

**CITY OF STANHOPE, IOWA**

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

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

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**City of Stanhope, Iowa**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2012)</b>		
Harold Hove	Mayor	12-31-11
Gary Baker, Jr.	Mayor Pro Tem	12-31-13
Susan Moore	Council Member	12-31-11
Roger Hayes, Jr.	Council Member	12-31-11
Nila Zanker	Council Member	12-31-11
Trent Flockhart	Council Member	12-31-13
<b>(After January 2012)</b>		
Harold Hove	Mayor	12-31-13
Gary Baker, Jr.	Mayor Pro Tem	12-31-13
Trent Flockhart	Council Member	12-31-13
Susan Moore	Council Member	12-31-15
Roger Hayes, Jr.	Council Member	12-31-15
Nila Zanker	Council Member	12-31-15
Ronnie McKenzie	Clerk	12-31-13
Troy Johnson	Treasurer	12-31-13
Justin Deppe	Attorney	Indefinite

# Cornwell, Frideres, Maher & Associates, P.L.C.

## Certified Public Accountants

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### Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

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

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 fund of the total fund balance at July 1, 2011.

These financial statements do not include financial data for the City's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for it component unit. The city has not issued such reporting entity financial statements. The amount by which this departure would affect the net assets, receipts and disbursements of the discretely presented component unit is not reasonably determinable.

In addition, as discussed in Note 1 to the financial statements, management has not recorded the cash receipts and disbursements of the Stanhope First Responders or the Stanhope Volunteer Fire Department in the General Fund. The amount by which this omission would affect the cash basis net assets in the governmental activities and the General Fund is not reasonably determinable.

In our opinion, because of the omission of the discretely presented component unit, as discussed previously, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the cash basis financial position of the aggregate discretely presented component unit of the City of Stanhope, Iowa, as of June 30, 2012 and the changes in cash basis financial position for the year then ended.

In addition, in our opinion, because of the omission of the Stanhope First Responders and the Stanhope Volunteer Fire Department, as discussed previously, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the cash basis financial position of the General Fund or the governmental activities of the City of Stanhope, Iowa as of June 30, 2012 and the changes in cash basis financial position for the year then ended.

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 fund of the total fund balance at July 1, 2011, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities, each major fund (other than the General Fund) and the aggregate remaining fund information of the City of Stanhope as of June 30, 2012, 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 May 24, 2013 on our consideration of the City of Stanhope'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 on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Stanhope's basic primary government financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to

the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Stanhope's basic primary government financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 5 through 9 and 23 through 25 are presented for purposes of additional analysis and are not a required part of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Cornwell, Frideres, Maher & Associates, P.L.C.*

Cornwell, Frideres, Maher & Associates, P.L.C.  
Certified Public Accountants

May 24, 2013

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

As permitted by the Code of Iowa, the City is not required to be audited annually so much of the information is not easily comparable to prior years. Comparative data has been provided if available.

### 2012 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased by .92% or 1,191 primarily to funds transfers from our proprietary funds to the general fund.
- The cash basis net assets of the City's business type activities decreased by 21.89% or \$99,798, due primarily to decreased sales due to lower usage.

### 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.

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

Supplementary Information provides detailed information about the City's non-major funds governmental and proprietary 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 operational results of the funds in accordance with U.S. generally accepted

accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

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

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information 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 two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development and general government. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the electric, natural gas, water, sewer and solid waste systems. These activities are financed primarily by user charges.

### *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: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax Employee Benefits and Local Option Sales Tax, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the, Water, Sewer, and Electric Funds, considered to be major funds and for the Garbage and Meter Deposits Funds, considered to be non-major funds.

The required financial statement for proprietary funds 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 from a year ago, increasing from \$130,169 at June 30, 2011 to \$131,360 at June 30, 2012. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		Year ended <u>June 30, 2012</u>
Receipts:		
Program receipts:		
Operating grants, contributions and restricted interest	243,614	
Capital grants, contributions and restricted interest	<u>9,053</u>	252,667
General receipts:		
Property tax		97,449
Local option sales tax		32,225
Unrestricted interest on investments		634
Other general receipts		<u>19,877</u>
Total receipts		<u>402,852</u>
Disbursements:		
Public safety		76,686
Public works		44,683
Health and social services		5,522
Culture and recreation		45,768
Community and economic development		3,415
General government		31,808
Capital projects		207,081
Debt Service		<u>14,307</u>
Total disbursements		<u>429,270</u>
Change in cash basis net assets before transfers		(26,418)
Transfers, net		<u>27,609</u>
Change in cash basis net assets		1,191
Cash basis net assets beginning of year		<u>130,169</u>
Cash basis net assets end of year		\$ <u>131,360</u>

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Changes in Cash Basis Net Assets of Business Type Activities

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	Year ended <u>June 30, 2012</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 64,395
Sewer	46,834
Electric	319,090
Garbage	40,826
General receipts:	
Unrestricted interest on investments	4,986
Miscellaneous	<u>15,424</u>
Total receipts	<u>491,555</u>
Disbursements:	
Water	160,788
Sewer	58,720
Electric	295,722
Garbage	45,136
Meter Deposits	<u>3,378</u>
Total disbursements	<u>563,744</u>
Change in cash basis net assets before transfers	(72,189)
Transfers, net	<u>(27,609)</u>
Change in cash basis net assets	<u>(99,798)</u>
Cash basis net assets beginning of year	<u>455,945</u>
Cash basis net assets end of year	<u>\$ 356,147</u>

Total business type activities cash balance decreased 21.89%, or \$99,798, decreasing from \$455,945 at June 30, 2011 to \$356,147 at June 30, 2012. The decrease is due to an increase in capital project disbursements in the Water Utility Fund for improvements to the treatment plant.

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

As the City of Stanhope completed the year, its governmental funds reported a combined fund balance of \$131,360 an increase of \$1,191 from last year's total of \$130,169. 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 decreased \$5,266 from June 30, 2011 to \$35,841 at June 30, 2012, which is primarily due to increased expenditures and reduced revenues.
- The Capital Projects Fund decreased \$35,680 from June 30, 2011 to \$31,951 at June 30, 2012, which is primarily due to completion and close out of the new community center.

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

- The Water Fund cash balance decreased \$98,205 to a June 30, 2012 year-end balance of \$41,044. This decrease is attributable to capital expenditures for the treatment plant.
- The Sewer Fund cash balance decreased \$537 to a June 30, 2012 year-end balance of \$133,266.
- The Electric Fund cash balance decreased \$2,394 to a June 30, 2012 year-end balance of \$128,240.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year the City amended its budget two times. The first amendment was approved on October 30, 2011 and resulted in an increase in revenues of \$103,458, an increase in disbursements of \$140,000 and an increase of other financing sources of \$13,459. The second amendment was approved on April 9, 2012 and resulted in an increase in revenues of \$26,667, an increase in disbursements of \$50,961 and a decrease in other financing sources of \$75,626. These amendments were related to close out and completion of the community center and water treatment plant improvements.

## **DEBT ADMINISTRATION**

At June 30, 2012, the City had \$764,024 in bonds and other long-term debt outstanding, compared to \$774,439 last year.

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 \$360,528 is below its constitutional obligation debt limit of approximately \$651,000 at June 30, 2012.

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

The City of Stanhope's elected and appointed officials and citizens considered many factors, including the US Consumer Price Index when setting the FY2013 budget, tax rates and fees charged for various services. The last census counted a population of 422, which is a decrease of 66 citizens. This could affect road use, other per capita payments and income from utility billing in future years.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ronnie McKenzie, City Clerk, 600 Main Street, Stanhope, Iowa 50246.

## **Basic Financial Statements**

City of Stanhope, Iowa  
Statement of Activities and Net Assets - Cash Basis  
As of and for the year ended June 30, 2012

		Program Receipts		
<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 76,686	-	31,833	-
Public works	44,683	-	40,027	-
Health and social services	5,522	-	-	-
Culture and recreation	45,768	-	7,974	1,500
Community and economic development	3,415	-	-	-
General government	31,808	-	-	-
Capital projects	207,081	-	163,780	7,553
Debt service	14,307	-	-	-
Total governmental activities	429,270	-	243,614	9,053
Business type activities:				
Water	160,788	64,395	-	-
Sewer	58,720	46,834	-	-
Electric	295,722	319,090	-	-
Other nonmajor	48,514	40,826	-	-
Total business type activities	563,744	471,145	-	-
Total	\$ 993,014	471,145	243,614	9,053

**General Receipts:**

Property tax levied for:  
    General purposes  
    Debt service  
Local option sales tax  
Unrestricted interest on investments  
Miscellaneous  
Transfers  
Total general receipts  
Change in cash basis net assets  
Cash basis net assets beginning of year  
Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:  
    Expendable:  
        Streets  
        Capital projects  
        Debt service  
        Other purposes  
Unrestricted  
**Total cash basis net assets**

See notes to financial statements

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
(44,853)	-	(44,853)
(4,656)	-	(4,656)
(5,522)	-	(5,522)
(36,294)	-	(36,294)
(3,415)	-	(3,415)
(31,808)	-	(31,808)
(35,748)	-	(35,748)
(14,307)	-	(14,307)
<u>(176,603)</u>	<u>-</u>	<u>(176,603)</u>
-	(96,393)	(96,393)
-	(11,886)	(11,886)
-	23,368	23,368
-	(7,688)	(7,688)
<u>-</u>	<u>(92,599)</u>	<u>(92,599)</u>
<u>(176,603)</u>	<u>(92,599)</u>	<u>(269,202)</u>
83,340	-	83,340
14,109	-	14,109
32,225	-	32,225
634	4,986	5,620
19,877	15,424	35,301
27,609	(27,609)	-
<u>177,794</u>	<u>(7,199)</u>	<u>170,595</u>
1,191	(99,798)	(98,607)
130,169	455,945	586,114
<u>\$ 131,360</u>	<u>356,147</u>	<u>487,507</u>
29,714	-	29,714
31,951	-	31,951
-	47,814	47,814
71,207	-	71,207
(1,512)	308,333	306,821
<u>\$ 131,360</u>	<u>356,147</u>	<u>487,507</u>

City of Stanhope, Iowa  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds  
As of and for the year ended June 30, 2012

Exhibit B

	<u>General</u>	<u>Special Revenue Capital Projects</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Receipts:</b>				
Property tax	\$ 75,608	-	19,807	95,415
Other city tax	2,980	-	32,658	35,638
Licenses and permits	150	-	-	150
Use of money and property	2,022	67	10	2,099
Intergovernmental	39,806	169,581	40,027	249,414
Miscellaneous	18,383	1,753	-	20,136
Total receipts	138,949	171,401	92,502	402,852
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	76,686	-	-	76,686
Public works	13,827	-	30,856	44,683
Health and social services	5,522	-	-	5,522
Culture and recreation	43,317	-	2,451	45,768
Community and economic development	3,415	-	-	3,415
General government	29,057	-	2,751	31,808
Debt service	-	-	14,307	14,307
Capital projects	-	207,081	-	207,081
Total disbursements	171,824	207,081	50,365	429,270
Excess (deficiency) of receipts over (under) disbursements	(32,875)	(35,680)	42,137	(26,418)
<b>Other financing sources (uses):</b>				
Operating transfers in	27,609	-	-	27,609
Operating transfers out	-	-	-	-
Total other financing sources (uses)	27,609	-	-	27,609
Net change in cash balances	(5,266)	(35,680)	42,137	1,191
Cash balances beginning of year	41,107	67,631	21,431	130,169
Cash balances end of year	\$ 35,841	31,951	63,568	131,360
<b>Cash Basis Fund Balances</b>				
<b>Restricted for:</b>				
Streets	\$ -	-	29,714	29,714
Capital projects	-	31,951	-	31,951
Other purposes	35,841	-	35,366	71,207
Unassigned	-	-	(1,512)	(1,512)
Total cash basis fund balances	\$ 35,841	31,951	63,568	131,360

See notes to financial statements.

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

As of and for the year ended June 30, 2012

	Enterprise Funds				
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Nonmajor</u>	<u>Total</u>
Operating receipts:					
Charges for service	\$ 64,395	46,834	319,090	40,826	471,145
Total operating receipts	<u>64,395</u>	<u>46,834</u>	<u>319,090</u>	<u>40,826</u>	<u>471,145</u>
Operating disbursements:					
Business type activities	120,731	31,325	295,208	48,514	495,778
Total operating disbursements	<u>120,731</u>	<u>31,325</u>	<u>295,208</u>	<u>48,514</u>	<u>495,778</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(56,336)</u>	<u>15,509</u>	<u>23,882</u>	<u>(7,688)</u>	<u>(24,633)</u>
Non-operating receipts (disbursements)					
Interest on investments	71	3,017	1,847	51	4,986
Miscellaneous	117	8,332	-	6,975	15,424
Debt service	(11,871)	(24,381)	-	-	(36,252)
Capital projects	<u>(28,186)</u>	<u>(3,014)</u>	<u>(514)</u>	<u>-</u>	<u>(31,714)</u>
Net non-operating receipts (disbursements)	<u>(39,869)</u>	<u>(16,046)</u>	<u>1,333</u>	<u>7,026</u>	<u>(47,556)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(96,205)</u>	<u>(537)</u>	<u>25,215</u>	<u>(662)</u>	<u>(72,189)</u>
Operating transfers out	<u>-</u>	<u>-</u>	<u>(27,609)</u>	<u>-</u>	<u>(27,609)</u>
Net change in cash balances	<u>(96,205)</u>	<u>(537)</u>	<u>(2,394)</u>	<u>(662)</u>	<u>(99,798)</u>
Cash balances beginning of year	<u>137,249</u>	<u>133,803</u>	<u>130,634</u>	<u>54,259</u>	<u>455,945</u>
Cash balances end of year	<u>\$ 41,044</u>	<u>133,266</u>	<u>128,240</u>	<u>53,597</u>	<u>356,147</u>
<b>Cash Basis Fund Balances</b>					
Restricted for debt service	\$ -	47,814	-	-	47,814
Unrestricted	<u>41,044</u>	<u>85,452</u>	<u>128,240</u>	<u>53,597</u>	<u>308,333</u>
Total cash basis fund balances	<u>\$ 41,044</u>	<u>133,266</u>	<u>128,240</u>	<u>53,597</u>	<u>356,147</u>

See notes to financial statements.

City of Stanhope, Iowa

Notes to Financial Statements

June 30, 2012

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

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

**A. Reporting Entity**

For financial reporting purposes, the City of Stanhope, Iowa has only included the primary government of the City of Stanhope, which consists of all funds, organizations, agencies, boards, commissions and authorities, except for the Stanhope First Responders and the Stanhope Fire Department. The financial statements do not include financial data for the City's legally separate component unit, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government.

**Jointly Governed Organizations**

The City also 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: Hamilton County S.E.E.D., Hamilton County Solid Waste Commission, Hamilton County Mainstreet, Mid-Iowa Regional Housing Authority, Hamilton County Crime Stoppers, and Hamilton County Crime Stoppers, and Hamilton County E911 Service Board.

City of Stanhope, Iowa

Notes to Financial Statements

June 30, 2012

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 services.

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

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

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

Unrestricted net assets consist of net assets that not meeting the definition of the preceding categories. 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.

City of Stanhope, Iowa

Notes to Financial Statements

June 30, 2012

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 from general and emergency levies 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 that are not paid from other funds.

Capital Projects:

The Capital Projects Fund is used to account for all the resources to be used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

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

The Enterprise, Electric Fund accounts for the operation and maintenance of the City's electric utilities.

C. Measurement Focus and Basis of Accounting

The City of Stanhope 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.

City of Stanhope, Iowa

Notes to Financial Statements

June 30, 2012

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

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

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

D. Governmental Cash Basis Fund Balances:

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

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

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

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

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

City of Stanhope, Iowa

Notes to Financial Statements

June 30, 2012

**(2) Cash**

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

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

The City had no investments at June 30, 2012. During the year ended June 30, 2012 the City invested its excess funds in savings accounts and certificates of deposit.

**(3) Bonds and Notes Payable**

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

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 24,226	14,198	6,373	18,008	30,599	32,206
2014	31,302	13,394	6,504	17,877	37,806	31,271
2015	15,000	11,927	6,796	17,585	21,796	29,512
2016	15,000	11,463	7,102	17,279	22,102	28,742
2017	15,000	10,998	7,422	16,959	22,422	27,957
2018-2022	85,000	47,626	42,431	79,474	127,431	127,100
2023-2027	100,000	28,688	52,876	69,029	152,876	97,717
2028-2032	75,000	6,376	65,894	56,011	140,894	62,387
2033-2037	-	-	82,114	39,791	82,114	39,791
2038-2042	-	-	102,329	19,576	102,329	19,576
2043	-	-	23,655	726	23,655	726
Total	<u>\$ 360,528</u>	<u>144,670</u>	<u>403,496</u>	<u>352,315</u>	<u>764,024</u>	<u>496,985</u>

City of Stanhope, Iowa

Notes to Financial Statements

June 30, 2012

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, \$ 11,861 of general obligation principal and interest was paid from the Enterprise, Water fund and \$ 1,402.55 of general obligation principal and interest was paid from the General Fund during the year ended June 30, 2012.

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$ 440,000 of sewer revenue notes issued in 2002. Proceeds from the notes provided financing for improvements to the sanitary sewer system. The notes are payable solely from sewer customer net receipts and are payable through 2043. Annual principal and interest payments on the notes are expected to require less than 20% of net receipts. The total principal and interest remaining to be paid on the notes is \$755,811. For the current year, principal and interest paid and total customer net receipts were \$24,381 and \$23,844 respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) There shall be a debt reserve balance maintained equal to ten percent of the amount required to be deposited in the Sinking Fund.
- (d) User rates shall be established at a level which produces and maintains net revenues at a level not less than 120% of the amount of principal and interest on the notes falling due in the same year.

City of Stanhope, Iowa

Notes to Financial Statements

June 30, 2012

**(4) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2012 was \$8,947 equal to the required contributions for each year.

**(5) Compensated Absences**

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

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 4,900

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

City of Stanhope, Iowa  
Notes to Financial Statements  
June 30, 2012

**(6) Interfund Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Enterprise: Electric Fund	\$ <u>27,609</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources. This transfer was authorized as a transfer of reserves.

**(7) Risk Management**

The City of Stanhope 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 Debt Service Fund had a deficit fund balance of \$198 at June 30, 2012. The deficit balance is a result of timing of collection of property taxes. The deficit should be eliminated by collecting delinquent taxes.

The Special Revenue, Employee Benefits Fund had a deficit balance of \$1,314 at June 30, 2012. The deficit balance is a result of an increase in employee benefits. The deficit should be eliminated by increasing the employee benefit levy.

City of Stanhope, Iowa

Notes to Financial Statements

June 30, 2012

**(9) Litigation**

The City is subject to pending litigation seeking payment for use of electric transmission lines for approximately \$6,700. The probability of loss is not determinable as of the date of the audit report.

**(10) Subsequent Events**

Subsequent events have been evaluated through May 24, 2013, which is the date the financial statements were available to be issued.

## **Other Information**

City of Stanhope, Iowa  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements, and Changes in Balances -  
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2012

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts:		
Property tax	\$ 95,415	-
Other city tax	35,638	-
Licenses and permits	150	-
Use of money and property	2,099	4,986
Intergovernmental	249,414	-
Charges for service	-	471,145
Miscellaneous	<u>20,136</u>	<u>15,424</u>
Total receipts	<u>402,852</u>	<u>491,555</u>
Disbursements:		
Public safety	76,686	-
Public works	44,683	-
Health and social services	5,522	-
Culture and recreation	45,768	-
Community and economic development	3,415	-
General government	31,808	-
Debt service	14,307	-
Capital projects	207,081	-
Business type activities	<u>-</u>	<u>563,744</u>
Total disbursements	<u>429,270</u>	<u>563,744</u>
Excess (deficiency) of receipts over (under) disbursements	(26,418)	(72,189)
Other financing sources, net	<u>27,609</u>	<u>(27,609)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,191	(99,798)
Balances beginning of year	<u>130,169</u>	<u>455,945</u>
Balances end of year	<u>\$ 131,360</u>	<u>356,147</u>

See accompanying independent auditor's report.

<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
95,415	95,036	95,036	379
35,638	30,854	30,854	4,784
150	540	540	(390)
7,085	5,404	5,404	1,681
249,414	151,588	218,505	30,909
471,145	527,557	567,557	(96,412)
<u>35,560</u>	<u>9,158</u>	<u>32,366</u>	<u>3,194</u>
<u>894,407</u>	<u>820,137</u>	<u>950,262</u>	<u>(55,855)</u>
76,686	77,271	77,271	585
44,683	81,332	81,332	36,649
5,522	5,522	5,522	-
45,768	48,009	48,009	2,241
3,415	5,563	5,563	2,148
31,808	33,976	33,976	2,168
14,307	14,307	14,307	-
207,081	80,320	216,281	9,200
<u>563,744</u>	<u>533,355</u>	<u>588,355</u>	<u>24,611</u>
<u>993,014</u>	<u>879,655</u>	<u>1,070,616</u>	<u>77,602</u>
(98,607)	(59,518)	(120,354)	21,747
<u>-</u>	<u>62,167</u>	<u>-</u>	<u>-</u>
(98,607)	2,649	(120,354)	21,747
<u>586,114</u>	<u>563,031</u>	<u>586,114</u>	<u>-</u>
<u>487,507</u>	<u>565,680</u>	<u>465,760</u>	<u>21,747</u>

City of Stanhope, Iowa

Notes to Other Information – Budgetary Reporting

June 30, 2012

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, 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, two budget amendments increased budgeted disbursements by \$190,961, budgeted receipts by \$130,125, and decreased other financing sources by \$62,167. The budget amendments are reflected in the final budgeted amount.

## **Supplementary Information**

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

As of and for the year ended June 30, 2012

	Special Revenue				<u>Total</u>
	<u>Road Use</u>	<u>Employee Benefits</u>	<u>Local Option Sales Tax</u>	<u>Debt Service</u>	
Receipts:					
Property tax	\$ -	6,002	-	13,805	19,807
Other city tax	-	129	32,225	304	32,658
Intergovernmental	40,027	-	-	-	40,027
Use of money and property	-	-	10	-	10
Total receipts	40,027	6,131	32,235	14,109	92,502
Disbursements:					
Operating:					
Public works	28,613	2,243	-	-	30,856
Culture and recreation	-	2,451	-	-	2,451
General government	-	2,751	-	-	2,751
Debt service	-	-	-	14,307	14,307
Total disbursements	28,613	7,445	-	14,307	50,365
Net change in cash balances	11,414	(1,314)	32,235	(198)	42,137
Cash balances beginning of year	18,300	-	3,131	-	21,431
Cash balances end of year	\$ 29,714	(1,314)	35,366	(198)	63,568
<b>Cash Basis Fund Balances</b>					
Restricted for:					
Streets	29,714	-	-	-	29,714
Other purposes	-	-	35,366	-	35,366
Unassigned	-	(1,314)	-	(198)	(1,512)
Total cash basis fund balances	\$ 29,714	(1,314)	35,366	(198)	63,568

See accompanying independent auditor's report.

Schedule of Cash Receipts, Disbursements and Changes in Cash Balances  
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2012

	Enterprise Funds		
	Garbage	Meter Deposits	Total
Operating receipts:			
Charges for service	\$ 40,826	-	40,826
Total operating receipts	<u>40,826</u>	<u>-</u>	<u>40,826</u>
Operating disbursements:			
Business type activities	45,136	3,378	48,514
Total operating disbursements	<u>45,136</u>	<u>3,378</u>	<u>48,514</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(4,310)</u>	<u>(3,378)</u>	<u>(7,688)</u>
Non-operating receipts (disbursements)			
Interest on investments	41	10	51
Miscellaneous	2,125	4,850	6,975
Net non-operating receipts (disbursements)	<u>2,166</u>	<u>4,860</u>	<u>7,026</u>
Net change in cash balances	(2,144)	1,482	(662)
Cash balances beginning of year	<u>46,008</u>	<u>8,251</u>	<u>54,259</u>
Cash balances end of year	<u>\$ 43,864</u>	<u>\$ 9,733</u>	<u>53,597</u>
<b>Cash Basis Fund Balances</b>			
Unrestricted	<u>\$ 43,864</u>	<u>9,733</u>	<u>53,597</u>
Total cash basis fund balances	<u>\$ 43,864</u>	<u>\$ 9,733</u>	<u>53,597</u>

See notes to financial statements.

City of Stanhope, Iowa

Schedule of Indebtedness

Year ended June 30, 2012

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation notes:			
Essential corporate purpose:			
Community Center/Water Plant	Jan 10, 2010	3.10-4.25%	\$ 34,000
Urban renewal - Fire truck	Jan 20, 2011	5.25%	<u>29,269</u>
			<u>\$ 63,269</u>
Revenue bonds:			
Sewer	Nov 12, 2002	4.50%	<u>\$ 440,000</u>

See accompanying independent auditor's report.

Schedule 3

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
340,000	-	5,000	335,000	20,603	\$ -
<u>26,362</u>	<u>-</u>	<u>834</u>	<u>25,528</u>	<u>569</u>	<u>-</u>
<u>366,362</u>	<u>-</u>	<u>5,834</u>	<u>360,528</u>	<u>21,172</u>	<u>\$ -</u>
<u>408,077</u>	<u>-</u>	<u>4,581</u>	<u>403,496</u>	<u>19,800</u>	<u>-</u>

Bond and Note Maturities

June 30, 2012

Year Ending <u>June 30,</u>	General Obligation Notes						<u>Total</u>
	<u>Commimity Center/Water Plant</u>			<u>Fire Truck</u>			
	<u>Issued November 1, 2010</u>			<u>Issued January 20, 2011</u>			
	Interest			Interest			
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>			
2013	3.10 % \$	15,000	5.25 % \$	9,226		24,226	
2014	3.10	15,000	5.25	16,302		31,302	
2015	3.10	15,000		-		15,000	
2016	3.10	15,000		-		15,000	
2017	3.10	15,000		-		15,000	
2018	3.10	15,000		-		15,000	
2019	3.10	15,000		-		15,000	
2020	3.10	15,000		-		15,000	
2021	4.25	20,000		-		20,000	
2022	4.25	20,000		-		20,000	
2023	4.25	20,000		-		20,000	
2024	4.25	20,000		-		20,000	
2025	4.25	20,000		-		20,000	
2026	4.25	20,000		-		20,000	
2027	4.25	20,000		-		20,000	
2028	4.25	25,000		-		25,000	
2029	4.25	25,000		-		25,000	
2030	4.25	25,000		-		25,000	
Total		<u>\$ 335,000</u>		<u>\$ 25,528</u>		<u>360,528</u>	

Bond and Note Maturities

June 30, 2012

Year Ending June 30,	Revenue Bonds	
	Sewer	
	Issued November 12, 2002	
	Interest	
	Rates	Amount
2013	4.50 %	\$ 6,373
2014	4.50	6,504
2015	4.50	6,796
2016	4.50	7,102
2017	4.50	7,422
2018	4.50	7,756
2019	4.50	8,105
2020	4.50	8,470
2021	4.50	8,851
2022	4.50	9,249
2023	4.50	9,665
2024	4.50	10,100
2025	4.50	10,555
2026	4.50	11,030
2027	4.50	11,526
2028	4.50	12,045
2029	4.50	12,587
2030	4.50	13,153
2031	4.50	13,745
2032	4.50	14,364
2033	4.50	15,010
2034	4.50	15,685
2035	4.50	16,391
2036	4.50	17,129
2037	4.50	17,899
2038	4.50	18,705
2039	4.50	19,546
2040	4.50	20,426
2041	4.50	21,346
2042	4.50	22,306
2043	4.50	23,655
Total		<u>\$ 403,496</u>

See accompanying independent auditor's report.

# Cornwell, Frideres, Maher & Associates, P.L.C.

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Stanhope, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the primary government's basic financial statements listed in the table of contents and have issued our report thereon dated May 24, 2013. 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 fund of the total fund balance at July 1, 2011. Our report also expressed adverse opinions on the General Fund and governmental activities as not all funds were included in the audit. 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

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Stanhope's financial statements will be not prevented or detected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, of material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting as item I-A-12. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Stanhope's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters 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, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Stanhope's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Stanhope'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 Stanhope and other parties to whom the City of Stanhope may report including federal awarding agencies and pass-through entities and 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 Stanhope 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.

*Cornwell, Frideres, Maher & Associates, P.L.C.*  
Cornwell, Frideres, Maher & Associates, P.L.C.  
Certified Public Accountants

May 24, 2013

City of Stanhope, Iowa

Schedule of Findings

Year ended June 30, 2012

**Part I: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT DEFICIENCIES:**

I-A-12 Preparation of Audited Financial Statements – Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the audited financial statements in accordance with the cash basis of accounting. The City of Stanhope does not have an internal control system designed to provide for the preparation of the audited financial statements, including the accompanying footnotes as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate this matter to those charged with governance.

As auditors, we were requested to draft the audited financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

Recommendation – We realize that obtaining the expertise necessary to prepare the audited financial statements, including all necessary disclosures, in accordance with the cash basis of accounting can be considered costly and ineffective. Management should fully review the audited financial statements, as well as disclosures before issuance.

Response – Management feels their internal reporting is more than adequate for this size of city. The monthly reporting gives the council the information needed to make their financial decisions. Our City is not required to have an annual audit, so it would not be cost effective for management to obtain the expertise required to prepare the audited financial statements, including the related disclosures. We will review the audited financial statement including disclosures before issuance.

Conclusion – Response accepted.

City of Stanhope, Iowa  
Schedule of Findings  
Year ended June 30, 2012

**Part II: Other Findings Related to Statutory Reporting:**

- II-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted.
- II-B-12 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-C-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-12 Business Transactions – No business transactions between the City and City officials or employees were noted.
- II-E-12 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that coverage is adequate for current operations.
- II-F-12 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-12 Deposits and Investments - No instances of non-compliance with the deposit and investments provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- II-H-12 Revenue Notes – The City’s sewer fund did not maintain net revenues of 120% of principal and interest payments for the current fiscal year as required by the bond resolution.

Recommendation – The City should consult legal counsel and the bondholder to determine disposition of this matter.

Response – We will consult legal counsel and review our rate structure to ensure we are in compliance with our bond resolution in the future.

Conclusion – Response accepted.

City of Stanhope, Iowa

Schedule of Findings

Year ended June 30, 2012

H-I-12 Payment of General Obligation Bonds – Certain general obligation bonds were paid from the Enterprise, Water Fund and the General Fund. Chapter 384.4 of the Code of Iowa states, in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the Enterprise, Water Fund and the General Fund to the Debt Service Fund for future funding contributions. Payment of the bonds should then be disbursed from the Debt Service Fund.

Response – We will transfer in the future as recommended.

Conclusion – Response accepted.

II-J-12 Financial Condition – The Debt Service Fund and Special Revenue, Employee Benefits Fund had deficit balances of \$198 and \$1,314 respectively at June 30, 2012. Also, the General Fund required a transfer of surplus from the Enterprise, Electric Fund to keep it in a positive cash flow for the current fiscal year.

Recommendation – The City should investigate alternatives to return these funds to a sound financial position.

Response – See footnote 9 in notes to the financial statements for an explanation of how the City intends to eliminate these deficits. We review the General Fund cash position when preparing next year’s budget.

Conclusion – Response accepted.

City of Stanhope, Iowa

Schedule of Findings

Year ended June 30, 2012

II-K-12 Legally Separate Organizations – Based on a review of the Iowa Secretary of State’s web site for Iowa Corporations, it appeared that the Stanhope First Responders and the Stanhope Volunteer Fire Department do not appear to be incorporated under the provisions of the Iowa Nonprofit Corporation Act. If an entity is not a separate legal entity, all transactions should be recorded and processed through the City’s financial system and all transactions approved by the council.

Recommendation – City officials should determine the legal status of the above two entities to determine if these funds should be included in the City’s records.

Response – We will do this.

Conclusion – Response accepted.