



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

December 17, 2012

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$17,145,895 for the year ended June 30, 2012, a 25% increase from the over the prior year. The receipts included \$4,706,172 in property tax, \$2,200,459 from tax increment financing, \$963,802 from local option sales tax, \$1,491,459 from charges for service, \$952,606 from operating grants, contributions and restricted interest, \$1,116,545 from capital grants, contributions and restricted interest, \$7,602 from unrestricted interest on investments, \$5,575,915 from note proceeds, \$55,120 from other general receipts and \$76,215 from component unit transfers.

Disbursements for the year totaled \$16,092,709, a 1.6% increase over the prior year, and included \$4,580,163 for capital projects, \$3,468,756 for debt service, \$2,125,619 for public safety and payments of \$2,295,000 to escrow agents to refund debt. Also, disbursements for business type activities totaled \$605,956.

The significant increase in receipts is primarily due to note proceeds received during fiscal year 2012 for various street improvements and capital projects.

A copy of the audit report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1220-0545-B00F.pdf>.

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CITY OF HIAWATHA

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

JUNE 30, 2012

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City of Hiawatha

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
Thomas A. Theis	Mayor	Jan 2012
Robert Rampulla	Mayor Pro tem	Jan 2014
Nancy Melsa	Council Member	Jan 2012
Richard Olson	Council Member	Jan 2012
Robert Wheeler	Council Member	Jan 2012
Martin Bruns	Council Member	Jan 2014
Gary G. Rogers, Jr.	City Administrator	Indefinite
Cindy Kudrna	Finance Director	Indefinite
Kimberly Downs	City Clerk	Indefinite
Mark Parmenter	City Attorney	Indefinite
Gary Casady	Water Board Chairperson	Jan 2014
Beverly Daws	Water Board Trustee	Jan 2012
Charles Fridal	Water Board Trustee	Jan 2015
Troy Anderson	Water Board Trustee	Jan 2016
Patrick White	Water Board Trustee	Jan 2017
Carl Ransford	Water Superintendent	Indefinite
Debra Larson	Billing Clerk	Indefinite
Sara Ries	Assistant Billing Clerk	Indefinite
(After January 2012)		
Thomas A. Theis	Mayor	Jan 2016
Robert Rampulla	Mayor Pro tem	Jan 2014
Martin Bruns	Council Member	Jan 2014
Nancy Melsa	Council Member	Jan 2016
Richard Olson	Council Member	Jan 2016
Robert Wheeler	Council Member	Jan 2016
Gary G. Rogers, Jr.	City Administrator	(Resigned) March 2012
Cindy Kudrna	Finance Director	Indefinite
Kimberly Downs	City Clerk	Indefinite

Mark Parmenter	City Attorney	Indefinite
Patrick White	Water Board Chairperson	Jan 2017
Gary Casady	Water Board Trustee	Jan 2014
Charles Fridal	Water Board Trustee	Jan 2015
Troy Anderson	Water Board Trustee	Jan 2016
Beverly Daws	Water Board Trustee	Jan 2018
Carl Ransford	Water Superintendent	Indefinite
Debra Larson	Billing Clerk	Indefinite
Sara Ries	Assistant Billing Clerk	Indefinite



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hiawatha, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Hiawatha's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

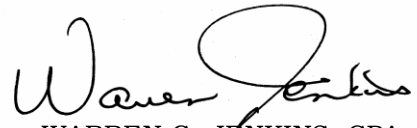
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hiawatha as of June 30, 2012, and the respective 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 November 27, 2012 on our consideration of the City of Hiawatha's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hiawatha's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hiawatha's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 30 through 32 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 27, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Hiawatha provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Receipts for the City's governmental activities increased 26.7%, or approximately \$3,415,000, from fiscal year 2011 to fiscal year 2012. Capital grants, contributions and restricted interest increased approximately \$1,105,000 due to the City receiving a RISE grant from the Iowa Department of Transportation (IDOT). Property and other city tax, including tax increment financing, increased approximately \$493,000, primarily due to an increase in tax increment financing. The City also received approximately \$1,998,000 more in note proceeds in fiscal year 2012 than in fiscal year 2011.
- Disbursements for the City's governmental activities increased 3%, or approximately \$459,000, from fiscal year 2011 to fiscal year 2012. During fiscal year 2012, the City refunded \$2,295,000 of debt. Capital projects also decreased approximately \$1,493,000.
- The City's total cash basis net assets increased 18%, or approximately \$1,053,000, from June 30, 2011 to June 30, 2012. Of this amount, the net assets of the governmental activities increased approximately \$795,000 and the net assets of the business type activities increased approximately \$258,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into the following activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, debt proceeds and state and federal grants finance most of these activities.
- Business Type Activities include the sanitary sewer system. These activities are financed primarily by user charges.
- The Component Unit includes the Hiawatha Water Department, which accounts for the activities of the waterworks.

Fund Financial Statements

The City has three kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Urban Renewal Tax Increment, Local Option Sales Tax and Employee Benefits, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Fund. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide information for the Sewer Fund, considered to be a major fund of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

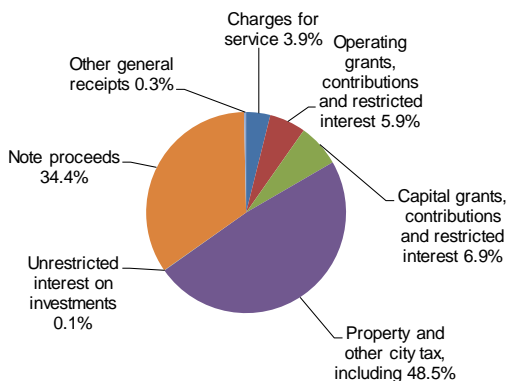
3) Fiduciary funds account for resources held for others. The Fiduciary funds consist of the Agency, Flexible Benefits Fund and the Water Department Clearing Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

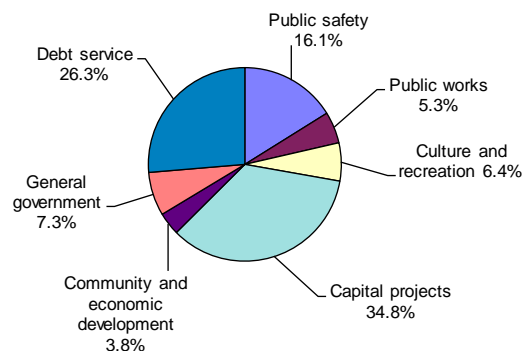
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased approximately \$795,000 over a year ago, from \$5,367,544 to \$6,162,294. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service	\$ 633,757	\$ 660,367
Operating grants, contributions and restricted interest	952,606	967,636
Capital grants, contributions and restricted interest	1,116,545	11,928
General receipts:		
Property and other city tax, including tax increment financing	7,870,433	7,377,498
Unrestricted interest on investments	7,512	6,291
Note proceeds	5,575,915	3,577,912
Other general receipts	55,120	194,980
Total receipts	16,211,888	12,796,612
Disbursements:		
Public safety	2,125,619	2,242,129
Public works	694,613	673,193
Health and social services	19,500	18,500
Culture and recreation	839,416	861,197
Community and economic development	503,720	360,720
General government	959,966	1,039,325
Debt service	3,468,756	3,759,876
Capital projects	4,580,163	6,073,153
Payment to escrow agent to refund debt	2,295,000	-
Total disbursements	15,486,753	15,028,093
Change in cash basis net assets before transfers	725,135	(2,231,481)
Transfers, net	69,615	68,578
Change in cash basis net assets	794,750	(2,162,903)
Cash basis net assets beginning of year	5,367,544	7,530,447
Cash basis net assets end of year	\$ 6,162,294	\$ 5,367,544

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 26.7%, or approximately \$3,415,000. The total cost of all programs and services increased approximately \$459,000. The increase in receipts was primarily the result of an increase in the amount of note proceeds received in fiscal year 2012 compared to the amount of note proceeds received in fiscal year 2011, the receipt of a RISE grant from the IDOT and an increase in property and other city tax, including tax increment financing. The increase in disbursements was primarily due to refunding debt of \$2,295,000, netted with a decrease in capital project activity in fiscal year 2012 of approximately \$1,493,000.

The cost of all governmental activities this year was \$15,486,753. However, as shown in the Statement of Activities and Net Assets, the amount financed by taxes for these activities was \$7,870,433, with the remainder paid for with user fees, grants, contributions, interest on investments, fund balances and note proceeds.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 857,702	830,596
General receipts:		
Unrestricted interest on investments	90	255
Sale of assets	-	7,000
Total receipts	<u>857,792</u>	<u>837,851</u>
Disbursements:		
Sewer	<u>605,956</u>	<u>817,820</u>
Increase in cash basis net assets before transfers	251,836	20,031
Transfers, net	<u>6,600</u>	<u>8,600</u>
Increase in cash basis net assets	258,436	28,631
Cash basis net assets beginning of year	<u>507,737</u>	<u>479,106</u>
Cash basis net assets end of year	<u><u>\$ 766,173</u></u>	<u><u>507,737</u></u>

The business type activities receipts for the fiscal year were \$857,792 compared to \$837,851 last year. Disbursements for the fiscal year decreased 26% to \$605,956. As a result of these items, the cash balance increased 51%, or \$258,436, over the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Hiawatha completed the year, its governmental funds reported a combined fund balance of \$6,162,294, an increase of approximately \$795,000 over last year's total. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$306,788 over the prior year to \$773,086. This increase can be attributed to an increase in property tax receipts and a decrease in disbursements for fiscal year 2012.
- The Special Revenue, Urban Renewal Tax Increment Fund had a cash balance of \$315,575 at the end of the fiscal year, which represents an increase of \$204,009 over the previous year. The increase was the result of an increase in tax increment financing collections.

- The Special Revenue, Local Option Sales Tax Fund had a cash balance of \$1,154,077 at the end of the fiscal year, which represents an increase of \$515,130 over the previous fiscal year. The increase is due to the City receiving the local option sales tax for the entire fiscal year and transferring less funds during the year to the Capital Projects Fund.
- The Special Revenue, Employee Benefits Fund had a cash balance of \$561,016 at the end of the fiscal year, which represents an increase of \$257,882 over the previous fiscal year. The increase in fiscal year 2012 is primarily due to the increase in taxable property valuations over fiscal year 2011 and a decrease in disbursements.
- The Debt Service Fund cash balance decreased \$807,975 to \$115,932 during the fiscal year. The decrease was due to less property tax receipts and less transfers in.
- The Capital Projects Fund is a combination of several sub-funds, including the Projects Fund, the Library Project Fund, the Local Option Sales Tax (LOST) Projects Fund and the Tax Increment Financing (TIF) Projects Fund. The fiscal year 2012 total cash balance for the Capital Projects Fund was \$2,865,083, an increase of \$202,963 over the prior fiscal year. The main contributing factor to the increase is the receipt of a RISE grant from the Iowa Department of Transportation.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Sewer Fund cash balance increased 51% to \$766,173 due to less disbursements made in fiscal year 2012 compared to fiscal year 2011.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended the budget once. The amendment was approved on May 16, 2012. The amendment resulted in an increase in disbursements of \$5,105,098 related to the undertaking of several capital projects, refunding a debt issue and increased general government costs. The City also increased the budget for other financing sources for the receipt of note proceeds to refund certain debt.

The City's receipts were \$582,579 less than budgeted. This was primarily due to the City over budgeting in the areas of intergovernmental and charges for service receipts.

Total disbursements were \$6,010,987 less than the amended budget. The actual disbursements for the capital projects and debt service functions were \$2,717,237 and \$2,298,329, respectively, less than the amended budget. This was primarily due to less TIF project payments and the City budgeted the refunding debt from the debt service function when it is reported as an other financing use.

During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$19,695,000 of general obligation capital loan notes and bonds outstanding, compared to \$19,235,000 last year.

Debt increased as a result of issuing three general obligation capital loan notes. The debt issued was to refund certain general obligation capital loan notes and for various capital projects.

The City has obtained a bond rating and has continued to obtain favorable rates comparable to between a and aaa ratings. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$20,187,900, including \$492,900 of TIF indebtedness, is below its constitutional debt limit of approximately \$25,000,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Hiawatha's elected officials considered many factors when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities. One of those factors is the economy. The City of Hiawatha is located in Linn County, Iowa. The County's unemployment rate in June 2012 was 5.4% versus 6.0% percent a year ago. This compares with the State's unemployment rate of 5.1% and the national rate of 8.2% percent.

The Consumer Price Index for urban consumers in August 2012 was 1.7% higher than the previous year.

These indicators were taken into account when adopting the budget for fiscal year 2013. Total projected receipts, including beginning balances available for appropriation in the budget, are \$22,665,266, a decrease of 5.45% from the fiscal year 2012 budget. This receipt decrease is primarily attributable to the issuance of fewer notes. The City will use its resources to finance programs we currently offer and fund our capital improvements. Budgeted disbursements (not including transfers) are expected to decrease 41.3% to \$12,239,632 from the final fiscal year 2012 budget. The City has added no major new programs to the fiscal year 2013 budget. However, it should be noted the most significant change is in the capital projects function.

If the budget estimates are realized, the City's cash balance is expected to increase \$1,207,774 by the close of fiscal year 2013, with sufficient balances remaining.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Finance Director Cindy Kudrna, 101 Emmons Street, Hiawatha, Iowa 52233-1697.

Basic Financial Statements

City of Hiawatha

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2012

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 2,125,619	439,937	70,192	-
Public works	694,613	3,688	666,348	-
Health and social services	19,500	-	-	-
Culture and recreation	839,416	114,784	215,175	-
Community and economic development	503,720	4,255	-	-
General government	959,966	71,093	-	-
Debt service	3,468,756	-	891	-
Capital projects	4,580,163	-	-	1,116,545
Total governmental activities	13,191,753	633,757	952,606	1,116,545
Business type activities:				
Sewer	605,956	857,702	-	-
Total primary government	\$ 13,797,709	1,491,459	952,606	1,116,545
Component unit:				
Hiawatha Water Department	\$ 1,057,375	1,030,013	-	145,170
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Note proceeds, net of \$29,085 discount				
Payment to escrow agent to refund debt				
Sale of capital assets				
Miscellaneous				
Component unit transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Urban renewal purposes				
Streets				
Debt service				
Equipment				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Hiawatha Water Department
(1,615,490)	-	(1,615,490)	
(24,577)	-	(24,577)	
(19,500)	-	(19,500)	
(509,457)	-	(509,457)	
(499,465)	-	(499,465)	
(888,873)	-	(888,873)	
(3,467,865)	-	(3,467,865)	
(3,463,618)	-	(3,463,618)	
(10,488,845)	-	(10,488,845)	
-	251,746	251,746	
(10,488,845)	251,746	(10,237,099)	
			117,808
3,606,090	-	3,606,090	-
1,100,082	-	1,100,082	-
2,200,459	-	2,200,459	-
963,802	-	963,802	-
7,512	90	7,602	4,301
5,575,915	-	5,575,915	-
(2,295,000)	-	(2,295,000)	-
38,025	-	38,025	-
17,095	-	17,095	-
69,615	6,600	76,215	(76,215)
11,283,595	6,690	11,290,285	(71,914)
794,750	258,436	1,053,186	45,894
5,367,544	507,737	5,875,281	564,709
\$ 6,162,294	766,173	6,928,467	610,603
\$ 315,575	-	315,575	-
306,483	-	306,483	-
115,932	-	115,932	-
570,317	-	570,317	-
4,145,819	-	4,145,819	171,046
708,168	766,173	1,474,341	439,557
\$ 6,162,294	766,173	6,928,467	610,603

City of Hiawatha

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

As of and for the year ended June 30, 2012

	Special Revenue			
	General	Urban Renewal Tax Increment	Local Option Sales Tax	Employee Benefits
Receipts:				
Property tax	\$ 2,503,444	-	-	1,076,832
Tax increment financing	-	2,200,459	-	-
Other city tax	17,671	-	963,802	8,143
Licenses and permits	219,117	-	-	-
Use of money and property	52,102	-	2,328	-
Intergovernmental	183,500	-	-	-
Charges for service	272,547	-	-	-
Special assessments	-	-	-	-
Miscellaneous	145,479	-	-	-
Total receipts	3,393,860	2,200,459	966,130	1,084,975
Disbursements:				
Operating:				
Public safety	1,524,818	-	-	529,837
Public works	60,411	-	-	-
Health and social services	19,500	-	-	-
Culture and recreation	664,545	-	-	154,713
Community and economic development	8,788	494,932	-	-
General government	809,010	-	-	142,543
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	3,087,072	494,932	-	827,093
Excess (deficiency) of receipts over (under) disbursements	306,788	1,705,527	966,130	257,882
Other financing sources (uses):				
Note proceeds, net of \$29,085 discount	-	-	-	-
Payment to escrow agent to refund debt	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	(1,501,518)	(451,000)	-
Component unit transfers in	-	-	-	-
Sale of capital assets	-	-	-	-
Total other financing sources (uses)	-	(1,501,518)	(451,000)	-
Net change in cash balances	306,788	204,009	515,130	257,882
Cash balances beginning of year	466,298	111,566	638,947	303,134
Cash balances end of year	\$ 773,086	315,575	1,154,077	561,016
Cash Basis Fund Balances				
Restricted for:				
Urban renewal purposes	\$ -	315,575	-	-
Debt service	-	-	-	-
Streets	-	-	-	-
Other purposes	64,918	-	1,154,077	561,016
Committed for equipment	-	-	-	-
Unassigned	708,168	-	-	-
Total cash basis fund balances	\$ 773,086	315,575	1,154,077	561,016

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
1,092,581	-	-	4,672,857
-	-	-	2,200,459
7,501	-	-	997,117
-	-	-	219,117
251	260	11	54,952
-	1,112,571	666,234	1,962,305
-	-	7,770	280,317
640	7,668	-	8,308
-	4,710	52,327	202,516
1,100,973	1,125,209	726,342	10,597,948
-	48,155	22,809	2,125,619
-	130,184	504,018	694,613
-	-	-	19,500
-	846	19,312	839,416
-	-	-	503,720
-	8,413	-	959,966
3,468,756	-	-	3,468,756
-	4,580,163	-	4,580,163
3,468,756	4,767,761	546,139	13,191,753
(2,367,783)	(3,642,552)	180,203	(2,593,805)
2,328,639	3,247,276	-	5,575,915
(2,295,000)	-	-	(2,295,000)
1,501,518	525,250	-	2,026,768
-	-	(64,250)	(2,016,768)
24,651	34,964	-	59,615
-	38,025	-	38,025
1,559,808	3,845,515	(64,250)	3,388,555
(807,975)	202,963	115,953	794,750
923,907	2,662,120	261,572	5,367,544
115,932	2,865,083	377,525	6,162,294
-	-	-	315,575
115,932	-	-	115,932
-	-	306,483	306,483
-	2,294,766	71,042	4,145,819
-	570,317	-	570,317
-	-	-	708,168
115,932	2,865,083	377,525	6,162,294

Exhibit C

City of Hiawatha

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

As of and for the year ended June 30, 2012

	<u>Enterprise</u>
	<u>Sewer</u>
Operating receipts:	
Charges for service	\$ 857,702
Operating disbursements:	
Business type activities	605,956
Excess of operating receipts over operating disbursements	<u>251,746</u>
Non-operating receipts:	
Interest on investments	90
Excess of receipts over disbursements	<u>251,836</u>
Transfers:	
Component unit transfers in	16,600
Operating transfer out	(10,000)
Total net transfers	<u>6,600</u>
Net change in cash balances	258,436
Cash balances beginning of year	<u>507,737</u>
Cash balances end of year	<u>\$ 766,173</u>
Cash Basis Fund Balances	
Unrestricted	<u>\$ 766,173</u>

See notes to financial statements.

City of Hiawatha

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

As of and for the year ended June 30, 2012

	Agency	
	Flexible Benefits	Water Department Clearing
Additions:		
Employee contributions	\$ 12,211	-
Reimbursements from Water Department	-	465,024
Total additions	<u>12,211</u>	<u>465,024</u>
Deductions:		
Medical reimbursements	5,144	-
Child care reimbursements	4,032	-
Payments made on behalf of Water Department	-	465,094
Total deductions	<u>9,176</u>	<u>465,094</u>
Net change in cash balances	3,035	(70)
Cash balance beginning of year	(306)	(57,954)
Cash balance end of year	<u>\$ 2,729</u>	<u>(58,024)</u>

See notes to financial statements.

City of Hiawatha

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Hiawatha is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1950 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Hiawatha has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Hiawatha (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Discretely Presented Component Unit

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

The Hiawatha Water Department was established to operate the City's waterworks facilities. The Water Department is governed by a five member Board of Trustees appointed by the Mayor and approved by the City Council. Title to all property of the Water Department is held in the name of the City. A financial benefit/burden relationship exists between the City and the Water Department in that the City is authorized by statute to issue general obligation debt for a City utility and may certify taxes for the payment of the debt. The Water Department is presented as a discretely presented component unit in these financial statements.

Blended Component Units – The Hiawatha Firefighters Association, Friends of the Hiawatha Public Library and Friends of Hiawatha Parks and Recreation are legally separate from the City but are so intertwined with the City they are, in substance, the same as the City. These component units are reported as part of the City and blended into the Special Revenue Funds of the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Linn County Assessor's Conference Board, City Assessor's Conference Board, Linn County Emergency Management Commission, Cedar Rapids/Linn County Solid Waste Agency and Linn County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Local Option Sales Tax Fund is used to account for local option sales tax collections authorized by referendum and used for improvements related to the water and sewer systems, streets, public safety, park and recreation.

The Employee Benefits Fund is used to account for the employee benefit tax levy used to fund pension and related employee benefits.

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

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

The City reports the following major proprietary fund:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

Additionally, the City reports two fiduciary funds to account for assets held by the City as an agent for employee flexible benefit contributions and the related payments and a fund which acts as a clearing account for payments made by the City on behalf of the Water Department and the related reimbursements from the Water Department.

C. Measurement Focus and Basis of Accounting

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

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

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,460,370 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Notes		General Obligation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 2,055,000	363,269	245,000	176,600	2,300,000	539,869
2014	2,080,000	323,063	250,000	166,800	2,330,000	489,863
2015	1,940,000	288,895	260,000	156,800	2,200,000	445,695
2016	1,630,000	253,410	270,000	146,400	1,900,000	399,810
2017	1,300,000	218,132	280,000	135,600	1,580,000	353,732
2018-2022	4,860,000	594,880	1,590,000	499,800	6,450,000	1,094,680
2023-2026	1,415,000	95,758	1,520,000	155,400	2,935,000	251,158
Total	\$ 15,280,000	2,137,407	4,415,000	1,437,400	19,695,000	3,574,807

General Obligation Capital Loan Notes

On December 21, 2011, the City issued \$1,795,000 of general obligation capital loan notes for various street improvements. The notes bear interest at .40% to 2.35% per annum and mature on June 1, 2023.

On April 4, 2012, the City issued \$2,855,000 of general obligation capital loan notes for the current refunding of \$1,340,000 of general obligation capital loan notes issued May 1, 2006 and for various capital projects. The notes bear interest at .35% to 2.10% per annum and mature on June 1, 2024. The refunding was undertaken to reduce total debt service payments over the next four years by \$84,375 and resulted in an economic gain of \$82,127.

On April 4, 2012, the City issued \$955,000 of general obligation refunding capital loan notes for the current refunding of \$955,000 of general obligation capital loan note anticipation project notes issued June 15, 2010. The notes bear interest at .70% to 3.00% per annum and mature on June 1, 2024. The refunding was undertaken to secure long term financing for the anticipation project notes, so there is no economic gain or loss associated with the refunding.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$209,934, \$191,782 and \$173,120, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 42 active and 4 retired members in the plan. Retired participants must be age 65 or older and have been a full-time employee of the City for 15 continuous years or, if under age 65, have been a full-time employee of the City for 25 continuous years at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. For retirees under age 65, the City pays the same premium for the medical/prescription drug benefits as active employees. For retirees age 65 or older, the City pays a reduced premium for supplemental Medicare coverage and, as an added benefit, the single rate premium for a qualifying spouse for up to 3 years.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a month to month basis. The most recent active member monthly premiums for the City are \$439 for single coverage, \$831 for employee/children, \$900 for employee/spouse and \$1,348 for family coverage. The same monthly premiums apply to retirees under the age of 65. For retirees age 65 or older, the monthly premiums range from \$203 to \$416 for supplemental Medicare coverage. For the year ended June 30, 2012, the City contributed \$528,899 and plan members eligible for benefits contributed \$10,698 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 92,000
Sick leave	<u>37,000</u>
Total	<u>\$129,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

(7) Construction Contracts

The City entered into various construction contracts during the year. Unpaid contract commitments as of June 30, 2012 totaled \$569,457. The balance on these contracts will be paid as work on the projects progresses.

(8) Urban Renewal Project Rebate and Economic Development Agreements

Rebate Agreements

The City has twelve active tax increment financing agreements. The City agreed to assist in urban renewal projects by rebating incremental property tax paid by the participating companies with respect to the improvements set forth in the urban renewal plan. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the participating companies will be rebated for a period of up to five years beginning with the tax year in which the property tax on the completed value of the improvements is first paid. The total amount to be rebated in fiscal year 2013 for the active tax increment financing agreements is not to exceed \$482,900. The actual amount rebated during the year ended June 30, 2012 was \$437,072.

Economic Development Contributions

On October 20, 2010, the City passed and approved Resolution No. 10-247 pledging financial support of \$10,000 to Priority One for services provided in attracting businesses to the metro area and assisting existing companies with expansion projects per year for fiscal year 2011 through fiscal year 2016. The contribution is to be appropriated annually from the incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa and paid to the corporation in annual installments of \$10,000.

On October 20, 2010, the City passed and approved Resolution No. 10-248 pledging financial support of \$10,000 for fiscal year 2012 to Entrepreneurial Development Center Inc. (EDC) for services provided to businesses. The contribution was appropriated from the incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa.

The above agreements are not general obligations of the City. However, the agreements are subject to the constitutional debt limitation of the City.

The rebate agreements and economic development contributions are subject to an annual contribution and only the amount payable in the succeeding year is subject to the constitutional debt limitation.

(9) Sewer Maintenance Agreement

The City entered into an agreement with the City of Cedar Rapids to discharge all waste collected in its sanitary sewer system into the City of Cedar Rapids' interceptor for treatment. The City agreed to share the operation, maintenance and construction costs of the water pollution control facility of the City of Cedar Rapids. The City's share of the operation and maintenance costs for the year ended June 30, 2012 totaled \$535,837.

(10) Industrial Development Revenue Bonds

The City has issued a total of \$2,142,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$1,112,891 is outstanding at June 30, 2012. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

(11) Private College Revenue Bonds

The City has issued a total of \$4,500,000 of private college revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$4,500,000 is outstanding at June 30, 2012. The bonds and related interest are payable solely from revenues derived from the project to be financed and the bond principal and interest do not constitute liabilities of the City.

(12) Midwestern Disaster Area Revenue Bonds

The City has issued a total of \$3,000,000 of Midwestern disaster area revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$2,854,650 is outstanding at June 30, 2012. The bonds and related interest are payable solely from revenues derived from the project to be financed and the bond principal and interest do not constitute liabilities of the City.

(13) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the

purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2012 were \$25,409 for an extension to July 2012. The City made the annual payment for fiscal year 2013 after June 30, 2012.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with crime, general liability, commercial auto, workers compensation, and umbrella liability in the amount of \$10,000 per occurrence, \$2,000,000 per occurrence, \$2,000,000 per occurrence, \$1,000,000 per accident and \$4,000,000 per occurrence, respectively. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(14) Solid Waste Agreement

On October 19, 1994, the City entered into a 28E Agreement with Cedar Rapids/Linn County Solid Waste Agency to be an associate member of the Agency. The Cedar Rapids/Linn County Solid Waste Agency was created under Chapter 28E of the Code of Iowa by the City of Cedar Rapids and Linn County to provide for the proper and efficient management and disposal of solid waste. The 28E Agreement between the City of Cedar Rapids and Linn County became fully operative on July 1, 1994 and shall continue until June 30, 2044. At termination, each member and associate member shall make such guarantees as are necessary to facilitate closure of all solid waste disposal sites. All solid waste fees are collected by private solid waste handlers who are licensed by the City.

(15) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue: Urban Renewal Tax Increment	\$ 1,501,518
Capital Projects	Special Revenue: Local Option Sales Tax	451,000
	Road Use Tax	64,250
	Enterprise: Sewer	10,000
		<u>525,250</u>
Total		<u>\$ 2,026,768</u>
<u>Transfers from component unit</u>		
Debt Service	Enterprise: Water Operating	\$ 24,651
Capital Projects	Water Operating	34,964
Enterprise: Sewer	Water Operating	16,600
Total		<u>\$ 76,215</u>

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

(16) Water Department Clearing Fund

The City pays certain disbursements on behalf of the Hiawatha Water Department. The Water Department reimburses the City each month for the prior month's disbursements. Since those disbursements are included in the Water Department's financial statements, a discrete component unit of the City, the disbursements are already included in the Statement of Activities. To avoid double counting as disbursements, the Clearing Fund activity is recorded in an Agency Fund of the City. The nature of the City's Agency Fund results in a negative cash balance at the end of each month, which is cleared out by the receipt of the reimbursement from the Water Department in the following month.

Other Information

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

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Fund Actual	Component Unit Actual	Less Funds not Required to be Budgeted
Receipts:				
Property tax	\$ 4,672,857	-	-	-
Tax increment financing	2,200,459	-	-	-
Other city tax	997,117	-	-	-
Licenses and permits	219,117	-	-	-
Use of money and property	54,952	90	4,301	10
Intergovernmental	1,962,305	-	145,170	-
Charges for service	280,317	857,702	1,773,077	854,022
Special assessments	8,308	-	-	-
Miscellaneous	202,516	-	114,638	39,720
Total receipts	10,597,948	857,792	2,037,186	893,752
Disbursements:				
Public safety	2,125,619	-	-	7,700
Public works	694,613	-	-	-
Health and social services	19,500	-	-	-
Culture and recreation	839,416	-	-	19,312
Community and economic development	503,720	-	-	-
General government	959,966	-	-	-
Debt service	3,468,756	-	-	-
Capital projects	4,580,163	-	-	-
Business type activities	-	605,956	1,915,077	857,702
Total disbursements	13,191,753	605,956	1,915,077	884,714
Excess (deficiency) of receipts over (under) disbursements	(2,593,805)	251,836	122,109	9,038
Other financing sources (uses), net	3,388,555	6,600	(76,215)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	794,750	258,436	45,894	9,038
Balances beginning of year	5,367,544	507,737	564,709	112,468
Balances end of year	\$ 6,162,294	766,173	610,603	121,506

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
4,672,857	4,608,485	4,713,015	(40,158)
2,200,459	2,140,705	2,140,705	59,754
997,117	895,236	1,045,000	(47,883)
219,117	111,950	111,950	107,167
59,333	42,000	45,725	13,608
2,107,475	2,524,750	2,661,300	(553,825)
2,057,074	2,092,698	2,286,908	(229,834)
8,308	-	8,000	308
277,434	94,100	169,150	108,284
12,599,174	12,509,924	13,181,753	(582,579)
2,117,919	2,485,168	2,481,266	363,347
694,613	762,640	774,090	79,477
19,500	20,000	20,000	500
820,104	929,380	912,409	92,305
503,720	492,000	572,300	68,580
959,966	1,138,599	1,074,836	114,870
3,468,756	2,560,741	5,767,085	2,298,329
4,580,163	5,672,000	7,297,400	2,717,237
1,663,331	1,673,433	1,939,673	276,342
14,828,072	15,733,961	20,839,059	6,010,987
(2,228,898)	(3,224,037)	(7,657,306)	5,428,408
3,318,940	3,600,000	5,646,128	(2,327,188)
1,090,042	375,963	(2,011,178)	3,101,220
6,327,522	3,732,737	3,732,737	2,594,785
7,417,564	4,108,700	1,721,559	5,696,005

City of Hiawatha

Notes to Other Information – Budgetary Reporting

June 30, 2012

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, including the discretely presented component unit and excluding the blended component units. However, the sewer and storm water fees collected by the Hiawatha Water Department and remitted to the City of Hiawatha have been deducted in the column “Less Funds not Required to be Budgeted” since these are intra agency transactions not required to be budgeted. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Enterprise Fund and the discretely presented component unit. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$5,105,098. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

Supplementary Information

City of Hiawatha

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

As of and for the year ended June 30, 2012

	Road Use Tax	I-Jobs	Police Forfeiture	Special Fire Department Trust
Receipts:				
Use of money and property	\$ -	-	-	1
Intergovernmental	666,234	-	-	-
Charges for service	-	-	7,770	-
Miscellaneous	-	-	150	8,956
Total receipts	666,234	-	7,920	8,957
Disbursements:				
Operating:				
Public safety	-	-	4,417	8,027
Public works	472,105	31,913	-	-
Culture and recreation	-	-	-	-
Total disbursements	472,105	31,913	4,417	8,027
Excess (deficiency) of receipts over (under) disbursements	194,129	(31,913)	3,503	930
Operating transfers out	(64,250)	-	-	-
Net change in cash balances	129,879	(31,913)	3,503	930
Cash balances beginning of year	176,604	31,913	13,410	9,121
Cash balances end of year	\$ 306,483	-	16,913	10,051
Cash Basis Fund Balances				
Restricted for:				
Streets	\$ 306,483	-	-	-
Other purposes	-	-	16,913	10,051
Total cash basis fund balances	\$ 306,483	-	16,913	10,051

See accompanying independent auditor's report.

Revenue				
K-9 Donations	Hiawatha Firefighters Association	Friends of the Hiawatha Public Library	Friends of Hiawatha Parks and Recreation	Total
-	-	10	-	11
-	-	-	-	666,234
-	-	-	-	7,770
3,501	8,506	13,800	17,414	52,327
3,501	8,506	13,810	17,414	726,342
2,665	7,700	-	-	22,809
-	-	-	-	504,018
-	-	9,933	9,379	19,312
2,665	7,700	9,933	9,379	546,139
836	806	3,877	8,035	180,203
-	-	-	-	(64,250)
836	806	3,877	8,035	115,953
6,453	3,055	7,260	13,756	261,572
7,289	3,861	11,137	21,791	377,525
-	-	-	-	306,483
7,289	3,861	11,137	21,791	71,042
7,289	3,861	11,137	21,791	377,525

City of Hiawatha
Schedule of Indebtedness
Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Capital loan note series 2006	May 1, 2006	3.750-3.875 %	\$ 2,995,000
Capital loan note series 2007	Nov 1, 2007	3.45-3.75	2,600,000
Capital loan note series 2008	Apr 1, 2008	2.40-3.80	2,100,000
Capital loan note series 2009A	Apr 1, 2009	1.60-4.05	2,250,000
Capital loan note series 2009B	Apr 1, 2009	1.60-2.55	690,000
Capital loan note series 2010A (refunding)	Apr 1, 2010	1.00-1.80	665,000
Capital loan note series 2010B	Jun 15, 2010	1.00-3.40	3,140,000
Capital loan note anticipation project notes, series 2010C	Jun 15, 2010	2.00	955,000
Capital loan note series 2011 (refunding)	May 18, 2011	1.00-3.65	3,605,000
Capital loan note series 2011B	Dec 21, 2011	0.40-2.35	1,795,000
Capital loan note series 2012A	Apr 4, 2012	0.35-2.10	2,855,000
Capital loan note series 2012B (refunding)	Apr 4, 2012	0.70-3.00	955,000
Total			
General obligation bonds:			
Series 2006B	Sep 1, 2006	4.00%	\$ 5,500,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
1,645,000	-	1,645,000	-	62,471
1,920,000	-	245,000	1,675,000	70,238
875,000	-	220,000	655,000	29,980
1,825,000	-	160,000	1,665,000	61,333
350,000	-	170,000	180,000	8,330
500,000	-	165,000	335,000	7,268
2,910,000	-	230,000	2,680,000	71,075
955,000	-	955,000	-	19,100
3,605,000	-	275,000	3,330,000	84,033
-	1,795,000	845,000	950,000	7,254
-	2,855,000	-	2,855,000	-
-	955,000	-	955,000	-
<u>\$ 14,585,000</u>	<u>5,605,000</u>	<u>4,910,000</u>	<u>15,280,000</u>	<u>421,082</u>
<u>4,650,000</u>	<u>-</u>	<u>235,000</u>	<u>4,415,000</u>	<u>186,000</u>

City of Hiawatha
Bond and Note Maturities

June 30, 2012

Year Ending June 30,	Capital Loan Note Series 2007		Capital Loan Note Series 2008		General Obligation Capital Loan Note Series 2009A	
	Issued Nov 1, 2007		Issued Apr 1, 2008		Issued Apr 1, 2009	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2013	3.600%	\$ 255,000	3.25%	\$ 110,000	2.55%	\$ 170,000
2014	3.625	260,000	3.40	110,000	2.90	180,000
2015	3.650	275,000	3.50	115,000	3.10	190,000
2016	3.700	285,000	3.65	120,000	3.35	200,000
2017	3.700	295,000	3.75	100,000	3.55	220,000
2018	3.700	305,000	3.80	100,000	3.80	230,000
2019		-		-	4.00	240,000
2020		-		-	4.05	235,000
2021		-		-		-
2022		-		-		-
2023		-		-		-
2024		-		-		-
2025		-		-		-
2026		-		-		-
Total		<u>\$ 1,675,000</u>		<u>\$ 655,000</u>		<u>\$ 1,665,000</u>

Year Ending June 30,	Capital Loan Note Series 2011		Capital Loan Note Series 2011B		General Obligation Capital Loan Note Series 2012A	
	Issued May 18, 2011		Issued Dec 21, 2011		Issued Apr 4, 2012	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2013	1.00%	\$ 280,000	0.50%	\$ 150,000	0.35%	\$ 445,000
2014	1.25	445,000	0.60	150,000	0.45	455,000
2015	1.45	445,000	0.90	135,000	0.55	455,000
2016	1.80	170,000	1.40	60,000	0.75	470,000
2017	2.10	170,000	1.40	60,000	0.90	120,000
2018	2.35	175,000	1.85	60,000	1.10	120,000
2019	2.60	180,000	1.85	65,000	1.25	125,000
2020	2.85	185,000	2.15	65,000	1.45	125,000
2021	3.00	195,000	2.15	65,000	1.65	130,000
2022	3.15	200,000	2.35	70,000	1.80	135,000
2023	3.20	215,000	2.35	70,000	1.95	135,000
2024	3.30	220,000		-	2.10	140,000
2025	3.40	225,000		-		-
2026	3.65	225,000		-		-
Total		<u>\$ 3,330,000</u>		<u>\$ 950,000</u>		<u>\$ 2,855,000</u>

See accompanying independent auditor's report.

City of Hiawatha

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

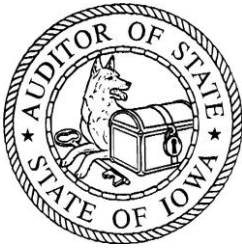
For the Last Ten Years

	2012	2011	2010	2009
Receipts:				
Property tax	\$ 4,672,857	4,623,136	4,175,612	4,119,235
Tax increment financing	2,200,459	1,803,156	1,692,261	1,423,388
Other city tax	997,117	951,205	821,051	100,012
Licenses and permits	219,117	221,051	177,440	168,355
Use of money and property	54,952	53,244	46,271	77,454
Intergovernmental	1,962,305	965,976	823,947	727,027
Charges for service	280,317	368,643	264,839	284,154
Special assessments	8,308	16,150	799	840
Miscellaneous	202,516	201,039	185,149	136,804
Total	\$ 10,597,948	9,203,600	8,187,369	7,037,269
Disbursements:				
Operating:				
Public safety	\$ 2,125,619	2,242,129	2,125,802	1,886,866
Public works	694,613	673,193	643,619	512,414
Health and social services	19,500	18,500	4,050	13,850
Culture and recreation	839,416	861,197	868,640	750,906
Community and economic development	503,720	360,720	137,352	79,856
General government	959,966	1,039,325	986,466	817,429
Debt service	3,468,756	3,759,876	3,352,349	3,058,406
Capital projects	4,580,163	6,073,153	1,268,989	2,439,920
Total	\$ 13,191,753	15,028,093	9,387,267	9,559,647

See accompanying independent auditor's report.

2008	2007	2006	2005	2004	2003
3,298,664	2,962,630	2,823,023	2,534,194	2,113,627	1,918,938
1,487,473	1,259,141	1,074,664	1,740,411	1,420,403	1,505,996
115,909	110,527	95,052	98,650	131,656	685,654
169,797	165,811	148,478	150,730	144,275	130,544
245,308	480,339	227,022	111,865	59,232	63,679
674,455	846,729	1,361,067	707,753	963,519	727,261
203,131	155,341	135,417	36,516	51,259	42,332
1,001	978	985	84,147	140	101,715
177,807	125,004	122,790	109,488	130,654	99,050
6,373,545	6,106,500	5,988,498	5,573,754	5,014,765	5,275,169
1,735,730	1,559,729	1,491,960	1,365,250	1,025,310	802,089
611,525	556,117	564,141	434,043	423,936	412,802
-	-	-	-	-	-
670,286	613,194	575,425	514,466	406,993	372,715
278,561	238,221	232,505	590,473	696,232	731,619
772,037	810,410	785,661	651,414	654,196	599,362
3,359,489	2,087,763	1,721,654	1,911,863	2,024,166	1,752,589
7,246,612	5,739,313	3,033,380	1,973,326	2,664,191	770,297
14,674,240	11,604,747	8,404,726	7,440,835	7,895,024	5,441,473

City of Hiawatha



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hiawatha, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 27, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The financial statements of the Hiawatha Water Department are included in these financial statements as a discretely presented component unit. This report does not include the results of the testing of internal control over financial reporting or compliance and other matters reported on in the financial statements of the Hiawatha Water Department.

Internal Control Over Financial Reporting

The management of the City of Hiawatha is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Hiawatha's internal control over financial reporting as a basis for designing our auditing procedures 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 City of Hiawatha's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hiawatha's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of the 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 a material misstatement of the City of Hiawatha's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above.

Compliance and Other Matters

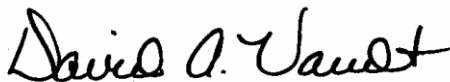
As part of obtaining reasonable assurance about whether the City of Hiawatha's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Hiawatha's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Hiawatha's responses and, accordingly, we express no opinion on them.

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 27, 2012

City of Hiawatha
Schedule of Findings
Year ended June 30, 2012

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

No matters were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2012, did not exceed the amounts budgeted.
- (2) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Longbranch	Firefighter Incentive Dinner	\$3,359
Penguin’s Entertainment Management	Entertainment for Firefighter Incentive Dinner	750

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved closed scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should thoroughly determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation.

Response – We will be more attentive in the upcoming year. Procurement and purchasing policies will be reviewed with the City Council for discussion in the upcoming year as well.

Conclusion – Response accepted.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

City of Hiawatha
Schedule of Findings
Year ended June 30, 2012

- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council 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 City's investment policy were noted.
- (8) Local Option Sales Tax (LOST) – On May 5, 2009, the voters of the City approved adoption of a 1% Local Option Sales Tax to be effective from July 1, 2009 to June 30, 2014. The Local Option Sales Tax was approved to be used for water and sewer system improvements, street improvements, public safety, library, and park and recreation improvements. During fiscal year 2012, the City spent \$49,480 on City Hall repairs which do not appear to meet the requirements of the approved referendum.

Recommendation – The City should ensure the disbursements paid from the Local Option Sales Tax sub-fund in the Capital Projects Fund meet the requirements of the referendum approved by the voters. In addition, a corrective transfer should be made from other funds to reimburse the Local Option Sales Tax sub-fund.

Response – We will be more attentive to the ballot language in the upcoming year. The City will also make the corrective transfer from the Projects sub-fund in the Capital Projects Fund.

Conclusion – Response accepted.

City of Hiawatha

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Daniel L. Grady, Senior Auditor II
Brandon J. Vogel, Staff Auditor
Ryan D. Baker, Auditor Intern

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

Andrew E. Nielsen, CPA
Deputy Auditor of State