



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

February 27, 2006

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$9,012,441 for the year ended June 30, 2005, an 18 percent increase from 2004. The receipts included \$2,640,035 in property tax, \$1,740,411 from tax increment financing, \$673,794 from charges for service, \$730,273 from operating grants, contributions and restricted interest, \$152,854 from capital grants, contributions and restricted interest, \$52,141 from unrestricted interest on investments, \$2,916,229 from note proceeds, \$46,201 from other general receipts and \$60,503 from component unit transfers.

Disbursements for the year totaled \$7,778,334, a 7 percent decrease from the prior year, and included \$1,973,326 for capital projects, \$1,911,863 for debt service and \$1,365,250 for public safety. Also, disbursements for business type activities totaled \$337,499.

The significant increase in receipts is due primarily to the sale of general obligation notes in fiscal year 2005.

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

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

JUNE 30, 2005

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City of Hiawatha

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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

City of Hiawatha



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hiawatha, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Hiawatha's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

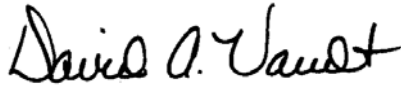
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hiawatha as of June 30, 2005, 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.

In accordance with Government Auditing Standards, we have also issued our report dated October 25, 2005 on our consideration of the City of Hiawatha's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

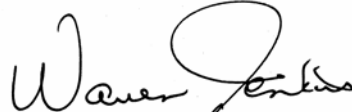
Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures,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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hiawatha's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 are 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

October 25, 2005



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Receipts and transfers for the City's governmental activities increased 17.7%, or approximately \$1,290,000, from fiscal 2004 to fiscal 2005. The reasons for this increase include: the certification of approximately \$320,000 of additional TIF debt in the Hiawatha Urban Renewal Area, approximately \$320,000 of additional property tax collections attributable to tax levy adjustments and growth in taxable value and the issuance of approximately \$766,000 more in general obligation notes.
- Disbursements for the City's governmental activities decreased 8.3%, or approximately \$673,000, in fiscal 2005 from fiscal year 2004. The main contributing factor for this decrease was a decrease in capital projects activity of approximately \$691,000.
- The City's total cash basis net assets increased 21.3%, or approximately \$1,234,000, from June 30, 2004 to June 30, 2005. Of this amount, the net assets of the governmental activities increased by approximately \$1,145,000 and the net assets of the business type activities increased by approximately \$89,000.

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 of Hiawatha maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, 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, capital loan notes 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 statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and 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 Revenue Fund, considered to be a major fund of the City. The Internal Service Fund is an accounting device used to accumulate and allocate costs internally among the City's various functions.

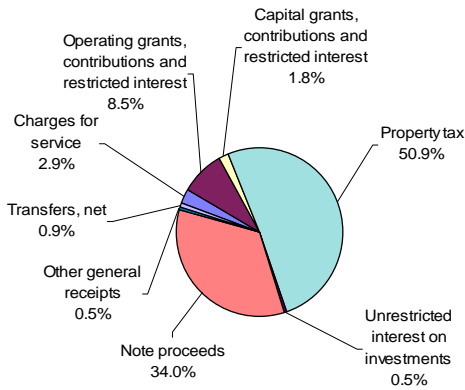
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

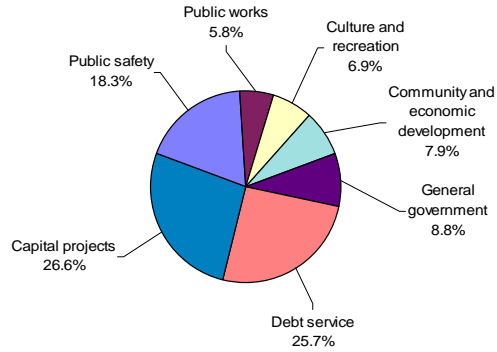
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased \$1,144,674 from a year ago, from \$5,127,475 to \$6,272,149. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2005	2004
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 246,136	269,631
Operating grants, contributions and restricted interest	730,273	683,645
Capital grants, contributions and restricted interest	152,854	300,411
General receipts:		
Property and other city tax	4,380,446	3,692,028
Local option sales tax	-	1,449
Unrestricted interest on investments	39,952	16,204
Note proceeds	2,916,229	2,150,280
Other general receipts	46,201	89,363
Transfers, net	73,418	92,805
Total receipts and transfers	<u>8,585,509</u>	<u>7,295,816</u>
Disbursements:		
Public safety	1,365,250	1,138,553
Public works	434,043	529,756
Culture and recreation	514,466	406,993
Community and economic development	590,473	696,232
General government	651,414	654,196
Debt service	1,911,863	2,024,166
Capital projects	1,973,326	2,664,191
Total disbursements	<u>7,440,835</u>	<u>8,114,087</u>
Increase (decrease) in cash basis net assets	1,144,674	(818,271)
Cash basis net assets beginning of year	5,127,475	5,945,746
Cash basis net assets end of year	<u>\$ 6,272,149</u>	<u>5,127,475</u>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased by 17.7%, or approximately \$1,290,000. The total cost of all programs and services decreased by approximately \$673,000. The increase in receipts was primarily the result of the certification of approximately \$320,000 of additional TIF debt in the Hiawatha Urban Renewal Area, approximately \$320,000 of additional property tax collections and the issuance of approximately \$766,000 more in general obligation notes. The decrease in disbursements was primarily due to decreased capital projects activity from FY04.

The City increased the property tax levy rate for 2005 by 6.16% and the City's taxable valuation grew by 8.6%. These increases raised the City's budgeted property tax receipts by approximately \$320,000 in 2005.

The cost of all governmental activities this year was \$7,440,835. However, as shown in the Statement of Activities and Net Assets, the amount financed by taxes for these activities was \$4,380,446 with the remainder paid for with user fees, grants, contributions, interest income, fund balances and note proceeds.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 427,658	326,395
General receipts:		
Unrestricted interest on investments	9,086	4,980
Total receipts	<u>436,744</u>	<u>331,375</u>
Disbursements and transfers:		
Sewer	337,499	293,857
Transfers, net	9,812	9,812
Total disbursements and transfers	<u>347,311</u>	<u>303,669</u>
Increase (decrease) in cash balance	89,433	27,706
Cash basis net assets beginning of year	<u>661,983</u>	<u>634,277</u>
Cash basis net assets end of year	<u>\$ 751,416</u>	<u>661,983</u>

The business type activities receipts for the fiscal year were \$436,744 compared to \$331,375 last year. Disbursements for the fiscal year increased 14.9% to a total of \$337,499. The cash balance increased 13.5%, or \$89,433, 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 \$6,272,149, an increase of \$1,478,225 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 \$218,046 from the prior year to \$763,336. This decrease can be attributed to increased expenditures to expand our public safety and recreational programs and the State's elimination of the property tax credit replacement payment to all Iowa cities beginning in fiscal year 2005.
- The Special Revenue, Urban Renewal Tax Increment Fund had a cash balance of \$1,422,065 at the end of the fiscal year which represents an increase of \$429,085 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 increased by \$173,765 to \$178,494 during the fiscal year. The 2005 fiscal 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 sub-funds including: the Projects Fund, the Library Project Fund, the Local Option Sales Tax (LOST) Projects Fund and the TIF Projects Fund. The fiscal year 2005 total cash balance for the Capital Projects Fund was \$3,191,336, an increase of \$697,770 from the prior year. The main contributing factor to this significant increase is the issuance of general obligation capital loan notes late in fiscal year 2005 to fund next year's projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Revenue Fund cash balance increased 28.3% to \$751,416 due to the recording of storm sewer charges in the Sewer Revenue Fund rather than the General Fund and due to the closeout of the Internal Service, Equipment Reserve Fund. The City has completed a sewer rate study to ensure adequate funding for sewer maintenance and reconstruction projects included in the City's Capital Improvement Plan. Sewer service fees were adjusted in accordance with the study's recommendations. The new fee schedule went into effect in July, 2005.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended the budget once. The amendment was approved on May 4, 2005. The amendment resulted in an increase in operating disbursements of \$806,558 related to the calling of refunded notes and the undertaking of several capital projects. The City had adequate funding to cover these additional costs.

DEBT ADMINISTRATION

At June 30, 2005, the City had \$8,740,000 in general obligation notes and bonds, compared to \$7,450,000 last year.

Debt increased as a result of issuing general obligation capital loan notes to refund certain notes 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 \$8,740,000 is significantly below its constitutional debt limit of approximately \$19,000,000.

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 charged for various City activities. One of those factors is the economy. The City of Hiawatha is located in Linn County, Iowa. The County unemployment rate in June 2005 was 4.15% versus 4.5% a year ago. This compares with the State's unemployment rate of 4.63% and the national rate of 5.06%.

The Consumer Price Index for urban consumers in June 2005 was 2.5% lower than the previous year.

These indicators were taken into account when adopting the budget for fiscal year 2006. Total projected revenues, including beginning balances available for appropriation in the budget, are \$10,063,164, a decrease of 6% over the final 2005 budget. This revenue decrease is primarily attributable to a decrease in TIF debt certified, Federal and State grants and notes issued in fiscal 2005. The City will use the resources to finance programs we currently offer and fund our capital improvements. Budgeted disbursements (not including transfers) are expected to increase 6.5% to \$9,595,018. The City has added no major new programs to the 2006 budget. However, it should be noted that in fiscal year 2005 the Storm Sewer Fund was reclassified from the General Fund to an Enterprise Fund and Hiawatha expanded our public safety and recreational programs significantly. Before the end of fiscal year 2005, the Police Department added four full-time officers, bringing the total from eight to twelve, and a Records/Dispatch Clerk; added the ambulance service; and the Park and Recreation Department has added staff and programming. The respective amounts for these program costs were reflected in the current MD&A.

If these estimates are realized, the City's cash balance is expected to decrease by approximately \$2,275,000 by the close of fiscal year 2006. However, actual fiscal year 2005 ending balances exceeded the budgeted figures by \$1,754,128. Therefore, this results in a net decrease of \$520,872 and sufficient balances are expected to remain.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

City of Hiawatha

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2005

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,365,250	203,995	47,694	-
Public works	434,043	1,542	568,845	31
Culture and recreation	514,466	34,182	93,952	-
Community and economic development	590,473	1,343	-	-
General government	651,414	5,074	-	-
Debt service	1,911,863	-	15,488	84,147
Capital projects	1,973,326	-	4,294	68,676
Total governmental activities	7,440,835	246,136	730,273	152,854
Business type activities:				
Sewer	337,499	427,658	-	-
Total primary government	\$ 7,778,334	673,794	730,273	152,854
Component unit:				
Hiawatha Waterworks	\$ 955,891	1,144,153	-	-
General Receipts:				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Sale of capital assets				
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				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Sewer and storm water fees				
Customer water deposits				
Capital projects				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Hiawatha Waterworks
(1,113,561)	-	(1,113,561)	-
136,375	-	136,375	-
(386,332)	-	(386,332)	-
(589,130)	-	(589,130)	-
(646,340)	-	(646,340)	-
(1,812,228)	-	(1,812,228)	-
(1,900,356)	-	(1,900,356)	-
(6,311,572)	-	(6,311,572)	-
	90,159	90,159	-
(6,311,572)	90,159	(6,221,413)	-
-	-	-	188,262
1,875,509	-	1,875,509	-
1,740,411	-	1,740,411	-
764,526	-	764,526	-
22,107	-	22,107	-
43,055	9,086	52,141	9,879
2,916,229	-	2,916,229	-
24,094	-	24,094	-
25,000	(25,000)	-	-
45,315	15,188	60,503	(60,503)
7,456,246	(726)	7,455,520	(50,624)
1,144,674	89,433	1,234,107	137,638
5,127,475	661,983	5,789,458	488,903
\$ 6,272,149	751,416	7,023,565	626,541
\$ -	-	-	14,485
-	-	-	72,714
3,191,336	-	3,191,336	165,733
270,431	-	270,431	-
1,422,065	-	1,422,065	-
178,494	-	178,494	-
446,487	103,150	549,637	-
763,336	648,266	1,411,602	373,609
\$ 6,272,149	751,416	7,023,565	626,541

City of Hiawatha

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

As of and for the year ended June 30, 2005

	Special Revenue		
	General	Urban	
		Renewal Tax Increment	Debt Service
Receipts:			
Property tax	\$ 1,593,008	-	755,107
Tax increment financing	-	1,740,411	-
Other city tax	86,473	-	9,419
Licenses and permits	150,730	-	-
Use of money and property	34,608	19,730	15,488
Intergovernmental	135,683	-	-
Charges for service	36,516	-	-
Special assessments	-	-	84,147
Miscellaneous	46,541	-	7,234
Total receipts	2,083,559	1,760,141	871,395
Disbursements:			
Operating:			
Public safety	1,178,960	-	-
Public works	28,160	-	-
Culture and recreation	479,799	-	-
Community and economic development	233	590,240	-
General government	615,792	-	-
Debt service	-	-	1,911,863
Capital projects	-	-	-
Total disbursements	2,302,944	590,240	1,911,863
Excess (deficiency) of receipts over (under) disbursements	(219,385)	1,169,901	(1,040,468)
Other financing sources (uses):			
Note proceeds, net of \$13,771 discount	-	-	428,102
Sale of capital assets	22,107	-	-
Operating transfers in	17,107	-	740,816
Operating transfers out	(37,875)	(740,816)	-
Component unit transfers in	-	-	45,315
Total other financing sources (uses)	1,339	(740,816)	1,214,233
Net change in cash balances	(218,046)	429,085	173,765
Cash balances beginning of year	981,382	992,980	4,729
Cash balances end of year	\$ 763,336	1,422,065	178,494
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	-	178,494
Vehicle/equipment purchases	-	-	-
Unreserved:			
General fund	763,336	-	-
Special revenue funds	-	1,422,065	-
Capital projects fund	-	-	-
Total cash basis fund balances	\$ 763,336	1,422,065	178,494

See notes to financial statements.

Capital Projects	Nonmajor	Total
-	186,079	2,534,194
-	-	1,740,411
-	2,758	98,650
-	-	150,730
38,676	3,363	111,865
30,000	542,070	707,753
-	-	36,516
-	-	84,147
4,293	51,419	109,487
72,969	785,689	5,573,753
-	186,290	1,365,250
-	405,883	434,043
-	34,667	514,466
-	-	590,473
-	35,622	651,414
-	-	1,911,863
1,973,326	-	1,973,326
1,973,326	662,462	7,440,835
(1,900,357)	123,227	(1,867,082)
2,488,127	-	2,916,229
-	-	22,107
110,000	446,531	1,314,454
-	(174,107)	(952,798)
-	-	45,315
2,598,127	272,424	3,345,307
697,770	395,651	1,478,225
2,493,566	321,267	4,793,924
3,191,336	716,918	6,272,149
-	-	178,494
-	418,471	418,471
-	-	763,336
-	298,447	1,720,512
3,191,336	-	3,191,336
3,191,336	716,918	6,272,149

City of Hiawatha

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

As of and for the year ended June 30, 2005

	<u>Enterprise Fund</u>	<u>Internal Service</u>
	<u>Sewer</u>	<u>Fund</u>
	<u>Revenue</u>	<u>Equipment</u>
		<u>Reserve</u>
Operating receipts:		
Charges for service	\$ 427,658	-
Operating disbursements:		
Business type activities	337,499	-
Excess of operating receipts over operating disbursements	<u>90,159</u>	<u>-</u>
Non-operating receipts:		
Interest on investments	7,755	4,435
Excess of receipts over disbursements	<u>97,914</u>	<u>4,435</u>
Other financing sources (uses):		
Operating transfers in	103,150	120,375
Operating transfers out	(35,500)	(549,681)
Component unit transfers in	-	15,188
Total other financing sources (uses)	<u>67,650</u>	<u>(414,118)</u>
Net change in cash balances	165,564	(409,683)
Cash balances beginning of year	<u>585,852</u>	<u>409,683</u>
Cash balances end of year	<u>\$ 751,416</u>	<u>-</u>
Cash Basis Fund Balances		
Reserved for vehicle/equipment purchases	\$ 103,150	-
Unreserved	<u>648,266</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 751,416</u>	<u>-</u>

See notes to financial statements.

City of Hiawatha

Notes to Financial Statements

June 30, 2005

(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 its 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. This fund was closed out during the year by transfer to the Enterprise, Sewer Revenue and Special Revenue, Equipment Reserve Funds.

C. Measurement Focus and Basis of Accounting

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

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 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 \$6,810,000 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Notes		General Obligation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 1,140,000	237,670	255,000	62,832	1,395,000	300,502
2007	1,020,000	210,987	270,000	50,555	1,290,000	261,542
2008	885,000	183,270	280,000	37,455	1,165,000	220,725
2009	760,000	156,762	295,000	23,805	1,055,000	180,567
2010	785,000	132,100	165,000	9,323	950,000	141,423
2011 - 2014	2,885,000	268,505	-	-	2,885,000	268,505
Total	\$ 7,475,000	1,189,294	1,265,000	183,970	8,740,000	1,373,264

During the year ended June 30, 2005, the City retired \$1,640,000 of notes and bonds.

Refunding of General Obligation Capital Notes and Bonds

On March 1, 2005, the City issued \$2,930,000 in general obligation capital loan notes with an average interest rate of 3.47%, of which \$430,000 was used to refund general obligation notes dated June 15, 1998.

The refunding resulted in an aggregate debt service reduction of \$6,833 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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$105,415, \$76,965 and \$67,874, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 62,000
Sick leave	<u>26,500</u>
Total	<u>\$ 88,500</u>

This liability has been computed based on rates of pay in effect at June 30, 2005.

(6) Construction Contracts

The City entered into various construction contracts during the year. Unpaid contract commitments as of June 30, 2005 totaled \$1,265,478, which will be paid as work on the projects progresses.

(7) Rebate Agreements

The City has entered into 24 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 24 tax increment financing agreements is not to exceed \$784,990. The actual amount rebated during the year ended June 30, 2005 was \$582,724.

(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, 2005 totaled \$233,616.

(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 \$1,810,350 is outstanding at June 30, 2005. 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 509 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2005 were \$65,159.

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. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2005, 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, 2005 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Equipment Reserve	\$ 17,107
Debt Service	Special Revenue: Urban Renewal Tax Increment	740,816
Capital Projects	Special Revenue: Road Use Tax	85,000
	Enterprise: Sewer Revenue	25,000
		<u>110,000</u>
Special Revenue: Equipment Reserve	Internal Service: Equipment Reserve	446,531
Enterprise: Sewer Revenue	Internal Service: Equipment Reserve	103,150
Internal Service: Equipment Reserve	General	37,875
	Special Revenue: Road Use Tax	72,000
	Enterprise: Sewer Revenue	10,500
		<u>120,375</u>
Total		<u>\$ 1,537,979</u>
<u>Transfers from component unit:</u>		
Debt Service	Water Operating	\$ 45,315
Internal Service: Equipment Reserve	Water Operating	15,188
Total		<u>\$ 60,503</u>

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

City of Hiawatha

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Enterprise Fund Actual	Internal Service Fund Actual
Receipts:			
Property tax	\$ 2,534,194	-	-
Tax increment financing	1,740,411	-	-
Other city tax	98,650	-	-
Licenses and permits	150,730	-	-
Use of money and property	111,865	7,755	4,435
Intergovernmental	707,753	-	-
Charges for service	36,516	427,658	-
Special assessments	84,147	-	-
Miscellaneous	109,487	-	-
Total receipts	5,573,753	435,413	4,435
Disbursements:			
Public safety	1,365,250	-	-
Public works	434,043	-	-
Culture and recreation	514,466	-	-
Community and economic development	590,473	-	-
General government	651,414	-	-
Debt service	1,911,863	-	-
Capital projects	1,973,326	-	-
Business type activities	-	337,499	-
Total disbursements	7,440,835	337,499	-
Excess (deficiency) of receipts over (under) disbursements	(1,867,082)	97,914	4,435
Other financing sources (uses), net	3,345,307	67,650	(414,118)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,478,225	165,564	(409,683)
Balances beginning of year	4,793,924	585,852	409,683
Balances end of year	\$ 6,272,149	751,416	-

See accompanying independent auditor's report.

Component Unit	Less Funds not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
			Original	Final	
-	-	2,534,194	2,445,623	2,486,107	48,087
-	-	1,740,411	1,654,321	1,654,321	86,090
-	-	98,650	95,484	55,000	43,650
-	-	150,730	141,500	148,100	2,630
9,879	-	133,934	39,500	69,250	64,684
-	-	707,753	747,125	705,691	2,062
1,060,261	428,088	1,096,347	1,040,975	942,875	153,472
-	-	84,147	-	84,100	47
83,892	3,340	190,039	63,750	166,493	23,546
1,154,032	431,428	6,736,205	6,228,278	6,311,937	424,268
-	-	1,365,250	1,319,950	1,458,572	93,322
-	-	434,043	484,220	482,245	48,202
-	-	514,466	494,675	532,450	17,984
-	-	590,473	799,490	653,236	62,763
-	-	651,414	776,750	710,720	59,306
-	-	1,911,863	1,502,503	1,923,649	11,786
-	-	1,973,326	2,369,100	2,658,500	685,174
955,891	427,664	865,726	1,041,772	1,175,646	309,920
955,891	427,664	8,306,561	8,788,460	9,595,018	1,288,457
198,141	3,764	(1,570,356)	(2,560,182)	(3,283,081)	1,712,725
(60,503)	-	2,938,336	1,225,000	2,900,700	37,636
137,638	3,764	1,367,980	(1,335,182)	(382,381)	1,750,361
488,903	10,721	6,267,641	5,534,824	6,278,359	(10,718)
626,541	14,485	7,635,621	4,199,642	5,895,978	1,739,643

City of Hiawatha

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Funds. 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 \$806,558. The budget amendment is reflected in the final budgeted amounts.

Disbursements during the year ended June 30, 2005 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, 2005

	Road Use Tax	Employee Benefits	Special Police Forfeiture
Receipts:			
Property tax	\$ -	186,079	-
Other city tax	-	2,758	-
Use of money and property	-	-	-
Intergovernmental	539,386	-	2,684
Miscellaneous	-	-	3,269
Total receipts	539,386	188,837	5,953
Disbursements:			
Operating:			
Public safety	-	124,949	3,339
Public works	405,883	-	-
Culture and recreation	-	34,667	-
General government	-	35,622	-
Total disbursements	405,883	195,238	3,339
Excess (deficiency) of receipts over (under) disbursements	133,503	(6,401)	2,614
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	(157,000)	-	-
Total other financing sources (uses)	(157,000)	-	-
Net change in cash balances	(23,497)	(6,401)	2,614
Cash balances beginning of year	293,928	10,638	511
Cash balances end of year	\$ 270,431	4,237	3,125
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 270,431	4,237	3,125

See accompanying independent auditor's report.

Revenue			
Fire Department Trust	K-9 Donations	Equipment Reserve	Total
-	-	-	186,079
-	-	-	2,758
213	-	3,150	3,363
-	-	-	542,070
1,406	22,101	24,643	51,419
1,619	22,101	27,793	785,689
7,817	11,439	38,746	186,290
-	-	-	405,883
-	-	-	34,667
-	-	-	35,622
7,817	11,439	38,746	662,462
(6,198)	10,662	(10,953)	123,227
-	-	446,531	446,531
-	-	(17,107)	(174,107)
-	-	429,424	272,424
(6,198)	10,662	418,471	395,651
16,190	-	-	321,267
9,992	10,662	418,471	716,918
9,992	10,662	418,471	716,918

City of Hiawatha
 Schedule of Indebtedness
 Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
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
Capital loan note series 2005	Mar 1, 2005	2.50-3.70	2,930,000
Total			
General obligation bonds:			
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
550,000	-	550,000	-	23,873
745,000	-	95,000	650,000	32,222
830,000	-	90,000	740,000	30,635
1,655,000	-	275,000	1,380,000	42,348
2,160,000	-	385,000	1,775,000	60,000
-	2,930,000	-	2,930,000	-
<u>\$ 5,940,000</u>	<u>2,930,000</u>	<u>1,395,000</u>	<u>7,475,000</u>	<u>189,078</u>
650,000	-	120,000	530,000	26,675
860,000	-	125,000	735,000	47,895
<u>\$ 1,510,000</u>	<u>-</u>	<u>245,000</u>	<u>1,265,000</u>	<u>74,570</u>

City of Hiawatha
Bond and Note Maturities
June 30, 2005

Year Ending June 30,	Capital Loan Note Series 2001		Capital Loan Note Series 2002		General Obligation Notes Capital Loan Note Series 2003	
	Issued Jun 15, 2001		Issued Jul 1, 2002		Issued Apr 1, 2003	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2006	4.10%	\$ 95,000	3.15%	\$ 95,000	1.80%	\$ 235,000
2007	4.20	100,000	3.40	95,000	2.15	150,000
2008	4.30	105,000	3.65	100,000	2.40	155,000
2009	4.40	110,000	3.85	105,000	2.75	160,000
2010	4.50	115,000	4.00	110,000	3.00	165,000
2011	4.60	125,000	4.10	115,000	3.35	165,000
2012		-	4.20	120,000	3.40	170,000
2013		-		-	3.55	180,000
2014		-		-		-
2015		-		-		-
Total		<u>\$ 650,000</u>		<u>\$ 740,000</u>		<u>\$ 1,380,000</u>

Year Ending June 30,	General Obligation Bonds				
	Series 1998A		Municipal Equipment and Improvements		Total
	Issued Dec 1, 1998		Issued Jun 1, 2000		
	Interest		Interest		
Rates	Amount	Rates	Amount		
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
Total		<u>\$ 530,000</u>		<u>\$ 735,000</u>	<u>1,265,000</u>

See accompanying independent auditor's report.

Capital Loan Note Series 2004 Issued May 1, 2004		Capital Loan Note Series 2005 Issued Mar 1, 2005		Total
Interest Rates	Amount	Interest Rates	Amount	
1.90%	\$ 385,000	2.500%	\$ 330,000	1,140,000
2.25	300,000	2.750	375,000	1,020,000
2.55	145,000	2.875	380,000	885,000
2.80	145,000	3.050	240,000	760,000
3.10	150,000	3.200	245,000	785,000
3.35	155,000	3.300	255,000	815,000
3.55	160,000	3.500	265,000	715,000
3.70	165,000	3.600	270,000	615,000
3.85	170,000	3.650	280,000	450,000
	-	3.700	290,000	290,000
	<u>\$ 1,775,000</u>		<u>\$ 2,930,000</u>	<u>7,475,000</u>

Schedule 4

City of Hiawatha

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

For the Last Three Years

	2005	2004	2003
Receipts:			
Property tax	\$ 2,534,194	2,113,627	1,918,938
Tax increment financing	1,740,411	1,420,403	1,505,996
Other city tax	98,650	131,656	685,654
Licenses and permits	150,730	144,275	130,544
Use of money and property	111,865	59,232	63,679
Intergovernmental	707,753	963,519	727,261
Charges for service	36,516	51,259	42,332
Special assessments	84,147	140	101,715
Miscellaneous	109,488	130,654	99,050
	<hr/>		
Total	\$ 5,573,754	5,014,765	5,275,169
	<hr/>		
Disbursements:			
Operating:			
Public safety	\$ 1,365,250	1,025,310	802,089
Public works	434,043	423,936	412,802
Culture and recreation	514,466	406,993	372,715
Community and economic development	590,473	696,232	731,619
General government	651,414	654,196	599,362
Debt service	1,911,863	2,024,166	1,752,589
Capital projects	1,973,326	2,664,191	770,297
	<hr/>		
Total	\$ 7,440,835	7,895,024	5,441,473
	<hr/>		

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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Des Moines, Iowa 50319-0004

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hiawatha, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 25, 2005. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hiawatha's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation the we consider to be material weaknesses.

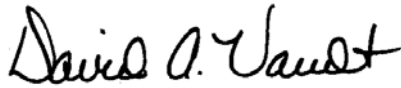
Compliance and Other Matters

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

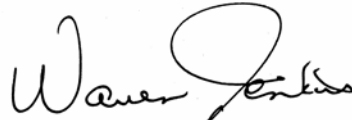
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 25, 2005

City of Hiawatha

Schedule of Findings

Year ended June 30, 2005

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No matters were noted.

City of Hiawatha
Schedule of Findings
Year ended June 30, 2005

Findings Related to Statutory Reporting:

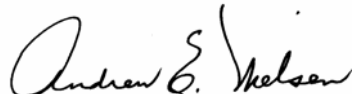
- (1) Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- (2) Certified Budget – Disbursements during the year ended June 30, 2005 did not exceed the amounts budgeted.
- (3) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (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.
- (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 City’s investment policy were noted.

City of Hiawatha

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Carrie L. Livingston, CPA, Assistant Auditor


Andrew E. Nielsen, CPA
Deputy Auditor of State