

HOPKINTON MUNICIPAL UTILITIES
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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HOPKINTON MUNICIPAL UTILITIES
Hopkinton, Iowa

Officials

BOARD OF TRUSTEES

Robert DeShaw.....Chairman
Richard Harris.....Vice-Chairman
Jerry Weber.....Trustee

UTILITY OFFICIALS

Norman W. Parsons.....Superintendent
Cynthia J. Kemp.....Clerk/Board Secretary

CITY COUNCIL

Cathy S. Harris.....Mayor
D.J. Hucker.....Council Member
Steve Davis.....Council Member
Jana Wilson.....Council Member
Steve Tucker.....Council Member
Rick Lange.....Council Member

CITY OFFICIALS

Diane M. Nordmann.....City Clerk
Mary F. Jasper.....Deputy Clerk
Michael Feldmann.....Street Superintendent

Board of Trustees
Hopkinton Municipal Utilities

We have audited the accompanying financial statements of Hopkinton Municipal Utilities of the City of Hopkinton, Iowa (a municipal utility), as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Board of Trustees of the Hopkinton Municipal Utilities. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 modified cash basis of accounting, 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 modified cash basis financial position of the Hopkinton Municipal Utilities of the City of Hopkinton, Iowa, as of June 30, 2004, and the respective changes in modified cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As discussed in Note 8, during the year ended June 30, 2004, Hopkinton Municipal Utility adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports dated July 21, 2004 on our consideration of the Hopkinton Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 and 7 and pages 13 and 14 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Yasling & Company P.C.

Certified Public Accountants

July 21, 2004

Management's Discussion and Analysis

Hopkinton Municipal Utilities (the Utility) 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, 2004. The Hopkinton Municipal Utilities Board of Trustees governs the activities of both the electric and water departments of the City of Hopkinton, Iowa (the City). We encourage readers to consider this information in conjunction with the financial statements which follow.

2004 Financial Highlights

- The electric fund had an increase in revenues of 14%, along with an increase in expenditures of 19%.
- The water fund had a decrease in revenues of 3%, along with an increase in expenditures of 15%.
- In May of 2003, the Utility assumed management of the wastewater treatment plant in an agreement with the City council. The wastewater operator employed by the City had resigned to move to a new location. The Board of Trustees agreed to provide the manpower to operate the plant at a cost of \$30,000 annually. This revenue for the fiscal year ended June 20, 2003 was deposited into the water fund. On July 1, 2003, the Utility hired a new employee to assist in the electric and water operation due to the added responsibilities of the wastewater treatment plant. At that time, the monthly fee paid to the Utility by the City was redirected to the electric fund to offset the new employee salary. This switch resulted in the decrease in revenues in the water fund and was partially responsible for the increase in revenues in the electric fund for the fiscal year ended June 30, 2004.
- The final stage of purchasing new water meters was completed in the fiscal year ended June 30, 2004. This was an ongoing project to replace all of the water meters in the city. The water meters, along with a need to replace chlorination pumps to treat the water, resulted in the increase in the expenditures of the water fund.
- The purchased power contract with MidAmerican Energy ended on December 31, 2003. A new contract was negotiated through Resale Power Group of Iowa (RPGI) with Ameren, which increased the cost of purchased power for resale and also, the hours the Utility could be called on to generate stand-by power. More generation time required more fuel and lube oil to be purchased, in addition to the higher cost of purchased power. Both factors were partially responsible for the increase in expenditures in the electric fund.
- The fiscal year ended June 30, 2004, was also the year of the "bridge project". Both bridges on D47 south of the City were replaced, requiring new electrical lines to be built. When all the changes were finally completed, the electric fund increased its expenditures by more than \$70,000 from the previous fiscal year.

Using This Annual Report

The Hopkinton Municipal Board of Trustees has elected to present their financial statements on a modified cash basis of accounting. Annual depreciation of fixed assets is not a practice of the Utility. It differs from a cash basis of accounting in that billings to customers are based on meter readings at stated rates, and are recorded as revenue in the corresponding meter-reading period, which are presented as accounts receivable. Only liabilities relating to amounts billed or collected from customers or the City, such as sales tax and meter deposits, are included as liabilities of the Utility.

As a result of the modified cash basis of accounting, the Utility does not record fixed assets in this financial report.

Management's Discussion and Analysis

Financial Analysis of the Utility

Net assets may serve over time as a useful indicator of financial position. The Utilities' net assets decreased by \$338.10 from fiscal year 2003 to fiscal year 2004.

Assets, Liabilities and Net Assets

	June 30, 2004	June 30, 2003
Assets		
Cash and cash equivalents	\$ 428,002.01	\$ 509,460.61
Certificates of deposit	720,000.00	650,000.00
Accounts receivable	<u>60,949.54</u>	<u>50,275.92</u>
Total Assets	<u>\$1,208,951.55</u>	<u>\$1,209,736.53</u>
Liabilities and Net Assets		
Liabilities		
City collections payable	\$ 12,000.33	\$ 12,970.05
Sales tax payable	1,794.77	1,201.93
Meter deposits payable	<u>3,297.00</u>	<u>3,367.00</u>
Total Liabilities	\$ 17,092.10	\$ 17,538.98
Net Assets		
Unrestricted	<u>1,191,859.45</u>	<u>1,192,197.55</u>
Total Liabilities and Net Assets	<u>\$1,208,951.55</u>	<u>\$1,209,736.53</u>

Management's Discussion and Analysis

The following shows the changes in net assets for the Utility.

Revenues, Expenditures and Changes in Net Assets

Operating revenues:		
Sales to customers	\$ 406,335.22	\$ 366,772.54
Usage by city departments and utility	33,683.25	3,203.55
Miscellaneous operating revenues	10,617.50	14,089.40
Total Operating Revenues	<u>\$ 450,635.97</u>	<u>\$ 384,065.49</u>
Operating Expenditures:		
Purchased power	\$ 132,079.25	\$ 104,276.48
Diesel and lube oil	39,499.82	28,438.05
Repairs and maintenance	9,957.68	16,364.56
Salaries	134,726.00	106,912.00
Insurance	27,298.00	25,493.00
Employee benefits	30,093.41	26,123.64
Payroll taxes	10,238.02	8,109.79
IPERS	7,687.66	6,052.12
Postage	2,068.42	2,082.81
Office supplies	5,596.23	5,572.79
Professional fees	- --	534.20
Truck expense	3,289.93	3,153.15
Telephone	2,857.04	2,558.24
Supplies	50,376.83	49,336.18
Government assessments	4,177.19	3,720.54
Publications	2,142.58	2,302.03
Continuing education	829.10	881.74
Travel	2,277.02	1,228.01
Analysis, engineering and studies	4,050.85	422.10
Miscellaneous	3,646.48	3,564.92
Total Operating Expenditures	<u>\$ 472,891.51</u>	<u>\$ 397,126.35</u>
Other Revenue:		
Interest income	\$ 21,917.44	\$ 38,048.77
Excess (deficit) of revenues over (under) expenditures	(\$ 338.10)	\$ 24,987.91
Net Assets - beginning of year	<u>1,192,197.55</u>	<u>1,167,209.64</u>
Net Assets - end of year	<u>\$1,191,859.45</u>	<u>\$1,192,197.55</u>

Budgetary Highlights

The City of Hopkinton prepared and adopted the annual budget on March 10, 2003, which designated the amounts necessary for the improvement and maintenance of the Utility. The Utility did not exceed its budgeted expenditures for the fiscal year ended June 30, 2004.

Debt Administration

As of June 30, 2004 and 2003, the Utility did not have any bonds or other long-term debt. The Utility does not have any immediate needs that would require additional financing sources.

Management's Discussion and Analysis

Background of the Hopkinton Municipal Utilities

The Board of Trustees was created in 1938 by a city vote. A new electric plant was built to provide the City with power. Power was produced for the City until it was decided that it would be more cost effective to purchase the power from an outside source. The Board has continued to update the power plant and increase its generating capacity as the City's needs dictated.

When the Board was created, the management of the water system was transferred from the City council to the Board. In the early 1980's, a new water tower was built and a new 8" main was installed. Grant money was received to assist in this endeavor. The Board maintains a regular maintenance program to insure that the tower is cleaned, inspected and painted and that the wells are pulled and inspected routinely.

In 1969, certain members of the community thought it would be best to sell the electric system. At the time, it appeared that maybe there was not enough funds available to make necessary improvements to keep the system in top working order. A City vote showed that the community supported the Board and wished to continue receiving service through municipal ownership.

The Board has a history of maintaining lower rates and has been very successful in accumulating funds necessary to provide for emergency purposes. Rate changes have been few, sometimes being a decrease rather than an increase. Since 1985, there have been five electric rate changes and two water rate changes. Of the five electric rate changes, three were decreases and two were increases. The two increases occurred in the last twelve months and were a result of the newly purchased power contract with Ameren. Both water rate changes were increases. The Utility has been debt free since the late 1980's. Revenue bonds were sold in early 1980 to finance a used generating unit installed in the power plant. Another unit was installed in the early 1990's but the Board was able to purchase the unit with accumulated funds.

The Board of Trustees diligently maintains an electric and water system the City can take pride in, and at the same time, keeps the Utility a financially sound and important asset of the community.

Contacting the Utility's Financial Management

This financial report is designed to provide our customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Cynthia Kemp, Utility Board Secretary, P.O. Box 129, Hopkinton, IA 52237.

HOPKINTON MUNICIPAL UTILITIES

BASIC FINANCIAL STATEMENTS

HOPKINTON MUNICIPAL UTILITIES
Hopkinton, Iowa

Statement of Net Assets - Arising From Modified Cash
Basis Transactions

June 30, 2004

Assets

Cash and cash equivalents	\$ 428,002.01
Certificates of deposit	720,000.00
Accounts receivable	<u>60,949.54</u>
Total Assets	<u>\$1,208,951.55</u>

Liabilities and Net Assets

Liabilities

City collections payable	\$ 12,000.33
Sales tax payable	1,794.77
Meter deposits payable	<u>3,297.00</u>
Total Liabilities	\$ 17,092.10

Net Assets

Unrestricted	<u>1,191,859.45</u>
Total Liabilities and Net Assets	<u>\$1,208,951.55</u>

See notes to financial statements.

HOPKINTON MUNICIPAL UTILITIES
Hopkinton, Iowa

Statement of Revenues, Expenditures, and Changes in Net Assets - Arising
>From Modified Cash Basis Transactions

For The Year Ended June 30, 2004

Operating Revenues:	
Sales to customers	\$ 406,335.22
Usage by city departments and utility	33,683.25
Miscellaneous operating revenues	<u>10,617.50</u>
Total Operating Revenues	<u>\$ 450,635.97</u>
Operating Expenditures:	
Purchased power	\$ 132,079.25
Diesel and lube oil	39,499.82
Repairs and maintenance	9,957.68
Salaries	134,726.00
Insurance	27,298.00
Employee benefits	30,093.41
Payroll taxes	10,238.02
IPERS	7,687.66
Postage	2,068.42
Office supplies	5,596.23
Truck expense	3,289.93
Telephone	2,857.04
Supplies	50,376.83
Government assessments	4,177.19
Publications	2,142.58
Continuing education	829.10
Travel	2,277.02
Analysis, engineering and studies	4,050.85
Miscellaneous	<u>3,646.48</u>
Total Operating Expenditures	<u>\$ 472,891.51</u>
Other Revenue:	
Interest income	<u>\$ 21,917.44</u>
Excess (deficit) of revenues over (under) expenditures	(\$ 338.10)
Net Assets - beginning of year	<u>1,192,197.55</u>
Net Assets - end of year	<u>\$1,191,859.45</u>

See notes to financial statements.

HOPKINTON MUNICIPAL UTILITIES

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The Hopkinton Municipal Utilities (the Utility) is a subdivision of the City of Hopkinton, which is a political subdivision of the State 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 Utility is governed by a separate Board of Trustees. The Hopkinton Municipal Utilities is a public utility providing water and electrical service to the citizens of Hopkinton, Iowa.

A. Reporting Entity

For financial reporting purposes, Hopkinton Municipal Utilities has included all funds, organizations, agencies, boards, potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility'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 Utility 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 Utility. The Utility has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of the Utility are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of receipts, disbursements, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. Basis of Accounting

The Hopkinton Municipal Utilities maintains its financial records on the modified cash basis of accounting and the financial statements of the Utility are prepared on that basis. The modified cash basis of accounting does not give effect to fixed assets and certain accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the Utility in accordance with U.S. generally accepted accounting principles.

HOPKINTON MUNICIPAL UTILITIES

Notes to Financial Statements

June 30, 2004

D. Assets and Net Assets

The following accounting policies are followed in preparing the Statement of Net Assets - Arising From Modified Cash Basis Transactions.

Cash Equivalents - The Utility considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Accounts Receivable - Billings to customers are based on meter readings at stated rates, and are recorded as revenue in the corresponding meter-reading period.

(2) Cash and Pooled Investments

The Utility's deposits in banks at June 30, 2004 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 Utility 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 Utility; 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 Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

(3) Pension and Retirement Benefits

The Utility 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.

HOPKINTON MUNICIPAL UTILITIES

Notes to Financial Statements

June 30, 2004

(3) Pension and Retirement Benefits (Continued):

Plan members are required to contribute 3.70% of their annual salary and the Utility is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.04% and 9.07%, respectively. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$7,687.66, \$6,052.12 and \$5,965.63, respectively, equal to the required contributions for each year.

(4) Compensated Absences

Utility employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as expenditures by the Utility until used or paid. The Utility's approximate liability to employees for earned vacation leave at June 30, 2004 was \$5,418.18.

This liability has been computed based on the rates of pay in effect as of June 30, 2004.

(5) Related Party Transactions

The Utility had business transactions between the Utility and the City of Hopkinton totaling \$33,683.25 during the year ended June 30, 2004.

(6) Risk Management

The Hopkinton Municipal Utilities 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 Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the past fiscal year.

(7) Litigation

There was no pending litigation involving the Hopkinton Municipal Utilities at June 30, 2004.

(8) Accounting Change

For the year ended June 30, 2004, the Utility implemented Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

Implementation of these standards had no effect on the beginning balances of the Utility.

REQUIRED SUPPLEMENTARY INFORMATION

HOPKINTON MUNICIPAL UTILITIES
Hopkinton, Iowa

Budgetary Comparison Schedule of Revenues, Expenditures, and Changes in
Net Assets - Budget and Actual (Cash Basis)

Required Supplementary Information

For The Year Ended June 30, 2004

	Actual Modified Cash Basis	Adjustments	Actual Cash Basis	Original Budgeted Amounts	Final To Actual Cash Basis Variance
Revenues	\$ 472,553.41	(\$ 10,673.62)	\$ 461,879.79	\$ 464,720.00	(\$ 2,840.21)
Expenditures	<u>472,891.51</u>	<u>119.64</u>	<u>473,011.15</u>	<u>500,550.00</u>	<u>27,538.85</u>
Net	(\$ 338.10)	(\$ 10,793.26)	(\$ 11,131.36)	(\$ 35,830.00)	\$ 24,698.64
Balance beginning of year	<u>1,192,197.55</u>	<u>(33,064.18)</u>	<u>1,159,133.37</u>	<u>1,144,176.00</u>	<u>14,957.37</u>
Balance end of year	<u>\$1,191,859.45</u>	<u>(\$ 43,857.44)</u>	<u>\$1,148,002.01</u>	<u>\$1,108,346.00</u>	<u>\$ 39,656.01</u>

See accompanying independent auditors' report.

HOPKINTON MUNICIPAL UTILITIES

Note to Required Supplementary Information -
Budgetary Reporting

June 30, 2004

The City of Hopkinton annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Utility on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The City Council certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING



Independent Auditors' Report on Compliance and on
Internal Control over Financial Reporting

To the Board of Trustees
Hopkinton Municipal Utilities

We have audited the financial statements of the Hopkinton Municipal Utilities of the City of Hopkinton, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated July 21, 2004. Our report expressed an unqualified opinion 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Hopkinton Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered of the Hopkinton Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Hopkinton Municipal Utilities' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the members and customers of Hopkinton Municipal Utilities and other parties to whom the Utility 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 Hopkinton Municipal Utilities 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.

Gasling & Company P.C.

Certified Public Accountants

July 21, 2004

HOPKINTON MUNICIPAL UTILITIES

Schedule of Findings

Year Ended June 30, 2004

Part II: Findings Related to the Financial Statements:

Instances of non-compliance:

No matters were noted.

Reportable conditions:

II-A-04 Segregation of Duties - During our review of the internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the Utility's financial statements. Generally, one individual has control over the account billings, collecting, depositing, posting, and reconciling receipts, for which no compensating controls exist.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review the control procedures to obtain the maximum internal control possible under the circumstances.

Response - We have reviewed procedures and plan to continue to look for improvements to internal control.

Conclusion - Response accepted.

II-B-04 Time Cards - Time cards should be signed by the employee and initialed and approved by the supervisor or department head. During our payroll testing, it was noted that time cards were not used.

Recommendation - The Utility should review its payroll procedures to obtain the maximum internal control possible under the circumstances.

Response - We will begin using time cards and the time cards will be signed by the employee and supervisor prior to submittal to the bookkeeper.

Conclusion - Response accepted.

II-C-04 Vacation Time Log - There should be a vacation time log or schedule maintained for all employees showing the amount of vacation earned, used and remaining for the year. This ensures that the appropriate amount of vacation time is used by all employees.

Recommendation - The lack of a log or schedule weakens the control the Utility has over the vacation time being used by its employees. We recommend that the supervisor begin maintaining a vacation log for all employees.

Response - We will review and implement this recommendation.

Conclusion - Response accepted.

HOPKINTON MUNICIPAL UTILITIES

Schedule of Findings

Year Ended June 30, 2004

II-D-04 Credit Cards - The Utility has a credit card available for use by Utility employees and City employees. The Utility has not adopted a formal policy to regulate the use of credit cards.

Recommendation - The Utility should adopt a formal written policy regulating the use of Utility credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and for what purposes, as well as the types of Supporting documentation required to substantiate charges. The policy should limit the authorized use of the Utility credit cards to Utility employees.

Response - We presently have unwritten guidelines. We will review our procedures and guidelines and establish a written policy.

Conclusion - Response accepted.

II-E-04 Fixed Asset Records - The Utility does not maintain a detailed record of fixed assets.

Recommendation - To facilitate the proper insurance, maintenance and safeguarding of assets, such records should be kept and established. An inventory of all property should be taken at least once in each fiscal year and compared to the records.

Response - We will review our procedures.

Conclusion - Response accepted.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-04 Official Depositories - A resolution naming official depositories has been approved by the Utility. The maximum amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

IV-B-04 Certified Budget - Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual continuing appropriation.

IV-C-04 Questionable Disbursements - 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 were noted.

IV-D-04 Travel Expense - No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.

HOPKINTON MUNICIPAL UTILITIES

Schedule of Findings

Year Ended June 30, 2004

- IV-E-04 Business Transactions - There were no business transactions between the Utility and Utility officials or employees during the year ended June 30, 2004.
- IV-F-04 Bond Coverage - Surety bond coverage of Utility officials and employees is not in accordance with statutory provisions. The Utility should maintain coverage on all Utility officials and employees that is adequate for current operations.
- Recommendation - The Utility should obtain surety bond coverage on Utility officials and employees that is in accordance with statutory provisions. Currently, Utility officials and employees are not covered by a surety bond. The Utility maintains only crime/theft coverage. The amount of the coverage should be reviewed annually to insure that coverage is adequate for current operations.
- Response - We will obtain a surety bond policy for Utility officials and employees and review the amount of the coverage annually.
- Conclusion - Response accepted.
- IV-G-04 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- IV-H-04 Revenue Bonds/Notes - The Utility does not have revenue bonds or notes. The Utility is currently debt free.
- IV-I-04 Deposits and Investments - A written investment policy has been adopted by the Utility but it has not been updated to reflect changes in the Code of Iowa reference sections.
- Recommendation - The Utility should update its investment policy so that it complies with the provisions of Chapter 12B.10B of the Code of Iowa.
- Response - We will comply with this recommendation.
- Conclusion - Response accepted.