

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

June 30, 2009

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# CITY OF HOPKINTON

## OFFICIALS

<u>Date</u>	<u>Title</u>	<u>Term Expires</u>
Cathy Harris	Mayor	Jan 2010
D.J. Hucker	Mayor Pro tem	Jan 2012
Sarah Helle	Council Member	Jan 2010
Robert Ristow	Council Member	Jan 2010
Rick Lange	Council Member	Jan 2012
Steve Davis	Council Member	Stepped down Feb 5, 2009
Robert Porter	Council Member (Returned Feb 9, 2009)	Jan 2012
Diane Nordman	City Clerk	Resigned Oct 17, 2009
Amy Ries	City Clerk	Indefinite
William Blum	Attorney	Indefinite

# Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

## 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 activity, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hopkinton, Iowa, as of and for the year ended June 30, 2009, 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 Hopkinton's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 that 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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2008.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2008, as discussed in the preceding paragraph, the fin-

ancial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hopkinton as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2009 on our consideration of the City of Hopkinton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 26 through 27 are not required parts of the basic financial statements, 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 statements that collectively comprise the City of Hopkinton's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the cash balances at July 1, 2008, as it relates to Schedule 1, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa

November 12, 2009

  
Dietz, Donald & Company, CPAs  
FEIN 42-1172392

*City of Hopkinton*  
*115 First St SE*  
*PO Box 154*  
*Hopkinton, IA 52237-0154*  
*Phone: 563-926-2181*  
*Fax: 563-926-2065*

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Hopkinton 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, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow. Bear in mind that Chapter 11 of the Code of Iowa does not require the City's financial statements to be audited. Therefore any financial information presented for 2008 has not been audited.

2009 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 12.7%, or approximately \$ 47,000, from fiscal 2008 to fiscal 2009. Note proceeds increased by \$ 50,000. However, property taxes decreased by \$ 1,401.

Disbursements of the City's governmental activities decreased 14.5% or approximately \$ 75,000, in fiscal 2009 from fiscal 2008. Public safety, general government and debt service disbursements decreased approximately \$ 29,000, \$ 24,000 and \$ 31,000, respectively.

The City's total cash basis net assets increased over 64%, or approximately \$ 42,000 from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities increased approximately \$ 35,000 while the assets of the business type activity increased approximately \$ 7,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds 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 report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### **The City's Reporting Entity Presentation**

This annual report includes all activities for which the City of Hopkinton City Council is fiscally responsible. These activities, defined as the City's reporting entity, are operated within a separate legal entity that is the primary government and another separate legal entity that is included as a component unit.

The primary government includes the following legal entity:

## The City of Hopkinton

The component unit presentation includes the following legal entity:

### The City of Hopkinton Municipal Utilities

#### 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 three kinds of activities:

1. Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government and debt service. Property tax and state and federal grants finance most of these activities.
2. Business Type Activity includes the sanitary sewer system. This activity is financed primarily by user charges.
3. Component Unit Activities include the Municipal Utility. Although the Municipal Utility is a separate legal entity, the City includes its activities since the City is financially accountable for the Utility.

#### Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include (a) the General Fund, (b) the Special Revenue Funds such as Road Use Tax and Local Option Sales Tax, (c) the Debt Service Fund and (d) the Permanent 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 include a statement of cash receipts, disbursements and changes in cash balances.



2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to account for business type activities. The City maintains one Enterprise Fund to provide separate information for the sewer fund, considered to be a major fund of the City. The required financial statement for the proprietary fund is a statement of cash receipts, disbursements and changes in cash balances.

#### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$ 35,000 to \$ 76,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

##### Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)

	Years Ended June 30,	
	2009	2008
Receipts		
Program receipts		
Charges for service	\$ 96	101
Operating grants, contributions and restricted Interest	94	81
General receipts		
Property tax	123	125
Local option sales tax	59	51
Unrestricted interest on investments	-	12
Loan Proceeds	50	-
Other general receipts	7	12
Total receipts	429	382
Disbursements		
Public safety	68	98
Public works	148	171
Culture and recreation	127	93
Community and economic development	1	2
General government	68	92
Debt service	28	59
Total disbursements	440	515
Change in cash basis net assets before transfers	(11)	(133)
Transfers, net	46	-
Change in cash basis net assets	35	(133)
Cash basis net assets beginning of year	41	174
Cash basis net assets end of year	\$ 76	41

The City's total receipts for governmental activities increased 12.7% or approximately \$ 47,000. The total cost of all programs and services decreased by approximately \$ 75,000, or 14.5% due primarily to no major fire equipment being purchased in fiscal 2009. The significant increase in receipts was primarily the result of a \$ 50,000 cash flow loan being taken out in fiscal 2009.

Property tax receipts decreased approximately \$ 2,000. With little growth, and no increase in rates, property taxes are not anticipated to increase in fiscal 2010.

The cost of all governmental activities was \$ 440,000 compared to \$ 515,000 last year. However, as shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$ 251,000 because some of the cost was paid by those directly benefited from the programs (\$ 96,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 94,000). Overall, in 2009, the City's governmental activities program receipts, including intergovernmental aid and fees for services, increased from approximately \$ 182,000 to approximately \$ 190,000. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$ 182,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and loan proceeds.

Changes in Cash Basis Net Assets of Business Type Activities  
(Expressed in Thousands)

	Year Ended June 30,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service		
Sewer	\$ 100	98
Operating grants	2	0
Other general receipts	1	2
Total receipts	103	100
Disbursements		
Sewer	120	98
Change in cash basis net assets before transfers	(17)	2
Transfers, net	24	0
Change in cash basis net assets	7	2
Cash basis net assets beginning of year	24	22
Cash basis net assets end of year	\$ 31	24

The business type activities receipts for the fiscal year were \$ 103,000 compared to \$ 100,000 last year. The cash balance increased by approximately \$ 7,000. Total disbursements for the fiscal year increased by 22.4% to to a total of \$ 120,000.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Hopkinton completed the year, its governmental funds reported a combined fund balance of \$ 76,098, an increase of \$ 35,193 from last year's total of \$ 40,905. 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 \$ 72,200 from the prior year to \$ 167,575. Receipts increased \$ 20,716 from last year and disbursements decreased \$ 28,630. Loan proceeds from the bank of \$ 50,000 and transfers from the Municipal Utility for \$ 22,700 and the Emergency Fund for \$ 19,000 caused the balance to actually increase.

The Special Revenue, Road Use Tax Fund cash balance decreased \$ 16,857 to a deficit of \$ 7,040 during the fiscal year. The 2009 road use tax allocation decreased \$ 1,841 from 2008, while disbursements decreased \$ 12,961.

The Permanent, Cemetery Perpetual Care Fund cash balance increased \$ 1,162 to \$ 35,222.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Sewer Fund cash balance increased \$ 6,598 leaving the Sewer Fund with a balance of \$ 30,740. Receipts for 2009 were \$ 102,686, \$ 3,113 more than in 2008. Disbursements increased \$ 22,236. The Municipal Utility transferred \$ 24,300 to the Sewer Fund, as a cash flow loan.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The amendment was approved on May 27, 2009. Budgeted disbursements were increased by \$ 99,488; \$ 5,000 for general government and \$ 94,488 for business type activities, which includes the discretely presented component unit.

The City's receipts were \$ 51,011 more than budgeted, primarily due to receiving \$ 33,053 more in grants than budgeted.

## DEBT ADMINISTRATION

At June 30, 2009, the City has \$ 438,000 in long-term debt outstanding, compared to \$ 468,280 last year, as shown in the following.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2009	2008
General obligation notes	\$ 190	209
General obligation loan	48	0
Revenue notes	200	220
Installment agreement	0	39
Total	<u>\$ 438</u>	<u>468</u>

The City borrowed \$ 50,000 for cash flow purposes during the fiscal year, with a remaining loan balance of \$ 48,000 at June 30, 2009. In addition the Municipal Utility transferred \$ 70,000, which the City intends to pay back.

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 \$ 238,000 is significantly below its constitutional debt limit of \$ 952,000.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Hopkinton's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates and fees that will be charged for various City activities. One of those factors is the economy. Nationally, the country is in the depths of a recession, with unemployment reaching 9.4%. However, state-wide things do not look as bleak with unemployment at 6.1%.

In addition, the City has experienced a population decline. City population has decreased nearly 15% over the last thirty years. Taxable valuations are nearly stagnant.

These indicators were taken into account when adopting the budget for fiscal year 2010. Amounts available for appropriation in the operating budget are \$ 443,000, a decrease of 1.1% from the amended fiscal 2009 budget. Budgeted disbursements are expected to decrease by approximately \$ 142,000. The City added no major programs or initiatives to the 2010 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$ 74,000 by the close of 2010.

#### **CONTACTING THE CITY'S 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 Amy Ries, City Clerk, 115 First St SE, Hopkinton, Iowa 52237-0154.

## BASIC FINANCIAL STATEMENTS

CITY OF HOPKINTON  
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS  
As of and for the Year Ended June 30, 2009

Exhibit A

Functions/Programs:	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Operating Grants, Contributions, and Restricted Interest	Charges for Service	Governmental Activities	Business Type Activities	Component Unit Municipal Utilities
Primary Government:					
Governmental activities:					
Public safety	68,438	33,972	(20,089)	-	-
Public works	148,022	37,065	(42,175)	-	-
Culture and recreation	126,594	23,616	(97,078)	-	-
Community and economic development	1,118	450	324	-	327
General government	68,214	630	(63,583)	-	-
Debt service	28,019	-	(28,019)	-	-
Total governmental activities	440,405	95,733	(250,617)	-	-
Business type activity					
Sewer	120,388	99,855	-	(18,176)	(18,176)
Total primary government	\$ 560,793	\$ 195,588	(250,617)	(18,176)	(268,793)
Component Unit:					
Municipal Utilities	\$ 579,795	\$ 573,944			(5,851)
Property and other city tax levied for:					
General purposes			123,424	-	123,424
Local option sales tax			59,182	-	59,182
Unrestricted interest of investments			281	-	281
Loan proceeds			50,000	-	50,000
Miscellaneous			7,223	474	7,697
Transfers			45,700	24,300	70,000
Total general receipts and transfers			285,810	24,774	310,584
Change in cash basis net assets			35,193	6,598	41,791
Cash basis net assets beginning of year			40,905	24,142	65,047
Cash basis net assets end of year			\$ 76,098	\$ 30,740	\$ 106,838
Cash Basis Net Assets					
Restricted:					
Cemetery			\$ 35,222	-	35,222
Utility deposits			-	30,740	30,740
Unrestricted			40,876	-	40,876
			\$ 76,098	\$ 30,740	\$ 106,838
					3,297
					1,036,526
					1,039,823

See notes to financial statements.

Exhibit B

CITY OF HOPKINTON  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
As of and for the Year Ended June 30, 2009

	General	Special Revenue Road Use Tax	Permanent Cemetery Perpetual Care	Nonmajor	Total
<b>Receipts:</b>					
Property tax	\$ 120,717	-	-	2,707	123,424
Other city tax	59,182	-	-	-	59,182
Licenses and permits	630	-	-	-	630
Use of money and property	4,329	-	579	-	4,908
Intergovernmental	55,215	56,502	-	-	111,717
Charges for service	47,624	-	-	-	47,624
Miscellaneous	31,830	-	583	-	32,413
Total receipts	319,527	56,502	1,162	2,707	379,898
<b>Disbursements:</b>					
Operating:					
Public safety	68,438	-	-	-	68,438
Public works	74,663	73,359	-	-	148,022
Culture and recreation	126,594	-	-	-	126,594
Community and economic development	1,118	-	-	-	1,118
General government	68,214	-	-	-	68,214
Debt service	-	-	-	28,019	28,019
Total disbursements	339,027	73,359	-	28,019	440,405
Excess (deficiency) of receipts over (under) disbursements	(19,500)	(16,857)	1,162	(25,312)	(60,507)
Other financing sources (uses):					
Loan proceeds	50,000	-	-	-	50,000
Operating transfers in	41,700	-	-	23,000	64,700
Operating transfers out	-	-	-	(19,000)	(19,000)
Total other financing sources (uses)	91,700	-	-	4,000	95,700
Net change in cash balances	72,200	(16,857)	1,162	(21,312)	35,193
Cash balances beginning of year	95,375	9,817	34,060	(98,347)	40,905
Cash balances end of year	\$ 167,575	(7,040)	35,222	(119,659)	76,098
<b>Cash Basis Fund Balances</b>					
Unreserved:					
General fund	\$ 167,575	-	-	-	167,575
Special revenue funds	-	(7,040)	-	874	(6,166)
Debt service fund	-	-	-	(120,533)	(120,533)
Permanent fund	-	-	35,222	-	35,222
Total cash basis fund balances	\$ 167,575	(7,040)	35,222	(119,659)	76,098

See notes to financial statements.



CITY OF HOPKINTON  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN CASH BALANCES  
 PROPRIETARY FUNDS  
 As of and for the Year Ended June 30, 2009

	<u>Enterprise</u> <u>Sewer</u>
Operating receipts:	
Charges for service	\$ 99,855
Operating disbursements:	
Business type activities	<u>87,445</u>
Excess of operating receipts over operating disbursements	<u>12,410</u>
Non-operating receipts (disbursements):	
Intergovernmental	2,357
Miscellaneous	474
Debt service	<u>(32,943)</u>
Net non-operating receipts (disbursements)	<u>(30,112)</u>
Deficiency of receipts under disbursements	<u>(17,702)</u>
Operating transfers in	<u>24,300</u>
Net change in cash balances	6,598
Cash balances beginning of year	<u>24,142</u>
Cash balances end of year	<u>\$ 30,740</u>
Cash Basis Fund Balance	
Unreserved	<u>\$ 30,740</u>

See notes to financial statements.

CITY OF HOPKINTON  
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

(1) **Summary of Significant Accounting Policies**

The City of Hopkinton is a political subdivision of the State of Iowa located in Delaware County. It was first incorporated in 1874 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, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Hopkinton 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. The City has one component unit which meets the Governmental Accounting Standard's Board criteria.

Discretely presented component units are separate legal entities that meet the component unit criteria but do not meet the criteria for blending. The component unit that is discretely presented in the City's report is presented below:

<u>Component Unit</u>	<u>Brief Description/Inclusion Criteria</u>
Hopkinton Municipal Utilities (HMU)	Created in 1938 to finance, develop, and operate the electric and water activities of the City. The HMU governing body is composed of three members appointed by the City Council.

The HMU issues a publicly available audited financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Hopkinton Municipal Utilities; P.O. Box 129; Hopkinton, IA 52237-0129.

#### 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: Delaware County Solid Waste Commission and Delaware County Joint E911 Service Board.

#### B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

The Special Revenue, Road Use Tax Fund, is used to account for road construction and maintenance.

The Permanent, Cemetery Perpetual Care Fund, is used to account for sale of cemetery lots and earnings on investments.

The City reports the following major proprietary funds:

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

#### C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the culture and recreation and debt service functions.

(2) Cash

The City's deposits in banks at June 30, 2009 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; 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.

Interest rate risk - The City's investment policy limits the investments of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City. At June 30, 2009, the Primary Government had \$ 65,038 invested in certificates of deposit with maturities ranging from 22 to 339 days.

At June 30, 2009, the discretely presented component unit had \$ 1,010,000 invested in certificates of deposit with maturities ranging from 9 to 413 days.

(3) Long-Term Debt

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

Year Ending June 30	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 19,000	8,075	20,000	8,500	39,000	16,575
2011	19,000	7,268	20,000	7,650	39,000	14,918
2012	19,000	6,460	20,000	6,800	39,000	13,260
2013	19,000	5,653	20,000	5,950	39,000	11,603
2014	19,000	4,845	20,000	5,100	39,000	9,945
2015-2019	95,000	12,113	100,000	12,750	195,000	24,863
Total	\$ 190,000	44,414	200,000	46,750	390,000	91,164

#### (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.

Regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Contribution requirements are established by state statute. The Primary Government's contributions to IPERS for the year ended June 30, 2009 were \$ 5,297, equal to the required contributions for the year. The Discretely Presented Component Unit's contributions to IPERS for the year ended June 30, 2009 were \$ 6,931 equal to the required contributions for the year.

#### (5) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Emergency	\$ 19,000
	Component Unit:	
	Municipal Utilities	22,700
		<u>41,700</u>
Debt Service	Component Unit:	
	Municipal Utilities	23,000
Enterprise		
Sewer	Component Unit:	
	Municipal Utilities	24,300
Total		<u>\$ 89,000</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to collect the resources. However, the Municipal Utility loaned the City \$ 70,000 June 8, 2009, at 4%, due August 7, 2009. For financial statement purposes, this transaction has been treated as an interfund transfer.

**(6) Related Party Transactions**

The City had business transactions between City and City officials totaling \$ 3,097.

In addition to the interfund transfer discussed in Note 5 the City had business transactions with its discretely presented component unit totaling \$ 77,816, which included electricity purchases of \$ 44,324, water purchases of \$ 972, collection services of \$ 2,520 and a wastewater treatment plant maintenance agreement of \$ 30,000.

The discretely presented component unit had business transactions between Utility and Utility officials totaling \$ 7,191.

**(7) Risk Management**

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

**(8) Deficit Balances**

The Special Revenue, Road Use Tax and Debt Service Funds had deficit balances at June 30, 2009, of \$ 7,040 and \$ 119,659, respectively. The Special Revenue, Road Use Tax Fund was a result of allocating too great a portion of street maintenance projects to the Road Use Tax Fund. This deficit will be eliminated with a portion of the 2010 road use tax allocation.

The Debt Service Fund deficit balance was a result of mistakenly not levying for the general obligation sewer improvement note retirement over the past five years. The deficit will be eliminated temporarily by borrowing funds from the discretely presented component unit (Hopkinton Municipal Utilities) until a debt service levy can take effect for the fiscal year ended June 30, 2011.

**(9) Subsequent Events**

In July, 2009, the City borrowed \$ 120,000 payable in quarterly installments of \$ 10,664 including interest at 4% with the final payment due in July 2012 from the discretely presented component unit, Hopkinton Municipal Utilities. A portion of this loan was to pay of a \$ 70,000 loan from the Utility that came due in August, 2009.



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HOPKINTON  
BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS)-ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended June 30, 2009

	Primary Government		Proprietary		Plus		Total		Budgeted Amounts		Final		Final to	
	Governmental	Funds	Actual	Fund	Component	Unit	Total		Original		Final		Total	Variance
	Actual		Actual		In Budget	In Budget								
<b>Receipts:</b>														
Property tax	\$ 123,424		-		-	-	123,424		128,619		128,619		(5,195)	
Other city tax	59,182		-		-	-	59,182		49,562		49,562		9,620	
Licenses and permits	630		-		-	-	630		2,450		2,450		(1,820)	
Use of money and property	4,908		-		36,225	-	41,133		49,000		49,000		(7,867)	
Intergovernmental	111,717		2,357		-	-	114,074		81,021		81,021		33,053	
Charges for service	47,624		99,855		573,944	-	721,423		731,090		731,090		(9,667)	
Miscellaneous	32,413		474		-	-	32,887		-		-		32,887	
<b>Total receipts</b>	<b>379,898</b>		<b>102,686</b>		<b>610,169</b>	<b>1,092,753</b>	<b>1,041,742</b>		<b>1,041,742</b>		<b>1,041,742</b>		<b>51,011</b>	
<b>Disbursements:</b>														
Public safety	68,438		-		-	-	68,438		88,617		88,617		20,179	
Public works	148,022		-		-	-	148,022		165,469		165,469		17,447	
Culture and recreation	126,594		-		-	-	126,594		119,662		119,662		(6,932)	
Community and economic development	1,118		-		-	-	1,118		1,850		1,850		732	
General government	68,214		-		-	-	68,214		73,762		78,762		10,548	
Debt service	28,019		-		-	-	28,019		-		-		(28,019)	
Business type activities	-		120,388		579,795	-	700,183		778,362		872,850		172,667	
<b>Total disbursements</b>	<b>440,405</b>		<b>120,388</b>		<b>579,795</b>	<b>1,140,588</b>	<b>1,227,722</b>		<b>1,327,210</b>		<b>1,327,210</b>		<b>186,622</b>	
<b>Excess (deficiency) of receipts over (under) disbursements</b>	<b>(60,507)</b>		<b>(17,702)</b>		<b>30,374</b>	<b>(47,835)</b>	<b>(185,980)</b>		<b>(285,468)</b>		<b>440,357</b>		<b>237,633</b>	
<b>Other financing sources, net</b>	<b>95,700</b>		<b>24,300</b>		<b>(70,000)</b>	<b>50,000</b>	<b>-</b>		<b>-</b>		<b>440,357</b>		<b>(390,357)</b>	
<b>Excess (deficiency) of receipts and other financing sources over (under) disbursement and other financing uses</b>	<b>35,193</b>		<b>6,598</b>		<b>(39,626)</b>	<b>2,165</b>	<b>(185,980)</b>		<b>154,889</b>		<b>(152,724)</b>		<b>(87,141)</b>	
<b>Balance beginning of year</b>	<b>40,905</b>		<b>24,142</b>		<b>1,039,823</b>	<b>1,146,661</b>	<b>1,045,657</b>		<b>1,386,526</b>		<b>(239,865)</b>			
<b>Balance end of year</b>	<b>\$ 76,098</b>		<b>\$ 30,740</b>		<b>\$ 1,039,823</b>	<b>\$ 1,146,661</b>	<b>\$ 1,045,657</b>		<b>\$ 1,386,526</b>		<b>\$ 1,386,526</b>		<b>\$ 1,386,526</b>	

See accompanying independent auditor's report and notes to required supplementary information budgetary reporting.

CITY OF HOPKINTON  
Notes to Required Supplementary Information-Budgetary Reporting  
June 30, 2009

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Additionally, the City has elected to include its discretely presented component unit, Hopkinton Municipal Utilities, in its budget process.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. The 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 Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2009, one budget amendment increased budgeted disbursements by \$ 99,488. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the culture and recreation and debt service functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HOPKINTON  
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN CASH BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 As of and for the Year Ended June 30, 2009

	<u>Special Revenue</u>		
	<u>Emergency</u>	<u>Debt Service</u>	<u>Total</u>
Receipts:			
Property tax	\$ 2,707	-	2,707
Disbursements:			
Debt service	-	28,019	28,019
Excess (deficiency) of receipts over (under) disbursements	2,707	(28,019)	(25,312)
Other financing sources (uses):			
Operating transfers in	-	23,000	23,000
Operating transfers out	(19,000)	-	(19,000)
Total other financing sources (uses)	(19,000)	23,000	4,000
Net change in cash balances	(16,293)	(5,019)	(21,312)
Cash balances beginning of year	17,167	(115,514)	(98,347)
Cash balances end of year	\$ 874	(120,533)	(119,659)
Cash Basis Fund Balances:			
Unreserved:			
Special revenue fund	\$ 874	-	874
Debt service fund	-	(120,533)	(120,533)
Total cash basis fund balances	\$ 874	(120,533)	(119,659)

See accompanying independent auditor's report.

CITY OF HOPKINTON  
SCHEDULE OF INDEBTEDNESS  
Year Ended June 30, 2009

Schedule 2

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation notes: Sewer improvement	Oct 21, 2004	4.25%	\$ 285,000	209,000	-	19,000	190,000	9,019
General obligation loan: Cash flow	Jul 22, 2008	5.00%	\$ 50,000	-	50,000	2,000	48,000	1,449
Revenue notes: Sewer improvement	Oct 21, 2004	4.25%	\$ 300,000	220,000	-	20,000	200,000	9,494
Installment agreement: Bridge replacement	Feb 14, 2005	0%	\$ 196,398	39,280	-	39,280	-	-

See accompanying independent auditor's report.

CITY OF HOPKINTON  
NOTE MATURITIES  
June 30, 2009

Year Ending June 30,	General Obligation Notes		Revenue Notes	
	Sewer Improvement		Sewer Improvement	
	Interest Rates	Amount	Interest Rates	Amount
2010	4.25%	\$ 19,000	4.25%	\$ 20,000
2011	4.25	19,000	4.25	20,000
2012	4.25	19,000	4.25	20,000
2013	4.25	19,000	4.25	20,000
2014	4.25	19,000	4.25	20,000
2015	4.25	19,000	4.25	20,000
2016	4.25	19,000	4.25	20,000
2017	4.25	19,000	4.25	20,000
2018	4.25	19,000	4.25	20,000
2019	4.25	19,000	4.25	20,000
Total		<u>\$ 190,000</u>		<u>\$ 200,000</u>

See accompanying independent auditor's report.

# Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

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 activity, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hopkinton, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 12, 2009. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2009. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Hopkinton'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 Hopkinton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hopkinton's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be signifi-



cant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent and detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City of Hopkinton's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Hopkinton's financial statements that is more than inconsequential will not be prevented or detected by the City of Hopkinton's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Hopkinton's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are material weaknesses. However, of the significant deficiencies described above, we believe items I-A-09, I-B-09, I-C-09 and I-D-09 are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hopkinton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 on noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 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 Hopkinton's responses to findings 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 Hopkinton'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 Hopkinton and other parties to whom the City of Hopkinton 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 Hopkinton 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.

Elkader, Iowa

November 12, 2009

*Dietz, Donald & Company*  
Dietz, Donald & Company, CPAs  
FEIN 42-1172392

CITY OF HOPKINTON  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2009

Part I: Findings Related to the Financial Statements:

**SIGNIFICANT DEFICIENCIES:**

I-A-09 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. We noted substantially all accounting functions are performed by one individual.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain maximum internal control possible under the circumstances. For instance, a City official could receive and then review bank statements before giving them to the individual responsible for account reconciliations.

Response - We will consider this.

Conclusion: Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize elected officials whenever possible to provide additional control through review of financial transactions and reports.

I-B-09 Financial Reporting - As is common in small organizations, the City does not prepare its financial statements, complete with notes, in accordance with U.S. generally accepted accounting principles. Accordingly, the City is unable to, and has not established internal controls over the preparation of financial statements.

Recommendation - As part of the audit, we have been requested to prepare a draft of the City's financial statements, including related notes. The City then performs a review of the financial statements. However, in order to provide improved oversight of the financial reporting process, the City should establish review policies and procedures including the performance of some or all of the following:

1. Review the adequacy of financial statement disclosures.
2. Review and approve schedules and calculations supporting amounts included in the notes to the financial statements.
3. Apply analytical procedures to the draft financial statements.
4. Apply other procedures as considered necessary by the City.

Response - We will consider this. However, because our current

population is only 681, we are not required to have an audit and normally do not prepare formal financial statements.

Conclusion - Response accepted.

- I-C-09 Annual Report - The ending fund balances per the 2008 Financial Report submitted to the Office of the Auditor of State did not agree with the confirmed beginning balances per the 2009 audited financial statements. When this happens, it is possible for transactions to go unrecorded or deposits to be misplaced.

Recommendation - When preparing the Financial Report make certain that your beginning and ending fund balance amounts agree with your reconciled cash balances and certificate of deposit balances.

Response - We will do this in the future.

Conclusion - Response accepted.

- I-D-09 Increase Frequency in Review of Budget Variations - The City prepares a detailed annual budget. However, despite the fact that debt service was over expended for four years, the City was not aware that a debt service levy had not been submitted to the County Auditor until April, 2009. A more frequent review of operating results and budget variations will enable management to more actively run the City by recognizing unusual trends that may indicate fraud, unwise use of resources, operational inefficiencies, poor decision making, missed levies, and other threats that hinder City financial stability.

Recommendation - We recommend a budget review that includes the participation of the Clerk and City Officials no less than quarterly.

Response - We will certainly review budgeted disbursements more frequently than in the past.

Conclusion - Response accepted.

CITY OF HOPKINTON  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2009

Part II: Other Findings Related to Statutory Reporting:

- II-A-09 Certified Budget - Disbursements during the year ended June 30, 2009 exceeded the amounts budgeted in the culture and recreation and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- II-B-09 Questionable Disbursements - We noted no disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-09 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-09 Business Transactions - Business transactions between the City and City officials are detailed as follows:

<u>Name, Title and business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Cathy Harris, Mayor, employee of Leader Publications	Legal publications and advertising	\$ 2,322
Rick Lange, Council Member, employee Three Rivers FS	Fuel	774
Richard Harris, Vice Chair- person Hopkinton Municipal Utilities, Owner of Harris Electric Service	Repairs	7,191

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Mayor and Council Member do not appear to

represent conflicts of interest since total transactions with each individual were less than \$ 2,500. However, the transactions between the Hopkinton Municipal Utilities and Harris Electrical Service may represent a conflict of interest as the transactions do not appear to meet any of the safe harbor provisions of Chapter 362.5.

Recommendation - The City should inform the Municipal Utilities of this matter.

Response - The matter was noted in the Hopkinton Municipal Utilities audit.

Conclusion - Response accepted.

II-E-09 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

II-F-09 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-09 Deposits and Investments - No instances on non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-09 Revenue Bonds - No instances of non-compliance with the revenue bond resolutions were noted.

II-I-09 Financial Condition - The Special Revenue, Road Use Tax and Debt Service Funds had deficit balances at June 30, 2009 of \$ 7,040 and \$ 119,659, respectively.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to sound financial positions.

Response - The Special Revenue, Road Use Tax Fund deficit will be eliminated with fiscal year 2010 road use tax allocations. We have arranged to borrow funds from the Municipal Utilities until the debt service levy becomes effective in fiscal year 2011 to eliminate the deficit in the Debt Service Fund.

Conclusion - Response accepted.