



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

Contact: Ernest Ruben
515/281-5834

FOR RELEASE

October 11, 2022

Auditor of State Rob Sand today released an audit report on Hiawatha Water Department, Hiawatha, Iowa.

FINANCIAL HIGHLIGHTS:

The Department's receipts totaled \$4,156,781, for the year ended June 30, 2022, an 18.3% decrease from the prior year. Disbursements for the year ended June 30, 2022 totaled \$3,969,344 a 14.4% decrease from the prior year. The decrease in receipts and disbursements is due to a note issuance and related construction project performed more in the prior fiscal year.

AUDIT FINDINGS:

Sand reported two findings related to the receipt and disbursement of taxpayer funds. The findings are found on pages 38 and 39 of this report. The findings address a lack of segregation of duties and unresolved variances in the utility reconciliations. Sand provided the Water Department with recommendations to address the findings.

The findings discussed above are repeated from the prior year. The Water Department Board has a fiduciary responsibility to provide oversight of the Water Department's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the audit report is available for review on the Auditor of State's web site at [Audit Reports – Auditor of State](#).

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HIAWATHA WATER DEPARTMENT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENT
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2022

Hiawatha Water Department



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Rob Sand
Auditor of State

October 3, 2022

Officials of the Hiawatha Water Department
Hiawatha, Iowa

Dear Board Members:

I am pleased to submit to you the financial and compliance audit report for the Hiawatha Water Department for the year ended June 30, 2022. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the Hiawatha Water Department throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

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Hiawatha Water Department

Officials

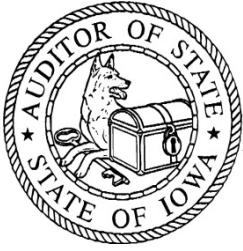
(Before January 2022)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Carl Ransford	Chairperson	Jan 2024
Troy Anderson	Vice Chairperson	Jan 2022
Patrick White	Trustee	Jan 2023
Robert Rampulla	Trustee	Jan 2026
Ruth Hospodarsky	Trustee	Jan 2027
Marty Recker	Superintendent	Indefinite
Sara Ries	Billing Clerk	Indefinite
Stacey Carter	Assistant Billing Clerk	Indefinite

(After January 2022)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Carl Ransford	Chairperson	Jan 2024
Troy Anderson	Vice Chairperson	Jan 2028
Patrick White	Trustee	Jan 2023
Robert Rampulla	Trustee	(Resigned Jun 2022)
Mike Nesslage (Appointed Jul 2022)	Trustee	Jan 2026
Ruth Hospodarsky	Trustee	Jan 2027
Marty Recker	Superintendent	Indefinite
Sara Ries	Billing Clerk	Indefinite
Stacey Carter	Assistant Billing Clerk	Indefinite

Hiawatha Water Department



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Independent Auditor's Report

To the Officials of the Hiawatha Water Department:

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Hiawatha Water Department, Hiawatha, Iowa, as of and for the year ended June 30, 2022, and the related Notes to Financial Statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the Hiawatha Water Department as of June 30, 2022, and the respective changes in cash basis financial position for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of the Hiawatha Water Department, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 9 to the financial statements, the Hiawatha Water Department adopted new accounting guidance related to Governmental Accounting Standards Board Statement No. 87, Leases. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1, and for determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hiawatha Water Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hiawatha Water Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hiawatha Water Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements. The supplementary information included on Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information on Schedule 1 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

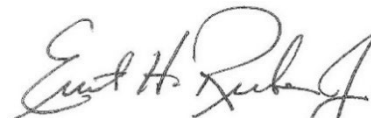
Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Water Department's Proportionate Share of the Net Pension Liability and the Schedule of Water Department's Contributions on pages 8 through 10 and 22 through 30 but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2022 on our consideration of the Hiawatha Water Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Hiawatha Water Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Hiawatha Water Department's internal control over financial reporting and compliance.



Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

October 3, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Hiawatha Water Department provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2022. We encourage readers to consider this information in conjunction with the Water Department's financial statement, which follows.

2022 FINANCIAL HIGHLIGHTS

- The Water Department's total receipts decreased 18.3%, or approximately \$932,000 from fiscal year 2021 to fiscal year 2022. This is largely due a reduction in proceeds received from the issuance of a sewer revenue note during the prior fiscal year. Also, there were no local option sales tax receipts from the City of Hiawatha in fiscal year 2022.
- The Water Department's total disbursements decreased 14.4%, or approximately \$668,000, from fiscal year 2021 to fiscal year 2022. This is largely due to fewer payments made on construction projects during FY2022.
- The Water Department's total cash balance increased 6.7%, or approximately \$187,000, from June 30, 2021 to June 30, 2022.

USING THIS ANNUAL REPORT

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

Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Water Department's financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Balance presents information on the Water Department's receipts and disbursements, non-operating receipts and disbursements and whether the Water Department's cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

Other Information further explains and supports the financial statement with a comparison of the Water Department's budget for the year and the Water Department's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the individual Enterprise Fund Accounts.

BASIS OF ACCOUNTING

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

FINANCIAL ANALYSIS OF THE HIAWATHA WATER DEPARTMENT

Statement of Cash Receipts, Disbursements and Changes in Cash Balance

The purpose of the statement is to present the receipts received by the Water Department and the disbursements paid by the Water Department, both operating and non-operating. The statement also presents a fiscal snapshot of the Water Department’s cash balance at year end. Over time, readers of the financial statement are able to determine the Water Department’s financial position by analyzing the increase or decrease in cash balance.

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, rent for space on the water tower, taps and miscellaneous fees. A summary of cash receipts, disbursements and changes in the cash balance for the years ended June 30, 2021 and June 30, 2022 is presented below:

	Changes in Cash Balance	
	Year ended June 30,	
	2022	2021
Receipts:		
Interest on investments	\$ 4,499	7,476
Charges for service	1,836,743	1,677,101
Sewer and storm water fees collected for the City	1,663,712	1,487,287
Miscellaneous	225,463	191,104
Local option sales tax from the City	-	83,353
Note proceeds	426,431	1,642,937
Total receipts	4,156,848	5,089,258
Disbursements:		
Plant operation and maintenance	267,035	251,336
Distribution operation and maintenance	336,172	202,990
Administration	634,136	548,401
Debt service	149,736	124,374
Capital outlay	922,083	2,048,104
Sewer and storm water fees remitted to the City	1,660,182	1,462,129
Total disbursements	3,969,344	4,637,334
Change in cash balance before transfers	187,504	451,924
Transfers to the City	-	(153,350)
Change in cash balance	187,504	298,574
Cash balance beginning of year	2,806,098	2,507,524
Cash balance end of year	\$ 2,993,602	2,806,098

The Water Department had \$256,670 in restricted fund balance compared to \$248,573 in FY2021 which is an increase of 3.2%, or approximately \$8,000, over the prior year. The unrestricted fund balance is \$2,736,932, which is an increase of 7.0%, or approximately \$179,000 over the prior year.

The Water Department’s unrestricted cash balance is available for use in the routine operations of the plant, distribution and administrative areas of the Water Department and for the capital improvements to the plant and distribution areas. State and federal laws and regulations require the Water Department to perform specific maintenance and monitoring functions in the collection and treatment of water sources before final distribution.

The cash balance increased approximately \$187,000 over the prior year, mainly due to reduction in capital outlay expenses.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Water Department did not amend its budget.

The Water Department's charges for service receipts were \$154,951 more than budgeted and miscellaneous receipts were \$180,015 more than budgeted.

The Water Department's disbursements were \$409,102 less than budgeted for the year due to a substantial decrease in capital outlay spending.

DEBT ADMINISTRATION

At June 30, 2022, the Water Department had \$1,856,728 of revenue notes outstanding compare to \$1,542,297 at June 30, 2021.

Debt increased as a result of the Water Department issuing state revolving loan notes for construction of a groundwater storage tank and booster station construction projects. Although issued in FY21, the balance increased due to more money drawn than principal and interest paid.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Current economic conditions beyond the Water Department's Trustees' control play a significant role in the daily operations of the water plant and distribution services. These conditions include, but are not limited to:

- The need to constantly maintain facilities, wells, vehicles and machinery.
- The need to comply with federal and state regulations for the production of water and well-head protection.
- The need to maintain up-to-date technology at a reasonable cost.
- The fluctuation of the cost of the chemicals and energy used to produce quality water.

CONTACTING THE WATER DEPARTMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, customers and creditors with a general overview of the Hiawatha Water Department's finances and to show the Water Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hiawatha Water Department, 101 Emmons Street, PO Box 485, Hiawatha, Iowa 52233.

Basic Financial Statement

Hiawatha Water Department

Hiawatha Water Department
Statement of Cash Receipts, Disbursements and
Changes in Cash Balance
As of and for the year ended June 30, 2022

Operating receipts:	
Charges for service	\$ 1,836,743
Miscellaneous	<u>225,463</u>
Total operating receipts	<u>2,062,206</u>
Operating disbursements:	
Business type activities:	
Plant operation and maintenance	267,035
Distribution operation and maintenance	336,172
Administration	<u>634,136</u>
Total operating disbursements	<u>1,237,343</u>
Excess of operating receipts over operating disbursements	<u>824,863</u>
Non-operating receipts (disbursements):	
Interest on investments	4,499
Sewer and storm water fees collected for the City	1,663,712
Note proceeds	426,431
Debt service	(149,736)
Capital outlay	(922,083)
Sewer and storm water fees remitted to the City	<u>(1,660,182)</u>
Net non-operating receipts (disbursements)	<u>(637,359)</u>
Excess of receipts over disbursements	187,504
Cash balance beginning of year	<u>2,806,098</u>
Cash balance end of year	<u>\$ 2,993,602</u>
Cash Basis Fund Balance	
Restricted for:	
Sewer and storm water fees	\$ 152,333
Debt service	13,073
Customer water deposits	<u>91,264</u>
Total restricted cash basis fund balance	256,670
Unrestricted	<u>2,736,932</u>
Total cash basis fund balance	<u>\$ 2,993,602</u>

See notes to financial statement.

Hiawatha Water Department

Notes to Financial Statement

June 30, 2022

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Hiawatha Water Department is a component unit of the City of Hiawatha, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Water Department is governed by a five-member Board of Trustees appointed by the Mayor and approved by the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Water Department are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise 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 an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. Basis of Accounting

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

D. Restricted Cash Basis Fund Balance

Funds set aside for sewer and storm water fees and customer water deposits are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) Cash and Pooled Investments

The Water Department's deposits in banks at June 30, 2022 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 ensure there will be no loss of public funds.

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

The Water Department had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$130,383. There were no limitations or restrictions on withdrawals for the IPAIT investments. The Water Department's investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

(3) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the Water Department, except for those covered by another retirement system. Employees of the Water Department are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member’s beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member’s accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS’ Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the “entry age normal” actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2022, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Water Department contributed 9.44% of covered payroll, for a total rate of 15.73%.

The Water Department’s contributions to IPERS for the year ended June 30, 2022 totaled \$37,885.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2022, the Water Department had a liability of \$6,713 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Water Department’s proportion of the net pension liability was based on the Department’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2021, the Water Department’s proportion was 0.004789%, which was a decrease of 0.000141% from its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the Water Department’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$(23,341), \$44,183 and \$283,051, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability (asset) in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2020 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0%	4.43%
International equity	17.5	6.01
Global smart beta equity	6.0	5.10
Core plus fixed income	26.0	0.29
Public credit	4.0	2.08
Cash	1.0	(0.25)
Private equity	13.0	9.51
Private real assets	7.5	4.63
Private credit	3.0	2.87
Total	<u>100.0%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Water Department will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of the Water Department's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate – The following presents the Water Department's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.00%, as well as what the Water Department's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Water Department's proportionate share of the net pension liability	\$ 237,610	6,713	(186,792)

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(4) Other Postemployment Benefits (OPEB)

Plan Description – The City of Hiawatha operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses which the Water Department participates. Group insurance benefits are established under Iowa Code Chapter 509A.13. The Water Department currently finances the benefit plan on a pay-as-you-go basis. For the year ended June 30, 2022, the City contributed \$62,764 and plan members eligible for benefits contributed \$1,422 to the plan. At June 30, 2022, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by City of Hiawatha are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy.

Retired participants must be age 65 or older and be a full-time employee of the City of Hiawatha for 15 continuous years or, if under age 65, be a full-time employee of the City of Hiawatha for 25 continuous years at retirement. At June 30, 2022, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	3
Active employees	<u>6</u>
Total	<u>9</u>

(5) Compensated Absences

Water Department 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 Water Department until used or paid. The Water Department’s approximate liability for earned vacation and sick leave payable to employees at June 30, 2022 is as follows:

Type of Benefit	Amount
Vacation	\$ 27,000
Sick leave	<u>12,000</u>
Total	<u>\$ 39,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2022.

(6) Risk Management

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

(7) Water Revenue Capital Loan Notes, Series 2020 – Direct Borrowing

A summary of changes in the note payable for the year ended June 30, 2022 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Water revenue capital loan note capital loan note - direct borrowing	\$ 1,542,297	426,431	112,000	1,856,728	114,000

On October 10, 2020, the Hiawatha Water Department entered into a state revolving fund loan and disbursement agreement with the Iowa Finance Authority (IFA) and the Iowa Department of Natural Resources for the issuance of up to \$2,672,000 of sewer revenue note with interest at 1.75% per annum. The note was issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa for the purpose of paying the cost of construction of a groundwater storage tank and booster station. In the event of a default, the issuer shall have the right to take any action authorized under the regulations, the revenue notes or the agreement and to take whatever action at law or equity may appear necessary or desirable to collect the amounts then due and thereafter to become due under the agreement or to enforce the performance and observation of any duty, covenant, obligation or agreement of the participant under the agreement. The Water Department will draw down funds from IFA upon request to reimburse the Water Department for costs as they are incurred.

During the year ended June 30, 2022, the Water Department drew down \$426,431 of the authorized amount. An initiation fee of \$13,360 (0.50% of the authorized borrowing) was charged by IFA. The initiation fee was withheld from the first proceeds of the sewer revenue note drawn by the Water Department. The agreement requires the Water Department to annually pay a .25% servicing fee on the outstanding principal balance. A final repayment schedule has not yet been adopted. During the year ended June 30, 2022, the Water Department paid principal of \$112,000 and interest of \$33,019 leaving a balance of \$1,856,728 on the note at June 30, 2022.

The resolution providing for the issuance of the sewer revenue notes includes the following provisions.

- (a) The issuer shall maintain insurance for the benefit of the Noteholders on the insurable portions of the system in an amount that would normally be carried by private companies engaged in a similar kind of business.
- (b) The rents, rates and other charges shall be at least sufficient to meet the operation and maintenance expenses of the storage tank and booster station and to produce and maintain net receipts at a level not less than 110% of the amount of principal and interest on the revenue notes.
- (c) Money in the Revenue Fund shall be disbursed to make deposits into a separate and special fund to pay current expenses. The fund shall be known as the water utility operation and maintenance fund and shall always be sufficient to meet current expenses of the months plus 1/12th of expenses payable on an annual basis such as insurance.
- (d) Money in the Revenue Fund shall next be disbursed into a water revenue note principal and interest sinking account to pay principal and interest on the note. The required amount to be deposited into the fund in any month shall be equal to 1/6th of the installment of interest coming due on the next interest payment plus 1/12th of the installment of principal coming due on the next principal payment date.

(8) Construction Contracts

The Water Department has entered into construction contracts totaling \$310,850 for ground backwash detention tank project. As of June 30, 2022, costs of \$205,675 have been paid on the contract. The remaining \$105,175 will be paid as work on this project progresses.

(9) Lease Agreements

The Water Department owns two water towers the Water Department rents to cellular radio-telephone communication companies. Effective January 1, 2019 and July 1,2019, the Water Department entered into two five-year leases. The Water Department is to receive monthly payments of \$653 and \$767, respectively with an incremental lending rate of 1.75%.

Year Ending June 30,	Tower Rental		
	Principal	Interest	Total
2023	\$ 16,670	375	17,045
2024	12,346	97	12,443
Total	<u>\$ 29,016</u>	<u>472</u>	<u>29,488</u>

Other Information

Hiawatha Water Department
 Budgetary Comparison Schedule
 of Receipts, Disbursements and Changes in Balance -
 Budget and Actual
 Other Information

Year ended June 30, 2022

	Actual	Less Amounts not Required to be Budgeted	Net
Receipts:			
Use of money and property	\$ 4,499	-	4,499
Charges for service	3,500,455	1,663,711	1,836,744
Miscellaneous	225,463	-	225,463
Total receipts	3,730,417	1,663,711	2,066,706
Disbursements:			
Business type activities	3,969,344	1,660,182	2,309,162
Excess (deficiency) of receipts over (under) disbursements	(238,927)	3,529	(242,456)
Other financing sources - SRF Loan	426,431	-	426,431
Change in cash balance	187,504	3,529	183,975
Cash balance beginning of year	2,806,098	148,804	2,657,294
Cash balance end of year	\$ 2,993,602	152,333	2,841,269

See accompanying independent auditor's report.

Budget Amounts		Final to Net Variance
Original	Final	
15,000	15,000	(10,501)
1,681,792	1,681,792	154,952
45,448	45,448	180,015
1,742,240	1,742,240	324,466
2,718,264	2,718,264	409,102
(976,024)	(976,024)	733,568
-	-	426,431
(976,024)	(976,024)	1,159,999
600,450	25,544	2,631,750
(375,574)	(950,480)	3,791,749

Hiawatha Water Department

Hiawatha Water Department

Notes to Other Information – Budgetary Reporting

June 30, 2022

The Hiawatha Water Department prepares a budget on the cash basis of accounting for all funds except sewer and storm water fees collected for and remitted to the City and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget, which includes the Water Department, on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund. The Water Department's disbursements are budgeted in the business type activities function. During the year, the Water Department adopted zero budget amendments.

During the year ended June 30, 2022, disbursements did not exceed the amount budgeted.

Hiawatha Water Department

Schedule of the Water Department's Proportionate Share of the Net Pension Liability (Asset)

Iowa Public Employees' Retirement System
For the Last Eight Years*
(In Thousands)

Other Information

	2022	2021	2020	2019
Water Department's proportion of the net pension liability	0.004789%	0.004527%	0.004657%	0.004145%
Water Department's proportionate share of the net pension liability	\$ 7	344	271	262
Water Department's covered payroll	\$ 389	357	295	277
Water Department's proportionate share of the net pension liability as a percentage of its covered payroll	1.80%	96.36%	91.86%	94.58%
IPERS' net position as a percentage of the total pension liability	100.81%	82.90%	85.45%	83.62%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

2018	2017	2016	2015
0.003746%	0.005209%	0.004795%	0.004815%
247	325	238	195
338	370	336	324
73.08%	87.84%	70.83%	60.19%
82.21%	81.82%	85.19%	87.61%

Hiawatha Water Department
Schedule of Water Department Contributions

Iowa Public Employees' Retirement System
For the Last Ten Years
(In Thousands)

Other Information

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Statutorily required contribution	\$ 38	37	34	28
Contributions in relation to the statutorily required contribution	<u>(38)</u>	<u>(37)</u>	<u>(34)</u>	<u>(28)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Water Department's covered payroll	\$ 401	389	357	295
Contributions as a percentage of covered payroll	9.44%	9.44%	9.44%	9.44%

See accompanying independent auditor's report.

2018	2017	2016	2015	2014	2013
25	30	33	30	29	27
(25)	(30)	(33)	(30)	(29)	(27)
-	-	-	-	-	-
277	338	370	336	324	311
8.93%	8.93%	8.93%	8.93%	8.93%	8.67%

Hiawatha Water Department
Notes to Other Information – Pension Liability
Year ended June 30, 2022

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

Supplementary Information

Hiawatha Water Department
Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Balance

Enterprise Fund Accounts

As of and for the year ended June 30, 2022

	Water Operating	Meter Deposit	City Waterworks
Operating receipts:			
Charges for service:			
Sale of water	\$ 1,659,922	-	-
Maintenance program	121,754	-	-
Penalties	14,453	-	-
Tower contract	16,991	-	-
Midway	4,103	-	-
Meter charge	19,520	-	-
Total charges for service	<u>1,836,743</u>	-	-
Miscellaneous:			
Sales tax	28,575	-	-
Water excise tax	103,806	-	-
Customer deposits	-	26,395	-
Miscellaneous	66,687	-	-
Total miscellaneous	<u>199,068</u>	<u>26,395</u>	-
Total operating receipts	<u>2,035,811</u>	<u>26,395</u>	-
Operating disbursements:			
Business type activities:			
Plant operation and maintenance:			
Personal services	258,453	-	-
Contractual services	8,582	-	-
Total plant operation and maintenance	<u>267,035</u>	-	-
Distribution operation and maintenance:			
Contractual services	217,962	-	-
Commodities	118,210	-	-
Total distribution operation and maintenance	<u>336,172</u>	-	-
Administration:			
Personal services	352,387	-	-
Contractual services	180,545	22,081	-
Commodities	79,123	-	-
Total administration	<u>612,055</u>	<u>22,081</u>	-
Total operating disbursements	<u>1,215,262</u>	<u>22,081</u>	-
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>820,549</u>	<u>4,314</u>	-

Capital Improvements	Total
-	1,659,922
-	121,754
-	14,453
-	16,991
-	4,103
-	19,520
-	1,836,743
-	28,575
-	103,806
-	26,395
-	66,687
-	225,463
-	2,062,206
-	258,453
-	8,582
-	267,035
-	217,962
-	118,210
-	336,172
-	352,387
-	202,626
-	79,123
-	634,136
-	1,237,343
-	824,863

(Continued on next page)

Hiawatha Water Department

Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Balance

Enterprise Fund Accounts
(continued)

As of and for the year ended June 30, 2022

	<u>Water Operating</u>	<u>Meter Deposit</u>	<u>City Waterworks</u>
Non-operating receipts (disbursements):			
Interest on investments	4,307	192	-
Sewer and storm water fees collected for the City	-	-	1,663,712
Note proceeds	-	-	-
Debt service	-	-	-
Capital outlay	(244,099)	-	-
Sewer and storm water fees remitted to the City	-	-	(1,660,182)
Total non-operating receipts (disbursements)	<u>(239,792)</u>	<u>192</u>	<u>3,530</u>
Excess (deficiency) of receipts over (under) disbursements	580,757	4,506	3,530
Cash balance beginning of year	<u>2,950,832</u>	<u>86,758</u>	<u>148,803</u>
Cash balance end of year	<u>\$ 3,531,589</u>	<u>91,264</u>	<u>152,333</u>

See accompanying independent auditor's report.

<u>Capital</u>	
<u>Improvements</u>	<u>Total</u>
-	4,499
-	1,663,712
426,431	426,431
(149,736)	(149,736)
(677,984)	(922,083)
-	(1,660,182)
<u>(401,289)</u>	<u>(637,359)</u>
(401,289)	187,504
<u>(380,295)</u>	<u>2,806,098</u>
<u>(781,584)</u>	<u>2,993,602</u>



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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 Officials of the Hiawatha Water Department

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Hiawatha Water Department, Hiawatha, Iowa, as of and for the year ended June 30, 2022, and the related Notes to Financial Statements, which collectively comprise the Water Department's basic financial statements, and have issued our report thereon dated October 3, 2022. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hiawatha Water Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hiawatha Water Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hiawatha Water Department's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Water Department's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control described in the Schedule of Findings as item 2022-001 to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hiawatha Water Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 noncompliance or other matters which are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Water Department's operations for the year ended June 30, 2022 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Water Department. 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.

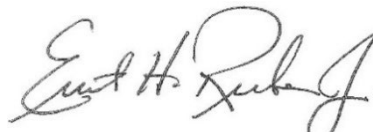
Hiawatha Water Department's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Hiawatha Water Department's responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The Hiawatha Water Department's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Water Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Water Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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



Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

October 3, 2022

Hiawatha Water Department

Schedule of Findings

Year ended June 30, 2022

Finding Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

2022-001 Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Water Department’s financial statement.

Condition – One individual has control over cash receipts, handling cash and recording cash. Additionally, one individual has control over billing, collecting, depositing, posting and reconciling utility receipts.

Cause – The Water Department has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Water Department’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The Water Department should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel, including Water Department officials. The reviews should be documented by the signature or initials of the reviewer and the date of the review.

Response – With our office staff being so small, the Water Department will continue to do our best to try and find new ways to segregate the office duties.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Hiawatha Water Department

Schedule of Findings

Year ended June 30, 2022

Other Findings Related to Required Statutory Reporting:

- 2022-A Certified Budget – The budget certified by the City of Hiawatha includes an amount for the Hiawatha Water Department. Disbursements during the year ended June 30, 2021 did not exceed the amount budgeted.
- 2022-B Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in the Attorney General’s opinion dated April 25, 1979 were noted.
- 2022-C Travel Expense – No disbursements of Water Department money for travel expenses of spouses of Water Department officials or employees were noted.
- 2022-D Business Transactions – No business transactions between the Water Department and Water Department officials or employees were noted.
- 2022-E Restricted Donor Activity – No transactions were noted between the Water Department, Water Department officials, Water Department employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.
- 2022-F Bond Coverage – Surety bond coverage of Water Department officials and employees is carried by the City of Hiawatha in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- 2022-G Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 2022-H 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 Water Department’s investment policy were noted.

Hiawatha Water Department

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA Deputy
Katherine L. Rupp, CPA, Manager
David A. Slocum, CPA, Senior Auditor
Enoch Duval, Staff Auditor
Zachary T. Shaw, Staff Auditor