CITY OF HAMPTON
Hampton, Iowa

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2005

TABLE OF CONTENTS

Page

OFFICIALS.....1

INDEPENDENT AUDITORS' REPORT 2-3

MANAGEMENT'S DISCUSSION AND ANALYSIS 4-9

BASIC FINANCIAL STATEMENTS Exhibit

Government-Wide Financial Statement

Statement of Activities and Net Assets-Cash Basis……..A……11-12

Governmental Fund Financial Statements

Statement of Cash Receipts, Disbursements and

Changes in Cash Balance……..B 13-14

Proprietary Fund Financial Statements

Statement of Cash Receipts, Disbursements and

Changes in Cash Balances……C..... 15-16

Notes to Financial Statements..... 17-23

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule of Receipts, Disbursements and

Changes in Balances – Budget and Actual (Cash Basis) – All

Governmental Funds and Proprietary Funds 25-26

Notes to Required Supplementary Information – Budgetary Reporting 27

OTHER SUPPLEMENTARY INFORMATION Schedule

Statement of Cash Receipts, Disbursements and Changes in

Cash Balances- Nonmajor Governmental Funds…….1..... 29-30

Schedule of Indebtedness.....2 31-32

Bond and Note Maturities.....3 33-34

Schedule of Receipts by Source and Disbursements

By Function- All Governmental Funds…….4.....35

INDEPENDENT AUDITORS' 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 .....…….36-37

SCHEDULE OF FINDINGS 38-40

CITY OF HAMPTON

Officials

Diane Weldin	Mayor	January 2006
Bill Hodge	Council Member	January 2008
Barry Lamos	Council Member	January 2008
Karen Schmidt	Council Member	January 2008
Craig Eckhardt	Council Member	January 2006
Steve Harms	Council Member	January 2006
Patrick Palmer	Council Member	January 2006
Ron Dunt	City Administrator	Indefinite
Michael Cross	City Attorney	Indefinite

Gardiner Thomsen
Certified Public Accountants

Independent Auditors' 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 Hampton, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Hampton'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 opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hampton as of June 30, 2005, 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 August 12, 2005 on our consideration of the City of Hampton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 29 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hampton's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 and 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the year ending June 30, 2002 was audited by other auditors. An unqualified opinion was expressed. Other 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 has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

August 12, 2005

Gardner Thomson, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Hampton 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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 8% or approximately $278,454 from fiscal 2004 to fiscal 2005. Property tax decreased approximately $120,816.

- Disbursements decreased 4.2% or approximately $121,063, in fiscal 2005 from fiscal 2004. Public safety remained constant. Public disbursements decreased 16% or $67,065 and down 28% from 2003.

- The City's total cash basis net assets increased 35% or $931,418. Of this amount, the assets of the governmental activities increased approximately $841,635 and the assets of the business type activities increased by approximately $89,783. General government disbursements decreased 18.7% or approximately $27,415. Total cash basis net assets are up 107% from June 30, 2003.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system, and solid waste disposal. 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 and Tax Increment Financing, 3) the Debt Service Fund, 4) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains eight Enterprise Funds to provide separate information for the water, sewer and solid waste funds. Water and Sewer are considered to be major funds of the City.

The required financial statements for proprietary funds include 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 is $2,000,022. The analysis that follows focuses on the changes in cash balances for governmental activities.

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

	Year Ended June 30,	
	2005	2004
Receipts and Transfers		
Program Receipts		
Charges for Service	$200	$221
Operating Grants, Contributions and Restricted Interest	468	412
Capital Grants, Contributions and Restricted Interest	366	127
General Receipts		
Property Tax	2,235	2,079
Local Option Sales Tax	243	258
Unrestricted Investment Earnings	42	18
Bond Proceeds	0	261
Other General Receipts	146	305
Transfers, Net	(121)	(128)
Total Receipts and Transfers	3,579	3,553
Disbursements		
Public Safety	771	771
Public Works	357	424
Health and Social Services	4	10
Culture and Recreation	414	370
Community and Economic Development	233	249
General Government	119	146
Debt Service	624	888
Capital projects	215	0
Total Disbursements	2,737	2,858
Increase in Cash Basis Net Assets	842	695
Cash Basis Net Assets Beginning of Year	1,158	463
Cash Basis Net Assets End of Year	$2,000	$1,158

The City's total receipts for governmental activities was $3,578,655. The total disbursements were $2,737,020.

The City property tax rates for 2005 increased by 35 cents. There were no significant increases in assessed valuations in the budget year.

The cost of all governmental activities this year was $2.737 million compared to $2.858 million last year. However, as shown in the Statement of Activities and Net Assets on pages 11 and 12, the amount taxpayers ultimately financed for these activities was only $1.702 million because some of the cost was paid by those directly benefiting from the programs ($199,670) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest ($834,573). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2005 from approximately $760,648 to approximately $1,034,243. The City paid for the remaining "public benefit" portion of governmental activities with approximately $1,702,777 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

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

	Year Ended June 30,	
	2005	2004
Receipts		
Program Receipts		
Charges for Service	$689	$677
Water	300	298
Sewer	29	19
Solid Waste	7	7
Meter Deposits		
General Receipts	0	7
Use of Property	121	129
Transfers	1,146	1,137
Disbursements and Transfers		
Water	463	356
Sewer	295	252
Solid Waste	24	24
Meter Deposits	6	5
Debt Service	269	270
Total Disbursements and Transfers	1,057	907
Increase in Cash Balance	89	230
Cash Basis Net Assets - Beginning of Year	1,502	1,272
Cash Basis Net Assets - End of Year	$1,591	$1,502

Total business type activities receipts for the fiscal year were $1.025 million compared to $1.001 million last year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Hampton completed the year, its governmental funds reported a combined fund balance of $2,000,022, an increase of more than $841,635 from last year's total of $1,158,387. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased $83,707 from the prior year to $120,602. The majority of this increase is a result of decreasing expenditures.
- The Road Use Tax Fund cash balance increased by $45,030 to $158,499 during the fiscal year. The City intends to use this money to upgrade the condition of all City roads.
- Tax Increment Fund ended the fiscal year with a cash balance of $872,723 an increase of $699,099 from the previous year. The increase was the result of incremental property tax generated from the increased taxable valuation in the district.
- The Debt Service Fund cash balance decreased by $15,306 to $428,577 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by $51,436 to $640,601, due primarily to an increase in the sale of water and reductions in debt service payments over the prior year.
- The Sewer Fund cash balance increased by $5,756 to $248,065. This is a result of decreasing expenditures.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget. The amendment was approved on May 24, 2005 and resulted in an increase in operating revenues relating to use of money gains, grants, and proceeds from sale of real estate. An increase in operating disbursements related to an overrun on general government funds and purchase of patrol car funds.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately $3,465,925 in bonds and other long-term debt, compared to approximately $4,152,553 last year, as shown below. 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 $2,750,925 is below its constitutional debt limit of $6,446,127.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2005	2004
General Obligation Bonds	$1,115	$1,330
Special assessment bonds and notes	180	210
Urban renewal tax increment financing revenue bonds	843	1,044
Revenue Notes	1,155	1,340
Bank loans	98	129
Promissory notes	75	100
Total	$3,466	$4,153

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The assessed valuations in recent years have remained relatively constant while the taxable values have declined due to the state mandated "Rollback". This has resulted in the city cutting services and expenditures to allow for the decreasing revenues. The "Rollback" is expected to further reduce taxable values for the next budget year. The city has looked at areas to adjust charges for services to help curb the declining revenues and look for new sources of revenue where possible.

These indicators were taken into account when adopting the budget for fiscal year 2006. Amounts available for appropriation in the operating budget are $4.2 million, a decrease of 11% over the final 2005 budget. Proceeds from the urban renewal tax increment financing are expected to remain strong. The City will use these receipts to finance tax increment debt. Budgeted disbursements are expected to fall slightly. The City has added no major new programs or initiatives to the 2006 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately $210,000 by the close of 2006.

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 Ron Dunt, City Manager, 122 1st Ave NW, Hampton, Iowa.

Basic Financial Statements

CITY OF HAMPTON

STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
As of and for the Year Ended June 30, 2005

		Program Receipts		
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Functions/Programs				
Governmental Activities				
Public Safety	$771,515	$93,586	$40,113	$0
Public Works	356,646	16,650	350,709	0
Health & Social Services	3,840	0	0	0
Culture & Recreation	413,960	67,077	64,854	55
Community &Economic Development	232,831	0	0	146,698
General Government	118,705	22,357	12,222	0
Debt Service	624,400	0	0	0
Capital Projects	215,123	0	0	219,922
Total Governmental Activities	2,737,020	199,670	467,898	366,675
Business Type Activities				
Water	463,414	689,106	0	0
Water Revenue Note Sinking	268,534	0	0	0
Sewer Rental	294,543	300,299	0	0
Solid Waste	24,003	29,033	0	0
Meter Deposits	6,230	6,750	0	0
Total Business Type Activities	1,056,724	1,025,188	0	0
Total	$3,793,744	$1,224,858	$467,898	$366,675
General Receipts				
Property Tax Levied For				
General Purposes				
Tax Increment Financing				
Debt Service				
Local Option Sales Tax				
Unrestricted Interest on Investments				
Miscellaneous				
Transfers				
Total General Receipts & Transfers				
Change in Cash Basis Net Assets				
Cash Basis Net Assets – Beginning of Year				
Cash Basis Net Assets – End of Year				
Cash Basis Net Assets				
Restricted				
Streets				
Urban Renewal Purposes				
Debt Service				
Other Purposes				
Unrestricted				
Total Cash Basis Net Assets				

See Notes to Financial Statements

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
($637816)	$ 0	($637816)
10,713	0	10,713
(3,840)	0	(3,840)
(281,974)	0	(281,974)
(86,133)	0	(86,133)
(84,126)	0	(84,126)
(624,400)	0	(624,400)
4,799	0	4,799
(1,702,777)	0	(1,702,777)
0	225,692	225,692
0	(268,531)	(28,534)
0	5,756	5,756
0	5,030	5,030
0	520	520
0	(31,536)	(31,536)
(1,702,777)	(31,536)	(1,734,313)
897,315	0	897,315
1,058,660	0	1,058,660
278,775	0	278,775
242,637	0	242,637
42,244	0	42,244
146,100	0	146,100
(121,319)	121,319	0
2,544,412	121,319	2,665,731
841,635	89,783	931,418
1,158,387	1,502,085	2,660,472
$2,000,022	$1,591,868	$3,591,890
158,499	0	158,499
872,723	0	872,723
240,630	617,462	858,092
323,623	0	323,623
404,247	974,406	1,378,953
$2,000,022	$1,591,868	$3,591,890

CITY OF HAMPTON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2005

		Special Revenue	
	General	Road Use Tax	Tax Increment Financing
Receipts			
Property Tax	$529,697	$0	$20,764
Tax Increment Financing Collections	0	0	1,037,593
Other City Tax	64,351	0	303
Licenses & Permits	17,912	0	0
Use of Money & Property	55,301	0	0
Intergovernmental	108,710	350,709	0
Charges for Service	191,931	0	0
Special Assessments	1,402	0	0
Miscellaneous	104,799	0	0
Total Receipts	1,074,103	350,709	1,058,660
Disbursements			
Operating			
Public Safety	584,230	0	0
Public Works	50,967	305,679	0
Health & Social Services	3,840	0	0
Culture & Recreation	355,271	0	0
Community & Economic Development	17,512	0	54,985
General Government	113,870	0	0
Debt Service	0	0	304,576
Capital Projects	0	0	0
Total Disbursements	1,125,690	305,679	359,561
Excess (Deficiency) of Receipts Over (Under) Disbursements	(51,587)	45,030	699,099
Other Financing Sources (Uses):			
Sale of Capital Assets	765	0	0
Operating Transfers In	136,754	0	0
Operating Transfers Out	(2,225)	0	0
	135,294	0	0
Net Change in Cash Balances	83,707	45,030	699,099
Cash Balances Beginning of Year	36,895	113,469	173,624
Cash Balances End of Year	$120,602	$158,499	$872,723
Cash Basis Fund Balances			
Reserved :			
Debt Service	$0	$0	$0
Cemetery Perpetual Care	0	0	0
Pool	87,319	0	0
Unreserved:			
General Fund	33,283	0	0
Special Revenue Funds	0	158,499	872,723
Capital Projects Funds	0	0	0
Total Cash Basis Fund Balances	$120,602	$158,499	$872,723

See Notes to Financial Statement

Exhibit B

Debt Service	Other Non-Major Governmental Funds	Total
$265,893	$282,125	$1,098,479
0	0	1,037,593
12,882	263,779	341,315
0	0	17,912
0	3,640	58,941
0	347,926	807,345
0	0	191,931
0	25,743	27,145
0	13,749	118,548
278,775	936,962	3,699,209
0	187,285	771,515
0	0	356,646
0	0	3,840
0	58,689	413,960
0	160,334	232,831
0	4,835	118,705
277,554	42,270	624,400
0	215,123	215,123
277,554	668,536	2,737,020
1,221	268,426	962,189
0	0	765
0	2,225	138,979
0	(258,073)	(260,298)
0	(255,848)	(120,554)
1,221	12,578	841,635
239,409	594,990	1,158,387
$240,630	$607,568	$2,000,022
$240,630	$0	$240,630
0	169,468	169,468
0	0	87,319
0	0	33,283
0	433,301	1,464,523
0	4,799	4,799
$240,630	$607,568	$2,000,022

CITY OF HAMPTON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS & CHANGES
IN FUND BALANCES – PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2005

	Water	Water Revenue Note Sinking	Water Improvement
Operating Receipts			
Use of Money & Property	$3,600	$0	$0
Charges for Service	642,305	0	0
Miscellaneous	43,201	0	0
Total Operating Receipts	689,106	0	0
Operating Disbursements			
Business Type Activities	463,414	0	0
Total Operating Disbursements	463,414	0	0
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	225,692	0	0
Non-Operating Receipts (Disbursements)			
Debt Service	0	(268,534)	0
	0	(268,534)	0
Excess (Deficiency) of Receipts Over (Under) Disbursements	225,692	(268,534)	0
Operating Transfers In (Out)	(174,256)	295,575	0
Net Change in Cash Balances	51,436	27,041	0
Cash Balances Beginning of Year	589,165	81,018	100,000
Cash Balances End of Year	$640,601	$108,059	$100,000
Cash Basis Fund Balances			
Reserved for Debt Service	$0	$108,059	$100,000
Unreserved	640,601	0	0
Total Cash Basis Fund Balances	$640,601	$108,059	$100,000

See Notes to Financial Statements

Exhibit C

Water Reserve	Water Construction	Sewer Rental	Solid Waste	Meter Deposits	Total
$0	$0	$0	$0	$0	$3,600
0	0	294,533	29,003	0	965,841
0	0	5,766	30	6,750	55,747
0	0	300,299	29,033	6,750	1,025,188
0	0	294,543	24,003	6,230	788,190
0	0	294,543	24,003	6,230	788,190
0	0	5,756	5,030	520	236,998
0	0	0	0	0	(268,534)
0	0	0	0	0	(268,534)
0	0	5,756	5,030	520	(31,536)
0	0	0	0	0	121,319
0	0	5,756	5,030	520	89,783
155,000	254,403	242,309	59,076	21,114	1,502,085
$155,000	$254,403	$248,065	$64,106	$21,634	$1,591,868
$155,000	$254,403	$0	$0	$0	$617,462
0	0	248,065	64,106	21,634	974,406
$155,000	$254,403	$248,065	$64,106	$21,634	$1,591,868

(1) Summary of Significant Accounting Policies

The City of Hampton is a political subdivision of the State of Iowa located in Franklin County. It was first incorporated in 1871 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Hampton has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Hampton has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City, but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: North Iowa Task Force, the Landfill of North Iowa, and the Franklin County Emergency Management Commission, the Franklin County E911 Service Board and the Franklin County Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the non-fiduciary 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 non-fiduciary net assets. Net assets are reported in two categories:

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

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

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the Culture & Recreation and the General Government functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 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's investments are categorized to give an indication of the level of risk assumed by the City at year-end. The City's investments are all Category 1, which means that the investments or insured or registered or the securities are held by the City or its agent in the City's name. The City's investments at June 30, 2005 are as follows:

Type	Carrying Amount	Fair Value
Mutual Funds	$15,296	$15,296
Fixed Income	145,000	144,330

(3) Bonds and Notes Payable

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

Year Ending	General Obligation Notes		Revenue Bonds and Notes		Promissory Note	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2006	$427,000	$105,626	$190,000	$50,990	$25,000	$0
2007	443,000	83,751	200,000	42,957	25,000	0
2008	228,000	60,485	205,000	34,128	25,000	0
2009	239,000	48,173	220,000	24,673	0	0
2010	255,000	35,119	80,000	17,733	0	0
2011	270,000	21,004	85,000	13,652	0	0
2012	96,000	5,734	85,000	9,233	0	0
2013	0	0	90,000	4,770	0	0
Total	$1,958,000	$359,892	$1,155,000	$198,136	$75,000	0

Year Ending	Special Assessment Notes		Bank Loans		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2006	$30,000	$10,350	$31,635	$5,065	$703,635	$172,031
2007	30,000	8,700	32,632	3,437	730,632	138,845
2008	30,000	7,020	33,658	1,755	521,658	103,388
2009	30,000	5,310	0	0	489,000	78,156
2010	30,000	3,570	0	0	365,000	56,422
2011	30,000	1,800	0	0	385,000	36,456
2012	0	0	0	0	181,000	14,967
2013	0	0	0	0	90,000	4,770
Total	$180,000	$36,750	$97,925	$10,257	$3,465,925	$605,035

On August 1, 2002, the City issued $780,000 of Water Revenue Refunding Capital Loan Notes. The notes are not general obligations of the City and are payable solely and only out of the future net revenues of the municipal water utility, a sufficient portion of which has been ordered set aside and pledged for that purpose. The notes are not payable in any manner by taxation and under no circumstances shall the City be in any manner liable by reason of failure of said revenue to be sufficient for the payment of the Notes and the interest thereon.

The Note resolution requires Sinking, Reserve and Improvement Funds be established for debt service and extraordinary maintenance expenses. Interest payments are semiannual commencing on March 1, 2003. Principal payments are semiannual commencing on September 1, 2003, continuing through September 1, 2008.

On April 1, 2004, the City issued $265,000 of General Obligation Refunding Capital Loan Notes, Series 2004. The notes were issued for the purpose of refunding outstanding General Obligations Notes dated May 1, 1997. The balance of this note was $255,000. Proceeds of the notes were $261,294. The City will save approximately $18,000 in interest as a result of refunding the 1997 notes.

The City is in compliance with the provisions of the Note Resolutions.

(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, PO Box 9117, Des Moines, IA 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07% respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were $62,678, $63,714, and $64,420, respectively, equal to the required contribution for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments

payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	$ 43,983

This liability has been computed based on rates of pay in effect at June 30, 2005.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue:	
	Local Option Sales Tax	$121,318
	Emergency	15,436
		136,754
Enterprise	Special Revenue:	
Water Sinking	Local Option Sales Tax	121,319
	Enterprise:	
	Water Revenue	174,256
		295,575
Non-Expendable Trust		
Cemetery Perpetual Care	General	2,225
		$434,554

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

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling $5,548 during the year ended June 30, 2005.

(8) Landfill of North Iowa

The City, in conjunction with seventeen other municipalities, has created the Landfill of North Iowa. The Landfill was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Landfill will be prorated among the municipalities. The Landfill is governed by a board composed of an elected representative of the governing body of each participating governmental jurisdiction.

The Landfill is not accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debt, therefore, the City of Hampton has an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2005, the City of Hampton paid $5,694 for its

share of the costs. Completed financial statements for the Landfill can be obtained from the Landfill of North Iowa.

(9) Risk Management

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

(10) Budget Over Expenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2005, disbursements in the Culture and Recreation and the General Government functions exceeded the amounts budgeted.

Required Supplementary Information

CITY OF HAMPTON

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS & CHANGES IN BALANCES – BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS – REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts			
Property Tax	$1,098,479	$0	$1,098,479
Tax Increment Financing	1,037,593	0	1,037,593
Other City Tax	341,315	0	341,315
Licenses & Permits	17,912	0	17,912
Use of Money & Property	58,941	3,600	62,541
Intergovernmental	807,345	0	807,345
Charges for Service	191,931	965,841	1,157,772
Special Assessments	27,145	0	27,145
Miscellaneous	118,548	55,747	174,295
Total Receipts	3,699,209	1,025,188	4,724,397
Disbursements			
Public Safety	771,515	0	771,515
Public Works	356,646	0	356,646
Health & Social Services	3,840	0	3,840
Culture & Recreation	413,960	0	413,960
Community & Economic Development	232,831	0	232,831
General Government	118,705	0	118,705
Debt Service	624,400	0	624,400
Capital Projects	215,123	0	215,123
Business Type Activities	0	1,056,724	1,056,724
Total Disbursements	2,737,020	1,056,724	3,793,744
Excess of (Deficiency) Receipts Over (Under) Disbursements	962,189	(31,536)	930,653
Other Financing Sources (Uses), Net	(120,554)	121,319	765
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	841,635	89,783	931,418
Balances Beginning of Year	1,158,387	1,502,085	2,660,472
Balances End of Year	$2,000,022	$1,591,868	$3,591,890

See Accompanying Independent Auditors' Report

Budgeted Amounts		Final to Net
Original	Final	Variance
$1,079,854	$1,079,854	$18,625
950,000	950,000	87,593
316,539	316,539	24,776
11,750	11,750	6,162
78,200	95,200	(32,659)
931,400	943,400	(136,055)
1,064,155	1,064,155	93,617
25,000	25,000	2,145
14,250	26,250	148,045
4,471,148	4,512,148	212,249
763,938	788,938	17,423
390,229	390,229	33,583
6,000	6,000	2,160
345,504	345,504	(68,456)
246,000	246,000	13,169
89,890	118,990	285
627,237	627,237	2,837
288,000	288,000	72,877
1,119,274	1,119,274	62,550
3,876,072	3,930,172	136,428
595,076	581,976	347,677
0	38,000	(37,235)
595,076	619,976	311,442
1,992,366	1,992,366	668,106
$2,587,442	$2,612,342	$979,548

City of Hampton

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary 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, a budget amendment increased budgeted disbursements by $54,100. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the Culture and Recreation and General Government functions.

Other Supplementary Information

CITY OF HAMPTON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS & CHANGES
IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	Employee Benefits	Emergency Tax	Economic Development	Local Option Sales Tax
Receipts				
Property Tax	$267,765	$14,360	$0	$0
Other City Tax	20,066	1,076	0	242,637
Use of Money & Property	0	0	0	0
Intergovernmental	0	0	128,004	0
Special Assessments	0	0	0	0
Miscellaneous	0	0	13,694	0
Total Receipts	287,831	15,436	141,698	242,637
Disbursements				
Operating:				
Public Safety	187,285	0	0	0
Culture & Recreation	56,556	0	0	0
Community & Economic Development	0	0	160,334	0
General Government	4,835	0	0	0
Debt Service	0	0	0	0
Capital Projects	0	0	0	0
Total Disbursements	248,676	0	160,334	0
Excess (Deficiency) of Receipts Over (Under) Disbursements	39,155	15,436	(18,636)	242,637
Other Financing Sources (Uses):				
Operating Transfers In	0	0	0	0
Operating Transfers Out	0	(15,436)	0	(242,637)
	0	(15,436)	0	(242,637)
Net Change in Balances	39,155	0	(18,636)	0
Cash Balances Beginning of Year	137,840	0	20,159	0
Cash Balances End of Year	$176,995	$0	$1,523	$0
Cash Basis Fund Balances				
Reserved for Cemetery Perpetual Care	$0	$0	$0	$0
Unreserved:				
Special Revenue Funds	176,995	0	1,523	0
Capital Project Funds	0	0	0	0
Total Cash Basis Fund Balances	$176,995	$0	$1,523	$0

See Accompanying Independent Auditors' Report.

Schedule 1

Library Trust	Cemetery Trust	Debt Service Special Assessments	Capital Projects	Non-Expendable Trust Cemetery Perpetual Care	Total
$0	$0	$0	$0	$0	$282,125
0	0	0	0	0	263,779
11	4,482	0	0	(853)	3,640
0	0	0	219,922	0	347,926
0	0	25,743	0	0	25,743
0	55	0	0	0	13,749
11	4,537	25,743	219,922	(853)	936,962
0	0	0	0	0	187,285
0	2,133	0	0	0	58,689
0	0	0	0	0	160,334
0	0	0	0	0	4,835
0	0	42,270	0	0	42,270
0	0	0	215,123	0	215,123
0	2,133	42,270	215,123	0	668,536
11	2,404	(16,527)	4,799	(853)	268,426
0	0	0	0	2,225	2,225
0	0	0	0	0	(258,073)
0	0	0	0	2,225	(255,848)
11	2,404	(16,527)	4,799	1,372	12,578
2,501	61,920	204,474	0	168,096	594,990
$2,512	$64,324	$187,947	$4,799	$169,468	$607,568
$0	$0	$0	$0	$169,468	$169,468
2,512	64,324	187,947	0	0	433,301
0	0	0	4,799	0	4,799
$2,512	$64,324	$187,947	$4,799	$169,468	$607,568

CITY OF HAMPTON
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Notes:			
Capital Loan Note/TIF	May 1, 1993	4.60 – 7.5%	$190,000
Industrial Park	Sept 1, 1995	6.8 - 7.4%	1,000,000
Refunding Note	Apr 1, 2004	1.3 – 2.0%	265,000
AmericInn TIF/GL Coatings	Feb. 1, 1998	5.75 – 7.0%	700,000
Fire Truck/Street Improvement/ Industrial Park	Sept 1, 2000	4.9 – 5.5%	1,300,000
Franklin Prairie	Apr 1, 2001	4.25 – 5.1%	250,000
Golden Triangle/FCDA Building	Nov 19, 2001	2.8 – 4.4%	130,000
Special Assessment Notes			
Street Improvement	Sept 1, 2000	5.1 – 6.0%	$300,000
Revenue Notes			
Refunding Note – Water Plant	Aug 1, 2002	2.75 – 4.4%	$780,000
Local Option Tax Revenue Bond			
Water Tower	Feb 1, 1998	4.15 – 5.9%	$1,000,000
Promissory Note			
Water Tower	June 1, 1998	0%	$250,000
Bank Loans			
First National Bank	Nov 30, 1998	6.0%	$150,000
Hampton State Bank	Dec 15, 1998	4.2%	150,000

See Accompanying Independent Auditors' Report.

Schedule 2

Balance Beginning Of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
$20,000	$0	$20,000	$0	$1,500	$0
375,000	0	115,000	260,000	27,573	0
265,000	0	85,000	180,000	5,122	0
330,000	0	35,000	295,000	22,330	0
1,065,000	0	130,000	935,000	56,633	0
210,000	0	20,000	190,000	10,065	0
109,000	0	11,000	98,000	4,384	0
$2,374,000	0	$416,000	$1,958,000	$127,607	$0
$210,000	$0	$30,000	$180,000	$11,970	$0
$660,000	$0	$125,000	$535,000	$23,906	$0
$680,000	$0	$60,000	$620,000	$34,278	$0
$100,000	$0	$25,000	$75,000	$0	$0
$68,553	$0	$15,628	$52,925	$4,181	$0
60,000	0	15,000	45,000	2,515	0
$128,553	$0	$30,628	$97,925	$6,696	$0

CITY OF HAMPTON

Bond and Note Maturities
June 30, 2005

General Obligation Notes

	Industrial Park Issued Sept 1, 1995		Refunding Note Issued April 1, 2004		Americinn/GL Coatings Issued February 1, 1998	
Year Ending June 30,	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2006	7.35%	$125,000	1.65%	$90,000	6.50%	$35,000
2007	7.40	135,000	2.00%	90,000	6.60	35,000
2008					6.70	40,000
2009					6.80	40,000
2010					6.90	45,000
2011					7.00	50,000
2012					7.00	50,000
Total		$260,000		$180,000		$295,000

Special Assessment			Revenue Notes and Bonds				
	2000 Street Improvement Issued September 1, 2000		Water Refunding Note Issued August 1, 2002		Local Option Sales and Service Tax Revenue Bonds Issued February 1, 1998		
Year Ending June 30,	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Total
2006	5.50%	$30,000	3.70%	$125,000	4.80%	$65,000	$190,000
2007	5.60	30,000	4.00	130,000	4.85	70,000	200,000
2008	5.70	30,000	4.20	135,000	4.90	70,000	205,000
2009	5.80	30,000	4.40	145,000	5.00	75,000	220,000
2010	5.90	30,000			5.10	80,000	80,000
2011	6.00	30,000			5.20	85,000	85,000
2012					5.25	85,000	85,000
2013					5.30	90,000	90,000
Total		$180,000		$535,000		$620,000	$1,155,000

See Accompanying Independent Auditors' Report.

Schedule 3

General Obligation Notes

Fire Truck, Street Industrial Park Issued September 1, 2000		Franklin Prairie Issued April 1, 2001		Golden Triangle FCDA Building Issued Nov. 19, 2001		
Interest Rates	Amount	Interest Rate	Amount	Interest Rate	Amount	Total
5.20%	$140,000	4.55%	$25,000	3.50%	$12,000	$427,000
5.25	145,000	4.65	25,000	3.70	13,000	443,000
5.30	150,000	4.70	25,000	3.90	13,000	228,000
5.35	160,000	4.80	25,000	4.10	14,000	239,000
5.40	165,000	4.90	30,000	4.20	15,000	255,000
5.50	175,000	5.00	30,000	4.30	15,000	270,000
		5.10	30,000	4.40	16,000	96,000
	$935,000		$190,000		$98,000	$1,958,000

Bank Loans					Promissory Notes	
First National Bank Urban Renewal Issued November 30, 1998		Hampton State Bank Urban Renewal Issued December 15, 1998			Franklin County REC Water Tower June 1, 1998	
Interest Rate	Amount	Interest Rate	Amount	Total	Interest Rate	Amount
6.00%	$16,635	4.20%	$15,000	$31,635	0.00%	$25,000
6.00	17,632	4.20	15,000	32,632	0.00	25,000
6.00	18,658	4.20	15,000	33,658	0.00	25,000
	$52,925		$45,000	$97,925		$75,000

Schedule 4

CITY OF HAMPTON

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS
BY FUNCTION – ALL GOVERNMENTAL FUNDS
For the Last Two Years

	2005	2004
Receipts		
Property Tax	$1,098,479	$1,219,295
Tax Increment Financing Collections	1,037,593	859,211
Other City Tax	341,315	342,954
Licenses & Permits	17,912	11,441
Use of Money and Property	58,941	46,261
Intergovernmental	807,345	559,730
Charges for Service	191,931	244,227
Special Assessments	27,145	41,078
Miscellaneous	118,548	96,558
Total	$3,699,209	$3,420,755
Disbursements		
Operating		
Public Safety	$771,515	$770,806
Public Works	356,646	423,711
Health & Social Services	3,840	10,364
Culture & Recreation	413,960	370,225
Community and Economic Development	232,831	249,308
General Government	118,705	146,120
Debt Service	624,400	887,549
Capital Projects	215,123	0
Total	$2,737,020	$2,858,083

See Accompanying Independent Auditors' Report.

Gardiner Thomsen
Certified Public Accountants

Independent Auditors' Report on Internal Control over Financial Reporting 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 Hampton, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 12, 2005. 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hampton's 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 City of Hampton's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial 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 A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hampton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 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.

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 Hampton and other parties to whom the City of Hampton may report. This report is not intended to be and shoud 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 Hampton 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.

August 12, 2005

Gardner Thomson, P.C.

City of Hampton

Schedule of Findings

Year Ended June 30, 2005

Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS:

A. Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that certain functions are not entirely segregated.

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

Response – We will review the procedures as suggested.

Conclusion – Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transaction and reports.

B. Credit Cards – The City has credit cards for use by various employees while on City business. The City does not have a written policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. Additionally, supporting documentation was not always available to support credit card charges.

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

Response – We presently have unwritten guidelines. However, we have established a policy detailing specifics on the use of the City credit cards. We will review procedures and guidelines and establish a written policy.

Conclusion – Response accepted.

Other Findings Related to Required Statutory Reporting:

1. Official Depositories – A resolution naming official depositories has been approved by the City. However, not all depositories utilized by the City are included in this resolution. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2005.

Recommendation – A new resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the Council.

Response – We will adopt a new resolution that includes all depositories and the maximum amount which may be kept on deposit at each depository.

Conclusion – Response acceptable

2. Certified Budget – Disbursements during the year ended June 30, 2005, exceeded the amounts budgeted in the Culture and Recreation and General Government functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

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

Conclusion – Response accepted.

3. Questionable Disbursements – No disbursements were noted that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.

4. Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

5. Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title & Business Connection	Transaction Description	Amount
Diane Weldin, Mayor Weldin's Auto Body, Inc.	Repairs	$3,334
Karen Schmidt, Councilperson Hampton Home Store Home Video	Supplies	$539
Patrick Palmer, Councilperson, Palmer & Palmer	Office Supplies	$1,675

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Karen Schmidt do not appear to represent a conflict of interest since total transactions were less than $1,500 during the fiscal year. The transactions with Patrick Palmer do not appear to represent a conflict of interest since these transactions were entered into through the competitive bidding process. The transactions with Diane Weldin appear to represent a conflict of interest since total transactions were more than $1,500 during the fiscal year and were not entered into through the competitive bidding process.

Recommendation – The City should refrain from conducting business with related parties.

Response – We will refrain from conducting business with related parties when possible.

Conclusion – Response accepted.

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

7. Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not.

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

9. Excess Fund Balances – We noted the fund balances in the Special Revenue Funds: TIF, Library Trust, and Cemetery Trust; and Enterprise Funds: Water, Water Improvement, Water Reserve, Water Construction, Solid Waste and Meter Deposits were in excess of disbursements for the current year.

Recommendation – The City should investigate alternatives to eliminate the excesses.

Response – The City will investigate alternatives.

Conclusion – Response accepted.

10. Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.

NEWS RELEASE

Gardiner Thomsen, Certified Public Accountants, today released an audit report on the City of Hampton.

The City's receipts totaled $4,725,162 for the year ended June 30, 2005, a 6% increase from 2004. The receipts included $1,176,090 in property tax, $1,058,660 from tax increment financing collections, $1,224,858 from charges for service, $467,898 from operating grants, contributions and restricted interest, $366,675 from capital grants, contributions and restricted interest, $242,637 from local option sales tax, $42,244 from unrestricted investment earnings and $146,100 from other general receipts.

Disbursements for the year totaled $3,793,744, a 1% increase from the prior year, and included $624,400 for Debt Service, $771,515 for Public Safety, and $413,960 for Culture and Recreation. Also, disbursements for business type activities totaled $1,056,724.

The significant increase in receipts is due primarily to tax increment financing receipts and capital grant, contributions and restricted interest receipts.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.