



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE February 23, 2005

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

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$7,617,379 for the year ended June 30, 2004. The receipts included \$2,271,625 in property tax, \$1,420,403 from tax increment financing, \$596,026 from charges for service, \$683,645 from operating grants, contributions and restricted interest, \$300,411 from capital grants, contributions and restricted interest, \$1,449 from local option sales tax, \$21,184 from unrestricted interest on investments, \$2,150,280 from note proceeds, \$89,363 from other general receipts and \$82,993 from component unit transfers.

Disbursements for the year totaled \$8,407,944, and included \$2,664,191 for capital projects, \$2,024,166 for debt service and \$1,138,553 for public safety. Also, disbursements for business type activities totaled \$293,857.

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

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

JUNE 30, 2004

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City of Hiawatha

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	(Before January 2004)	
Thomas C. Patterson	Mayor	Jan 2006
Steve Armbrecht	Mayor Pro tem	Resigned
Richard Olsen (Appointed)	Council Member	Nov 2003
Dave DeCoste	Council Member	Jan 2004
Stan Cadwallader	Council Member	Jan 2004
Thomas A. Theis	Council Member	Jan 2004
Steve Waller	Council Member	Jan 2004
Dave Van Dee	City Administrator	Indefinite
Laurie A. Hebl	Finance Director	Indefinite
Linda J. Bendixen	City Clerk	Indefinite
Randal Scholer	City Attorney	Indefinite
James Lavenz	Water Board Trustee	Jan 2004
Sandy Brewer	Water Board Trustee	Jan 2005
Darryl Bradley	Water Board Trustee	Jan 2006
Richard Larson (Chairperson)	Water Board Trustee	Jan 2007
Charlie Fridal	Water Board Trustee	Jan 2009
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 2004)		
Thomas C. Patterson	Mayor	Jan 2006
Thomas A. Theis	Mayor Pro tem	Jan 2006
Steve Waller	Council Member	Resigned
Darryl Bradley (Appointed)	Council Member	Jan 2006
Dave DeCoste	Council Member	Jan 2008
Richard Olsen	Council Member	Jan 2008
Nancy Melsa	Council Member	Jan 2008
Dave Van Dee	City Administrator	Indefinite
Laurie A. Hebl	Finance Director	Indefinite
Linda J. Bendixen	City Clerk	Indefinite
Randal Scholer	City Attorney	Indefinite
Darryl Bradley	Water Board Trustee	Resigned
Sandy Brewer	Water Board Trustee	Jan 2005
Robert Rampulla (Appointed)	Water Board Trustee	Jan 2006
Richard Larson	Water Board Trustee	Jan 2007
Charlie Fridal	Water Board Trustee	Jan 2009
James Lavenz (Chairperson)	Water Board Trustee	Jan 2010
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, each major fund and the aggregate remaining fund information of the City of Hiawatha, Iowa, as of and for the year ended June 30, 2004, 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, 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 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.

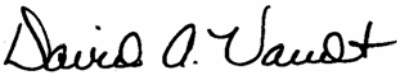
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hiawatha as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.


As described in Note 13, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated October 1, 2004 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 grants. 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.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 32 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed 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 year ended June 30, 2003 (which are not presented herein) and expressed an unqualified opinion on those financial statements. 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 1, 2004

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, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental funds decreased 5%, or approximately \$260,000, from fiscal 2003 to fiscal 2004. The main reason for this decrease was a one-year local option sales tax levy expired in FY03 resulting in a decrease in other city tax in FY04.
- Disbursements of the City's governmental funds increased 45%, or approximately \$2,454,000, in fiscal 2004 from fiscal year 2003. The main reasons for this increase were an increase in capital projects of approximately \$1,900,000, an increase in debt service of approximately \$290,000 and an increase in public safety of approximately \$223,000.
- The City's total cash basis net assets decreased 12%, or approximately \$790,000, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased by approximately \$818,000 and the assets of the business type activities increased by approximately \$28,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

BASIS OF ACCOUNTING

The City 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, the reader 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 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 Waterworks, 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 statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide information for the sewer funds, considered to be a major fund of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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

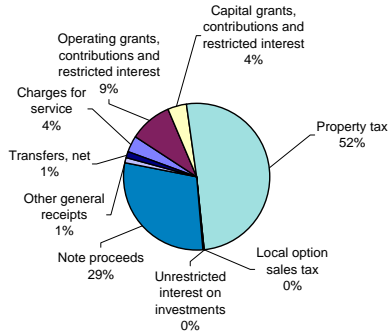
Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

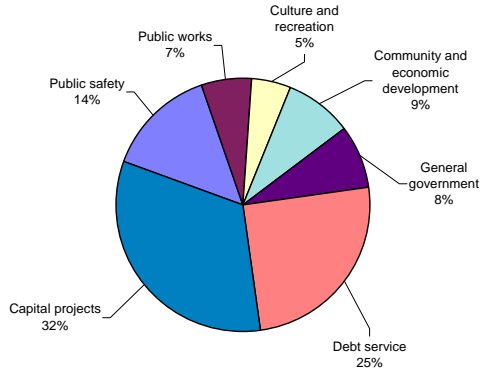
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased \$818,271 from a year ago, from \$5,945,746 to \$5,127,475. The analysis that follows focuses on the changes in cash balances for governmental activities.

<u>Changes in Cash Basis Net Assets of Governmental Activities</u>	
	<u>Year ended June 30, 2004</u>
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 269,631
Operating grants, contributions and restricted interest	683,645
Capital grants, contributions and restricted interest	300,411
General receipts:	
Property tax	3,692,028
Local option sales tax	1,449
Unrestricted interest on investments	16,204
Note proceeds	2,150,280
Other general receipts	89,363
Transfers, net	92,805
Total receipts and transfers	<u>7,295,816</u>
Disbursements:	
Public safety	1,138,553
Public works	529,756
Culture and recreation	406,993
Community and economic development	696,232
General government	654,196
Debt service	2,024,166
Capital projects	2,664,191
Total disbursements	<u>8,114,087</u>
Decrease in cash basis net assets	(818,271)
Cash basis net assets beginning of year	<u>5,945,746</u>
Cash basis net assets end of year	<u>\$ 5,127,475</u>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities decreased by 11%, or approximately \$932,000. The total cost of all programs and services increased by approximately \$2,673,000. The decrease in receipts was primarily the result of the expiration of the local option sales tax levy in the prior fiscal year and less general obligation borrowing in 2004 than in 2003. The increase in disbursements was primarily due to increased capital projects in FY04.

The City increased the property tax rate for 2004 by 1.85%. This increase raised the City's property tax receipts by approximately \$218,000 in 2004. Property tax receipts are budgeted to increase an additional \$311,000 next year.

The cost of all governmental activities this year was \$8,114,087. However, as shown in the Statement of Activities and Net Assets, the amount financed by taxes for these activities was \$3,692,028 with the remainder paid for with user fees, grants, contributions, interest income, fund balances and note proceeds.

<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30, 2004</u>
Receipts:	
Program receipts:	
Charges for service:	
Sewer	\$ 326,395
General receipts:	
Unrestricted interest on investments	4,980
Total receipts	<u>331,375</u>
Disbursements and transfers:	
Sewer	293,857
Transfers, net	9,812
Total disbursements and transfers	<u>303,669</u>
Increase (decrease) in cash balance	27,706
Cash basis net assets beginning of year	<u>634,277</u>
Cash basis net assets end of year	<u>\$ 661,983</u>

Total business type activities receipts for the fiscal year were \$331,375 compared to \$330,005 last year. Disbursements for the fiscal year increased 5% to a total of \$303,669. The cash balance increased 4%, or \$27,706, over 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 \$4,793,424, a decrease of \$779,299 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 \$64,422 from the prior year to \$981,382. This decrease can be attributed to the State's elimination of the property tax credit replacement payment to all Iowa cities beginning in fiscal year 2004.
- The Special Revenue, Urban Renewal Tax Increment Fund had a cash balance of \$992,980 at the end of the fiscal year which represents an increase of \$125,375 over the previous year. The increase was the result of tax collections received from the County due to an increase in TIF indebtedness certified to the County Auditor.
- The Debt Service Fund cash balance decreased by \$107,395 to \$4,729 during the fiscal year. The prior year's balance was significantly impacted by the collection of several special assessments. 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 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 2004 total cash balance for the Capital Projects Fund was \$2,493,566, a decrease of \$765,051 from the prior year. The main contributing factor to this significant decrease is the fact the majority of the 2004 capital projects expenditures were funded through bonds issued in 2003.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance increased slightly (less than 1%) to \$585,852 due to the 2003 maturity of sewer revenue obligations and increases in sewer improvement projects. The City plans to review sewer rates to ensure adequate funding for anticipated sewer maintenance and reconstruction projects.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended the budget once. The amendment was approved on May 19, 2004. The amendment resulted in an increase in operating disbursements related to calling several bond issues that were refinanced and the undertaking of several capital projects. The City had adequate funding to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2004, the City had \$7,450,000 in general obligation notes and bonds, compared to \$7,020,000 last year.

Debt increased as a result of issuing general obligation capital loan notes to refinance existing long-term debt and to fund various capital projects.

The City has not obtained a bond rating but has continued to obtain favorable rates comparable to between A2 and A3 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 is significantly below its constitutional debt limit of over \$16 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Hiawatha's elected officials considered many factors when setting the fiscal year 2005 budget, tax rates and fees that will be charged for various City activities. One of those factors is the economy. The City of Hiawatha is located in Linn County, Iowa. The County's unemployment rate in June 2004 was 4.5% versus 5% a year ago. This compares with the State's unemployment rate of 4.3% and the national rate of 5.6%.

The Consumer Price Index for urban consumers in June 2004 was 3.3% higher than the previous year.

These indicators were taken into account when adopting the budget for fiscal year 2005. Total projected revenues, including beginning balances, available for appropriation in the budget are \$13,731,637, a decrease of 5% over the final 2004 budget. Although revenues are expected to increase slightly, beginning balances were lower than the previous year. Revenue increases are primarily attributable to the collection of additional tax revenue (due to a levy increase and increases in assessed valuations) and an increase in TIF certifications. The City will use its resources to finance programs currently offered and fund capital improvements. Budgeted disbursements (not including transfers) are expected to decrease slightly (about 1.5%) to \$8,788,460. The City has added no major new programs to the 2005 budget. However, the Storm Sewer has been reclassified from the General Fund to an Enterprise Fund. This will be reflected in the fiscal year 2005 MD&A.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$1.3 million by the close of fiscal year 2005. However, it should be noted a sufficient balance remains.

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 Laurie Hebl or Dave Van Dee, 81 Emmons Street, Hiawatha, Iowa 52233-1697.

City of Hiawatha

Basic Financial Statements

City of Hiawatha

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	
Functions / Programs:				
Governmental activities:				
Public safety	\$ 1,138,553	179,497	50,511	-
Public works	529,756	44,457	539,703	-
Culture and recreation	406,993	38,214	85,615	-
Community and economic development	696,232	3,032	-	-
General government	654,196	4,431	-	-
Debt service	2,024,166	-	5,644	139
Capital projects	2,664,191	-	2,172	300,272
Total governmental activities	8,114,087	269,631	683,645	300,411
Business type activities:				
Sewer	293,857	326,395	-	-
Total primary government	\$ 8,407,944	596,026	683,645	300,411
Component unit:				
Hiawatha Waterworks	\$ 959,235	904,609	-	4,406
General Receipts:				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Note proceeds				
Miscellaneous				
Transfers				
Component unit transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year, as restated				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Sewer and storm water fees				
Customer water deposits				
Capital improvements				
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
Primary Government			Unit	
Governmental Activities	Business Type Activities	Total	Hiawatha Waterworks	
(908,545)	-	(908,545)	-	
54,404	-	54,404	-	
(283,164)	-	(283,164)	-	
(693,200)	-	(693,200)	-	
(649,765)	-	(649,765)	-	
(2,018,383)	-	(2,018,383)	-	
(2,361,747)	-	(2,361,747)	-	
(6,860,400)	-	(6,860,400)	-	
-	32,538	32,538	-	
(6,860,400)	32,538	(6,827,862)	-	
-	-	-	(50,220)	
1,698,774	-	1,698,774	-	
1,420,403	-	1,420,403	-	
572,851	-	572,851	-	
1,449	-	1,449	-	
16,204	4,980	21,184	6,225	
2,150,280	-	2,150,280	-	
89,363	-	89,363	75,766	
25,000	(25,000)	-	-	
67,805	15,188	82,993	(82,993)	
6,042,129	(4,832)	6,037,297	(1,002)	
(818,271)	27,706	(790,565)	(51,222)	
5,945,746	634,277	6,580,023	540,125	
\$ 5,127,475	661,983	5,789,458	488,903	
\$ -	-	-	10,721	
-	-	-	53,884	
-	-	-	174,404	
293,928	-	293,928	-	
992,980	-	992,980	-	
4,729	-	4,729	-	
2,493,566	-	2,493,566	-	
1,342,272	661,983	2,004,255	249,894	
\$ 5,127,475	661,983	5,789,458	488,903	

City of Hiawatha

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

As of and for the year ended June 30, 2004

	General	Special Revenue Urban Renewal Tax Increment
Receipts:		
Property tax	\$ 1,422,570	-
Tax increment financing	-	1,420,403
Other city tax	111,211	-
Licenses and permits	144,275	-
Use of money and property	22,626	6,469
Intergovernmental	147,947	-
Charges for service	51,259	-
Special assessments	-	-
Miscellaneous	76,112	-
Total receipts	<u>1,976,000</u>	<u>1,426,872</u>
Disbursements:		
Operating:		
Public safety	945,717	-
Public works	34,983	-
Culture and recreation	384,095	-
Community and economic development	8,036	688,196
General government	627,841	-
Debt service	-	-
Capital projects	-	-
Total disbursements	<u>2,000,672</u>	<u>688,196</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(24,672)</u>	<u>738,676</u>
Other financing sources (uses):		
Note proceeds, net of \$9,720 discount	-	-
Operating transfers in	-	-
Operating transfers out	(39,750)	(613,301)
Component unit transfers in	-	-
Total other financing sources (uses)	<u>(39,750)</u>	<u>(613,301)</u>
Net change in cash balances	(64,422)	125,375
Cash balances beginning of year	1,045,804	867,605
Cash balances end of year	<u>\$ 981,382</u>	<u>992,980</u>
Cash Basis Fund Balances		
Reserved:		
Debt service	\$ -	-
Unreserved:		
General fund	981,382	-
Special revenue funds	-	992,980
Capital projects fund	-	-
Total cash basis fund balances	<u>\$ 981,382</u>	<u>992,980</u>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
559,176	-	131,881	2,113,627
-	-	-	1,420,403
13,675	1,449	5,321	131,656
-	-	-	144,275
5,644	24,403	90	59,232
-	275,869	539,703	963,519
-	-	-	51,259
140	-	-	140
-	54,169	373	130,654
578,635	355,890	677,368	5,014,765
-	-	79,593	1,025,310
-	-	388,953	423,936
-	-	22,898	406,993
-	-	-	696,232
-	-	26,355	654,196
2,024,166	-	-	2,024,166
-	2,664,191	-	2,664,191
2,024,166	2,664,191	517,799	7,895,024
(1,445,531)	(2,308,301)	159,569	(2,880,259)
656,167	1,494,113	-	2,150,280
614,164	50,000	-	664,164
-	(863)	(127,375)	(781,289)
67,805	-	-	67,805
1,338,136	1,543,250	(127,375)	2,100,960
(107,395)	(765,051)	32,194	(779,299)
112,124	3,258,617	289,073	5,573,223
4,729	2,493,566	321,267	4,793,924
4,729	-	-	4,729
-	-	-	981,382
-	-	321,267	1,314,247
-	2,493,566	-	2,493,566
4,729	2,493,566	321,267	4,793,924

Exhibit C

City of Hiawatha

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds

As of and for the year ended June 30, 2004

Total governmental funds cash balances (page 19) \$ 4,793,924***Amounts reported for governmental activities in the Statement of
Activities and Net Assets are different because:***

The Internal Service Fund is used by management to accumulate resources to replace City equipment. The assets of the Internal Service Fund are included in governmental activities in the Statement of Activities and Net Assets.

333,551**Cash basis net assets of governmental activities (page 17)**\$ 5,127,475**Net change in cash balances (page 19)**

\$ (779,299)

***Amounts reported for governmental activities in the Statement of
Activities and Net Assets are different because:***

The Internal Service Fund is used by management to accumulate resources to replace City equipment. The change in net assets of the Internal Service Fund is reported with governmental activities.

(38,972)**Change in cash balance of governmental activities (page 17)**\$ (818,271)

See notes to financial statements.

City of Hiawatha

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

As of and for the year ended June 30, 2004

	<u>Enterprise Fund</u> Sewer Revenue	<u>Internal Service Fund</u> Equipment Reserve
Operating receipts:		
Charges for service	\$ 326,395	-
Operating disbursements:		
Governmental activities:		
Public safety	-	113,243
Public works	-	105,820
Business type activities	293,857	-
Total operating disbursements	<u>293,857</u>	<u>219,063</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>32,538</u>	<u>(219,063)</u>
Non-operating receipts:		
Sale of capital assets	-	36,000
Interest on investments	4,527	2,420
Total non-operating receipts	<u>4,527</u>	<u>38,420</u>
Excess (deficiency) of receipts over (under) disbursements	<u>37,065</u>	<u>(180,643)</u>
Operating transfers in (out)	(34,500)	151,625
Component unit transfers in	-	15,188
	<u>(34,500)</u>	<u>166,813</u>
Net change in cash balances	2,565	(13,830)
Cash balances beginning of year	<u>583,287</u>	<u>423,513</u>
Cash balances end of year	<u>\$ 585,852</u>	<u>409,683</u>
Cash Basis Fund Balances		
Reserved for vehicle/equipment purchases	\$ -	409,683
Unreserved	<u>585,852</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 585,852</u>	<u>409,683</u>

See notes to financial statements.

City of Hiawatha

Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds

As of and for the year ended June 30, 2004

Total enterprise funds cash balances (page 21) \$ 585,852

***Amounts reported for business type activities in the Statement of
Activities and Net Assets are different because:***

The Internal Service Fund is used by management to accumulate resources to replace City equipment. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.

76,131

Cash basis net assets of business type activities (page 17) \$ 661,983

Net change in cash balances (page 21) \$ 2,565

***Amounts reported for business type activities in the Statement of
Activities and Net Assets are different because:***

The Internal Service Fund is used by management to accumulate resources to replace City equipment. The change in net assets of the Internal Service Fund is reported with business type activities.

25,141

Change in cash balance of business type activities (page 17) \$ 27,706

See notes to financial statements.

City of Hiawatha

Notes to Financial Statements

June 30, 2004

(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.

Discretely Presented Component Unit

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

The Hiawatha Waterworks was established to operate the City's waterworks facilities. The Waterworks 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 Waterworks is held in the name of the City. A financial benefit/burden relationship exists between the City and the Waterworks 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 Waterworks 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, Blue Stem 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 services.

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

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

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

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

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

The City reports the following major governmental funds:

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

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

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

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

The City reports the following major proprietary fund:

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

The City also reports the following proprietary fund:

An Internal Service Fund is utilized to account for the financing of future equipment replacement needs.

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.

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.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 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 \$5,595,000 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(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
2005	\$ 975,000	189,078	245,000	74,570	1,220,000	263,648
2006	945,000	163,010	255,000	62,832	1,200,000	225,842
2007	785,000	138,772	270,000	50,555	1,055,000	189,327
2008	650,000	115,277	280,000	37,455	930,000	152,732
2009	520,000	93,243	295,000	23,805	815,000	117,048
2010 - 2014	2,065,000	193,750	165,000	9,323	2,230,000	203,073
Total	\$5,940,000	893,130	1,510,000	258,540	7,450,000	1,151,670

During the year ended June 30, 2004, the City retired \$1,070,000 of notes and bonds.

Refunding of General Obligation Capital Notes and Bonds

On May 1, 2004, the City issued \$2,160,000 in general obligation capital loan notes with an average interest rate of 3.10%, of which \$660,000 was used to advance refund general obligation notes dated September 1, 1995 and January 1, 1996 and general obligation bonds dated March 1, 1997.

The refunding resulted in an aggregate debt service reduction of \$25,469 over the next three years.

(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.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$76,965, \$67,874 and \$65,829, 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 termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 49,000
Sick leave	<u>26,000</u>
Total	<u>\$ 75,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

(6) Construction Contracts

The City entered into various construction contracts during the year. Unpaid contract commitments as of June 30, 2004 totaled \$526,675, which will be paid as work on the projects progresses.

On February 14, 1996, the City entered into a 28E Agreement with the City of Cedar Rapids and Linn County, Iowa for the purpose of roadway construction on Blairs Ferry Road N.E. from Miller Road to 12th Avenue. The project will be financed with 80% federal aid surface transportation program and 20% local match. On February 23, 1999 a contract was approved for \$3,197,494. The City's portion of this contract is \$313,413. As of June 30, 2004, City payments of \$129,399 have been made. The City has a remaining liability of \$184,014 at June 30, 2004.

(7) Commitments

The City has entered into 22 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 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 22 tax increment financing agreements is not to exceed \$841,640. The actual amount rebated during the year ended June 30, 2004 was \$677,445.

(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, 2004 totaled \$220,536.

(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 \$1,884,665 is outstanding at June 30, 2004. 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 490 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 year.

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

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The city's contributions to the Pool for the year ended June 30, 2004 were \$58,973.

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 \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claims and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also 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, 2004, 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, d/b/a/ Bluestem Solid Waste Agency, to be an associate member of the Agency. Bluestem 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, 2004 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	\$ 613,301
	Capital Projects	863
Capital Projects	Special Revenue:	
	Road Use Tax	25,000
	Enterprise:	
	Sewer Revenue	25,000
Internal Service: Equipment Reserve	General	39,750
	Special Revenue:	
	Road Use Tax	102,375
	Enterprise:	
	Sewer Revenue	9,500
<u>Transfers from component unit:</u>		
Debt Service	Water Operating	67,805
Internal Service: Equipment Reserve	Water Operating	15,188
		<u>\$ 898,782</u>
Total		

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

(13) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City’s governmental and business type activities. Beginning net assets have been restated to include the allocation of the Internal Service Fund.

In addition, the account previously reported as a Trust Fund has been reclassified as a Special Revenue Fund in the Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds.

	Governmental Activities	Business Type Activities
Cash basis net assets June 30, 2003, as previously reported	\$ 5,557,123	583,287
Internal Service Fund	372,523	50,990
Fire Department Trust Fund	16,100	-
Cash basis net assets July 1, 2003, as restated	<u>\$ 5,945,746</u>	<u>634,277</u>

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 Funds
 and Component Unit

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Enterprise Fund Actual	Internal Service Fund Actual
Receipts:			
Property tax	\$ 2,113,627	-	-
Tax increment financing	1,420,403	-	-
Other city tax	131,656	-	-
Licenses and permits	144,275	-	-
Use of money and property	59,232	4,527	2,420
Intergovernmental	963,519	-	-
Charges for service	51,259	326,395	-
Special assessments	140	-	-
Miscellaneous	130,654	-	-
Total receipts	5,014,765	330,922	2,420
Disbursements:			
Public safety	1,025,310	-	-
Public works	423,936	-	-
Culture and recreation	406,993	-	-
Community and economic development	696,232	-	-
General government	654,196	-	-
Debt service	2,024,166	-	-
Capital projects	2,664,191	-	-
Business type activities	-	293,857	219,063
Total disbursements	7,895,024	293,857	219,063
Excess (deficiency) of receipts over (under) disbursements	(2,880,259)	37,065	(216,643)
Other financing sources (uses), net	2,100,960	(34,500)	202,813
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(779,299)	2,565	(13,830)
Balances beginning of year	5,573,223	583,287	423,513
Balances end of year	\$ 4,793,924	585,852	409,683

See accompanying independent auditor's report.

Component Unit Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
			Original	Final	
-	-	2,113,627	2,130,366	2,130,366	(16,739)
-	-	1,420,403	1,671,202	1,401,437	18,966
-	-	131,656	99,532	99,532	32,124
-	-	144,275	142,200	137,500	6,775
10,631	-	76,810	65,700	66,150	10,660
-	-	963,519	889,330	957,525	5,994
904,609	368,453	913,810	958,200	946,760	(32,950)
-	-	140	139	3,261	(3,121)
75,766	11,234	195,186	105,610	185,850	9,336
991,006	379,687	5,959,426	6,062,279	5,928,381	31,045
-	-	1,025,310	1,049,271	1,068,995	43,685
-	-	423,936	475,975	464,325	40,389
-	-	406,993	394,375	430,650	23,657
-	-	696,232	995,640	777,670	81,438
-	-	654,196	742,600	710,196	56,000
-	-	2,024,166	1,400,131	2,029,607	5,441
-	-	2,664,191	2,440,600	3,030,200	366,009
959,235	370,852	1,101,303	1,101,748	1,186,133	84,830
959,235	370,852	8,996,327	8,600,340	9,697,776	701,449
31,771	8,835	(3,036,901)	(2,538,061)	(3,769,395)	732,494
(82,993)	-	2,186,280	1,100,000	2,149,000	37,280
(51,222)	8,835	(850,621)	(1,438,061)	(1,620,395)	769,774
540,125	1,886	7,118,262	6,133,164	7,120,146	(1,884)
488,903	10,721	6,267,641	4,695,103	5,499,751	767,890

City of Hiawatha

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

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 ten major classes of disbursements known as functions, not by fund or fund type. 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, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Proprietary Funds.

The City has continued to budget and report the Internal Service, Equipment Reserve Fund as a Proprietary Fund. This fund accounts for both governmental and business type activities. During the year the City disbursed \$113,243 for police and fire vehicles and \$105,820 for street equipment that are appropriately classified under the public safety and public works functions, respectively. Although these activities were reclassified for financial statement purposes as required by Governmental Accounting Standards Board Statement No. 34, the budgetary comparison schedule reports these disbursements in the business type activities function. Therefore, business type activities totaling \$219,063 under the Internal Service Fund actual column is appropriately compared with the legally adopted budget for that line item.

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 \$1,097,436. The budget amendment is reflected in the final budgeted amounts.

Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.

Other Supplementary Information

City of Hiawatha

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

As of and for the year ended June 30, 2004

	Special	
	Road Use Tax	Employee Benefits
Receipts:		
Property tax	\$ -	131,881
Other city tax	-	5,321
Use of money and property	-	-
Intergovernmental	539,703	-
Miscellaneous	-	-
Total receipts	<u>539,703</u>	<u>137,202</u>
Disbursements:		
Operating:		
Public safety	-	79,593
Public works	388,588	365
Culture and recreation	-	22,898
General government	-	26,355
Total disbursements	<u>388,588</u>	<u>129,211</u>
Excess (deficiency) of receipts over (under) disbursements	151,115	7,991
Other financing (uses):		
Operating transfers (out)	<u>(127,375)</u>	-
Net change in cash balances	23,740	7,991
Cash balances beginning of year	<u>270,188</u>	<u>2,647</u>
Cash balances end of year	<u>\$ 293,928</u>	<u>10,638</u>
Cash Basis Fund Balances		
Unreserved:		
Special revenue funds	<u>\$ 293,928</u>	<u>10,638</u>

See accompanying independent auditor's report.

Revenue			
Police Forfeiture	Fire Department Trust		Total
-	-		131,881
-	-		5,321
-	90		90
-	-		539,703
373	-		373
373	90		677,368
-	-		79,593
-	-		388,953
-	-		22,898
-	-		26,355
-	-		517,799
373	90		159,569
-	-		(127,375)
373	90		32,194
138	16,100		289,073
511	16,190		321,267
511	16,190		321,267

City of Hiawatha
Schedule of Indebtedness
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Capital loan	Sep 1, 1995	7.05-7.20%	\$ 705,000
Capital loan note series 1996B	Jan 1, 1996	7.30-7.90	135,000
Capital loan note series 1998	Jun 15, 1998	4.25-4.45	1,200,000
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
Total			
General obligation bonds:			
General obligation bond series 1997A	Mar 1, 1997	4.30-4.50%	\$ 1,300,000
General obligation bond series 1998A	Dec 1, 1998	4.00-4.20	1,200,000
Municipal equipment and improvements	Jun 1, 2000	5.55-5.65	1,300,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
230,000	-	230,000	-	16,450
45,000	-	45,000	-	3,473
670,000	-	120,000	550,000	28,912
835,000	-	90,000	745,000	35,822
915,000	-	85,000	830,000	32,760
1,980,000	-	325,000	1,655,000	55,093
-	2,160,000	-	2,160,000	-
<u>\$ 4,675,000</u>	<u>2,160,000</u>	<u>895,000</u>	<u>5,940,000</u>	<u>172,510</u>
595,000	-	595,000	-	26,775
770,000	-	120,000	650,000	31,415
980,000	-	120,000	860,000	54,555
<u>\$ 2,345,000</u>	<u>-</u>	<u>835,000</u>	<u>1,510,000</u>	<u>112,745</u>

City of Hiawatha
Bond and Note Maturities
June 30, 2004

Year Ending June 30,	General Obligation Notes					
	Capital Loan Series 1998		Capital Loan Series 2001		Capital Loan Series 2002	
	Issued Jun 15, 1998		Issued Jun 1, 2001		Issued Jul 1, 2002	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2005	4.25%	\$ 130,000	4.50%	\$ 95,000	2.85%	\$ 90,000
2006	4.30	135,000	4.10	95,000	3.15	95,000
2007	4.35	140,000	4.20	100,000	3.40	95,000
2008	4.45	145,000	4.30	105,000	3.65	100,000
2009		-	4.40	110,000	3.85	105,000
2010		-	4.50	115,000	4.00	110,000
2011		-	4.60	125,000	4.10	115,000
2012		-		-	4.20	120,000
2013		-		-		-
2014		-		-		-
Total		<u>\$ 550,000</u>		<u>\$ 745,000</u>		<u>\$ 830,000</u>

Year Ending June 30,	General Obligation Bonds				
	Series 1998A		Municipal Equipment and Improvements		
	Issued Dec 1, 1998		Issued Jun 1, 2000		
	Interest		Interest		Total
Rates	Amount	Rates	Amount		
2005	4.00%	\$ 120,000	5.55%	\$ 125,000	245,000
2006	4.05	125,000	5.55	130,000	255,000
2007	4.10	130,000	5.55	140,000	270,000
2008	4.15	135,000	5.55	145,000	280,000
2009	4.20	140,000	5.55	155,000	295,000
2010		-	5.65	165,000	165,000
2011		-		-	-
2012		-		-	-
2013		-		-	-
2014		-		-	-
2015		-		-	-
Total		<u>\$ 650,000</u>		<u>\$ 860,000</u>	<u>1,510,000</u>

See accompanying independent auditor's report.

Capital Loan Series 2003 Issued Apr 1, 2003		Capital Loan Series 2004 Issued May 1, 2004		Total
Interest Rates	Amount	Interest Rates	Amount	
1.50%	\$ 275,000	1.40%	\$ 385,000	975,000
1.80	235,000	1.90	385,000	945,000
2.15	150,000	2.25	300,000	785,000
2.40	155,000	2.55	145,000	650,000
2.75	160,000	2.80	145,000	520,000
3.00	165,000	3.10	150,000	540,000
3.35	165,000	3.35	155,000	560,000
3.40	170,000	3.55	160,000	450,000
3.55	180,000	3.70	165,000	345,000
	-	3.85	170,000	170,000
	<u>\$1,655,000</u>		<u>\$ 2,160,000</u>	<u>5,940,000</u>

Schedule 4

City of Hiawatha

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

For the Last Two Years

	<u>2004</u>	<u>2003</u>
Receipts:		
Property tax	\$ 2,113,627	1,918,938
Tax increment financing	1,420,403	1,505,996
Other city tax	131,656	685,654
Licenses and permits	144,275	130,544
Use of money and property	59,232	63,679
Intergovernmental	963,519	727,261
Charges for service	51,259	42,332
Special assessments	140	101,715
Miscellaneous	130,654	99,050
	<u> </u>	<u> </u>
Total	<u>\$ 5,014,765</u>	<u>5,275,169</u>
Disbursements:		
Operating:		
Public safety	\$ 1,025,310	802,089
Public works	423,936	412,802
Culture and recreation	406,993	372,715
Community and economic development	696,232	731,619
General government	654,196	599,362
Debt service	2,024,166	1,752,589
Capital projects	2,664,191	770,297
	<u> </u>	<u> </u>
Total	<u>\$ 7,895,024</u>	<u>5,441,473</u>

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Hiawatha, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 1, 2004. 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, 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 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 grants, 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. However, we noted an immaterial instance of non-compliance that is 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, 2004 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. Prior year statutory comments have been resolved.

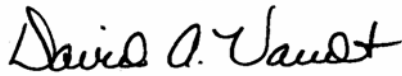
Internal Control Over Financial Reporting


In planning and performing our audit, we considered the City of Hiawatha's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 1, 2004

City of Hiawatha

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

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

City of Hiawatha
Schedule of Findings
Year ended June 30, 2004

Other Findings Related to Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- (2) Certified Budget – Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.
- (3) Questionable Disbursements – No disbursements that we believe 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 City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (6) 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.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Minutes were not always published within 15 days and, in some instances, were not published at all as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should publish minutes in accordance with Chapter 372.13(6) of the Code of Iowa.

Response – The City is aware of the requirement to publish minutes within 15 days and will take steps to ensure that we comply with the Code.

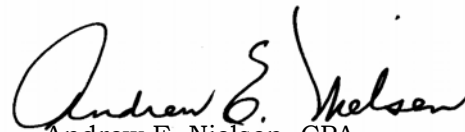
Conclusion – Response accepted.

City of Hiawatha

Staff

This audit was performed by:

Steve M. Nottger, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Candice R. Meester, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State