

**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

NEWS RELEASE

FOR RELEASE October 14, 2003

Contact: Andy Nielsen
515/281-5515

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

The Waterworks' receipts totaled \$987,861 for the year ended June 30, 2003, a four percent increase from 2002. The receipts included \$892,696 in charges for service and \$30,424 in interest on investments.

Disbursements for the year totaled \$1,006,395, a seven percent decrease from the prior year, which included \$639,574 for operations and improvements and \$366,821 for sewer rental fees remitted to the City of Hiawatha.

A copy of the audit report is available for review in the Office of Auditor of State and the Waterworks' office.

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HIAWATHA WATERWORKS
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2003

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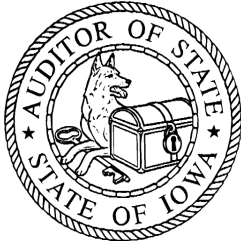
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Hiawatha Waterworks

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Lavenz	Water Board Trustee	Jan 2004
Sandy Brewer	Water Board Trustee	Jan 2005
Darryl Bradley	Water Board Trustee	Jan 2006
Richard Larson	Water Board Trustee	Jan 2007
Charles Fridal	Water Board Trustee	Jan 2009
Carl Ransford	Superintendent	Indefinite
Debra Larson	Billing Clerk	Indefinite
Sara Ries	Assistant Billing Clerk	Indefinite

Hiawatha Waterworks



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Independent Auditor's Report

To the Board of Trustees of the
Hiawatha Waterworks:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the Hiawatha Waterworks, Hiawatha, Iowa, as of and for the year ended June 30, 2003. These financial statements are the responsibility of Waterworks' officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 that our audit provides a reasonable basis for our opinion.

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. Also, as discussed in note 1, the financial statements of the Hiawatha Waterworks are intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Hiawatha that is attributable to the transactions of the Waterworks.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of the cash transactions of the Hiawatha Waterworks as of and for the year ended June 30, 2003 on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 12, 2003 on our consideration of the Hiawatha Waterworks' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

DAVID A. VAUDT, CPA
Auditor of State

August 12, 2003

Hiawatha Waterworks

Financial Statements

Hiawatha Waterworks

Hiawatha Waterworks
 Combined Statement of Cash Transactions
 Enterprise Funds
 Year ended June 30, 2003

	Proprietary Fund Type Enterprise
Receipts:	
Use of money and property	\$ 30,424
Charges for service	892,696
Miscellaneous	64,741
Total receipts	987,861
Disbursements:	
Business Type/Enterprise	1,006,395
Deficiency of receipts under disbursements	(18,534)
Other financing sources (uses):	
Operating transfer in (out):	
Transfers to Primary Government:	
Internal Service:	
Equipment Rental Reserve	(13,688)
Debt Service	(65,798)
Net other financing uses (uses)	(79,486)
Deficiency of receipts and other financing sources under disbursements and other financing uses	(98,020)
Balance beginning of year	638,145
Balance end of year	\$ 540,125

See notes to financial statements.

Hiawatha Waterworks

Comparison of Receipts, Disbursements and Changes in Balances -
Actual to Budget

Year ended June 30, 2003

	<u>Actual</u>
Receipts:	
Use of money and property	\$ 30,424
Charges for service	892,696
Miscellaneous	64,741
Total receipts	<u>987,861</u>
Disbursements:	
Business Type/Enterprise	<u>1,006,395</u>
Deficiency of receipts under disbursements	(18,534)
Other financing uses, net	<u>(79,486)</u>
Deficiency of receipts and other financing sources under disbursements and other financing uses	(98,020)
Balance beginning of year	<u>638,145</u>
Balance end of year	<u><u>\$ 540,125</u></u>

See notes to financial statements.

<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Net as % of Budget</u>
11,325	19,099	269%
901,000	(8,304)	99%
64,260	481	101%
<u>976,585</u>	<u>11,276</u>	<u>101%</u>
<u>1,087,099</u>	<u>80,704</u>	<u>93%</u>
(110,514)		
<u>79,486</u>		
(31,028)		
<u>-</u>		
<u><u>(31,028)</u></u>		

Hiawatha Waterworks

Notes to Financial Statements

June 30, 2003

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Hiawatha Waterworks is a component unit of the City of Hiawatha, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a five-member board of trustees appointed by the City Council, which exercises oversight responsibility under this criteria.

B. Fund Accounting

The accounts of the Waterworks are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and fund balance. The various funds are classified as follows in the financial statements:

Enterprise Funds - The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

C. Basis of Accounting

The Hiawatha Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Waterworks 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.

D. Budgets and Budgetary Accounting

The Hiawatha Waterworks prepares a budget on the cash basis of accounting and submits it to the City Council. 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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities.

(2) Cash and Pooled Investments

The Waterworks' deposits in banks at June 30, 2003 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 members of the pool to insure there will be no loss of public funds.

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

The Waterworks had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 3.

(3) Pension and Retirement Benefits

The Waterworks 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.

Plan members are required to contribute 3.70% of their annual salary and the Waterworks is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Waterworks' contributions to IPERS for the year ended June 30, 2003, 2002 and 2001 were \$14,246, \$15,494 and \$13,720, respectively, equal to the required contributions for each year.

(4) Compensated Absences

Waterworks' employees accumulate a limited amount of earned but unused vacation, compensatory and sick leave hours for subsequent use or for payment upon termination, retirement or death. Sick leave is payable when used or upon voluntary termination or retirement for accumulations in excess of 720 hours.

These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2003, primarily relating to the Enterprise Fund - Water Account, is as follows:

Type of Benefit	Amount
Vacation	\$ 4,100
Sick leave	<u>5,000</u>
Total	<u>\$ 9,100</u>

This liability has been computed based on rates of pay in effect at June 30, 2003.

(5) Risk Management

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

Supplemental Information

Hiawatha Waterworks
 Combining Schedule of Cash Transactions
 Enterprise Funds
 Year ended June 30, 2003

	Water
Receipts:	
Use of money and property:	
Interest on investments	\$ 17,414
Charges for service:	
Sale of water	522,013
Sewer rental fees	-
Storm water fees	-
Miscellaneous	6,258
	528,271
Miscellaneous:	
Penalties	11,575
Projects	-
Sales tax collected	31,267
Customer deposits	5,500
	48,342
Total receipts	594,027
Disbursements:	
Business Type/Enterprise:	
Operations and improvements:	
Administration and billing:	
Personal services	155,777
Contractual services	54,349
Commodities	17,781
	227,907
Repair and maintenance:	
Personal services	66,680
Contractual services	17,669
	84,349
Capital outlay - water main and water line improvements	75,997

Capital Improvements	City Waterworks	Meter Deposit	Total
12,495	-	515	30,424
-	-	-	522,013
-	321,976	-	321,976
-	42,432	-	42,432
-	17	-	6,275
-	364,425	-	892,696
-	361	-	11,936
26	-	-	26
-	212	-	31,479
-	-	15,800	21,300
26	573	15,800	64,741
12,521	364,998	16,315	987,861
-	-	-	155,777
-	-	6,722	61,071
-	-	-	17,781
-	-	6,722	234,629
-	-	-	66,680
-	-	-	17,669
-	-	-	84,349
158,029	-	-	234,026

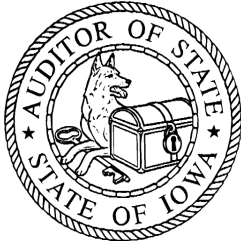
Hiawatha Waterworks
 Combining Schedule of Cash Transactions
 Enterprise Funds
 Year ended June 30, 2003

	Water
Disbursements (continued):	
Operation and distribution:	
Contractual services	71,084
Commodities	15,486
	86,570
Business Type/Enterprise:	
Remittance of sewer rental and storm water fees	-
Total disbursements	474,823
Excess (deficiency) of receipts over (under) disbursements	119,204
Other financing sources (uses):	
Transfers to Primary Government:	
Internal Service:	
Equipment Rental Reserve	(13,688)
Debt Service	(65,798)
Total other financing sources (uses)	(79,486)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	39,718
Balance beginning of year	378,864
Balance end of year	\$ 418,582

See accompanying independent auditor's report.

Capital Improvements	City Waterworks	Meter Deposit	Total
-	-	-	71,084
-	-	-	15,486
-	-	-	86,570
-	366,821	-	366,821
158,029	366,821	6,722	1,006,395
(145,508)	(1,823)	9,593	(18,534)
-	-	-	(13,688)
-	-	-	(65,798)
-	-	-	(79,486)
(145,508)	(1,823)	9,593	(98,020)
229,370	3,709	26,202	638,145
83,862	1,886	35,795	540,125

Hiawatha Waterworks



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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Trustees of the
Hiawatha Waterworks:

We have audited the financial statements of the Hiawatha Waterworks, as of and for the year ended June 30, 2003, and have issued our report thereon dated August 12, 2003. Our report expressed an unqualified opinion 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, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Hiawatha Waterworks' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2003 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Waterworks. 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. Prior year comments involving statutory and other legal matters have all been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hiawatha Waterworks' internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Waterworks' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is considered to be a material weakness. Prior year reportable conditions have been resolved except for item (A).

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Hiawatha Waterworks 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

August 12, 2003

Hiawatha Waterworks

Schedule of Findings

Year ended June 30, 2003

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

(A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One individual has control over one or more of the following areas:

- (1) Accounting/computer system - performance of all accounting and data input functions for cash, investments, receipts, utility collections, disbursements and financial reporting.
- (2) Cash - preparing bank account reconciliations, cash receipt and disbursement functions, handling and recording cash.
- (3) Receipts - billings, collecting, depositing, recording and reconciling.
- (4) Disbursements - check writing, signing, posting and reconciling.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Waterworks should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel and utility officials.

Response - We will have the City of Hiawatha Finance Director check and segregate duties. We will also have the Board review the Internal Control Policy.

Conclusion - Response accepted.

Hiawatha Waterworks

Schedule of Findings

Year ended June 30, 2003

Other Findings Related to Required Statutory Reporting:

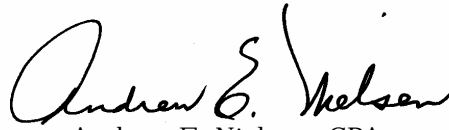
- (1) Official Depositories - A resolution naming official depositories has been approved by the Waterworks Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2003.
- (2) Certified Budget - Disbursements during the year ended June 30, 2003 did not exceed the amount budgeted.
- (3) Questionable Disbursements - No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (4) Travel Expense - No disbursements of Waterworks' money for travel expenses of spouses of Waterworks' officials or employees were noted.
- (5) Business Transactions - No business transactions between the Waterworks and Waterworks' officials or employees were noted.
- (6) Bond Coverage - Surety bond coverage of Waterworks' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- (7) Board Minutes - No transactions were found that we believe should have been approved in the minutes but were not.
- (8) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Waterworks' investment policy were noted.

Hiawatha Waterworks

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager
Kevin P. Riley, CPA, Staff Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State