



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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NEWS RELEASE

FOR RELEASE _____

October 19, 2006

Contact: Andy Nielsen
515/281-5834

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

The Water Department's receipts totaled \$1,429,111 for the year ended June 30, 2006, a 24 percent increase over 2005. The receipts included \$740,680 in charges for service, \$560,326 in sewer and storm water fees collected for the City and \$21,431 in interest on investments.

Disbursements for the year totaled \$1,297,150, a 36 percent increase over the prior year, and included \$736,917 for operations and improvements and \$560,233 for sewer and storm water fees remitted to the City of Hiawatha.

The significant increase in receipts is due primarily to a rate increase that went into effect July 1, 2005. The significant increase in disbursements is due to capital project activity during fiscal year 2006.

A copy of the audit report is available for review in the Water Department'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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HIAWATHA WATER DEPARTMENT
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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Hiawatha Water Department

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Robert Rampulla	Chairman	Jan 2006
Richard Larson	Trustee	Jan 2007
Charlie Fridal	Trustee	Jan 2009
James Lavenz	Trustee	Jan 2010
Sandy Brewer	Trustee	Jan 2011
Carl Ransford	Superintendent	Indefinite
Debra Larson	Billing Clerk	Indefinite
Sara Ries	Assistant Billing Clerk	Indefinite
(After January 2006)		
Charlie Fridal	Chairman	Jan 2009
Richard Larson	Trustee	Jan 2007
James Lavenz	Trustee	Jan 2010
Sandy Brewer	Trustee	Jan 2011
Robert Rampulla	Trustee	Jan 2012
Carl Ransford	Superintendent	Indefinite
Debra Larson	Billing Clerk	Indefinite
Sara Ries	Assistant Billing Clerk	Indefinite

Hiawatha Water Department



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Independent Auditor's Report

To the Board of Trustees of the
Hiawatha Water Department:

We have audited the accompanying financial statement of the Hiawatha Water Department, Hiawatha, Iowa, as of and for the year ended June 30, 2006. This financial statement is the responsibility of Water Department officials. Our responsibility is to express an opinion on the financial statement 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 opinion.

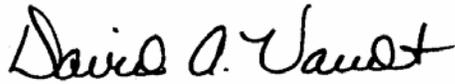
As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statement of the Hiawatha Water Department is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Hiawatha that is attributable to the transactions of the Water Department.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the Hiawatha Water Department as of June 30, 2006, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 6, 2006 on our consideration of the Hiawatha Water Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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 on 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 9 and pages 18 through 20 are not required parts of the financial statement, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 6, 2006

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, 2006. We encourage readers to consider this information in conjunction with the Water Department's financial statement, which follow.

2006 FINANCIAL HIGHLIGHTS

- The Water Department's total receipts increased 24%, or approximately \$275,000, from fiscal 2005 to fiscal 2006, due primarily to a rate increase that went into effect July 1, 2005.
- The Water Department's total disbursements and transfers increased 34%, or approximately \$342,000, from fiscal 2005 to fiscal 2006, primarily due to increased capital project activity during fiscal year 2006.
- The Water Department's total cash basis net assets increased 11%, or approximately \$71,000, from June 30, 2005 to June 30, 2006.

USING THIS ANNUAL REPORT

The Hiawatha Water Department has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the Hiawatha Water Department's cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. 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.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Hiawatha Water Department's cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Hiawatha Water Department's financial statement. 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 Basis Net Assets presents information on the Hiawatha Water Department's 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.

Required Supplementary Information further explains and supports the financial statement with a comparison of the Water Department's budget for the year.

Other Supplementary Information provides detailed information about the individual Enterprise Funds.

FINANCIAL ANALYSIS OF THE HIAWATHA WATER DEPARTMENT

Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets

The purpose of the statement is to present the receipts received by the Hiawatha 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 balances at year end. Over time, readers of the financial statement are able to determine the Hiawatha Water Department's financial position by analyzing the increase and decrease in cash basis net assets.

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. The City of Hiawatha pays the Hiawatha Water Department contract fees to include sewer and storm water charges on the water bill and costs involved in preparing the billing, i.e. meter reading for sewer rates, data entry of meter reads, sales tax return preparation and payment. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2006 and June 30, 2005 is presented below:

	Changes in Cash Basis Net Assets	
	Year ended June 30,	
	2006	2005
Receipts:		
Interest on investments	\$ 21,431	9,879
Charges for service	740,680	632,602
Sewer and storm water fees collected for City	560,326	427,659
Miscellaneous	106,674	83,892
Total receipts	<u>1,429,111</u>	<u>1,154,032</u>
Disbursements and transfers:		
Plant operation and maintenance	106,905	92,995
Distribution operation and maintenance	116,625	114,264
Administration	289,211	255,924
Capital outlay	224,176	65,044
Sewer and garbage fees remitted to City	560,233	427,664
Transfers to the City of Hiawatha	61,293	60,503
Total disbursements and transfers	<u>1,358,443</u>	<u>1,016,394</u>
Net change in cash basis net assets	70,668	137,638
Cash basis net assets beginning of year	<u>626,541</u>	<u>488,903</u>
Cash basis net assets end of year	<u>\$ 697,209</u>	<u>626,541</u>

The Water Department's net assets are available for use in the routine operations for the plant, distribution and administrative areas of the Water Department and for capital improvements to the plant and distribution areas. State and federal laws and regulations require the Hiawatha Water Department to perform specific maintenance and monitoring functions in the collection and treatment of water sources before final distribution.

DEBT ADMINISTRATION

At June 30, 2006 and June 30, 2005, the Hiawatha Water Department did not have any debt outstanding. However, each year the Water Department transfers to the City of Hiawatha an amount approximating 37% of the principal and interest coming due on the City's general obligation bonds issued June 1, 2000. This amount represents the Water Department's pro rata share of bond proceeds used to finance improvements and extensions to the utility.

ECONOMIC FACTORS

The Hiawatha Water Department raised the water rate charges as of July 2005 to improve its financial position for the next fiscal year and to pay for a water storage unit used at wells 6 and 8 on Boyson Road. Current economic conditions beyond the Hiawatha 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 our citizens, taxpayers, 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, 81 Emmons Street, P.O. Box 485, Hiawatha, Iowa 52233.

Hiawatha Water Department

Financial Statement

Hiawatha Water Department

Hiawatha Water Department
Statement of Cash Receipts, Disbursements and
Changes in Cash Basis Net Assets
As of and for the year ended June 30, 2006

Operating receipts:	
Charges for service	\$ 740,680
Miscellaneous	106,674
Total operating receipts	<u>847,354</u>
Operating disbursements:	
Business type activities:	
Plant operation and maintenance	106,905
Distribution operation and maintenance	116,625
Administration	289,211
Capital outlay	224,176
Total operating disbursements	<u>736,917</u>
Excess of operating receipts over operating disbursements	<u>110,437</u>
Non-operating receipts (disbursements):	
Interest on investments	21,431
Sewer and storm water fees collected for City	560,326
Sewer and storm water fees remitted to City	(560,233)
Net non-operating receipts	<u>21,524</u>
Excess of receipts over disbursements	131,961
Transfers to the City of Hiawatha	<u>(61,293)</u>
Change in cash basis net assets	70,668
Cash basis net assets beginning of year	<u>626,541</u>
Cash basis net assets end of year	<u>\$ 697,209</u>
Cash Basis Net Assets	
Restricted for:	
Sewer and storm water fees	\$ 14,578
Customer water deposits	90,489
Capital improvements	181,136
Total restricted net assets	<u>286,203</u>
Unrestricted	<u>411,006</u>
Total cash basis net assets	<u>\$ 697,209</u>

See notes to financial statement.

Hiawatha Water Department
Notes to Financial Statements
June 30, 2006

(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 City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Water Department are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its receipts, disbursements and balances. The funds are classified as Enterprise Funds in the financial statement. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

C. Basis of Accounting

The Hiawatha 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 Assets and Net Assets

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The Water Department's deposits in banks at June 30, 2006 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 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 \$357,931 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The Water Department's investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

(3) Pension and Retirement Benefits

The Water Department contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Water Department is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The Water Department's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$17,466, \$15,951 and \$14,984, respectively, equal to the required contributions for each year.

(4) Compensated Absences

Water Department employees accumulate a limited amount of earned but unused vacation 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 compensated absences payable to employees at June 30, 2006 is \$5,500. This liability has been computed based on rates of pay in effect at June 30, 2006.

(5) 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Transfers to the City of Hiawatha:		
Debt Service	Water Operating	\$ 43,605
Internal Service:		
Equipment Reserve	Water Operating	<u>17,688</u>
Total		<u>\$ 61,293</u>

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

(7) Construction Contracts/Commitments

During the year ended June 30, 2005, the Water Department entered into a project in conjunction with the City of Hiawatha to build a public works building. The total amount of the project is \$900,000, and the portion of costs to be shared by the Water Department is \$225,000. No payments were made during the year ended June 30, 2006. However, payments are expected during fiscal year 2007.

Required Supplementary Information

Hiawatha Water Department

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis)

Year ended June 30, 2006

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Use of money and property	\$ 21,431	-	21,431
Charges for service	1,301,006	560,326	740,680
Miscellaneous	106,674		106,674
Total receipts	1,429,111	560,326	868,785
Disbursements:			
Business type activities	1,297,150	560,233	736,917
Excess of receipts over disbursements	131,961	93	131,868
Other financing uses, net	(61,293)	-	(61,293)
Change in cash basis net assets	70,668	93	70,575
Cash basis net assets beginning of year	626,541	14,485	612,056
Cash basis net assets end of year	\$ 697,209	14,578	682,631

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
13,500	13,500	7,931
686,850	686,850	53,830
54,707	54,707	51,967
<u>755,057</u>	<u>755,057</u>	<u>113,728</u>
<u>751,061</u>	<u>751,061</u>	<u>14,144</u>
3,996	3,996	127,872
<u>(61,293)</u>	<u>(61,293)</u>	<u>-</u>
<u>(57,297)</u>	<u>(57,297)</u>	<u>127,872</u>
<u>141,822</u>	<u>112,464</u>	<u>499,592</u>
<u>84,525</u>	<u>55,167</u>	<u>627,464</u>

Hiawatha Water Department

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

The Hiawatha Water Department prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except sewer and storm water fees collected for and remitted to the City. 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. The Water Department's budget is reflected in the final budgeted amount.

During the year ended June 30, 2006, disbursements did not exceed the amount budgeted.

Other Supplementary Information

Hiawatha Water Department
Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets

Enterprise Funds

As of and for the year ended June 30, 2006

	Water Operating	Meter Deposit
Operating receipts:		
Charges for service:		
Sale of water	\$ 725,351	-
Penalties	8,433	-
Tower contract	6,896	-
	740,680	-
Miscellaneous:		
Sales tax collected	40,083	-
Refunds and reimbursements	20,888	-
Customer deposits	-	25,260
Miscellaneous	20,443	-
	81,414	25,260
Total operating receipts	822,094	25,260
Operating disbursements:		
Business type activities:		
Plant operation and maintenance:		
Personal services	86,446	-
Contractual services	20,459	-
	106,905	-
Distribution operation and maintenance:		
Contractual services	82,555	-
Commodities	34,070	-
	116,625	-
Administration:		
Personal services	193,259	-
Contractual services	67,706	7,485
Commodities	20,761	-
	281,726	7,485
Capital outlay:		
Water main and line improvements	48,246	-
Total operating disbursements	553,502	7,485
Excess (deficiency) of operating receipts over (under) operating disbursements	268,592	17,775

City	Capital	
Waterworks	Improvements	Total
-	-	725,351
-	-	8,433
-	-	6,896
-	-	740,680
-	-	40,083
-	-	20,888
-	-	25,260
-	-	20,443
-	-	106,674
-	-	847,354
-	-	86,446
-	-	20,459
-	-	106,905
-	-	82,555
-	-	34,070
-	-	116,625
-	-	193,259
-	-	75,191
-	-	20,761
-	-	289,211
-	175,930	224,176
-	175,930	736,917
-	(175,930)	110,437

Hiawatha Water Department
Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Basis Net Assets

Enterprise Funds

As of and for the year ended June 30, 2006

	Water Operating	Meter Deposit
Non-operating receipts (disbursements):		
Interest on investments	16,744	-
Sewer and storm water fees collected for the City	-	-
Sewer and storm water fees remitted to the City	-	-
Total non-operating receipts (disbursements)	16,744	-
Excess (deficiency) of receipts over (under) disbursements	285,336	17,775
Transfers in (out):		
Enterprise:		
Capital Improvements	(186,646)	-
Water Operating	-	-
To City of Hiawatha:		
Debt Service	(43,605)	-
Internal Service:		
Equipment Reserve	(17,688)	-
Total transfers in (out)	(247,939)	-
Net change in cash basis net assets	37,397	17,775
Cash basis net assets beginning of year	373,609	72,714
Cash basis net assets end of year	\$ 411,006	90,489
Cash Basis Fund Balances:		
Reserved for:		
Sewer and storm water fees	\$ -	-
Customer water deposits	-	90,489
Capital improvements	-	-
Unreserved	411,006	-
Total cash basis fund balances	\$ 411,006	90,489

See accompanying independent auditor's report.

City Waterworks	Capital Improvements	Total
-	4,687	21,431
560,326	-	560,326
(560,233)	-	(560,233)
93	4,687	21,524
93	(171,243)	131,961
-	-	(186,646)
-	186,646	186,646
-	-	(43,605)
-	-	(17,688)
-	186,646	(61,293)
93	15,403	70,668
14,485	165,733	626,541
14,578	181,136	697,209
14,578	-	14,578
-	-	90,489
-	181,136	181,136
-	-	411,006
14,578	181,136	697,209

Hiawatha Water Department



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 Board of Trustees of the
Hiawatha Water Department:

We have audited the financial statement of the Hiawatha Water Department, Hiawatha, Iowa, as of and for the year ended June 30, 2006, and have issued our report thereon dated September 6, 2006. Our report expressed an unqualified opinion on the financial statement which was 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 Hiawatha Water Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Hiawatha Water Department's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying Schedule of Findings.

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 statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is considered to be a material weakness.

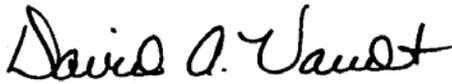
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hiawatha Water Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and other matters, 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 Water Department's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement 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.

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 6, 2006

Hiawatha Water Department

Schedule of Findings

Year ended June 30, 2006

Findings Related to the Financial Statement:

REPORTABLE CONDITION:

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

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

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

Response – We will have the City of Hiawatha Finance Director review and check over all reports. We will have all board members review financial records. Next year we will have a new City Hall and a third person will be receipting cash payments.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Hiawatha Water Department

Schedule of Findings

Year ended June 30, 2006

Other Findings Related to Required Statutory Reporting:

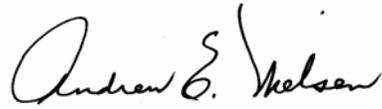
- (1) Certified Budget – The budget certified by the City of Hiawatha includes amounts for the Hiawatha Water Department. Disbursements during the year ended June 30, 2006 did not exceed the amount budgeted.
- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of Water Department money for travel expenses of spouses of Water Department officials or employees were noted.
- (4) Business Transactions – No business transactions between the Water Department and Water Department officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of Water Department officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found that we believe should have been approved in the minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Water Department’s investment policy were noted.

Hiawatha Water Department

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager
Daniel L. Grady, Staff Auditor
Tracy L. Haronik, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State