

CITY OF HAMPTON

Hampton, Iowa

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

June 30, 2007

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CITY OF HAMPTON

Officials

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



Gardiner Thomsen
Certified Public Accountants

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hampton, Iowa, as of and for the year ended June 30, 2007, 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 an opinion on these financial statements based on our audit.

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

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

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, 2007, 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 January 10, 2008, 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 24 through 26 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, 2006 (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.

January 10, 2008

Gardiner Thompson, 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, 2007. 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 11% from fiscal 2006 to fiscal 2007. Property tax receipts increased approximately \$11,424.
- Disbursements decrease 3% or approximately \$85,187 in fiscal 2007 from fiscal 2006.
- The City's total cash basis net assets increased by \$748,086. Of this amount, the assets of the governmental activities increased approximately \$721,190 and the assets of the business type activities increased by approximately \$26,896.

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 \$3,106,891. 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,	
	2007	2006
Receipts and Transfers		
Program Receipts		
Charges for Service	\$213	\$226
Operating Grants, Contributions and Restricted Interest	509	501
Capital Grants, Contributions and Restricted Interest	105	18
General Receipts		
Property Tax	2,012	1,999
Local Option Sales Tax	333	262
Unrestricted Investment Earnings	144	81
Bond Proceeds	165	0
Other General Receipts	78	181
Transfers, Net	(167)	(131)
Total Receipts and Transfers	3,392	3,137
Disbursements		
Public Safety	808	754
Public Works	427	389
Health and Social Services	3	4
Culture and Recreation	457	416
Community and Economic Development	103	202
General Government	219	174
Debt Service	542	813
Capital projects	112	0
Total Disbursements	2,671	2,752
Increase in Cash Basis Net Assets	721	385
Cash Basis Net Assets Beginning of Year	2,385	2,000
Cash Basis Net Assets End of Year	\$3,106	\$2,385

The City's total receipts for governmental activities were \$3,392,637. The total disbursements were \$2,671,447.

The City property tax rates for 2006 increased by 67 cents. There were no significant increases in assessed valuations in the budget year.

The cost of all governmental activities this year was \$2,669 million compared to \$2,754 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 \$1,841 million because some of the cost was paid by those directly benefiting from the programs (\$213,272) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$614,051). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2007 from approximately \$745,420 to approximately \$827,323. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$2,345,066 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,	
	2007	2006
Receipts		
Program Receipts		
Charges for Service		
Water	\$692	\$668
Sewer	298	292
Solid Waste	29	29
Meter Deposits	5	7
General Receipts	0	0
Use of Property	166	131
Transfers	1,190	1,127
Disbursements and Transfers		
Water	496	462
Sewer	366	275
Solid Waste	28	24
Meter Deposits	5	6
Debt Service	268	267
Total Disbursements and Transfers	1,163	1,034
Increase in Cash Balance	27	93
Cash Basis Net Assets - Beginning of Year	1,684	1,591
Cash Basis Net Assets - End of Year	\$1,711	\$1,684

Total business type activities receipts for the fiscal year were \$1,024,731 compared to \$996,491 last year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Hampton completed the year, its governmental funds reported a combined fund balance of \$3,106,891, an increase of more than \$721,190 from last year’s total of \$2,385,701. 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 \$172,267 from the prior year to \$531,514. However, \$218,951 is allocated to the Pool and \$32,142 represents Library funds. The unreserved General Fund cash balance is \$312,563.
- The Road Use Tax Fund cash balance increased by \$49,377 to \$251,445 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 \$1,401,087 an increase of \$458,782 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 \$1,491 to \$243,476 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$72,209 to \$507,887, due primarily to a decrease in the sale of water and infrastructure improvements expenditures.
- The Sewer Fund cash balance decreased by \$67,946 to \$197,141. This is a result of infrastructure improvement expenditures.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget. The amendment was approved on May 22, 2007 and resulted in an increase in operating revenues relating to use of money gains and grants. An increase in operating disbursements was related to an overrun on public safety funds and prepayment of cancellable debts.

DEBT ADMINISTRATION

At June 30, 2007, the City had approximately \$2,043,000 in bonds and other long-term debt, compared to approximately \$2,561,000 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 \$1,253,000 is below its constitutional debt limit of \$6,117,301.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2007	2006
General Obligation Notes	\$790	\$885
Special assessment bonds and notes	0	150
Urban renewal tax increment		
financing revenue bonds	463	511
Revenue Notes	765	965
Promissory notes	25	50
Total	\$2,043	\$2,561

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". 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. The City has been quite successful recently in obtaining grants to offset the cost of projects.

These indicators were taken into account when adopting the budget for fiscal year 2008. Amounts available for appropriation in the operating budget are \$4.3 million, a decrease of 12% over the final 2007 budget. Budgeted disbursements are expected to remain constant. Other than typical infrastructure maintenance, the City has added no major new programs or initiatives to the 2008 budget.

If these estimates are realized, the City's budgeted cash balance is expected to remain constant by the close of 2008.

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, 2007

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Functions/Programs:				
Governmental Activities:				
Public Safety	\$807,758	\$107,328	\$27,100	\$0
Public Works	426,900	19,222	357,599	0
Health & Social Services	3,154	0	0	0
Culture & Recreation	457,181	64,668	118,350	0
Community & Economic Development	102,761	0	0	0
General Government	218,948	22,054	5,549	0
Debt Service	542,176	0	0	0
Capital Projects	112,569	0	0	105,453
Total Governmental Activities	<u>2,671,447</u>	<u>213,272</u>	<u>508,598</u>	<u>105,453</u>
Business - Type Activities:				
Water	496,084	692,233	0	0
Water Revenue Note Sinking	268,358	0	0	0
Sewer Rental	366,662	298,716	0	0
Solid Waste	28,548	29,057	0	0
Meter Deposits	4,806	4,725	0	0
Total Business - Type Activities	<u>1,164,458</u>	<u>1,024,731</u>	<u>0</u>	<u>0</u>
Total	<u>\$3,835,905</u>	<u>\$1,238,003</u>	<u>\$508,598</u>	<u>\$105,453</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

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
\$(673,330)	\$0	\$(673,330)
(50,079)	0	(50,079)
(3,154)	0	(3,154)
(274,163)	0	(274,163)
(102,761)	0	(102,761)
(191,345)	0	(191,345)
(542,176)	0	(542,176)
(7,116)	0	(7,116)
<u>(1,844,124)</u>	<u>0</u>	<u>(1,844,124)</u>
0	196,149	196,149
0	(268,358)	(268,358)
0	(67,946)	(67,946)
0	509	509
0	(81)	(81)
<u>0</u>	<u>(139,727)</u>	<u>(139,727)</u>
<u>\$(1,844,124)</u>	<u>\$(139,727)</u>	<u>\$(1,983,851)</u>
\$1,087,055	\$0	\$1,087,055
643,017	0	643,017
281,749	0	281,749
333,245	0	333,245
143,512	0	143,512
165,000	0	165,000
78,359	0	78,359
(166,623)	166,623	0
<u>2,565,314</u>	<u>166,623</u>	<u>2,731,937</u>
721,190	26,896	748,086
<u>2,385,701</u>	<u>1,684,283</u>	<u>4,069,984</u>
<u>\$3,106,891</u>	<u>\$1,711,179</u>	<u>\$4,818,070</u>
\$251,445	\$0	\$251,445
1,401,087	0	1,401,087
267,304	915,528	1,182,832
460,703	0	460,703
726,352	795,651	1,522,003
<u>\$3,106,891</u>	<u>\$1,711,179</u>	<u>\$4,818,070</u>

CITY OF HAMPTON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES – GOVERNMENTAL FUNDS

As of and for the Year Ended June 30, 2007

	Special Revenue		
	General	Road Use Tax	Employee Benefits
Receipts:			
Property Tax	\$685,650	\$0	\$291,442
Tax Increment Financing	0	0	0
Other City Tax	73,729	0	16,239
Licenses & Permits	14,107	0	0
Use of Money & Property	151,583	0	0
Intergovernmental	147,859	351,549	0
Charges for Service	189,941	0	0
Special Assessments	6,039	0	0
Miscellaneous	42,194	6,050	0
Total Receipts	1,311,102	357,599	307,681
Disbursements:			
Operating:			
Public Safety	622,243	0	180,908
Public Works	65,603	308,222	53,075
Health & Social Services	3,154	0	0
Culture & Recreation	394,443	0	59,698
Community & Economic Development	21,369	0	0
General Government	217,190	0	1,758
Debt Service	0	0	0
Capital Projects	0	0	0
Total Disbursements	1,324,002	308,222	295,439
Excess (Deficiency) of Receipts Over (Under)			
Disbursements	(12,900)	49,377	12,242
Other Financing Sources (Uses):			
Note Proceeds	0	0	0
Operating Transfers In	186,617	0	0
Operating Transfers Out	(1,450)	0	0
Total Other Financing Sources (Uses)	185,167	0	0
Net Change in Cash Balances	172,267	49,377	12,242
Cash Balances Beginning of Year	359,247	202,068	215,077
Cash Balances End of Year	\$531,514	\$251,445	\$227,319
Cash Basis Fund Balances			
Reserved :			
Debt Service	\$0	\$0	\$0
Cemetery Perpetual Care	0	0	0
Pool	218,951	0	0
Unreserved:			
General Fund	312,563	0	0
Special Revenue Funds	0	251,445	227,319
Capital Projects Funds	0	0	0
Total Cash Basis Fund Balances	\$531,514	\$251,445	\$227,319

See Notes to Financial Statements

Exhibit B

Special Revenue				
Local Option Sales Tax	Tax Increment Financing	Debt Service	Nonmajor	Total
\$0	\$5,205	\$269,908	\$18,938	\$1,271,143
0	637,728	0	0	637,728
333,245	84	11,841	1,057	436,195
0	0	0	0	14,107
0	0	0	17,482	169,065
0	0	0	105,453	604,861
0	0	0	0	189,941
0	0	0	16,937	22,976
0	0	0	0	48,244
333,245	643,017	281,749	159,867	3,394,260
0	0	0	4,607	807,758
0	0	0	0	426,900
0	0	0	0	3,154
0	0	0	3,040	457,181
0	81,392	0	0	102,761
0	0	0	0	218,948
0	102,843	280,258	159,075	542,176
0	0	0	112,569	112,569
0	184,235	280,258	279,291	2,671,447
333,245	458,782	1,491	(119,424)	722,813
0	0	0	165,000	165,000
0	0	0	1,450	188,067
(333,245)	0	0	(19,995)	(354,690)
(333,245)	0	0	146,455	(1,623)
0	458,782	1,491	27,031	721,190
0	942,305	241,985	425,019	2,385,701
\$0	\$1,401,087	\$243,476	\$452,050	\$3,106,891
\$0	\$0	\$243,476	\$23,828	\$267,304
0	0	0	175,153	175,153
0	0	0	0	218,951
0	0	0	0	312,583
0	1,401,087	0	90,305	1,970,156
0	0	0	162,764	162,764
\$0	\$1,401,087	\$243,476	\$452,050	\$3,106,891

CITY OF HAMPTON

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS & CHANGES
IN CASH BALANCES – PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2007**

	Water	Water Revenue Note Sinking	Water Improvement
Operating Receipts:			
Charges for Service	\$638,902	\$0	\$0
Miscellaneous	53,331	0	0
Total Operating Receipts	<u>692,233</u>	<u>0</u>	<u>0</u>
Operating Disbursements:			
Business Type Activities	496,084	0	0
Total Operating Disbursements	<u>496,084</u>	<u>0</u>	<u>0</u>
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	<u>196,149</u>	<u>0</u>	<u>0</u>
Non-Operating Receipts (Disbursements):			
Debt Service	0	(268,358)	0
Total Non-Operating Receipts (Disbursements)	<u>0</u>	<u>(268,358)</u>	<u>0</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>196,149</u>	<u>(268,358)</u>	<u>0</u>
Operating Transfers In (Out)	<u>(268,358)</u>	<u>434,981</u>	<u>0</u>
Net Change in Cash Balances	<u>(72,209)</u>	<u>166,623</u>	<u>0</u>
Cash Balances Beginning of Year	<u>580,096</u>	<u>239,502</u>	<u>100,000</u>
Cash Balances End of Year	<u>\$507,887</u>	<u>\$406,125</u>	<u>\$100,000</u>
Cash Basis Fund Balances			
Reserved for Debt Service	\$0	\$406,125	\$100,000
Unreserved	507,887	0	0
Total Cash Basis Fund Balances	<u>\$507,887</u>	<u>\$406,125</u>	<u>\$100,000</u>

See Notes to Financial Statements

Exhibit C

Water Reserve	Water Construction	Sewer Rental	Solid Waste	Meter Deposits	Total
\$0	\$0	\$290,102	\$28,937	\$0	\$957,941
0	0	8,614	120	4,725	66,790
0	0	298,716	29,057	4,725	1,024,731
0	0	366,662	28,548	4,806	896,100
0	0	366,662	28,548	4,806	896,100
0	0	(67,946)	509	(81)	128,631
0	0	0	0	0	(268,358)
0	0	0	0	0	(268,358)
0	0	(67,946)	509	(81)	(139,727)
0	0	0	0	0	166,623
0	0	(67,946)	509	(81)	26,896
155,000	254,403	265,087	68,604	21,591	1,684,283
\$155,000	\$254,403	\$197,141	\$69,113	\$21,510	\$1,711,179
\$155,000	\$254,403	\$0	\$0	\$0	\$915,528
0	0	197,141	69,113	21,510	795,651
\$155,000	\$254,403	\$197,141	\$69,113	\$21,510	\$1,711,179

City of Hampton

Notes to Financial Statements

June 30, 2007

(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 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 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 nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts 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 Employee Benefits Fund is used to account for employee benefits financed by property tax collections.

The Local Option Sales Tax Fund is a discretionary major fund used to account for the collection of local option sales tax.

The Tax Increment Financing 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 Water Revenue Note Sinking Fund is a discretionary major fund used to account for the payment of interest and principal on the City's water related debt. This fund is required by the City's debt agreements.

The Water Improvement Fund is a discretionary major fund used to account for funds held by the City for future water improvement projects. This fund is required by the City's debt agreements.

The Water Reserve Fund is a discretionary major fund used to account for the funds held by the City as a reserve as required by the City's debt agreements.

The Water Construction Fund is a discretionary major fund utilized to account for funds held by the City for future water construction projects.

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

The Solid Waste Fund is a discretionary major fund used to account for receipts and disbursements related to solid waste collection and disposal.

The Meter Deposit Fund is discretionary major fund used to account for the receipts and disbursements related to providing utility services.

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, 2007, disbursements exceeded the amounts budgeted in the Culture & Recreation and the General Government functions.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2007 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 are 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, 2007 are as follows:

Type	Carrying Amount	Fair Value
Fixed Income	\$162,040	\$163,777

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Notes		Revenue Bonds and Notes		Promissory Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$393,000	\$67,045	\$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	<u>\$1,253,000</u>	<u>\$177,075</u>	<u>\$765,000</u>	<u>\$104,189</u>	<u>\$25,000</u>	<u>\$0</u>

Year Ending June 30,	Total	
	Principal	Interest
2008	\$623,000	\$101,173
2009	459,000	72,846
2010	335,000	52,852
2011	355,000	34,656
2012	181,000	14,967
2013	90,000	4,770
Total	<u>\$2,043,000</u>	<u>\$281,264</u>

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.

In May of 2007, the City issued \$165,000 of General Obligation Capital Loan Notes, Series 2007. The notes were issued for the purpose of paying a portion of the costs of constructing street and related utility improvements, including those costs associated with the Oakhill Drive Project. Interest is due on December 1, 2007 and June 1, 2008. The entire principal is due on June 1, 2008.

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, 2007, 2006 and 2005 were \$66,026, \$63,965, and \$62,678, respectively, equal to the required contribution for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and overtime 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, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$58,062
Overtime	82,480
	<u>\$140,542</u>

This liability has been computed based on rates of pay in effect at June 30, 2007.

Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$166,622
	Emergency	19,995
		<u>186,617</u>
Enterprise	Special Revenue:	
Water Sinking	Local Option Sales Tax	166,623
	Enterprise:	
	Water Revenue	268,358
		<u>434,981</u>
Permanent		
Cemetery Perpetual Care General		1,450
		<u>\$623,048</u>

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

(6) Related Party Transactions

The City had business transactions between the City and City officials totaling \$11,616 during the year ended June 30, 2007.

(7) 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, 2007, 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.

(8) 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, 2007, disbursements in the Culture and Recreation and the General Government functions exceeded the amounts budgeted.

(11) Excess Fund Balances

We noted the fund balances of several funds were in excess of disbursements for the current year.

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, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property Tax	\$1,271,143	\$0	\$1,271,143
Tax Increment Financing	637,728	0	637,728
Other City Tax	436,195	0	436,195
Licenses & Permits	14,107	0	14,107
Use of Money & Property	169,065	0	169,065
Intergovernmental	604,861	0	604,861
Charges for Service	189,941	957,941	1,147,882
Special Assessments	22,976	0	22,976
Miscellaneous	48,244	66,790	115,034
Total Receipts	3,394,260	1,024,731	4,418,991
Disbursements:			
Public Safety	807,758	0	807,758
Public Works	426,900	0	426,900
Health & Social Services	3,154	0	3,154
Culture & Recreation	457,181	0	457,181
Community & Economic Development	102,761	0	102,761
General Government	218,948	0	218,948
Debt Service	542,176	0	542,176
Capital Projects	112,569	0	112,569
Business Type Activities	0	1,164,458	1,164,458
Total Disbursements	2,671,447	1,164,458	3,835,905
Excess (Deficiency) of Receipts Over (Under) Disbursements	722,813	(139,727)	583,086
Other Financing Sources (Uses), Net	(1,623)	166,623	165,000
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	721,190	26,896	748,086
Balances Beginning of Year	2,385,701	1,684,283	4,069,984
Balances End of Year	\$3,106,891	\$1,711,179	\$4,818,070

See Accompanying Independent Auditors' Report

Budgeted Amounts		Final to Total
Original	Final	Variance
\$1,261,375	\$1,261,375	\$9,768
708,889	708,889	(71,161)
342,706	342,706	93,489
23,450	23,450	(9,343)
113,000	113,000	56,065
890,936	908,436	(303,575)
1,087,500	1,087,500	60,382
62,500	62,500	(39,524)
38,000	38,000	77,034
4,528,356	4,545,856	(126,865)
781,478	861,478	53,720
506,475	506,475	79,575
5,500	5,500	2,346
360,100	365,100	(92,081)
130,600	130,600	27,839
208,075	208,075	(10,873)
604,657	542,459	283
536,500	536,500	423,931
1,195,035	1,272,035	107,577
4,328,420	4,428,222	592,317
199,936	117,634	465,452
185,000	185,000	(20,000)
384,936	302,634	445,452
3,802,072	3,802,072	267,912
\$4,187,008	\$4,104,706	\$713,364

City of Hampton

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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. 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 \$99,802. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the Culture and Recreation and General Government functions.

Other Supplementary Information

CITY OF HAMPTON

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS & CHANGES
IN CASH BALANCES – NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2007**

	Special Revenue			
	Forfeiture	Emergency Tax	Economic Development	Library Trust
Receipts:				
Property Tax	\$0	\$18,938	\$0	\$0
Other City Tax	0	1,057	0	0
Use of Money & Property	8,444	0	0	0
Intergovernmental	0	0	0	0
Special Assessments	0	0	0	0
Total Receipts	8,444	19,995	0	0
Disbursements:				
Operating:				
Public Safety	4,607	0	0	0
Culture & Recreation	0	0	0	0
Debt Service	0	0	0	0
Capital Projects	0	0	0	0
Total Disbursements	4,607	0	0	0
Excess (Deficiency) of Receipts Over (Under) Disbursements	3,837	19,995	0	0
Other Financing Sources (Uses):				
Note Proceeds	0	0	0	0
Operating Transfers In	0	0	0	0
Operating Transfers Out	0	(19,995)	0	0
	0	(19,995)	0	0
Net Change in Cash Balances	3,837	0	0	0
Cash Balances Beginning of Year	0	0	19,869	2,532
Cash Balances End of Year	\$3,837	\$0	\$19,869	\$2,532
Cash Basis Fund Balances				
Reserved for:				
Debt Service	\$0	\$0	\$0	\$0
Cemetery Perpetual Care	0	0	0	0
Unreserved:				
Special Revenue Funds	3,837	0	19,869	2,532
Capital Project Funds	0	0	0	0
Total Cash Basis Fund Balances	\$3,837	\$0	\$19,869	\$2,532

See Accompanying Independent Auditors' Report.

Schedule 1

Special Revenue	Debt Service	Capital Projects		Permanent	
Cemetery Trust	Special Assessments	Airport Project	Oak-Hill Project	Cemetery Perpetual Care	Total
\$0	\$0	\$0	\$0	\$0	\$18,938
0	0	0	0	0	1,057
8,472	0	0	0	566	17,482
0	0	105,453	0	0	105,453
0	16,937	0	0	0	16,937
8,472	16,937	105,453	0	566	159,867
0	0	0	0	0	4,607
3,040	0	0	0	0	3,040
0	159,075	0	0	0	159,075
0	0	95,595	16,974	0	112,569
3,040	159,075	95,595	16,974	0	279,291
5,432	(142,138)	9,858	(16,974)	566	(119,424)
0	0	0	165,000	0	165,000
0	0	0	0	1,450	1,450
0	0	0	0	0	(19,995)
0	0	0	165,000	1,450	146,455
5,432	(142,138)	9,858	148,026	2,016	27,031
58,635	165,966	4,880	0	173,137	425,019
\$64,067	\$23,828	\$14,738	\$148,026	\$175,153	\$452,050
\$0	\$23,828	\$0	\$0	\$0	\$23,828
0	0	0	0	175,153	175,153
64,067	0	0	0	0	90,305
0	0	14,738	148,026	0	162,764
\$64,067	\$23,828	\$14,738	\$148,026	\$175,153	\$452,050

CITY OF HAMPTON
 SCHEDULE OF INDEBTEDNESS
 Year Ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Notes:			
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
Oakhill Drive Project	May 24, 2007	3.90%	165,000
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

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
\$90,000	\$0	\$90,000	\$0	\$1,800	\$0
260,000	0	35,000	225,000	17,815	0
795,000	0	145,000	650,000	42,658	0
165,000	0	25,000	140,000	8,037	0
86,000	0	13,000	73,000	3,590	0
0	165,000	0	165,000	0	0
<u>\$1,396,000</u>	<u>\$165,000</u>	<u>\$308,000</u>	<u>\$125,300</u>	<u>\$73,900</u>	<u>\$0</u>
<u>\$150,000</u>	<u>\$0</u>	<u>\$150,000</u>	<u>\$0</u>	<u>\$8,775</u>	<u>\$0</u>
<u>\$410,000</u>	<u>\$0</u>	<u>\$130,000</u>	<u>\$280,000</u>	<u>\$14,650</u>	<u>\$0</u>
<u>\$555,000</u>	<u>\$0</u>	<u>\$70,000</u>	<u>\$485,000</u>	<u>\$28,307</u>	<u>\$0</u>
<u>\$50,000</u>	<u>\$0</u>	<u>\$25,000</u>	<u>\$25,000</u>	<u>\$0</u>	<u>\$0</u>

CITY OF HAMPTON

**Bond and Note Maturities
June 30, 2007**

General Obligation Notes

Oak Hill Project				
Note Issued May 24, 2007			Americinn/GL Coatings Issued February 1, 1998	
Year Ending June 30,	Interest Rate	Amount	Interest Rate	Amount
	3.9%	\$165,000	6.70	\$40,000
		0	6.80	40,000
		0	6.90	45,000
		0	7.00	50,000
		0	7.00	50,000
		<u>\$165,000</u>		<u>\$225,000</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
4.20	\$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>\$280,000</u>		<u>\$485,000</u>	<u>\$765,000</u>

See Accompanying Independent Auditors' Report.

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
5.30	\$150,000	4.70	\$25,000	3.90	\$13,000	\$393,000
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>\$650,000</u>		<u>\$140,000</u>		<u>\$73,000</u>	<u>\$1,253,000</u>

Promissory Notes

Franklin County REC
Water Tower
June 1, 1998

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

CITY OF HAMPTON

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

	2007	2006	2005	2004
Receipts:				
Property Tax	\$1,271,143	\$1,200,086	\$1,098,479	\$1,219,295
Tax Increment Financing	637,728	700,657	1,037,593	859,211
Collections				
Other City Tax	436,195	362,539	341,315	342,954
Licenses & Permits	14,107	25,962	17,912	11,441
Use of Money & Property	169,065	101,527	58,941	46,261
Intergovernmental	604,861	466,141	807,345	559,730
Charges for Service	189,941	196,399	191,931	244,227
Special Assessments	22,976	20,609	27,145	41,078
Miscellaneous	48,244	137,686	118,548	96,558
Total	<u>\$3,394,260</u>	<u>\$3,211,606</u>	<u>\$3,699,209</u>	<u>\$3,420,755</u>
Disbursements:				
Operating:				
Public Safety	\$807,758	\$753,825	\$771,515	\$770,806
Public Works	426,900	389,270	356,646	423,711
Health & Social Services	3,154	4,792	3,840	10,364
Culture & Recreation	457,181	416,746	413,960	370,225
Community and Economic Development	102,761	202,027	232,831	249,308
General Government	218,948	175,041	118,705	146,120
Debt Service	542,176	812,783	624,400	887,549
Capital Projects	112,569	0	215,123	0
Total	<u>\$2,671,447</u>	<u>\$2,754,484</u>	<u>\$2,737,020</u>	<u>\$2,858,083</u>

See Accompanying Independent Auditors' Report.



Gardiner Thomsen
Certified Public Accountants

**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, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 10, 2008. 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 City of Hampton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Hampton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Hampton's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects City of Hampton's ability to initiate, authorize, record, process, or report financial data reliably in accordance with another comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of City of Hampton's financial statements that is more than inconsequential will not be prevented or detected by City of Hampton's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by City of Hampton's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items A and B are material weaknesses.

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, 2007 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.

City of Hampton's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the County's responses, we did not audit City of Hampton's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of 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.

January 10, 2008

Gardiner Thomsen, P.C.

City of Hampton

Schedule of Findings

Year Ended June 30, 2007

Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES/MATERIAL WEAKNESSES:

- 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.

B.

Preparation of Full Disclosure Financial Statements – Internal controls over financial reporting include the actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by another comprehensive basis of accounting. The City of Hampton does not have the internal resources to prepare the full-disclosure financial statements required by another comprehensive basis of accounting for external reporting. While this circumstance is not uncommon for most governmental entities, it is the responsibility of management and those charged with governance, to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

Recommendation – We recognize that with a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles and prepare full disclosure financial statements for external reporting purposes is difficult. However, we recommend that City officials continue to review operating procedures and obtain the internal expertise needed to handle all the aspects of external financial reporting, rather than rely on external assistance.

Response – We recognize our limitations, however it is not fiscally responsible to add additional staff at this time.

Conclusion – Response acknowledged.

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, 2007, exceeded the amounts budgeted in the Culture and Recreation and General Government functions. Chapter 384.20 of the Code of Iowa, states in part, that “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

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

Conclusion – Response accepted.

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
Patrick Palmer, City Councilperson Palmer & Palmer	Office Paper	\$3,780
Karen Schmidt, City Councilperson Hampton Home Store	Capital Equip., Office Supply	511
Home Video	Office Supply	254
		\$765
Diane Weldin, Mayor Weldin's Auto Body, Inc.	Vehicle Repair	\$890
Doug Tar, Public Works Director & Code Enforcer Craigton Construction, LLC	Lift Station Project	\$4,456
Trev Murphy, Waste Water Employee Murphy's Heating and Plumbing	Supply and Repairs	\$1,725

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Karen Schmidt, Doug Tar and Diane Weldin do not appear to represent a conflict of interest since total transactions were less than \$1,500 during the fiscal year or were entered into through competitive bid. Transactions totaling \$2,280 with Patrick Palmer and transactions totaling \$225 with Trev Murphy appear to represent a conflict of interest since total 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 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, a Special Revenue fund should be established for this account, 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 – We will consider establishing a DARE fund.

Conclusion – Response acknowledged.

NEWS RELEASE

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

The City's receipts totaled \$4,583,991 for the year ended June 30, 2007, a 7% increase from 2006. The receipts included \$1,368,804 in property tax, \$643,017 from tax increment financing collections, \$1,238,003 from charges for service, \$508,598 from operating grants, contributions and restricted interest, \$105,453 from capital grants, contributions and restricted interest, \$333,245 from local option sales tax, \$143,512 from unrestricted investment earnings and \$78,359 from other general receipts.

Disbursements for the year totaled \$3,835,905 a 1% increase from the prior year, and included \$542,176 for Debt Service, \$807,758 for Public Safety, and \$457,181 for Culture and Recreation. Also, disbursements for business type activities totaled \$1,164,458.

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