

NEWS RELEASE

FOR RELEASE

Hunzelman, Putzier & Co., PLC today released an audit report on City of Hinton, Iowa.

Hunzelman, Putzier & Co., PLC reported that the City of Hinton's receipts totaled \$1,715,387 for the year ended June 30, 2005. The receipts included \$145,189 in property tax, \$192,673 in tax increment financing collections, \$1,130,215 from charges for service, \$96,405 from operating grants, contributions, and restricted interest, \$64,640 from local option sales tax, \$37,259 from unrestricted investment earnings, \$28,855 from the sale of assets, and \$20,151 from other general receipts.

Disbursements for the year totaled \$1,350,728 and included \$110,876 for public safety, \$99,849 for debt service, and \$87,321 for general government. Also, disbursements for business type activities totaled \$937,260.

This report contains recommendations to the City Council and their indicated responses to the recommendations.

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

CITY OF HINTON
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2005

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

JUNE 30, 2005

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CITY OF HINTON

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Beaulieu	Mayor	January, 2006
Jeff Johnson	Council Member	January, 2006
Becky Steen	Council Member	January, 2006
Gary Fischer	Council Member	January, 2008
Mark O'Neil	Council Member	January, 2008
Keith Towns	Council Member	January, 2008
Gerry Judd	City Clerk	Indefinite
Barry Thompson	Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.
JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD R. MOORE, C.P.A.
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
Hinton, Iowa:

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 City of Hinton, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. 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, 2004.

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, 2004, as discussed in the preceding paragraph, 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 for the City of Hinton 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 July 21, 2005 on our consideration of City of Hinton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 10 and 23 through 24 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 an opinion on the financial statements that collectively comprise the City's basic financial statements. Other supplementary information included in Schedules 1 through 5, 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.

Arangelman, Putzier & Co.

July 21, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Hinton 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

Receipts of the City's governmental activities were \$576,198 for the year ended June 30, 2005 and included \$143,956 in property taxes, \$192,673 in tax increment financing collections, and \$64,640 in local option sales tax.

Disbursements of the City's governmental activities were \$413,468 for the year ended June 30, 2005 and included \$110,876 for public safety, \$99,849 for debt service, \$87,321 for general government, and \$70,539 for public works.

The City's total cash basis net assets increased 20%, or approximately \$365,000, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately \$170,000 and the assets of the business type activities increased by approximately \$195,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

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, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the electric, water, sewer, garbage, and golf course services. 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, 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 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 six Enterprise Funds to provide separate information for the electric, water, sewer, garbage, golf course, and utility deposit funds. The electric and golf course funds 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 analysis that follows focuses on the changes in cash balances for governmental activities.

<u>Changes in Cash Basis Net Assets of Governmental Activities</u>	
<u>(Expressed in Thousands)</u>	
	<u>Year Ended June 30,</u>
	<u>2005</u>
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 17
Operating grants, contributions and restricted interest	96
General receipts:	
Property tax	145
Tax increment financing	193
Local option sales tax	65
Unrestricted investment earnings	11
Rent	19
Sale of assets	29
Other general receipts	1
Transfers, net	<u>7</u>
Total receipts and transfers	<u>583</u>
Disbursements:	
Public safety	111
Public works	71
Culture and recreation	2
Community and economic development	42
General government	87
Debt service	<u>100</u>
Total disbursements	<u>413</u>
Increase in cash basis net assets	170
Cash basis net assets beginning of year	<u>561</u>
Cash basis net assets end of year	<u>\$731</u>

The City's total receipts for governmental activities were approximately \$583,000 for June 30, 2005 compared to \$622,337 from June 30, 2004.

The cost of all governmental activities this year was \$413,000. However, as shown in the Statement of Activities and Net Assets on pages 11-12, the amount taxpayers ultimately financed for these activities was only \$300,000 because some of the cost was paid by those directly benefited from the programs (\$17,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$96,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$300,000 in tax (some of which could only be used for certain programs) and other receipts, such as interest and general entitlements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

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

	<u>Year Ended June 30,</u> <u>2005</u>
Receipts:	
Program receipts:	
Charges for service:	
Electric	\$ 659
Water	83
Sewer	31
Garbage	47
Golf course	292
Utility	1
General receipts:	
Unrestricted earnings on investments	<u>25</u>
Total receipts	<u>1,138</u>
Disbursements and transfers:	
Electric	504
Water	53
Sewer	48
Garbage	46
Golf course	285
Transfers	<u>7</u>
Total disbursements and transfers	<u>943</u>
Increase in cash balance	195
Cash basis net assets beginning of year	<u>1,248</u>
Cash basis net assets end of year	<u>\$1,443</u>

Total business type activities receipts for the fiscal year were \$1,139,000 compared to \$1,043,000 last year. This increase was due primarily to the receipt of deferred patronage dividends from WIMECA (electric) of \$120,743.

Total disbursements for the fiscal year decreased by \$27,000 to a total of \$937,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Hinton completed the year, its governmental funds reported a combined fund balance of \$731,460, an increase of \$169,830 from last year's total of \$561,630. 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 \$23,536 from the prior year to \$262,578. This increase was primarily due to the money budgeted for the new shelter house was not spent.

The Tax Increment Financing Fund, which accounts for projects financed by tax increment financing, cash balance increased by \$89,924 to \$390,849. This increase was primarily due to the saving of TIF funds to call bonds in the year ending June 30, 2006.

The Debt Service Fund, which accounts for the payment of principal and interest on the City's long-term debt, cash balance was unchanged at \$2,601.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Electric Fund, which accounts for the operation and maintenance of the City's electric system, cash balance increased by \$185,754 to \$1,087,810, due primarily to the receipt of deferred patronage dividends from WIMECA and the return of an internal loan for a TIF project.

The Golf Course Fund, which accounts for the operation and maintenance of the City's public golf course, cash balance decreased by \$9,446 to \$134,597.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on April 7, 2005, and resulted in an increase of \$110,000 in disbursements. The \$110,000 was budgeted as follows: \$50,000 was added to the budget for cost over runs on improvements done in Marriand 4th and 6th additions. This additional amount was paid for by lot sales. \$40,000 was added to the electric budget to cover improvements to the system, and \$20,000 was added to the golf course budget to cover the cost of a mower. These two expenditures were paid for out of the excess funds in each respective account.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$931,000 in bonds, compared to approximately \$1,011,000 last year, as shown below.

	<u>Outstanding Debt at Year-End</u> <u>(Expressed in Thousands)</u>	<u>June 30, 2005</u>
Revenue bonds		\$ 220
General obligation bonds		<u>711</u>
		<u>\$931</u>

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 \$711,000 is significantly below its constitutional debt limit of \$2.4 million.

ECONOMIC FACTORS

Hinton is experiencing residential and commercial growth. The City joined forces with a landowner and developed several lots in 2004. These lots continue to sell and have brought in 5 new businesses along with several homes. Private developers have also developed residential lots for sale. Hinton is 10 miles from Sioux City and attracts people who want small town living with a large city close by.

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 Gerry Judd, City Clerk, P.O. Box 1023, Hinton, Iowa 51024-1023.

CITY OF HINTON
 STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Exhibit A

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Public safety	\$ 110,876	\$ 12,890	\$ 23,095	\$ (74,891)	\$ -	\$ (74,891)
Public works	70,539	2,007	73,310	4,778	-	4,778
Culture and recreation	2,483	-	-	(2,483)	-	(2,483)
Community and economic development	42,400	-	-	(42,400)	-	(42,400)
General government	87,321	1,646	-	(85,675)	-	(85,675)
Debt service	99,849	-	-	(99,849)	-	(99,849)
Total governmental activities	413,468	16,543	96,405	(300,520)	-	(300,520)
Business type activities:						
Electric	504,398	658,680	-	-	154,282	154,282
Water	52,748	83,251	-	-	30,503	30,503
Sewer	48,323	31,553	-	-	(16,770)	(16,770)
Garbage	45,970	46,638	-	-	668	668
Golf course	285,461	292,550	-	-	7,089	7,089
Utility deposits	360	1,000	-	-	640	640
Total business type activities	937,260	1,113,672	-	-	176,412	176,412
Total	\$ 1,350,728	\$ 1,130,215	\$ 96,405	(300,520)	176,412	(124,108)
General Receipts:						
Property tax levied for:						
General purposes				143,956	-	143,956
Tax increment financing				192,673	-	192,673
Utility excise replacement tax				1,233	-	1,233
Local option sales tax				64,640	-	64,640
Unrestricted interest on investments				11,742	25,517	37,259
Rent				18,780	-	18,780
Bank franchise tax				220	-	220
Miscellaneous				1,151	-	1,151
Sale of assets				28,855	-	28,855
Transfers				7,100	(7,100)	-
Total general receipts and transfers				470,350	18,417	488,767
Change in cash basis net assets				169,830	194,829	364,659
Cash basis net assets beginning of year				561,630	1,248,660	1,810,290
Cash basis net assets end of year				\$ 731,460	\$ 1,443,489	\$ 2,174,949

(Continued)

CITY OF HINTON
 STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Exhibit A
 (Continued)

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Cash Basis Net Assets						
Restricted:						
Streets				\$ 41,101	\$ -	\$ 41,101
Tax increment purposes				390,849	-	390,849
Debt service				2,601	77,822	80,423
Other purposes				34,331	-	34,331
Unrestricted				<u>262,578</u>	<u>1,365,667</u>	<u>1,628,245</u>
Total cash basis net assets				<u>\$ 731,460</u>	<u>\$ 1,443,489</u>	<u>\$2,174,949</u>

See notes to financial statements.

CITY OF HINTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Exhibit B

	<u>General</u>	<u>Tax Increment Financing</u>	<u>Debt Service</u>	<u>Other Non-major Governmental Funds</u>	<u>Total</u>
Receipts:					
Property taxes	\$ 143,956	\$ -	\$ -	\$ -	\$ 143,956
Tax increment financing collections	-	192,673	-	-	192,673
Other city tax	1,233	-	-	64,640	65,873
Licenses and permits	2,720	-	-	-	2,720
Use of money and property	30,522	-	-	-	30,522
Intergovernmental	21,970	-	-	67,182	89,152
Miscellaneous	16,319	-	-	6,128	22,447
Total receipts	<u>216,720</u>	<u>192,673</u>	<u>-</u>	<u>137,950</u>	<u>547,343</u>
Disbursements:					
Operating:					
Public safety	110,876	-	-	-	110,876
Public works	11,449	-	-	59,090	70,539
Culture and recreation	2,483	-	-	-	2,483
Community and economic development	32,692	-	-	9,708	42,400
General government	87,321	-	-	-	87,321
Debt service	-	-	99,849	-	99,849
Total disbursements	<u>244,821</u>	<u>-</u>	<u>99,849</u>	<u>68,798</u>	<u>413,468</u>
Excess (deficiency) of receipts over disbursements	<u>(28,101)</u>	<u>192,673</u>	<u>(99,849)</u>	<u>69,152</u>	<u>133,875</u>
Other financing sources (uses):					
Sale of assets	28,855	-	-	-	28,855
Transfers in	22,782	-	99,849	17,527	140,158
Transfers out	-	(102,749)	-	(30,309)	(133,058)
Total other financing sources (uses)	<u>51,637</u>	<u>(102,749)</u>	<u>99,849</u>	<u>(12,782)</u>	<u>35,955</u>
Net change in cash balances	23,536	89,924	-	56,370	169,830
Cash balances beginning of year	239,042	300,925	2,601	19,062	561,630
Cash balances end of year	<u>\$ 262,578</u>	<u>\$ 390,849</u>	<u>\$ 2,601</u>	<u>\$ 75,432</u>	<u>\$ 731,460</u>

(Continued)

CITY OF HINTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Exhibit B
 (Continued)

	<u>General</u>	<u>Tax Increment Financing</u>	<u>Debt Service</u>	<u>Other Non-major Governmental Funds</u>	<u>Total</u>
Cash Basis Fund Balances					
Reserved:					
Debt service	\$ -	\$ -	\$ 2,601	\$ -	\$ 2,601
Unreserved:					
General fund	262,578	-	-	-	262,578
Special revenue funds	-	390,849	-	75,432	466,281
Total cash basis fund balances	<u>\$ 262,578</u>	<u>\$390,849</u>	<u>\$ 2,601</u>	<u>\$ 75,432</u>	<u>\$ 731,460</u>

See notes to financial statements.

CITY OF HINTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Exhibit C

	<u>Electric</u> <u>Service</u>	<u>Golf</u> <u>Course</u>	<u>Non-major</u> <u>Proprietary</u> <u>Funds</u>	<u>Total</u>
Operating receipts:				
Charges for service	\$ 510,450	\$ 289,316	\$161,442	\$ 961,208
Miscellaneous	<u>148,230</u>	<u>3,234</u>	<u>1,000</u>	<u>152,464</u>
Total operating receipts	<u>658,680</u>	<u>292,550</u>	<u>162,442</u>	<u>1,113,672</u>
Operating disbursements:				
Business type activities	<u>504,398</u>	<u>285,461</u>	<u>118,301</u>	<u>908,160</u>
Excess of operating receipts over operating disbursements	<u>154,282</u>	<u>7,089</u>	<u>44,141</u>	<u>205,512</u>
Non-operating receipts (disbursements):				
Interest on investments	20,472	1,565	3,480	25,517
Debt service	<u>-</u>	<u>-</u>	<u>(29,100)</u>	<u>(29,100)</u>
Total non-operating receipts (disbursements)	<u>20,472</u>	<u>1,565</u>	<u>(25,620)</u>	<u>(3,583)</u>
Excess of receipts over disbursements	<u>174,754</u>	<u>8,654</u>	<u>18,521</u>	<u>201,929</u>
Operating transfers in	41,000	20,000	20,000	81,000
Operating transfers out	<u>(30,000)</u>	<u>(38,100)</u>	<u>(20,000)</u>	<u>(88,100)</u>
	<u>11,000</u>	<u>(18,100)</u>	<u>-</u>	<u>(7,100)</u>
Net change in cash balances	185,754	(9,446)	18,521	194,829
Cash balances beginning of year	<u>902,056</u>	<u>144,043</u>	<u>202,561</u>	<u>1,248,660</u>
Cash balances end of year	<u>\$1,087,810</u>	<u>\$ 134,597</u>	<u>\$221,082</u>	<u>\$1,443,489</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ -	\$ -	\$ 77,822	\$ 77,822
Unreserved	<u>1,087,810</u>	<u>134,597</u>	<u>143,260</u>	<u>1,365,667</u>
Total cash basis fund balances	<u>\$1,087,810</u>	<u>\$ 134,597</u>	<u>\$221,082</u>	<u>\$1,443,489</u>

See notes to financial statements.

CITY OF HINTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Hinton is a political subdivision of the State of Iowa located in Plymouth County. It was first incorporated in 1883 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, culture and recreation, community and economic development, general government services, and business type activities.

A. Reporting Entity

For financial reporting purposes, City of Hinton has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City has no component units which meet the Governmental Accounting Standard 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 or appoint members to Plymouth County Assessor's Conference Board, Plymouth County E911 Board, and Plymouth County Solid Waste Agency.

B. Basis of Presentation

Government-wide Financial Statements - 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 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.

CITY OF HINTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

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 the 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 Tax Increment Financing Fund is used to account for 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 Electric Fund accounts for the operation and maintenance of the City's electric system.

The Golf Course Fund accounts for the operation and maintenance of the City's public golf course.

C. Measurement Focus and Basis of Accounting

The City of Hinton 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.

CITY OF HINTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 public safety function.

2. CASH AND 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 had no investments meeting the disclosure requirements of Governmental Auditing Standards Board Statement Number 40.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

3. BONDS AND NOTES PAYABLE

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

Year Ending June 30,	<u>General Obligation</u> <u>Bonds</u>		<u>Revenue Bonds</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 67,000	\$ 32,084	\$ 15,000	\$13,200	\$ 82,000	\$ 45,284
2007	69,000	29,227	15,000	12,300	84,000	41,527
2008	71,000	26,207	20,000	11,400	91,000	37,607
2009	77,000	23,026	20,000	10,200	97,000	33,226
2010	78,000	19,409	20,000	9,000	98,000	28,409
2011- 2015	282,000	44,312	130,000	24,000	412,000	68,312
2016-2018	67,000	5,312	-	-	67,000	5,312
	<u>\$711,000</u>	<u>\$179,577</u>	<u>\$220,000</u>	<u>\$80,100</u>	<u>\$931,000</u>	<u>\$259,677</u>

CITY OF HINTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

3. BONDS AND NOTES PAYABLE - (Continued)

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- a. The bonds 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 fund.
- b. Sufficient monthly transfers shall be made to a separate sewer revenue sinking fund for the purpose of making the principal and interest payments when due.
- c. Additional monthly transfers to a separate sewer reserve account shall be made until specific minimum balances have been accumulated. This account is restricted for the purpose of paying principal and interest if the sinking fund is insufficient.
- d. Additional monthly transfers to a separate sewer improvement account shall be made until a specific minimum balance has been accumulated. This account is restricted to pay the cost of improvements to the sewer utility system.

The City has established the sinking, reserve, and improvement accounts required by the sewer revenue bond resolution.

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.

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. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2005, was \$17,214 equal to the required contribution for the 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 payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$14,889</u>

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

CITY OF HINTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

6. SOLID WASTE DISPOSAL AGREEMENT

The City entered into an agreement with the Plymouth County Solid Waste Agency, in accordance with Chapter 28E of the Code of Iowa, to provide for the disposal of solid waste from within the City. For the year ended June 30, 2005, \$25,383 was paid pursuant to the agreement.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform maintenance and monitoring functions at the site for thirty years after closure. The cost for closure and post closure to the Agency have been estimated at \$675,000 as of June 30, 2004, which is the latest information available, and the Agency has begun to accumulate resources to fund these costs. As of June 30, 2004 deposits of \$423,959 are restricted for these purposes. No estimate has been made as to the effect of future assessments to the City.

7. INTERFUND TRANSFERS

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Local Option Sales Tax	\$ 12,782
	Proprietary: Electric	10,000
Special Revenue: Road Use	Special Revenue: Local Option Sales Tax	17,527
Debt service	Special Revenue: Tax increment financing	61,749
	Proprietary: Golf Course	38,100
Proprietary: Electric	Special Revenue: Tax increment financing	41,000
Proprietary: Golf Course	Proprietary: Electric	20,000
Sewer	Water	<u>20,000</u>
		<u>\$221,158</u>

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

8. SERVICE AGREEMENTS

The City has an agreement with Orange City Sanitation for refuse collection and hauling of solid waste and recyclable materials. Payments under this agreement were \$20,027 for the year ended June 30, 2005.

CITY OF HINTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

9. BUDGET OVEREXPENDITURE

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 Public Safety function exceeded the amount budgeted.

10. EQUITY IN COOPERATIVE

City of Hinton is a member of Western Iowa Municipal Electric Cooperative Association which distributes electric energy to its members. The total equity of this cooperative at December 31, 2004, the latest audited financial statements, is as follows:

Membership fees	\$ 600
Patronage capital	1,585,175
Other equities	<u>2,478,998</u>
Total	<u>\$4,064,773</u>

The City is one of six members of this Cooperative. The City's share of membership fees and patronage capital is \$100 and \$119,471, respectively. The City's share of the other equities has not been determined.

11. RISK MANAGEMENT

City of Hinton 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.

12. COMMITMENTS

During the year ended June 30, 2002, the City entered into a 28E Agreement with Plymouth County and surrounding communities to contribute funds for the construction of a County jail from local option sales tax proceeds. The City of Hinton has agreed to contribute a total of \$190,401 through November, 2016. As of June 30, 2005, the City has made payments totaling \$38,535.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HINTON
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,
 AND CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
 FUNDS AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental	Proprietary	Net	Budgeted Amounts		Final
	Funds	Funds		Original	Final	to
	Actual	Actual				Net
						Variance
Receipts:						
Property taxes	\$ 143,956	\$ -	\$ 143,956	\$ 143,741	\$ 143,741	\$ 215
Tax increment financing collections	192,673	-	192,673	185,000	185,000	7,673
Other city tax	65,873	-	65,873	56,233	56,233	9,640
License and permits	2,720	-	2,720	1,670	1,670	1,050
Use of money and property	30,522	25,517	56,039	27,400	27,400	28,639
Intergovernmental	89,152	-	89,152	95,000	95,000	(5,848)
Charges for service	-	961,208	961,208	947,330	947,330	13,878
Miscellaneous	22,447	152,464	174,911	12,800	12,800	162,111
Total receipts	<u>547,343</u>	<u>1,139,189</u>	<u>1,686,532</u>	<u>1,469,174</u>	<u>1,469,174</u>	<u>217,358</u>
Disbursements:						
Public safety	110,876	-	110,876	107,900	107,900	(2,976)
Public works	70,539	-	70,539	116,500	116,500	45,961
Culture and recreation	2,483	-	2,483	25,000	25,000	22,517
Community and economic development	42,400	-	42,400	1,000	51,000	8,600
General government	87,321	-	87,321	104,500	104,500	17,179
Debt service	99,849	-	99,849	144,850	144,850	45,001
Business type activities	-	937,260	937,260	908,617	968,617	31,357
Total disbursements	<u>413,468</u>	<u>937,260</u>	<u>1,350,728</u>	<u>1,408,367</u>	<u>1,518,367</u>	<u>167,639</u>
Excess (deficiency) of receipts over disbursements	133,875	201,929	335,804	60,807	(49,193)	384,997
Other financing sources, net	<u>35,955</u>	<u>(7,100)</u>	<u>28,855</u>	<u>35,000</u>	<u>35,000</u>	<u>(6,145)</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	169,830	194,829	364,659	95,807	(14,193)	378,852
Balances, beginning of year	<u>561,630</u>	<u>1,248,660</u>	<u>1,810,290</u>	<u>1,583,129</u>	<u>1,583,129</u>	<u>227,161</u>
Balances, end of year	<u>\$ 731,460</u>	<u>\$ 1,443,489</u>	<u>\$ 2,174,949</u>	<u>\$ 1,678,936</u>	<u>\$ 1,568,936</u>	<u>\$ 606,013</u>

See accompanying independent auditor's report.

CITY OF HINTON
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. 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, 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 ended June 30, 2005 the budget was amended one time which increased budgeted disbursements by \$110,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public safety function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HINTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Schedule 1

	<u>Special Revenue</u>			<u>Total</u>
	<u>Road Use</u>	<u>Local Option Sales Tax</u>	<u>Economic Development</u>	
Receipts:				
Other city tax	\$ -	\$ 64,640	\$ -	\$ 64,640
Intergovernmental	67,182	-	-	67,182
Miscellaneous	6,128	-	-	6,128
Total receipts	<u>73,310</u>	<u>64,640</u>	<u>-</u>	<u>137,950</u>
Disbursements:				
Public works	59,090	-	-	59,090
Community and economic development	-	-	9,708	9,708
Total disbursements	<u>59,090</u>	<u>-</u>	<u>9,708</u>	<u>68,798</u>
Excess (deficiency) of receipts over disbursements	<u>14,220</u>	<u>64,640</u>	<u>(9,708)</u>	<u>69,152</u>
Other financing sources:				
Transfers in	17,527	-	-	17,527
Transfers out	-	(30,309)	-	(30,309)
	<u>17,527</u>	<u>(30,309)</u>	<u>-</u>	<u>(12,782)</u>
Net change in cash balances	31,747	34,331	(9,708)	56,370
Cash balances beginning of year	<u>9,354</u>	<u>-</u>	<u>9,708</u>	<u>19,062</u>
Cash balances end of year	<u>\$ 41,101</u>	<u>\$ 34,331</u>	<u>\$ -</u>	<u>\$ 75,432</u>
Cash Basis Fund Balances				
Unreserved:				
Special Revenue	<u>\$ 41,101</u>	<u>\$ 34,331</u>	<u>\$ -</u>	<u>\$ 75,432</u>

See accompanying independent auditor's report.

CITY OF HINTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Schedule 2

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Utility Deposit</u>	<u>Total</u>
Operating receipts:					
Charges for service	\$ 83,251	\$ 31,553	\$ 46,638	\$ -	\$ 161,442
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000</u>	<u>1,000</u>
Total operating receipts	83,251	31,553	46,638	1,000	162,442
Operating disbursements:					
Business type activities	<u>52,748</u>	<u>19,223</u>	<u>45,970</u>	<u>360</u>	<u>118,301</u>
Excess of operating receipts over operating disbursements	<u>30,503</u>	<u>12,330</u>	<u>668</u>	<u>640</u>	<u>44,141</u>
Non-operating receipts (disbursements)					
Interest on investments	2,038	1,442	-	-	3,480
Debt service	<u>-</u>	<u>(29,100)</u>	<u>-</u>	<u>-</u>	<u>(29,100)</u>
Total non-operating receipts (disbursements)	<u>2,038</u>	<u>(27,658)</u>	<u>-</u>	<u>-</u>	<u>(25,620)</u>
Excess (deficiency) of receipts over disbursements	<u>32,541</u>	<u>(15,328)</u>	<u>668</u>	<u>640</u>	<u>18,521</u>
Operating transfers in	-	20,000	-	-	20,000
Operating transfers out	<u>(20,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,000)</u>
	<u>(20,000)</u>	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	12,541	4,672	668	640	18,521
Cash balances beginning of year	<u>99,790</u>	<u>83,058</u>	<u>18,853</u>	<u>860</u>	<u>202,561</u>
Cash balances end of year	<u>\$ 112,331</u>	<u>\$ 87,730</u>	<u>\$ 19,521</u>	<u>\$ 1,500</u>	<u>\$ 221,082</u>
Cash Basis Fund Balances					
Reserved for debt service	\$ -	\$ 77,822	\$ -	\$ -	\$ 77,822
Unreserved	<u>112,331</u>	<u>9,908</u>	<u>19,521</u>	<u>1,500</u>	<u>143,260</u>
Total cash basis fund balances	<u>\$ 112,331</u>	<u>\$ 87,730</u>	<u>\$ 19,521</u>	<u>\$ 1,500</u>	<u>\$ 221,082</u>

See accompanying independent auditor's report.

CITY OF HINTON
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2005

Schedule 3

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning Of Year	Issued During Year	Redeemed During Year	Balance End Of Year	Interest Paid	Interest Due and Unpaid
General obligation bonds and notes									
Golf course	March 1, 1993	5.40 - 6.00%	\$ 400,000	\$ 225,000	\$ -	\$ 25,000	\$ 200,000	\$ 13,100	\$ -
Frontage road	January 1, 1999	4.30 - 5.00%	450,000	300,000	-	30,000	270,000	13,740	-
Capital loan (TIF)	April 1, 2003	1.40 - 4.00%	<u>275,000</u>	<u>251,000</u>	<u>-</u>	<u>10,000</u>	<u>241,000</u>	<u>8,009</u>	<u>-</u>
			<u>\$ 1,125,000</u>	<u>\$ 776,000</u>	<u>\$ -</u>	<u>\$ 65,000</u>	<u>\$ 711,000</u>	<u>\$ 34,849</u>	<u>\$ -</u>
Revenue bond:									
Sewer	January 15, 2001	6.00%	<u>\$ 275,000</u>	<u>\$ 235,000</u>	<u>\$ -</u>	<u>\$ 15,000</u>	<u>\$ 220,000</u>	<u>\$ 14,100</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF HINTON
 BOND AND NOTE MATURITIES
 JUNE 30, 2005

Schedule 4

General Obligation Bonds and Notes										
Revenue Bonds Sewer Improvement Issued January 15, 2001			Golf Course Issued March 1, 1993			Frontage Road Issued January 1, 1999		Capital Loan Notes (TIF) Issued April 1, 2003		
Year Ending June 30,	Interest Rates	Amount	Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2006	6.00%	\$ 15,000	2006	5.500%	\$ 25,000	4.30%	\$ 30,000	1.60%	\$ 12,000	\$ 67,000
2007	6.00	15,000	2007	5.625	25,000	4.35	30,000	2.20	14,000	69,000
2008	6.00	20,000	2008	5.875	25,000	4.40	30,000	2.45	16,000	71,000
2009	6.00	20,000	2009	6.000	30,000	4.50	30,000	2.75	17,000	77,000
2010	6.00	20,000	2010	6.000	30,000	4.60	30,000	3.00	18,000	78,000
2011	6.00	25,000	2011	6.000	30,000	4.70	30,000	3.25	18,000	78,000
2012	6.00	25,000	2012	6.000	35,000	4.80	30,000	3.30	19,000	84,000
2013	6.00	25,000	2013	-	-	4.90	30,000	3.40	19,000	49,000
2014	6.00	25,000	2014	-	-	5.00	30,000	3.60	20,000	50,000
2015	6.00	30,000	2015	-	-	-	-	3.70	21,000	21,000
		-	2016	-	-	-	-	3.80	22,000	22,000
		-	2017	-	-	-	-	3.90	22,000	22,000
		-	2018	-	-	-	-	4.00	23,000	23,000
		-	2019	-	-	-	-	-	-	-
		<u>\$ 220,000</u>			<u>\$ 200,000</u>		<u>\$ 270,000</u>		<u>\$ 241,000</u>	<u>\$ 711,000</u>

See accompanying independent auditor's report.

CITY OF HINTON
SCHEDULE OF RECEIPTS BY SOURCE AND
DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS

Schedule 5

2005

Receipts:

Property taxes	\$ 143,956
Tax increment financing collections	192,673
Other city tax	65,873
License and permits	2,720
Use of money and property	30,522
Intergovernmental	67,402
Miscellaneous	<u>44,197</u>
Total	<u>\$ 547,343</u>

Disbursements:

Public safety	\$ 110,876
Public works	70,539
Culture and recreation	2,483
Community and economic development	42,400
General government	87,321
Debt service	<u>99,849</u>
Total	<u>\$ 413,468</u>

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.
JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD R. MOORE, C.P.A.
KENNETH A. PUTZIER, C.P.A. (RETIRED)
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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
Hinton, Iowa

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 City of Hinton, 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 July 21, 2005. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Hinton's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 City of Hinton'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 Part I of 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 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 items I-A-05 and I-B-05 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hinton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance 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

noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance 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, 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 City of Hinton, and other parties to whom City of Hinton may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Hinton 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.

Hangelman, Putzier & Co.

July 21, 2005

CITY OF HINTON
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-05 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 bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by one individual.

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

Response - The control procedures have been reviewed and the City Council will continue to monitor the duties of the Clerk.

Conclusion - Response accepted.

I-B-05 Fire Department Funds - The Fire Department currently maintains separate bank accounts which are not included in the City's financial records. This is not a separate non-profit corporation, but is a department of the City. Chapter 384.20 of the Iowa Code states in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any officer, employee or other person, and which show the receipt, use, and disposition of all city property. Public moneys may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - These funds should be included in the City's financial records and any disbursements should be budgeted and properly supported by adequate documentation of public purpose.

Response - The City Council will be reviewing the structure of the Fire Department and exactly how they were set up. Effective immediately the Fire Department will be submitting a monthly financial report for review.

Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-05 Official Depositories - A resolution naming official depositories has been adopted by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

CITY OF HINTON
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-B-05 Certified Budget - Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the public safety, and community and economic development 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 monitored closer in the future to prevent disbursements exceeding the budget.

Conclusion - Response accepted.

II-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-05 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-05 Business Transactions - We noted no business transactions between the City and City officials or employees.

II-F-05 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.

II-G-05 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-H-05 Revenue Notes - The City has established the sinking and reserve funds required by the sewer revenue note resolution.

II-I-05 Deposits and Investments - We noted 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.

II-J-05 Excess Balances - The following funds have balances at June 30, 2005 in excess of one year's expenditures:

General
Special Revenue - Tax Increment Financing
 - Local Option Sales Tax

CITY OF HINTON
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-J-05 Excess Balances - (Continued)

Recommendation - While it appears that these funds may have an excess balance, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response - The excess balance in the general fund will be used for future park and/or possibly street projects. The excess balance in the TIF fund will be used to call bonds in the 2005/06 fiscal year. The excess funds in the LOST fund will be used for a street project in 2005/06 or 2006/07 depending on the amount of the street bids.

Conclusion - Response accepted.

II-K-05 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but do not obtain an image of the back of each cancelled check as required.

Recommendation - The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response - The bank has been notified that the City needs to have copies of both the front and back of all cancelled checks. This will begin immediately.

Conclusion - Response accepted.