

CITY OF HAMPTON

Hampton, Iowa

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

June 30, 2006

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CITY OF HAMPTON

Officials

(Before January 2006)

Diane Weldin Mayor January 2006

Bill Hodge Council Member January 2008

Barry Lamos Council Member January 2006

Karen Schmidt Council Member January 2008

Craig Eckhardt Council Member January 2006

Steve Harms Council Member January 2008

Patrick Palmer Council Member January 2006

Ron Dunt City Administrator Indefinite

Michael Cross City Attorney Indefinite

(After January 2006)

Diane Weldin Mayor January 2008

Bill Hodge Council Member January 2008

Chad Hanson Council Member January 2010

Karen Schmidt Council Member January 2008

Craig Eckhardt Council Member January 2010

Steve Harms Council Member January 2008

Patrick Palmer Council Member January 2010

Ron Dunt City Administrator Indefinite

Michael Cross City Attorney Indefinite



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, 2006, 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 opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which are 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, 2006, 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 17, 2006 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 25 through 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming 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 three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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 17, 2006

Gardiner Thomsen, 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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 13% or approximately \$487,903 from fiscal 2005 to fiscal 2006. Property tax increased approximately \$101,607.
- Disbursements increased a slight 0.8% or approximately \$22,165, in fiscal 2006 from fiscal 2005.
- The City's total cash basis net assets increased 13% or \$473,093. Of this amount, the assets of the governmental activities increased approximately \$380,678 and the assets of the business type activities increased by approximately \$92,415.

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 \$2,385,701. 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,	
	2006	2005
Receipts and Transfers		
Program Receipts		
Charges for Service	\$226	\$200
Operating Grants, Contributions and Restricted Interest	501	468
Capital Grants, Contributions and Restricted Interest	18	366
General Receipts		
Property Tax	1,999	2,235
Local Option Sales Tax	262	243
Unrestricted Investment Earnings	81	42
Bond Proceeds	0	0
Other General Receipts	181	146
Transfers, Net	(131)	(121)
Total Receipts and Transfers	3,137	3,579
Disbursements		
Public Safety	754	771
Public Works	389	357
Health and Social Services	4	4
Culture and Recreation	416	414
Community and Economic Development	202	233
General Government	174	119
Debt Service	813	624
Capital projects	0	215
Total Disbursements	2,752	2,737
Increase in Cash Basis Net Assets	385	842
Cash Basis Net Assets Beginning of Year	2,000	1,158
Cash Basis Net Assets End of Year	\$2,385	\$2,000

The City's total receipts for governmental activities was \$3,140,163. The total disbursements were \$2,754,484.

The City property tax rates for 2006 increased by 58 cents. There were no significant increases in assessed valuations in the budget year.

The cost of all governmental activities this year was \$2.754 million compared to \$2.737 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 \$2.009 million because some of the cost was paid by those directly benefiting from the programs (\$225,909) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$519,511). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2006 from approximately \$1,034,243 to approximately \$745,420. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$2,009,064 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,	
	2006	2005
Receipts		
Program Receipts		
Charges for Service		
Water	\$668	\$689
Sewer	292	300
Solid Waste	29	29
Meter Deposits	7	7
General Receipts	0	0
Use of Property	131	121
Transfers	1,127	1,146
Disbursements and Transfers		
Water	462	463
Sewer	275	295
Solid Waste	24	24
Meter Deposits	6	6
Debt Service	267	269
Total Disbursements and Transfers	1,034	1,057
Increase in Cash Balance	93	89
Cash Basis Net Assets - Beginning of Year	1,591	1,502
Cash Basis Net Assets - End of Year	\$1,684	\$1,591

Total business type activities receipts for the fiscal year were \$996,491 compared to \$1.025 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 \$2,385,701, an increase of more than \$385,679 from last year's total of \$2,000,022. 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 \$238,645 from the prior year to \$359,247. However, \$126,023 is allocated to the Pool and \$29,638 represents Library funds. The unreserved General Fund cash balance is \$203,586.
- The Road Use Tax Fund cash balance increased by \$43,569 to \$202,068 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 \$942,305 an increase of \$69,582 from the previous year. The increase was the result of incremental property tax generated from the increased taxable valuation in the district. The city intends to use these funds to pay TIF Debt and for TIF eligible expenditures
- The Debt Service Fund cash balance increased by \$1,355 to \$241,985 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$60,505 to \$580,096, due primarily to a decrease in the sale of water and infrastructure improvements expenditures.
- The Sewer Fund cash balance increased by \$17,022 to \$265,087. 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 23, 2006 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 public safety funds and prepayment of callable debts.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$2,561,000 in bonds and other long-term debt, compared to approximately \$3,465,925 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 \$1,396,000 is below its constitutional debt limit of \$6,693,182.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2006	2005
General Obligation Bonds	\$885	\$1,115
Special assessment bonds and notes	150	180
Urban renewal tax increment financing revenue bonds	511	843
Revenue Notes	965	1,155
Bank loans	0	98
Promissory notes	50	75
Total	\$2,561	\$3,466

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 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 2007. Amounts available for appropriation in the operating budget are \$4.9 million, a increase of 17% over the final 2006 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 and eligible TIF expenditures. Budgeted disbursements are expected to remain constant. The City has added no major new programs or initiatives to the 2007 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$300,000 by the close of 2007.

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, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Functions/Programs				
Governmental Activities				
Public Safety	\$753,825	\$99,112	\$31,113	\$ 0
Public Works	389,270	25,235	353,154	0
Health & Social Services	4,792	0	0	0
Culture & Recreation	416,746	73,014	85,905	0
Community & Economic Development	202,027	0	0	18,346
General Government	175,041	28,548	30,993	0
Debt Service	812,783	0	0	0
Total Governmental Activities	<u>2,754,484</u>	<u>225,909</u>	<u>501,165</u>	<u>18,346</u>
Business Type Activities				
Water	462,702	668,587	0	0
Water Revenue Note Sinking	266,390	0	0	0
Sewer Rental	275,120	292,142	0	0
Solid Waste	24,514	29,012	0	0
Meter Deposits	6,793	6,750	0	0
Total Business Type Activities	<u>1,035,519</u>	<u>996,491</u>	<u>0</u>	<u>0</u>
Total	<u>\$3,790,003</u>	<u>\$1,222,400</u>	<u>501,165</u>	<u>\$18,346</u>

General Receipts

Property and Other County Tax Levied For
 General Purposes
 Tax Increment Financing
 Debt Service
Local Option Sales Tax
Unrestricted Interest on Investments
Bond Proceeds
Miscellaneous
Sale of Assets
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
\$ (623,600)	\$ 0	\$ (623,600)
(10,881)	0	(10,881)
(4,792)	0	(4,792)
(257,827)	0	(257,827)
(183,681)	0	(183,681)
(115,500)	0	(115,500)
(812,783)	0	(812,783)
(2,009,064)	0	(2,009,064)
0	205,885	205,885
0	(266,390)	266,390
0	17,022	17,022
0	4,498	4,498
0	(43)	(43)
0	(39,028)	(39,028)
(2,009,064)	(39,028)	(2,048,092)
1,005,787	0	1,005,787
709,232	0	709,232
285,378	0	285,378
262,885	0	262,885
81,328	0	81,328
0	0	0
121,576	0	121,576
60,000	0	60,000
(131,443)	131,443	0
2,394,743	131,443	2,526,186
385,679	92,415	478,094
2,000,022	1,591,868	3,591,890
2,385,701	1,684,283	4,069,984
202,068	0	202,068
942,305	0	942,305
407,951	748,905	1,156,856
360,327	0	360,327
473,050	935,378	1,408,428
\$2,385,701	\$1,684,283	\$4,069,984

CITY OF HAMPTON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES – GOVERNMENTAL FUNDS As of and for the Year Ended June 30, 2006

	General	Special Revenue	
		Road Use Tax	Tax Increment Financing
Receipts:			
Property Tax	\$609,246	\$ 0	\$8,453
Tax Increment Financing Collections	0	0	700,657
Other City Tax	67,701	0	122
Licenses & Permits	25,962	0	0
Use of Money & Property	95,929	0	0
Intergovernmental	112,987	353,154	0
Charges for Service	196,399	0	0
Special Assessments	2,021	0	0
Miscellaneous	94,910	510	23,676
Total Receipts	1,205,155	353,664	732,908
Disbursements:			
Operating:			
Public Safety	568,825	0	0
Public Works	53,063	310,095	0
Health & Social Services	4,792	0	0
Culture & Recreation	346,342	0	0
Community & Economic Development	26,811	0	175,216
General Government	173,760	0	0
Debt Service	0	0	488,110
Total Disbursements	1,173,593	310,095	663,326
Excess (Deficiency) of Receipts Over (Under) Disbursements	31,562	43,569	69,582
Other Financing Sources (Uses):			
Sale of Capital Assets	60,000	0	0
Operating Transfers In	149,383	0	0
Operating Transfers Out	(2,300)	0	0
Total Other Financing Sources (Uses)	207,083	0	0
Net Change in Cash Balances	238,645	43,569	69,582
Cash Balances Beginning of Year	120,602	158,499	872,723
Cash Balances End of Year	\$359,247	\$202,068	\$942,305
Cash Basis Fund Balances			
Reserved :			
Debt Service	\$ 0	\$ 0	\$ 0
Cemetery Perpetual Care	0	0	0
Pool	126,023	0	0
Unreserved:			
General Fund	233,224	0	0
Special Revenue Funds	0	202,068	942,305
Capital Projects Funds	0	0	0
Total Cash Basis Fund Balances	\$359,247	\$202,068	\$942,305

See Notes to Financial Statements

Exhibit B

Debt Service	Other Nonmajor Governmental Funds	Total
\$272,683	\$309,704	\$1,200,086
0	0	700,657
12,695	282,021	362,539
0	0	25,962
0	5,598	101,527
0	0	466,141
0	0	196,399
0	18,588	20,609
0	18,590	137,686
<u>285,378</u>	<u>634,501</u>	<u>3,211,606</u>
0	185,000	753,825
0	26,112	389,270
0	0	4,792
0	70,404	416,746
0	0	202,027
284,023	1,281	175,041
0	40,650	812,783
<u>284,023</u>	<u>323,447</u>	<u>2,754,484</u>
1,355	311,054	457,122
0	0	60,000
0	2,300	151,683
0	(280,826)	(283,126)
<u>0</u>	<u>(278,526)</u>	<u>(71,443)</u>
1,355	32,528	385,679
<u>240,630</u>	<u>607,568</u>	<u>2,000,022</u>
<u>\$241,985</u>	<u>\$640,096</u>	<u>\$2,385,701</u>
\$241,985	\$165,966	\$407,951
0	173,137	173,137
0	0	126,023
0	0	233,224
0	296,113	1,440,486
0	4,880	4,880
<u>\$241,985</u>	<u>\$640,096</u>	<u>\$2,385,701</u>

CITY OF HAMPTON

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS & CHANGES
IN CASH BALANCES – PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2006**

	Water	Water Revenue Note Sinking	Water Improvement
Operating Receipts:			
Use of Money & Property	\$ 0	\$ 0	\$ 0
Charges for Service	623,279	0	0
Miscellaneous	45,308	0	0
Total Operating Receipts	668,587	0	0
Operating Disbursements:			
Business Type Activities	462,702	0	0
Total Operating Disbursements	462,702	0	0
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	205,885	0	0
Non-Operating Receipts (Disbursements):			
Debt Service	0	(266,390)	0
Total Non-Operating Receipts (Disbursements)	0	(266,390)	0
Excess (Deficiency) of Receipts Over (Under) Disbursements	205,885	(266,390)	0
Operating Transfers In (Out)	(266,390)	397,833	0
Net Change in Cash Balances	(60,505)	131,443	0
Cash Balances Beginning of Year	640,601	108,059	100,000
Cash Balances End of Year	\$580,096	\$239,502	\$100,000
Cash Basis Fund Balances			
Reserved for Debt Service	\$ 0	\$239,502	\$100,000
Unreserved	580,096	0	0
Total Cash Basis Fund Balances	\$580,096	\$239,502	\$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	\$ 0
0	0	286,646	28,892	0	938,817
0	0	5,496	120	6,750	57,674
0	0	292,142	29,012	6,750	996,491
0	0	275,120	24,514	6,793	769,129
0	0	275,120	25,514	6,793	769,129
0	0	17,022	4,498	(43)	227,362
0	0	0	0	0	(266,390)
0	0	0	0	0	(266,390)
0	0	17,022	4,498	(43)	(39,028)
0	0	0	0	0	131,443
0	0	17,022	4,498	(43)	92,415
155,000	254,403	248,065	64,106	21,634	1,591,868
\$155,000	\$254,403	\$265,087	\$68,604	\$21,591	\$1,684,283
\$155,000	\$254,403	\$ 0	\$ 0	\$ 0	\$748,905
0	0	265,087	68,604	21,591	935,378
\$155,000	\$254,403	\$265,087	\$68,604	\$21,591	\$1,684,283

City of Hampton

Notes to Financial Statements

June 30, 2006

(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, 2006, disbursements exceeded the amounts budgeted in the Culture & Recreation and the Community & Economic Development functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 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, 2006 are as follows:

Type	Carrying Amount	Fair Value
Mutual Funds	\$15,116	\$15,116
Fixed Income	147,000	146,307

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Notes		Revenue Bonds and Notes		Promissory Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$308,000	\$73,900	\$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	\$1,396,000	\$244,415	\$965,000	\$147,146	\$50,000	\$ 0

Year Ending June 30,	Special Assessment Notes		Total	
	Principal	Interest	Principal	Interest
2007	\$30,000	\$8,700	\$563,000	\$125,557
2008	30,000	7,020	488,000	101,633
2009	30,000	5,310	489,000	78,156
2010	30,000	3,570	365,000	56,422
2011	30,000	1,800	385,000	36,456
2012	0	0	181,000	14,967
2013	0	0	90,000	4,770
Total	\$150,000	\$26,400	\$2,561,000	\$417,961

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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$63,965, \$62,678, and \$63,714, 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, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$44,017

This liability has been computed based on rates of pay in effect at June 30, 2006.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$131,442
	Emergency	17,941
		<u>149,383</u>
Enterprise	Special Revenue:	
Water Sinking	Local Option Sales Tax	131,443
	Enterprise:	
	Water Revenue	266,390
		<u>397,833</u>
Permanent		
Cemetery Perpetual Care	General	2,300
		<u>\$549,516</u>

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 \$5,071 during the year ended June 30, 2006.

(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, 2006, 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 fiscal 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, 2006, disbursements in the Culture and Recreation and the Community & Economic Development 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, 2006**

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property Tax	\$1,200,086	\$ 0	\$1,200,086
Tax Increment Financing	700,657	0	700,657
Other City Tax	362,539	0	362,539
Licenses & Permits	25,962	0	25,962
Use of Money & Property	101,527	0	101,527
Intergovernmental	466,141	0	466,141
Charges for Service	196,399	938,817	1,135,216
Special Assessments	20,609	0	20,609
Miscellaneous	137,686	57,674	195,360
Total Receipts	3,211,606	996,491	4,208,097
Disbursements:			
Public Safety	753,825	0	753,825
Public Works	389,270	0	389,270
Health & Social Services	4,792	0	4,792
Culture & Recreation	416,746	0	416,746
Community & Economic Development	202,027	0	202,027
General Government	175,041	0	175,041
Debt Service	812,783	0	812,783
Business Type Activities	0	1,035,519	1,035,519
Total Disbursements	2,754,484	1,035,519	3,790,003
Excess (Deficiency) of Receipts Over (Under) Disbursements	457,122	(39,028)	418,094
Other Financing Sources (Uses), Net	(71,443)	131,443	60,000
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	385,679	92,415	478,094
Balances Beginning of Year	2,000,022	1,591,868	3,591,890
Balances End of Year	\$2,385,701	\$1,684,283	\$4,069,984

See Accompanying Independent Auditors' Report

Budgeted Amounts		Final to Total
Original	Final	Variance
\$1,183,595	\$1,183,595	\$16,491
771,183	771,183	(70,526)
334,234	334,234	28,305
19,825	19,825	6,137
76,000	76,000	25,527
479,941	479,941	(13,800)
1,081,800	1,081,800	53,416
33,018	33,018	(12,409)
23,500	67,845	127,515
4,003,096	4,047,441	160,656
737,395	798,395	44,570
465,800	465,800	76,530
5,500	5,500	708
347,481	347,481	(69,265)
188,000	188,000	(14,027)
198,605	198,605	23,564
612,854	851,836	39,053
1,237,279	1,237,279	201,760
3,792,914	4,092,896	302,893
210,182	(45,455)	463,549
0	60,000	0
210,182	14,545	463,549
3,555,674	3,555,674	36,216
\$3,765,856	\$3,570,219	\$499,765

City of Hampton

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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. 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, the Permanent 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, a budget amendment increased budgeted disbursements by \$299,982. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the Culture and Recreation and Community & Economic Development functions.

Other Supplementary Information

CITY OF HAMPTON

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS & CHANGES
IN CASH BALANCES – NON-MAJOR GOVERNMENTAL FUNDS**

Year Ended June 30, 2006

	Employee Benefits	Emergency Tax	Economic Development	Local Option Sales Tax
Receipts:				
Property Tax	\$292,807	\$16,897	\$ 0	\$ 0
Other City Tax	18,092	1,044	0	262,885
Use of Money & Property	0	0	0	0
Special Assessments	0	0	0	0
Miscellaneous	0	0	18,346	0
Total Receipts	310,899	17,941	18,346	262,885
Disbursements:				
Operating:				
Public Safety	185,000	0	0	0
Public Works	26,112	0	0	0
Culture & Recreation	60,424	0	0	0
General Government	1,281	0	0	0
Debt Service	0	0	0	0
Total Disbursements	272,817	0	0	0
Excess (Deficiency) of Receipts Over (Under) Disbursements	38,082	17,941	0	262,885
Other Financing Sources (Uses):				
Operating Transfers In	0	0	0	0
Operating Transfers Out	0	(17,941)	0	(262,885)
	0	(17,941)	0	(262,885)
Net Change in Cash Balances	38,082	0	18,346	0
Cash Balances Beginning of Year	176,995	0	1,523	0
Cash Balances End of Year	\$215,077	\$ 0	\$19,869	\$ 0
Cash Basis Fund Balances				
Reserved for:				
Debt Service	\$ 0	\$ 0	\$ 0	\$ 0
Cemetery Perpetual Care	0	0	0	0
Unreserved:				
Special Revenue Funds	215,077	0	19,869	0
Capital Project Funds	0	0	0	0
Total Cash Basis Fund Balances	\$215,077	\$ 0	\$19,869	\$ 0

See Accompanying Independent Auditors' Report.

Schedule 1

Library Trust	Cemetery Trust	Debt Service		Capital Projects	Permanent	
		Special Assessments			Cemetery Perpetual Care	Total
\$ 0	\$ 0	\$ 0		\$ 0	\$ 0	\$309,704
0	0	0		0	0	282,021
20	4,209	0		0	1,369	5,598
0	0	18,588		0	0	18,588
0	82	81		81	0	18,590
20	4,291	18,669		81	1,369	634,501
0	0	0		0	0	185,000
0	0	0		0	0	26,112
0	9,980	0		0	0	70,404
0	0	0		0	0	1,281
0	0	40,650		0	0	40,650
0	9,980	40,650		0	0	323,447
20	(5,689)	(21,981)		81	1,369	311,054
0	0	0		0	2,300	2,300
0	0	0		0	0	(280,826)
0	0	0		0	2,300	(278,526)
20	(5,689)	(21,981)		81	3,669	32,528
2,512	64,324	187,947		4,799	169,468	607,568
\$2,532	\$58,635	\$165,966		\$4,880	\$173,137	\$640,096
\$ 0	\$ 0	\$165,966		\$ 0	\$ 0	\$165,966
0	0	0		0	173,137	173,137
2,532	58,635	0		0	0	296,113
0	0	0		4,880	0	4,880
\$2,532	\$58,635	\$165,966		\$4,880	\$173,137	\$640,096

CITY OF HAMPTON
 SCHEDULE OF INDEBTEDNESS
 Year Ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Notes:			
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
\$260,000	\$ 0	\$260,000	\$ 0	\$19,578	\$ 0
180,000	0	90,000	90,000	3,285	0
295,000	0	35,000	260,000	20,090	0
935,000	0	140,000	795,000	49,938	0
190,000	0	25,000	165,000	9,175	0
98,000	0	12,000	86,000	4,016	0
<u>\$1,958,000</u>	<u>\$ 0</u>	<u>\$562,000</u>	<u>\$1,396,000</u>	<u>\$106,082</u>	<u>\$ 0</u>
<u>\$180,000</u>	<u>\$ 0</u>	<u>\$30,000</u>	<u>\$150,000</u>	<u>\$10,350</u>	<u>\$ 0</u>
<u>\$535,000</u>	<u>\$ 0</u>	<u>\$125,000</u>	<u>\$410,000</u>	<u>\$19,562</u>	<u>\$ 0</u>
<u>\$620,000</u>	<u>\$ 0</u>	<u>\$65,000</u>	<u>\$555,000</u>	<u>\$31,428</u>	<u>\$ 0</u>
<u>\$75,000</u>	<u>\$ 0</u>	<u>\$25,000</u>	<u>\$50,000</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$52,925	\$ 0	\$52,925	\$ 0	\$3,088	\$ 0
45,000	0	45,000	0	1,838	0
<u>\$97,925</u>	<u>\$ 0</u>	<u>\$97,925</u>	<u>\$ 0</u>	<u>\$4,926</u>	<u>\$ 0</u>

CITY OF HAMPTON

**Bond and Note Maturities
June 30, 2006**

General Obligation Notes

Year Ending June 30,	Refunding Note Issued April 1, 2004		Americinn/GL Coatings Issued February 1, 1998	
	Interest Rate	Amount	Interest Rate	Amount
2007	2.00%	\$90,000	6.60%	\$35,000
2008		0	6.70	40,000
2009		0	6.80	40,000
2010		0	6.90	45,000
2011		0	7.00	50,000
2012		0	7.00	50,000
Total		<u>\$90,000</u>		<u>\$260,000</u>

Special Assessment

2000 Street Improvement Issued September 1, 2000		
Year Ending June 30,	Interest Rate	Amount
2007	5.60%	\$30,000
2008	5.70	30,000
2009	5.80	30,000
2010	5.90	30,000
2011	6.00	30,000
2012		0
2013		0
Total		<u>\$150,000</u>

Revenue Notes and Bonds

Water Refunding Note Issued August 1, 2002		Local Option Sales and Service Tax Revenue Bonds Issued February 1, 1998		
Interest Rate	Amount	Interest Rate	Amount	Total
4.00%	\$130,000	4.85%	\$70,000	\$200,000
4.20	135,000	4.90	70,000	205,000
4.40	145,000	5.00	75,000	220,000
	0	5.10	80,000	80,000
	0	5.20	85,000	85,000
	0	5.25	85,000	85,000
	0	5.30	90,000	90,000
	<u>\$410,000</u>		<u>\$555,000</u>	<u>\$965,000</u>

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		Interest		Interest		
Rates	Amount	Rate	Amount	Rate	Amount	Total
5.25%	\$145,000	4.65%	\$25,000	3.70%	\$13,000	\$308,000
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
	0	5.10	30,000	4.40	16,000	96,000
	<u>\$795,000</u>		<u>\$165,000</u>		<u>\$86,000</u>	<u>\$1,396,000</u>

Promissory Notes

Franklin County REC
Water Tower
June 1, 1998

Interest	
Rate	Amount
0.00%	\$25,000
0.00	25,000
	0
	0
	0
	0
	0
	<u>\$50,000</u>

CITY OF HAMPTON

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

	2006	2005	2004
Receipts:			
Property Tax	\$1,200,086	\$1,098,479	\$1,219,295
Tax Increment Financing Collections	700,657	1,037,593	859,211
Other City Tax	362,539	341,315	342,954
Licenses & Permits	25,962	17,912	11,441
Use of Money & Property	101,527	58,941	46,261
Intergovernmental	466,141	807,345	559,730
Charges for Service	196,399	191,931	244,227
Special Assessments	20,609	27,145	41,078
Miscellaneous	137,686	118,548	96,558
Total	\$3,211,606	\$3,699,209	\$3,420,755
Disbursements:			
Operating:			
Public Safety	\$753,825	\$771,515	\$770,806
Public Works	389,270	356,646	423,711
Health & Social Services	4,792	3,840	10,364
Culture & Recreation	416,746	413,960	370,225
Community and Economic Development	202,027	232,831	249,308
General Government	175,041	118,705	146,120
Debt Service	812,783	624,400	887,549
Capital Projects	0	215,123	0
Total	\$2,754,484	\$2,737,020	\$2,858,083

See Accompanying Independent Auditors' Report.



**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***

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, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 17, 2006. 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 opinions on the financial statements and not to provide an opinion 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, 2006 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 should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of 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 17, 2006

Gardiner Thomsen, P.C.

City of Hampton

Schedule of Findings

Year Ended June 30, 2006

Findings Related to the Financial Statements

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 should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transaction and reports.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

Other Findings Related to Required Statutory Reporting:

1. Certified Budget – Disbursements during the year ended June 30, 2006, exceeded the amounts budgeted in the Culture and Recreation 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 amended in the future, if applicable.

Conclusion – Response accepted.

2. 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.
3. Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
4. 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	\$3,109
Karen Schmidt, Councilperson Hampton Home Store Home Video	Supplies	827
Patrick Palmer, Councilperson, Palmer & Palmer	Office Supplies	900
Jim Wobschall, Chief of Police Four Seasons Services	Mowing of Nuisance Property	235

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Karen Schmidt, Patrick Palmer and Jim Wobschall do not appear to represent a conflict of interest since total transactions were less than \$1,500 during the fiscal year. Transactions totaling \$1,609 with Diane Weldin appear to represent a conflict of interest since transactions in excess of \$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. The City gets three estimates for work to be done, any work to be done by Weldin’s Auto Body are a result of the lowest estimate.

Conclusion – Response acknowledged.

5. 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.
6. Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not.
7. 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.

8. Excess Fund Balances – We noted the fund balances in the Special Revenue Funds: TIF, Economic Development, Library Trust, and Cemetery Trust; and Enterprise Funds: 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. The water related fund balances are required by the Water Revenue Note resolution. The remaining fund balances are earmarked for infrastructure improvements in the future.

Conclusion – Response accepted.

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

10. Separately Maintained Accounts – The Police Department maintains the DARE account & a forfeiture account within the department. The receipts & disbursements of the accounts were not reflected in the City’s accounting system and were not included in the City’s annual budget or financial report.

Recommendation – In accordance with the Code of Iowa, Special Revenue funds should be established for each of these accounts, all collections should be remitted to the City and all disbursements should be approved by the City Council and be reflected in the City’s accounting system, annual budget & financial report.

Response – The forfeiture fund was established at the beginning of the fiscal year ending June 30, 2007. We will consider establishing a DARE fund.

Conclusion – Response accepted.

NEWS RELEASE

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

The City's receipts totaled \$4,268,097 for the year ended June 30, 2006, a 10% decrease from 2005. The receipts included \$1,291,165 in property tax, \$709,232 from tax increment financing collections, \$1,222,400 from charges for service, \$501,165 from operating grants, contributions and restricted interest, \$18,346 from capital grants, contributions and restricted interest, \$262,885 from local option sales tax, \$81,328 from unrestricted investment earnings and \$121,576 from other general receipts.

Disbursements for the year totaled \$3,790,003, a 1% decrease from the prior year, and included \$812,783 for Debt Service, \$753,825 for Public Safety, and \$416,746 for Culture and Recreation. Also, disbursements for business type activities totaled \$1,035,519.

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

