

CITY OF HAMBURG

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

JUNE 30, 2007

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City of Hamburg

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Terry Holliman	Mayor	January 2008
Chuck Bahr	Council Member	January 2008
Rhonda Lucas	Council Member	January 2010
Gary Holland	Council Member	January 2008
Terri Moore	Council Member	January 2010
Scott Sumpter	Council Member	January 2008
Georgann Stephens	City Clerk	Indefinite
TJ Pattermann	Attorney	Indefinite

City of Hamburg

November 26, 2007

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 Hamburg, 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 Hamburg's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2006.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2006, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, and each major fund information of the City of Hamburg 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.

Continued...

City of Hamburg
Independent Auditors' Report

As described in Note 11, during the year ended June 30, 2007, the City adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2007 on our consideration of the City of Hamburg's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 17 and 36 through 37 are not required parts of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Hamburg's basic financial statements. Other supplementary information included in Schedules 1 through 3, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Hamburg 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.

2007 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased 48%, or approximately \$976,000, from fiscal 2006 to fiscal 2007. Intergovernmental receipts decreased approximately \$40,000 or 12%.

Disbursements in governmental activities increased 69%, or approximately \$900,000, in fiscal 2007 from fiscal 2006. Public safety decreased by \$12,523, and public works decreased by \$72,002. Culture and recreation increased by \$9,980, general government increased \$29,944. Capital projects increased by \$888,388 and debt service increased by \$55,549.

The City's total cash basis net assets decreased by 62%, or \$1,152,569 from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities decreased approximately \$1,144,300 and business type activities decreased by \$8,267.

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.

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, and general government. Property tax and state and federal grants finance most of these activities.
- ❖ Business Type Activities include the water, sewer, and landfill. 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 Local Option Sales Tax, (3) the Debt Service Fund and (4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operation 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 three Enterprise Funds to provide separate information for the water, sewer fund, and landfill, 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.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

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 decreased from \$1,477,225 to \$ 332,923. The analysis that follows focuses on the changes in cash balances for governmental activities.

<u>Changes in Cash Basis Net Assets of Governmental Activities</u>	
	<u>Year Ended June 30, 2007</u>
Receipts and other financing sources:	
Property tax	\$ 465,168
Tax increment financing collections	26,508
Other city tax	110,444
Licenses and permits	914
Use of money and property	21,749
Intergovernmental	112,678
Charges for service	12,952
Miscellaneous	300,930
Total receipts	<u>1,051,343</u>
Disbursements and other financing uses:	
Public safety	124,815
Public works	198,682
Culture and recreation	195,722
General government	182,609
Debt service	204,462
Capital projects	1,290,685
Total disbursements	<u>2,196,975</u>
Deficiency of receipts under disbursements	(1,145,632)
Operating transfers in	<u>1330</u>
Net change in cash basis net assets	(1,144,302)
Cash basis net assets beginning of year	<u>1,477,225</u>
Cash basis net assets end of year	<u>\$ 332,923</u>

The City's total receipts for governmental activities decreased by 48%, or \$976,000. The total cost of all programs and services increased by approximately 69%, or \$900,000. The decrease in receipts was because loan proceeds of approximately \$1,000,000 were received in 2006. The increase in disbursements was mostly due to the Mainstreet Capital Project.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year Ended June 30, 2007
Operating receipts	
Charges for service	\$ 297,600
Operating disbursements	
Water	154,579
Sewer	92,701
Landfill	16,918
	<u>264,198</u>
Excess of operating receipts over disbursements	33,402
Non-operating receipts (disbursements)	
Interest on investments	7,543
Debt service	(47,882)
	<u>(40,339)</u>
Deficiency of receipts under disbursements	(6,937)
Operating transfers out	<u>(1,330)</u>
Net change in cash basis balances	(8,267)
Cash basis net assets beginning of year	<u>372,179</u>
Cash basis net assets end of year	<u>\$ 363,913</u>

Total business type activities receipts for the fiscal year were \$ 297,600 compared to \$345,482 last year. The cash balance decreased by \$8,267.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Hamburg completed the year, its governmental funds reported a combined fund balance of \$332,923 a decrease of \$1,144,302. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$89,913 from the prior year mainly due to increased disbursements in culture and recreation and general government activities.
- The Local Option Sales Tax fund had a decrease of \$22,513 due to transferring fund to the Mainstreet Capital Project.
- The Mainstreet Capital Project fund cash decreased by \$876,529 due to construction project payments

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- ❖ The Water Fund cash balance decreased by \$2,581 to \$82,662.
- ❖ The Sewer Fund cash balance decreased by \$4,890 to \$250,260
- ❖ The Landfill Fund cash balance decreased by \$796 to \$30,990.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time, decreasing budgeted revenues by \$23,487 and decreasing budgeted disbursements by \$222,510. The budget was exceeded in culture and recreation, debt service and business type functions.

DEBT ADMINISTRATION

At June 30, 2007, the City had approximately \$1,790,224 in bonds and other long-term debt, compared to approximately \$1,973,116 last year as shown below:

	Outstanding Debt at Year End	
	Year Ended June 30,	
	2007	2006
General obligation notes	\$ 1,520,318	\$ 1,646,409
Urban renewal tax increment financing revenue bonds	69,906	91,707
Revenue notes	200,000	235,000
	<u>\$ 1,790,224</u>	<u>\$ 1,973,116</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt and TIF debt was \$1,590,224 at fiscal year end, which is \$108 below the City’s constitutional debt limit of \$1,590,332.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The City of Hamburg’s 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.

Property tax increased due to a rate increase in the special levy funds and increase in the assessed property valuation.

The budget was fairly consistent with previous years with the additional disbursements relating to the water main and lagoon projects.

Construction of new lagoons will begin in the spring of 2008 and is being funded by grants and a CDBG loan. Sewer rates were increased to make debt service payments.

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 any questions about this report or need additional financial information, contact Georgann Stephens, P.O. Box 106, Hamburg, IA 51640.

City of Hamburg
Basic Financial Statements

City of Hamburg
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2007

	Disbursements	Charges for Service	Program Operating Grants Contributions And Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 124,815	-	-
Public works	198,682	-	103,348
Culture and recreation	195,722	12,952	8,325
General government	182,609	914	-
Debt service	204,462	-	-
Capital projects	1,290,685	-	-
Total governmental activities	2,196,975	13,866	111,673
Business type activities:			
Water	154,579	150,016	-
Sewer	140,583	131,462	-
Landfill	16,918	16,122	-
Total business type activities:	312,080	297,600	-
	\$ 2,509,055	311,466	111,673

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
Local option sales tax
Unrestricted interest on investments
Miscellaneous
Transfers
 Total general receipts and 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:
 Local option sales tax
 Capital projects
 Debt service
 Other purposes
 Meter deposits
 Permanent fund
Unrestricted

 Total cash basis net assets

See notes to financial statements

Receipts	Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
Capital Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
-	(124,815)	-	(124,815)
250,000	154,666	-	154,666
-	(174,445)	-	(174,445)
-	(181,695)	-	(181,695)
-	(204,462)	-	(204,462)
-	(1,290,685)	-	(1,290,685)
<u>250,000</u>	<u>(1,821,436)</u>	<u>-</u>	<u>(1,821,436)</u>
-	-	(4,563)	(4,563)
-	-	(9,121)	(9,121)
-	-	(796)	(796)
<u>-</u>	<u>-</u>	<u>(14,480)</u>	<u>(14,480)</u>
<u>250,000</u>	(1,821,436)	(14,480)	(1,835,916)
	\$ 346,543	-	346,543
	26,508	-	26,508
	130,484	-	130,484
	98,585	-	98,585
	21,528	7,543	29,071
	52,156	-	52,156
	1,330	(1,330)	-
	<u>677,134</u>	<u>6,213</u>	<u>683,347</u>
	(1,144,302)	(8,267)	(1,152,569)
	<u>1,477,225</u>	<u>372,179</u>	<u>1,849,404</u>
	<u>\$ 332,923</u>	<u>363,912</u>	<u>696,835</u>
	\$ 332,919	-	332,919
	2,525	-	2,525
	22	225,458	225,480
	31,634	-	31,634
	-	30,744	30,744
	39,354	-	39,354
	(73,531)	107,710	34,179
	<u>\$ 332,923</u>	<u>363,912</u>	<u>696,835</u>

City of Hamburg
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and for the year ended June 30, 2007

	<u>Special Revenue</u>			<u>Capital Project</u>
	<u>General</u>	<u>Local Option Sales Tax</u>	<u>Debt Service</u>	<u>Mainstreet Project</u>
Receipts				
Property tax	\$ 270,753	-	127,288	-
Tax increment financing collections	-	-	-	-
Other city tax	6,950	98,585	3,196	-
Licenses and permits	914	-	-	-
Use of money and property	19,024	-	-	-
Intergovernmental	9,330	-	-	-
Charges for service	12,952	-	-	-
Miscellaneous	50,930	-	-	250,000
Total receipts	<u>370,853</u>	<u>98,585</u>	<u>130,484</u>	<u>250,000</u>
Disbursements				
Operating:				
Public safety	106,199	-	-	-
Public works	4,030	-	-	-
Culture and recreation	186,594	-	-	-
General government	161,943	-	-	-
Debt service	-	-	204,462	-
Capital projects	-	-	-	1,290,685
Total disbursements	<u>458,766</u>	<u>-</u>	<u>204,462</u>	<u>1,290,685</u>
Excess (deficiency) of receipts over (under) disbursements	(87,913)	98,585	(73,978)	(1,040,685)
Other financing sources (uses):				
Operating transfers in	-	-	27,804	164,156
Operating transfers out	-	(121,098)	-	-
Total other financing sources (uses)	<u>-</u>	<u>(121,098)</u>	<u>27,804</u>	<u>164,156</u>
Net change in cash balances	(87,913)	(22,513)	(46,174)	(876,529)
Cash balances beginning of year	<u>216,228</u>	<u>355,432</u>	<u>46,196</u>	<u>879,054</u>
Cash balances end of year	<u>\$ 128,315</u>	<u>332,919</u>	<u>22</u>	<u>2,525</u>
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	22	-
Unreserved:				
General fund	128,315	-	-	-
Special revenue funds	-	332,919	-	-
Capital projects fund	-	-	-	2,525
Permanent fund	-	-	-	-
Total cash basis fund balances	<u>\$ 128,315</u>	<u>332,919</u>	<u>22</u>	<u>2,525</u>

See notes to financial statements

Other Nonmajor Governmental Funds	Total
67,127	465,168
26,508	26,508
1,713	110,444
-	914
2,725	21,749
103,348	112,678
-	12,952
-	300,930
<u>201,421</u>	<u>1,051,343</u>
18,616	124,815
194,652	198,682
9,128	195,722
20,666	182,609
-	204,462
-	1,290,685
<u>243,062</u>	<u>2,196,975</u>
(41,641)	(1,145,632)
-	191,960
<u>(69,532)</u>	<u>(190,630)</u>
<u>(69,532)</u>	<u>1,330</u>
(111,173)	(1,144,302)
<u>(19,685)</u>	<u>1,477,225</u>
<u>(130,858)</u>	<u>332,923</u>
-	22
-	128,315
(201,846)	131,073
31,634	34,159
<u>39,354</u>	<u>39,354</u>
<u>(130,858)</u>	<u>332,923</u>

City of Hamburg
 Reconciliation of the Statement of Cash
 Receipts, Disbursements and Changes in Cash Balances
 to the Statement of Activities and Net Assets -
 Governmental Funds
 As of and for the year ended June 30, 2007

Total governmental funds cash balances	\$	332,923
 <i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i>		
None		-
Cash basis net assets of governmental activities	\$	332,923
Net change in cash balances	\$	(1,144,302)
 <i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i>		
None		-
Change in cash balance of governmental activities	\$	(1,144,302)

See notes to financial statements

City of Hamburg
 Statement of Cash Receipts, Disbursements
 and Changes in Cash Balances
 Proprietary Funds
 As of and for the year ended June 30, 2007

	Enterprise Funds			
	Water	Sewer	Landfill	Total
Operating receipts:				
Charges for service	\$ 148,929	131,462	16,122	296,513
Miscellaneous	1,087	-	-	1,087
Total operating receipts	<u>150,016</u>	<u>131,462</u>	<u>16,122</u>	<u>297,600</u>
Operating disbursements:				
Business type activities	<u>154,579</u>	<u>92,701</u>	<u>16,918</u>	<u>264,198</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	(4,563)	38,761	(796)	33,402
Non-operating receipts (disbursements):				
Interest on investments	1,982	5,561	-	7,543
Debt service	-	(47,882)	-	(47,882)
Total non-operating receipts (disbursements)	<u>1,982</u>	<u>(42,321)</u>	<u>-</u>	<u>(40,339)</u>
Deficiency of receipts under disbursements	(2,581)	(3,560)	(796)	(6,937)
Other financing uses:				
Operating transfers out	-	(1,330)	-	(1,330)
Net change in cash balances	(2,581)	(4,890)	(796)	(8,267)
Cash balances, beginning of year	<u>85,243</u>	<u>255,150</u>	<u>31,786</u>	<u>372,179</u>
Cash balances, end of year	<u>\$ 82,662</u>	<u>250,260</u>	<u>30,990</u>	<u>363,912</u>
 Cash Basis Fund Balances				
Reserved:				
Debt service	\$ 72,266	153,192	-	225,458
Meter deposits	30,744	-	-	30,744
Unreserved	<u>(20,348)</u>	<u>97,068</u>	<u>30,990</u>	<u>107,710</u>
	<u>\$ 82,662</u>	<u>250,260</u>	<u>30,990</u>	<u>363,912</u>

See notes to financial statements

City of Hamburg
 Reconciliation of the Statement of Cash Receipts,
 Disbursements and Changes in Cash Balances to the
 Statement of Activities and Net Assets -
 Proprietary Funds
 As of and for the year ended June 30, 2007

Total enterprise funds cash balances	\$	363,912
<i>Adjustments</i>		
None		-
Cash basis net assets of business type activities	\$	363,912
Net change in cash balances	\$	(8,267)
<i>Adjustments</i>		
None		-
Change in cash balance of business type activities	\$	(8,267)

See notes to financial statements

City of Hamburg
Notes to Financial Statements
June 30, 2007

NOTE (1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

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

City of Hamburg
Notes to Financial Statements
June 30, 2007

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

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 are supported by tax and intergovernmental revenues.

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

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

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

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 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 the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

City of Hamburg
Notes to Financial Statements
June 30, 2007

NOTE (1) Summary of Significant Accounting Policies - Continued

A. Basis of Presentation – Continued

Special Revenue:

The Local Option Sales Tax Fund is used to account for the receipts from the tax authorized by referendum and used for capital improvements, equipment and community programs and services.

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

The Capital Projects Fund-Mainstreet Project is used to account for all resources used in the construction of capital facilities with the exception of those financed through enterprise funds.

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 waste water treatment and sanitary sewer system.

The Landfill Fund accounts for the collection of the City's trash.

C. Measurement Focus and Basis of Accounting

The City of Hamburg 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.

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

City of Hamburg
Notes to Financial Statements
June 30, 2007

NOTE (1) Summary of Significant Accounting Policies - Continued

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the budgeted amounts in the culture and recreation, debt service and business type activities functions.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2005, to compute the amounts which became liens on property on July 1, 2006. These taxes were due and payable in two installments on September 30, 2006 and March 31, 2007, at the Fremont County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

NOTE (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 cash and investments at June 30, 2007 totaled \$696,835.

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

City of Hamburg
Notes to Financial Statements
June 30, 2007

NOTE (3) Bonds and Notes Payable

Annual debt service requirements to maturity of general obligation debt are as follows:

Year Ended June 30,	General Obligation Bonds	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	Revenue Bonds	Total
	Principal	Principal	Principal	
2008	\$ 182,072	\$ 12,969	\$ 35,000	\$ 230,041
2009	167,000	13,148	40,000	220,148
2010	127,000	13,847	40,000	180,847
2011	108,000	14,583	40,000	162,583
2012	109,000	15,359	45,000	169,359
2013-2017	626,000	-	-	626,000
2018-2021	201,246	-	-	201,246
Total	\$ <u>1,520,318</u>	\$ <u>69,906</u>	\$ <u>200,000</u>	\$ <u>1,790,224</u>

Year Ended June 30,	General Obligation Bonds	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	Revenue Bonds	Total
	Interest	Interest	Interest	
2008	\$ 60,351	\$ 4,316	\$ 11,010	\$ 75,677
2009	52,785	3,652	9,120	65,557
2010	45,858	2,953	6,940	55,751
2011	40,768	2,216	4,740	47,724
2012	36,762	1,441	2,520	40,723
2013-2017	117,112	-	-	117,112
2018-2021	12,210	-	-	12,210
Total	\$ <u>365,846</u>	\$ <u>14,578</u>	\$ <u>34,330</u>	\$ <u>414,754</u>

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The urban renewal tax increment revenue bond was issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bond is payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment revenue bond shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bond is not a general obligation of the City, however, the debt is subject to the constitutional debt limitation of the City.

City of Hamburg
Notes to Financial Statements
June 30, 2007

NOTE (3) Bonds and Notes Payable - Continued

The City has a general obligation debt limit of approximately \$1,590,332 which was not exceeded during the year ended June 30, 2007.

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

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to separate sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- c) Additional monthly transfers to a sewer revenue reserve account within the Enterprise Funds shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.
- d) All funds remaining in the sewer account after the payment of all maintenance and operating expenses and required transfers shall be placed in a sewer revenue surplus account within the Enterprise Funds until a minimum of \$75,000 is accumulated. This account is restricted for the purpose of paying for any improvement, extension or repair to the system or for note and interest payments which the other accounts might be unable to make.

The City has not complied with the provisions of the sinking fund transfer requirements of the revenue notes.

NOTE (4) Pension and Retirement Benefits

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

Plan members are required to contribute 3.7 % of their annual salary and the City is required to contribute 5.75% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contributions to IPERS for the year ended June 30, 2007 was \$15,546, equal to the required contribution for the year.

City of Hamburg
Notes to Financial Statements
June 30, 2007

NOTE (5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave 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 and sick leave payable to employees at June 30, 2007, primarily relating to the General Fund is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 5,084
Sick leave	<u>23,763</u>
	<u>\$ 28,847</u>

This liability is computed on rates of pay effective as of June 30, 2007.

NOTE (6) Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Special Revenue: Tax Increment Financing	\$ 27,804
Capital Projects: Mainstreet Project	Capital Project: UDAG Special Revenue: Local Option Sales Tax Enterprise Funds: Sewer	62,826 100,000 <u>1,330</u> <u>164,156</u>
		<u>\$ 191,960</u>

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

NOTE (7) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 556 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

City of Hamburg
Notes to Financial Statements
June 30, 2007

NOTE (7) Risk Management – Continued

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2007 were \$25,869.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2007, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

City of Hamburg
Notes to Financial Statements
June 30, 2007

NOTE (7) Risk Management – Continued

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries workmen's compensation insurance purchased from a commercial vendor. The City assumes liability for any deductions, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE (8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$2,180 during the year ended June 30, 2007.

NOTE (9) Deficit Balances

The following funds had deficit balances at June 30, 2007 as follows:

Special Revenue Fund:		
Road Use	\$	257,807
Employee Benefits		630
Enterprise Fund:		
Water Account	\$	20,348

The City plans to eliminate the deficits through transfers and user fees.

NOTE (10) Grant Awards

In May 2007, the City was awarded a Community Development Block Grant in the amount of \$400,000 to help fund a wastewater lagoon improvement project. Also, in May 2007, the City was awarded a second Community Development Block Grant in the amount of \$480,000 for the construction of a day care facility.

As of June 30, 2007, no monies have been received from these grants.

City of Hamburg
Notes to Financial Statements
June 30, 2007

NOTE (11) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*, were implemented for the year ended June 30, 2007. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City’s governmental and business type activities. The accounting change has no effect on beginning net assets.

NOTE (12) Litigation

The City is involved in litigation in which a former employee is seeking lost salary and benefits of less than \$400,000. The City’s liability insurance is handling this case. The probability of loss, if any, is undeterminable.

Required Supplementary Information

City of Hamburg
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds
 Required Supplementary Information
 Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts			
Property tax	\$ 465,168	-	465,168
Tax increment financing collections	26,508	-	26,508
Other city tax	110,444	-	110,444
Licenses and permits	914	-	914
Use of money and property	21,749	7,543	29,292
Intergovernmental	112,678	-	112,678
Charges for service	12,952	297,600	310,552
Miscellaneous	300,930	-	300,930
Total receipts	<u>1,051,343</u>	<u>305,143</u>	<u>1,356,486</u>
Disbursements			
Public safety	124,815	-	124,815
Public works	198,682	-	198,682
Culture and recreation	195,722	-	195,722
Community and economic development	-	-	-
General government	182,609	-	182,609
Debt service	204,462	-	204,462
Capital projects	1,290,685	-	1,290,685
Business type activities	-	312,080	312,080
Total disbursements	<u>2,196,975</u>	<u>312,080</u>	<u>2,509,055</u>
Excess (deficiency) of receipts over (under) disbursements	(1,145,632)	(6,937)	(1,152,569)
Other financing sources, net	<u>1,330</u>	<u>(1,330)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,144,302)	(8,267)	(1,152,569)
Balances beginning of year	<u>1,477,225</u>	<u>372,179</u>	<u>1,849,404</u>
Balances end of year	<u>\$ 332,923</u>	<u>363,912</u>	<u>696,835</u>

See accompanying independent auditors' report.

Budgeted Amounts		Final to
Original	Final	Net
		Variance
462,206	462,206	2,962
12,000	12,000	14,508
84,112	107,112	3,332
1,925	1,925	(1,011)
4,125	15,200	14,092
360,806	362,356	(249,678)
364,100	345,988	(35,436)
11,700	45,700	255,230
<u>1,300,974</u>	<u>1,352,487</u>	<u>3,999</u>
153,500	155,700	30,885
249,480	249,480	50,798
108,955	183,080	(12,642)
87,255	28,000	28,000
131,995	198,775	16,166
129,478	129,478	(74,984)
1,594,192	1,362,832	72,147
305,433	305,433	(6,647)
<u>2,760,288</u>	<u>2,612,778</u>	<u>103,723</u>
(1,459,314)	(1,260,291)	107,722
<u>-</u>	<u>-</u>	<u>-</u>
(1,459,314)	(1,260,291)	107,722
<u>1,097,937</u>	<u>1,712,629</u>	<u>136,775</u>
<u>(361,377)</u>	<u>452,338</u>	<u>244,497</u>

City of Hamburg
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 (GASB) Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Permanent 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, one budget amendment decreased budget revenues by \$23,487, and decreased budgeted disbursements by \$222,510. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the final budgeted amounts in the culture and recreation, debt service, and business type activities functions.

Other Supplementary Information

City of Hamburg
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2007

	Special Revenue			
	Road Use	Employee Benefits	Urban Renewal Tax Increment	Library Memorial
Receipts:				
Property tax	\$ -	67,127	-	-
Tax increment financing collections	-	-	26,508	-
Other city tax	-	1,713	-	-
Use of money and property	-	901	-	1,175
Intergovernmental	103,348	-	-	-
Total receipts	<u>103,348</u>	<u>69,741</u>	<u>26,508</u>	<u>1,175</u>
Disbursements:				
Operating:				
Public safety	-	18,616	-	-
Public works	-	35,377	-	-
Culture and recreation	159,275	9,128	-	-
General government	-	20,666	-	-
Total disbursements	<u>159,275</u>	<u>83,787</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	(55,927)	(14,046)	26,508	1,175
Other financing uses:				
Operating transfers in (out)	<u>21,098</u>	-	<u>(27,804)</u>	-
Net change in cash balances	(34,829)	(14,046)	(1,296)	1,175
Cash balances beginning of year	<u>(222,978)</u>	<u>13,416</u>	<u>29,683</u>	<u>27,029</u>
Cash balances end of year	<u>\$ (257,807)</u>	<u>(630)</u>	<u>28,387</u>	<u>28,204</u>
 Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ (257,807)	(630)	28,387	28,204
Capital projects funds	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	<u>\$ (257,807)</u>	<u>(630)</u>	<u>28,387</u>	<u>28,204</u>

See accompanying independent auditors' report

Schedule 1

<u>Capital Project</u>	<u>Permanent</u>		
UDAG	Swanson Memorial Trust	Cemetery Perpetual Care	<u>Total</u>
-	-	-	67,127
-	-	-	26,508
-	-	-	1,713
-	321	328	2,725
-	-	-	103,348
-	<u>321</u>	<u>328</u>	<u>201,421</u>
-	-	-	18,616
-	-	-	194,652
-	-	-	9,128
-	-	-	20,666
-	-	-	<u>243,062</u>
-	321	328	(41,641)
<u>(62,826)</u>	<u>-</u>	<u>-</u>	<u>(69,532)</u>
(62,826)	321	328	(111,173)
<u>94,460</u>	<u>7,305</u>	<u>31,400</u>	<u>(19,685)</u>
<u>31,634</u>	<u>7,626</u>	<u>31,728</u>	<u>(130,858)</u>
-	-	-	(201,846)
31,634	-	-	31,634
-	<u>7,626</u>	<u>31,728</u>	<u>39,354</u>
<u>31,634</u>	<u>7,626</u>	<u>31,728</u>	<u>(130,858)</u>

City of Hamburg
Schedule of Indebtedness
Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Street improvement	Sept 1, 1998	4.55 -4.65 %	\$ 370,000
Sanitary sewer	Sept 1, 1999	5.25 – 5.40 %	200,000
Sewer improvement	Mar 27, 2002	3.00 %	396,000
Street sweeper	Jan 20, 2003	4.88 %	96,000
General corporate purpose	Apr 15, 2006	3.65 – 4.35 %	1,100,000
Urban renewal tax increment financing (TIF) revenue bonds	Sept 15, 1998	5.25 %	\$ 150,000
Revenue notes:			
Sewer	Apr 26, 1997	5.40 – 5.60 %	\$ 330,000

See accompanying independent auditors' report

Schedule 2

	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$	130,000	-	40,000	90,000	5,940	-
	90,000	-	20,000	70,000	4,765	-
	285,246	-	16,000	269,246	8,557	-
	41,163	-	20,091	21,072	2,009	-
	<u>1,100,000</u>	<u>-</u>	<u>30,000</u>	<u>1,070,000</u>	<u>49,794</u>	<u>-</u>
\$	<u>1,646,409</u>	<u>-</u>	<u>126,091</u>	<u>1,520,318</u>	<u>71,065</u>	<u>-</u>
\$	<u>91,707</u>	<u>-</u>	<u>21,801</u>	<u>69,906</u>	<u>6,003</u>	<u>-</u>
\$	<u>235,000</u>	<u>-</u>	<u>35,000</u>	<u>200,000</u>	<u>12,883</u>	<u>-</u>

City of Hamburg
Bond and Note Maturities
June 30, 2007

General Obligation Bonds and						
Ending June 30,	Street Improvement Issued Sept 1, 1998		Sanitary Sewer Issued Sept 1, 1999		Sewer Improvements Issued Feb 11, 2002	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
	2008	4.55 %	\$ 45,000	5.25 %	\$ 20,000	3.00 %
2009	4.65 %	45,000	5.30 %	25,000	3.00 %	17,000
2010	-	-	5.40 %	25,000	3.00 %	17,000
2011	-	-	-	-	3.00 %	18,000
2012	-	-	-	-	3.00 %	19,000
2013	-	-	-	-	3.00 %	19,000
2014	-	-	-	-	3.00 %	20,000
2015	-	-	-	-	3.00 %	20,000
2016	-	-	-	-	3.00 %	21,000
2017	-	-	-	-	3.00 %	21,000
2018	-	-	-	-	3.00 %	22,000
2019	-	-	-	-	3.00 %	23,000
2020	-	-	-	-	3.00 %	23,000
2021	-	-	-	-	3.00 %	13,246
Total		\$ 90,000		\$ 70,000		\$ 269,246

Urban Renewal Tax Increment Financing (TIF) Revenue Bonds			Revenue Notes		
Ending June 30,	Issued Sept 15, 1998		Sewer Improvement Issued Jun 1, 1997		
	Interest Rate	Amount	Interest Rate	Amount	
2008	5.25 %	\$ 12,969	5.40 %	\$	35,000
2009	5.25 %	13,148	5.45 %		40,000
2010	5.25 %	13,847	5.50 %		40,000
2011	5.25 %	14,583	5.55 %		40,000
2012	5.25 %	15,359	5.60 %		45,000
Total		\$ 69,906			\$ 200,000

See accompanying independent auditors' report

Notes

<u>Street Sweeper</u>		<u>General Corporate Purpose</u>		
<u>Issued Jan 20, 2003</u>		<u>Issued Apr 15, 2006</u>		
<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Total</u>
4.88 %	\$ 21,072	3.70 %	\$ 80,000	\$ 182,072
-	-	3.75 %	80,000	167,000
-	-	3.80 %	85,000	127,000
-	-	3.85 %	90,000	108,000
-	-	3.90 %	90,000	109,000
-	-	3.95 %	95,000	114,000
-	-	4.05 %	100,000	120,000
-	-	4.10 %	105,000	125,000
-	-	4.20 %	110,000	131,000
-	-	4.30 %	115,000	136,000
-	-	4.35 %	120,000	142,000
-	-	-	-	23,000
-	-	-	-	23,000
-	-	-	-	13,246
	<u>\$ 21,072</u>		<u>\$ 1,070,000</u>	<u>\$ 1,520,318</u>

City of Hamburg

November 26, 2007

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 Hamburg, 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 November 26, 2007. Our report expressed unqualified opinions 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 Hamburg'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 an opinion on the effectiveness of the City of Hamburg's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hamburg'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.

Continued...

City of Hamburg
Independent Auditors' Report on Internal Control

A control deficiency exists when the design or operation of a 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 significant deficiencies, that adversely affects the City of Hamburg's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Hamburg's financial statements that is more than inconsequential will not be prevented or detected by the City of Hamburg's internal control. We consider the deficiencies in internal control described in Part I of 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 that a material misstatement of the financial statements will not be prevented or detected by the City of Hamburg'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 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 I-A-07, I-B-07, I-C-07, I-D-07, I-F-07, and I-G-07 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hamburg's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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 Hamburg's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Hamburg'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 Hamburg and other parties to whom the City of Hamburg 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 Hamburg 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.

City of Hamburg
Schedule of Findings
Year Ended June 30, 2007

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties

Comment – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

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 consider this.

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 transactions and reports.

In addition, the City could consider appointing a City Treasurer to review monthly bank statements and perform a bank reconciliation.

I-B-07 Records of Accounts

Comment – The Library Board maintains the accounting records pertaining to the operation of the library. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

Recommendation – For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's records.

Response – We will attempt to comply with the recommendations and bring them to the attention of the Library Board.

Conclusion – Response acknowledged.

City of Hamburg
Schedule of Findings
Year Ended June 30, 2007

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES - Continued:

I-C-07 Recording of Interest Income

Comment – The interest income from certificates of deposit was not recorded in the City’s funds accurately and completely during the year.

Recommendation – The Clerk should maintain a certificate of deposit register to keep a more accurate record of interest income earned and certificate of deposit balances.

Response – We will do this.

Conclusion – Response accepted.

I-D-07 Statistical Information

Gallons of water pumped during the year ended June 30, 2007: 98,250,000

Gallons of water billed during the year ended June 30, 2007: 33,123,283

Comment – During the year, the average water loss between gallons pumped and gallons billed is about 66%.

Recommendation – As this loss represents considerable lost revenues for the City, we suggest that the City monitor the situation to determine the causes for the loss.

Response – We will monitor the situation as best we can. We had a downtown street project this year which resulted in several water main leaks. We are beginning to install new meters to function with hand held meter readers which should also reduce leakage.

Conclusion – Response accepted.

I-E-07 Financial Reporting

Comment – During the audit, we identified a material amount of property taxes misposted to the Special Revenue - Employee Benefits Fund, rather than the General Fund. Adjustments were subsequently made by the City to properly report the amounts in the City’s financial statements.

Recommendation – The City should implement procedures to ensure property tax receipts are properly recorded in the City’s financial statements.

Response – We will double check this in the future to avoid posting errors.

Conclusion – Response accepted.

City of Hamburg
Schedule of Findings
Year Ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting – Continued:

II-L-07 Clothing Allowance

Comment – As previously reported, the City is reimbursing certain employees for clothing purchased for work; however, we noted one instance where no documentation for the amount spent by the employee was available. In addition, the reimbursement should cover only required uniforms, protective gear, etc., required for the job.

Recommendation – If no documentation is provided to support the employee’s out-of-pocket clothing expense, the amount paid by the City should be included in the employee’s W-2 as taxable income. In addition, reimbursements made for unallowable items should also be included in the W-2.

Response – We will be sure to obtain the proper documentation and review our procedures.

Conclusion – Response accepted.

City of Hamburg
 Schedule of Findings
 Year Ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting:

II-A-07 Certified Budget

Comment – Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the culture and recreation, debt service, and business type activities 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 sufficient amounts in the future, if applicable.

Conclusion – Response accepted.

II-B-07 Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General’s opinion dated April 25, 1979.

II-C-07 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-07 Business Transactions

Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Terry Holliman, Mayor Owner of Holliman Auto & Truck Supply	Parts and supplies	\$ 1,245
Georgann Stephens, City Clerk Daughters own J & B Enterprises	Contracted services	<u>935</u>
		<u>\$ 2,180</u>

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Mayor and City Clerk do not appear to represent a conflict of interest since the total transactions did not exceed \$2,500 during the fiscal year.

City of Hamburg
Schedule of Findings
Year Ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting- Continued:

II-E-07 Bond Coverage

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

II-F-07 Council Minutes

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

The City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should comply with the Code of Iowa and should publish individual annual salaries as required.

Response – We will do this.

Conclusion – Response accepted.

II-G-07 Deposits and Investments

No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-07 Revenue Note

Comment – The City has not maintained the sinking account required by the sewer revenue note resolutions.

Recommendation – The City should utilize these accounts and make the required transfers.

Response – We will utilize these accounts. However, we do have more money in the sewer reserve accounts than is required by the bond resolution and the excess more than covers the sinking fund requirements.

Conclusion – Response accepted.

City of Hamburg
Schedule of Findings
Year Ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting- Continued:

II-I-07 Excess Balances

Comment - The balances in the Special Revenue Fund, Local Option Sales Tax and Urban Renewal Tax Increment and Enterprise Fund, Landfill account at June 30, 2007, were in excess of the fund disbursements during the year.

Recommendation - The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response - We will review this further.

Conclusion - Response accepted.

II-J-07 Financial Condition

Comment - As previously noted, Special Revenue Fund, Road Use, and Employee Benefits and the Enterprise Fund, Water account had deficit balances at June 30, 2007.

Recommendation - The City should monitor the activity in these accounts in order to eliminate the deficit.

Response - We will review these accounts.

Conclusion - Response accepted.

II-K-07 Completed Capital Project

Comment - The Capital Projects - UDAG and Mainstreet are complete as of June 30, 2007.

Recommendation - The Council should authorize the transfer of remaining monies in this account to an appropriate fund, and close this account.

Response - We will do this.

Conclusion - Response accepted.

NEWS RELEASE

Schroer & Associates, P.C. today released an audit report on the City of Hamburg, Iowa.

The City's receipts totaled \$1,356,486 for the year ended June 30, 2007. The receipts included \$477,027 in property tax, \$26,508 from tax increment financing collections, \$311,466 from charges for service, \$111,673 from operating grants, contributions and restricted interest, \$250,000 from capital grants and restricted interest, \$98,585 from local option sales tax, \$29,071 from unrestricted investment earnings, and \$52,156 from other general receipts.

Disbursements for the year totaled \$2,509,055, and included \$1,290,685 for capital projects, \$312,080 for business type activities, and \$204,462 for debt service.

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

November 26, 2007

To the Honorable Mayor and
Members of the City Council
City of Hamburg
107 Locust
Hamburg, IA 51534

We have compiled the annual financial report of the City of Hamburg for the year ended June 30, 2007, included in the accompanying prescribed form in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

Our compilation was limited to presenting in the form prescribed by the State of Iowa information that is the representation of management. We have not audited or reviewed the financial statements referred to above, and accordingly, do not express an opinion or any other form of assurance on them. These financial statements were compiled by us from financial statements for that same period that we previously audited, as indicated in our report dated November 26, 2007.

These financial statements are presented in accordance with the requirements of the State of Iowa, which differ from generally accepted accounting principles. Accordingly, these financial statements are not designed for those who are not informed about such differences.

December 11, 2007

Georgann Stephens
City of Hamburg
1201 Main Street
Hamburg, IA 51640

Dear Georgann:

Enclosed are draft copies of the audit for the City of Hamburg. Please review and let me know if we need to make any changes. We will need to insert your MD & A before we issue.

I have included the City of Minden's Management's Discussion and Analysis as a sample for you. Please call me with questions.

Also enclosed is the Management Representation letter which I need you and the Mayor to sign and return to us.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Barbara Mass
Shareholder

BM/sh
Enc.

January 8, 2008

David Vaudt
Office of State Auditor
State Capitol Building, Room 111
1007 East Grand Avenue
Des Moines, IA 50319

Dear Sir:

We have enclosed for your records the following information regarding the audit of the City of Hamburg for the year ended June 30, 2007.

- 2 copies of the audit report
- 1 copy of the news release
- 1 copy of the number of hours worked
- 1 copy of the invoice

Sincerely,

SCHROER & ASSOCIATES, P.C.

Barbara Mass
Shareholder

BM/sh
Enc.

September 27, 2006

To the Honorable Mayor and
Members of the City Council
City of Hamburg
107 Locust
Hamburg, IA 51534

We have compiled the annual financial report of the City of Hamburg for the year ended June 30, 2006, included in the accompanying prescribed form in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

Our compilation was limited to presenting in the form prescribed by the State of Iowa information that is the representation of management. We have not audited or reviewed the financial statements referred to above, and accordingly, do not express an opinion or any other form of assurance on them. These financial statements were compiled by us from financial statements for that same period that we previously audited, as indicated in our report dated September 27, 2006.

These financial statements are presented in accordance with the requirements of the State of Iowa, which differ from generally accepted accounting principles. Accordingly, these financial statements are not designed for those who are not informed about such differences.

City of Hamburg

Hours Worked: 62.75

January 9, 2008

Georgann Stephens
City of Hamburg
1201 Main Street
Hamburg, IA 51640

Dear Georgann:

We have filed the required copies of your audit report with the Office of Auditor of State. A filing fee is required to be paid based on your final amended budget according to the following schedule:

<u>Budgeted Expenditures (In millions of dollars)</u>	<u>Fee Amount</u>
Under 1	\$100.00
At least 1, but less than 3	\$175.00
At least 3, but less than 5	\$250.00
At least 5, but less than 10	\$425.00
At least 10, but less than 25	\$625.00
25 and over	\$850.00

You are required to send the appropriate filing fee. The check should be made payable to "Auditor of State" and mailed to Office of Auditor of State, State Capitol Building, Room 111, 1007 East Grand Avenue, Des Moines, IA 50319.

If you have any questions, please do not hesitate to call me at 712-322-8734.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Barbara Mass
Shareholder

BM/sh

