,135	69,424	2,155
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 54,135	69,424	2,155

See accompanying independent auditor's report.

Revenue		
Fire		
Department	K-9	
Trust	Donations	Total
-	-	484,904
-	-	5,439
161	-	1,073
-	-	556,615
3,426	-	8,910
3,587	-	1,056,941
1,406	1,376	304,515
-	-	481,633
-	-	91,887
-	-	72,626
1,406	1,376	950,661
2,181	(1,376)	106,280
-	-	(64,500)
2,181	(1,376)	41,780
6,094	8,103	98,936
8,275	6,727	140,716
8,275	6,727	140,716

City of Hiawatha
 Schedule of Indebtedness
 Year ended June 30, 2008

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
Capital loan note series 2007	Nov 1, 2007	3.45-3.75	2,600,000
Capital loan note series 2008	Apr 1, 2008	2.40-3.80	2,100,000
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
455,000	-	455,000	-	20,280
550,000	-	550,000	-	21,848
995,000	-	155,000	840,000	30,768
1,090,000	-	145,000	945,000	35,930
2,225,000	-	380,000	1,845,000	74,445
2,750,000	-	260,000	2,490,000	103,909
-	2,600,000	-	2,600,000	54,791
-	2,100,000	-	2,100,000	-
\$ 8,065,000	4,700,000	1,945,000	10,820,000	341,971
275,000	-	135,000	140,000	11,483
465,000	-	465,000	-	25,973
5,500,000	-	200,000	5,300,000	220,000
\$ 6,240,000	-	800,000	5,440,000	257,456

City of Hiawatha
 Bond and Note Maturities
 June 30, 2008

Year Ending June 30,	Capital Loan Note Series 2003 <u>Issued Apr 1, 2003</u>		Capital Loan Note Series 2004 <u>Issued May 1, 2004</u>		Capital Loan Note Series 2005 <u>Issued Mar 1, 2005</u>	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2009	2.75%	\$ 160,000	2.80%	\$ 145,000	3.050%	\$ 240,000
2010	3.00	165,000	3.10	150,000	3.200	245,000
2011	3.35	165,000	3.35	155,000	3.300	255,000
2012	3.40	170,000	3.55	160,000	3.500	265,000
2013	3.55	180,000	3.70	165,000	3.600	270,000
2014		-	3.85	170,000	3.650	280,000
2015		-		-	3.700	290,000
2016		-		-		-
2017		-		-		-
2018		-		-		-
Total		<u>\$ 840,000</u>		<u>\$ 945,000</u>		<u>\$ 1,845,000</u>

See accompanying independent auditor's report.

General Obligation Notes						
Capital Loan Note Series 2006		Capital Loan Note Series 2007		Capital Loan Note Series 2008		
Issued May 1, 2006		Issued Nov 1, 2007		Issued Apr 1, 2008		
Interest		Interest		Interest		
Rates	Amount	Rates	Amount	Rates	Amount	Total
3.750%	\$ 270,000	3.45%	\$ 220,000	2.40%	\$ 385,000	1,420,000
3.750	280,000	3.50	225,000	2.55	525,000	1,590,000
3.750	295,000	3.50	235,000	2.80	315,000	1,420,000
3.750	305,000	3.55	245,000	3.05	220,000	1,365,000
3.750	315,000	3.60	255,000	3.25	110,000	1,295,000
3.750	330,000	3.625	260,000	3.40	110,000	1,150,000
3.850	340,000	3.65	275,000	3.50	115,000	1,020,000
3.875	355,000	3.70	285,000	3.65	120,000	760,000
	-	3.70	295,000	3.75	100,000	395,000
	-	3.75	305,000	3.80	100,000	405,000
	<u>\$ 2,490,000</u>		<u>\$ 2,600,000</u>		<u>\$ 2,100,000</u>	<u>10,820,000</u>

Schedule 3

City of Hiawatha
Bond and Note Maturities
June 30, 2008

Year Ending June 30,	General Obligation Bonds				
	Series 1998A		Series 2006B		Total
	Issued Dec 1, 1998		Issued Sep 1, 2006		
Interest Rates	Amount	Interest Rates	Amount		
2009	4.20%	\$ 140,000	4.00%	\$ 210,000	350,000
2010		-	4.00	215,000	215,000
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>\$ 140,000</u>		<u>\$ 5,300,000</u>	<u>5,440,000</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 Six Years

	2008	2007	2006	2005	2004	2003
Receipts:						
Property tax	\$ 3,298,664	2,962,630	2,823,023	2,534,194	2,113,627	1,918,938
Tax increment financing	1,487,473	1,259,141	1,074,664	1,740,411	1,420,403	1,505,996
Other city tax	115,909	110,527	95,052	98,650	131,656	685,654
Licenses and permits	169,797	165,811	148,478	150,730	144,275	130,544
Use of money and property	245,308	480,339	227,022	111,865	59,232	63,679
Intergovernmental	674,455	846,729	1,361,067	707,753	963,519	727,261
Charges for service	203,131	155,341	135,417	36,516	51,259	42,332
Special assessments	1,001	978	985	84,147	140	101,715
Miscellaneous	177,807	125,004	122,790	109,488	130,654	99,050
Total	\$ 6,373,545	6,106,500	5,988,498	5,573,754	5,014,765	5,275,169
Disbursements:						
Operating:						
Public safety	\$ 1,735,730	1,559,729	1,491,960	1,365,250	1,025,310	802,089
Public works	611,525	556,117	564,141	434,043	423,936	412,802
Culture and recreation	670,286	613,194	575,425	514,466	406,993	372,715
Community and economic development	278,561	238,221	232,505	590,473	696,232	731,619
General government	772,037	810,410	785,661	651,414	654,196	599,362
Debt service	3,359,489	2,087,763	1,721,654	1,911,863	2,024,166	1,752,589
Capital projects	7,246,612	5,739,313	3,033,380	1,973,326	2,664,191	770,297
Total	\$ 14,674,240	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

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Auditor of State

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of 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, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 21, 2008. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting we consider to be a significant deficiency.

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 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. We consider the deficiency in internal control described in the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is a material weakness.

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. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and 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 21, 2008

City of Hiawatha
Schedule of Findings
Year ended June 30, 2008

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCY:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

For the City, one individual performs the following duties with no independent review:

- (1) Entering payroll rates on the computer system.
- (2) Processing of sick leave and vacation.
- (3) Preparing payroll checks.
- (4) Comparing time records to processed payroll activity.

In addition, compensated absence records are not periodically reviewed by an independent person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review the control procedures to obtain the maximum internal control possible under the circumstances. The City should utilize current personnel and officials to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons and should be evidenced by initials or signature of the reviewer and the date of the review.

Response – The City will review the recommendation and act accordingly.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Hiawatha
Schedule of Findings
Year ended June 30, 2008

Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2008 exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City will amend the budget in accordance with Chapter 384.18 of the Code of Iowa as required.

Conclusion – Response accepted.

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

City of Hiawatha

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Daniel L. Grady, Senior Auditor
Aaron P. Wagner, CPA, Staff Auditor
Rosemary E. Nielsen, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State