CITY OF HAMPTON
Hampton, Iowa

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

June 30, 2008

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CITY OF HAMPTON

Officials

Name	Title	Term Expires
(Before January 2008)		
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 Manager	Indefinite
Michael Cross	City Attorney	Indefinite
(After January 2008)		
Diane Weldin	Mayor	January 2010
Bill Hodge	Council Member	January 2012
Chad Hanson	Council Member	2010
Karen Schmidt	Council Member	2012
Craig Eckhardt	Council Member	2010
Steve Harms	Council Member	2012
Patrick Palmer	Council Member	2010
Ron Dunt	City Manager	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, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Hampton's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which 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, 2008, 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 October 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 four years ended June 30, 2007 (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.

October 10, 2008

Gardiner Thomsen, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Hampton provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 5.5% from fiscal 2007 to fiscal 2008. Property tax receipts decreased approximately $728,594, or 36% due to decreased TIF Revenues collected.
- Disbursements increased 22% or approximately $598,957 in fiscal 2008 from fiscal 2007. Prepayment of callable debts contributed to this increase.
- The City's total cash basis net assets decreased by $276,658. Of this amount, the assets of the governmental activities decreased approximately $456,160 and the assets of the business type activities increased by approximately $179,502.

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, debt service and capital projects. 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 Capital Projects Funds and 5) Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains eight Enterprise Funds to provide

separate information for the water, sewer and solid waste funds. Water and Sewer are considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities is $2,639,411. 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,	
	2008	2007
Receipts and Transfers		
Program Receipts		
Charges for Service	$211	$213
Operating Grants, Contributions and Restricted Interest	538	509
Capital Grants, Contributions and Restricted Interest	178	105
General Receipts		
Property Tax	1,284	2,012
Local Option Sales Tax	288	333
Unrestricted Investment Earnings	162	144
Bond Proceeds	165	165
Other General Receipts	121	78
Transfers, Net	(143)	(167)
Total Receipts and Transfers	2,804	3,392
Disbursements		
Public Safety	783	808
Public Works	466	427
Health and Social Services	4	3
Culture and Recreation	469	457
Community and Economic Development	205	103
General Government	281	219
Debt Service	707	542
Capital projects	355	112
Total Disbursements	3,270	2,671
Decrease in Cash Basis Net Assets	(466)	721
Cash Basis Net Assets Beginning of Year	3,106	2,385
Cash Basis Net Assets End of Year	$2,640	$3,106

The City's total receipts for governmental activities were $2,946,490. The total disbursements were $3,270,404.

The City property tax rates for 2008 decreased by $3.62. There was an increase in assessed valuations as a result of TIF valuation being transferred to Regular valuation.

The cost of all governmental activities this year was $3.270 million compared to $2.669 million last year. However, as shown in the Statement of Activities and Net Assets on pages 10 and 11, the amount taxpayers ultimately financed for these activities was $2.342 million because some of the cost was paid by those directly benefiting from the programs ($211,312) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest ($716,338). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2008 from approximately $827,323 to approximately $927,650. The City paid for the remaining "public benefit" portion of governmental activities with approximately $1,570,360 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,	
	2008	2007
Receipts		
Program Receipts		
Charges for Service		
Water	$687	$692
Sewer	496	298
Solid Waste	45	29
Meter Deposits	6	5
General Receipts		
Proceeds from Debt	324	0
Transfers	143	166
	1,701	1,190
Disbursements and Transfers		
Water	521	496
Sewer	246	366
Solid Waste	50	28
Meter Deposits	5	5
Debt Service	688	268
Total Disbursements and Transfers	1,510	1,163
Increase in Cash Balance	191	27
Cash Basis Net Assets - Beginning of Year	1,711	1,684
Cash Basis Net Assets - End of Year	$1,902	$1,711

Total business type activities receipts for the fiscal year were $1,556,815 compared to $1,024,731 last year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Hampton completed the year, its governmental funds reported a combined fund balance of $2,639,411, a decrease of $467,480 from last year's total of $3,106,891. 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 $310,746 from the prior year to $842,237. However, $293,776 is allocated to the Pool and $63,493 represents Library funds. The unreserved General Fund cash balance is $548,461.
- The Road Use Tax Fund cash balance increased by $20,676 to $272,121 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 $928,094 a decrease of $472,993 from the previous year. The decrease was the result of prepayment of callable TIF Debts. The city intends to use the additional surplus funds to pay TIF Debt and to pay for TIF eligible expenditures.
- The Debt Service Fund cash balance decreased by $111 to $243,365 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by $164,853 to $672,740, due primarily to no transfers were required in fiscal 2008.
- The Sewer Fund cash balance increased by $250,711 to $447,852. This is a result of sewer rate increase revenues.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget. The amendment was approved on May 13, 2008 and resulted in an increase in operating revenues relating to Intergovernmental Funds (Library), Oak Hill Street Assessment project permanent funding and grant revenues. An increase in operating disbursements was related to an overrun on public works funds, general government, Intergovernmental (Library) and prepayment of cancellable debts.

DEBT ADMINISTRATION

At June 30, 2008, the City had approximately $1,249,000 in bonds and other long-term debt, compared to approximately $2,043,000 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 $1,249,000 is below its constitutional debt limit of $7,381,922.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2008	2007
General Obligation Notes	$615	$790
Urban renewal tax increment financing revenue bonds	165	463
Revenue Notes	469	765
Promissory notes	0	25
Total	$1,249	$2,043

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City elected and appointed officials and citizens considered many factors when setting the fiscal year 2009 budget, tax rates, and fees that will be charged for various City activities. These factors include the economy, assessed valuations, increased operating costs to the city, aging infrastructure and equipment and limited revenue sources. The City also has been quite successful recently in obtaining grants to offset the cost of projects and will continue to do so.

These factors were taken into account when adopting the budget for fiscal year 2009. Budgeted disbursements are expected to remain relatively constant however, there will be some needed facility improvements using fund surplus. The Hwy 65 Project budget amount of $820,000 (less than half of total cost) will be a noticeable 2009 budget expenditure.

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, 2008

		Program Receipts		
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Functions/Programs:				
Governmental Activities:				
Public Safety	$782,560	$93,687	$42,951	$0
Public Works	466,381	23,909	361,367	0
Health & Social Services	4,561	0	0	0
Culture & Recreation	469,363	77,499	125,318	0
Community & Economic Development	205,235	0	0	0
General Government	280,606	16,217	8,757	0
Debt Service	706,596	0	0	0
Capital Projects	355,102	0	0	177,945
Total Governmental Activities	3,270,404	211,312	538,393	177,945
Business Type Activities:				
Water	521,228	686,081	0	0
Water Revenue Note Sinking	687,790	0	0	0
Sewer Rental	245,773	496,484	0	0
Solid Waste	49,805	44,500	0	0
Meter Deposits	4,963	5,750	0	0
Total Business Type Activities	1,509,559	1,232,815	0	0
Total	$4,779,963	$1,444,127	$538,393	$177,945
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
$(645,922)	$0	$(645,922)
(81,105)	0	(81,105)
(4,561)	0	(4,561)
(266,546)	0	(266,546)
(205,235)	0	(205,235)
(255,632)	0	(255,632)
(706,596)	0	(706,596)
(177,157)	0	(177,157)
(2,342,754)	0	(2,342,754)
0	164,853	164,853
0	(687,790)	(687,790)
0	250,711	250,711
0	(5,305)	(5,305)
0	787	787
0	(276,744)	(276,744)
$(2,342,754)	$(276,744)	$(2,619,498)
$1,095,891	$0	$1,095,891
2,002	0	2,002
185,334	0	185,334
287,133	0	287,133
162,284	0	162,284
165,000	324,000	489,000
121,196	0	121,196
(143,566)	143,566	0
1,875,274	467,566	2,342,840
(467,480)	190,822	(276,658)
3,106,891	1,711,179	4,818,070
$2,639,411	$1,902,001	$4,541,412
$272,121	$0	$272,121
928,094	0	928,094
250,673	695,304	945,977
529,136	0	529,136
659,387	1,206,697	1,866,084
$263,941	$1,902,001	$4,541,412

CITY OF HAMPTON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES – GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2008

		Special Revenue	
	General	Road Use Tax	Employee Benefits
Receipts:			
Property Tax	$833,478	$0	$163,608
Tax Increment Financing	0	0	0
Other City Tax	67,217	0	6,915
Licenses & Permits	10,970	0	0
Use of Money & Property	172,317	0	0
Intergovernmental	10,379	361,367	0
Charges for Service	328,877	0	0
Special Assessments	14,841	0	0
Miscellaneous	47,636	1,323	386
Total Receipts	1,485,715	362,690	170,909
Disbursements:			
Operating:			
Public Safety	600,893	0	180,968
Public Works	68,030	342,014	56,337
Health & Social Services	4,561	0	0
Culture & Recreation	402,894	0	61,712
Community & Economic Development	19,042	0	0
General Government	272,261	0	8,345
Debt Service	0	0	0
Capital Projects	0	0	0
Total Disbursements	1,367,681	342,014	307,362
Excess (Deficiency) of Receipts Over (Under) Disbursements	118,034	20,676	(136,453)
Other Financing Sources (Uses):			
Note Proceeds	0	0	0
Operating Transfers In	194,512	0	0
Operating Transfers Out	(1,800)	0	0
Total Other Financing Sources (Uses)	192,712	0	0
Net Change in Cash Balances	310,746	20,676	(136,453)
Cash Balances Beginning of Year	531,491	251,445	227,319
Cash Balances End of Year	$842,237	$272,121	$90,866
Cash Basis Fund Balances			
Reserved :			
Debt Service	$0	$0	$0
Cemetery Perpetual Care	0	0	0
Pool	293,776	0	0
Unreserved:			
General Fund	548,461	0	0
Special Revenue Funds	0	272,121	90,866
Capital Projects Funds	0	0	0
Total Cash Basis Fund Balances	$842,237	$272,121	$90,866

See Notes to Financial Statements

Exhibit B

Special Revenue			Other	
Local Option Sales Tax	Tax Increment Financing	Debt Service	Nonmajor Governmental Funds	Total
$0	$99	$177,902	$23,659	$1,198,746
0	1,903	0	0	1,903
287,133	0	7,432	1,014	369,711
0	0	0	0	10,970
0	0	0	7,988	180,305
0	60,089	0	177,945	609,780
0	0	0	0	328,877
0	0	0	0	14,841
0	0	0	17,012	66,357
287,133	62,091	185,334	227,618	2,781,490
0	0	0	699	782,560
0	0	0	0	466,381
0	0	0	0	4,561
0	0	0	4,757	469,363
0	186,193	0	0	205,235
0	0	0	0	280,606
0	348,891	185,445	172,260	706,596
0	0	0	355,102	355,102
0	535,084	185,445	532,818	3,270,404
287,133	(472,993)	(111)	(305,200)	(488,914)
0	0	0	165,000	165,000
0	0	0	1,800	196,312
(287,133)	0	0	(50,945)	(339,878)
(287,133)	0	0	115,855	21,434
0	(472,993)	(111)	(189,345)	(467,480)
0	1,401,087	243,476	452,073	3,106,891
$0	$928,094	$243,365	$262,728	$2,639,411
$0	$0	$243,365	$7,308	$250,673
0	0	0	176,752	176,752
0	0	0	0	282,456
0	0	0	0	559,781
0	928,094	0	93,061	1,384,142
0	0	0	(14,393)	(14,393)
$0	$928,094	$243,365	$262,728	$2,639,411

CITY OF HAMPTON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN CASH BALANCES – PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2008

	Water	Water Revenue Note Sinking	Water Improvement
Operating Receipts:			
Charges for Service	$637,402	$0	$0
Miscellaneous	48,679	0	0
Total Operating Receipts	686,081	0	0
Operating Disbursements:			
Business Type Activities	521,228	6,830	0
Total Operating Disbursements	521,228	6,830	0
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	164,853	(6,830)	0
Non-operating Receipts (Disbursements):			
General Obligation Bond Proceeds	0	0	0
Debt Service	0	(680,960)	0
Total Non-Operating Receipts (Disbursements)	0	(680,960)	0
Excess (Deficiency) of Receipts Over (Under) Disbursements	164,853	(687,790)	0
Operating Transfers In (Out)	0	559,998	0
Net Change in Cash Balances	164,853	(127,792)	0
Cash Balances Beginning of Year	507,887	406,125	100,000
Cash Balances End of Year	$672,740	$278,333	$100,000
Cash Basis Fund Balances			
Reserved for Debt Service	$0	$278,333	$100,000
Unreserved	672,740	0	0
Total Cash Basis Fund Balances	$672,740	$278,333	$100,000

See Notes to Financial Statements

Exhibit C

Water Reserve	Water Construction	Sewer Rental	Solid Waste	Meter Deposits	Total
$0	$0	$442,322	$29,504	$0	$1,109,228
0	0	54,162	14,996	5,750	123,587
0	0	496,484	44,500	5,750	1,232,815
0	0	245,773	49,805	4,963	828,599
0	0	245,773	49,805	4,963	828,599
0	0	250,711	(5,305)	787	404,216
324,000	0	0	0	0	324,000
0	0	0	0	0	(680,960)
324,000	0	0	0	0	(356,960)
324,000	0	250,711	(5,305)	787	47,256
(416,432)	0	0	0	0	143,566
(92,432)	0	250,711	(5,305)	787	190,822
155,000	254,403	197,141	69,113	21,510	1,711,179
$62,568	$254,403	$447,852	$63,808	$22,297	$1,902,001
$62,568	$254,403	$0	$0	$0	$695,304
0	0	447,852	63,808	22,297	1,206,697
$62,568	$254,403	$447,852	$63,808	$22,297	$1,902,001

Note 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.

Note 1: Summary of Significant Accounting Policies (Continued)

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.

Note 1: Summary of Significant Accounting Policies (Continued)

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.

Note 1: Summary of Significant Accounting Policies (Continued)

The Sewer Rental Fund accounts for the operation and maintenance of the City's wastewater treatment and sanity 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 a 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, 2008, disbursements exceeded the amounts budgeted in the Business – Type Activities function.

Note 2: Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 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.

Note 2: Cash and Pooled Investments (Continued)

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 at June 30, 2008 are as follows:

Type	Carrying Amount	Fair Value	Maturity
Fixed Income	$135,618	$132,923	Various

Note 3: Bonds and Notes Payable

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

Year Ending	General Obligation Notes		Revenue Bonds and Notes		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2009	$200,000	$38,421	$202,000	$14,377	$402,000	$52,798
2010	210,000	28,240	63,000	9,991	273,000	38,231
2011	220,000	17,440	66,000	7,723	286,000	25,163
2012	45,000	5,850	68,000	5,314	113,000	11,164
2013	15,000	3,840	70,000	2,730	85,000	6,570
2014-2018	90,000	10,758	0	0	90,000	10,758
Total	$780,000	$104,549	$469,000	$40,135	$1,249,000	$144,684

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.

Note 3: Bonds and Notes Payable (Continued)

On February 25, 2008, the City refunded the 1998 Local Option Sales and Service Tax Revenue Bond by issuing $324,000 of Local Option Sales and Service Tax Revenue Refunding Bonds, Series 2008. Interest is due semiannually commencing August 1, 2008 and principle is due annually commencing February 1, 2009, until February 1, 2013. Interest rates range from 3.5% to 3.9%. The bonds are not general obligations of the City and are payable solely and only by certain Local Option Tax Revenues.

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. On May 29, 2008, the Notes were refunded by issuing $165,000 of General Obligation Capital Loan Notes, Series 2008. Interest is due semiannually commencing on December 1, 2008. Principal is due annually commencing on June 1, 2009, to be paid in full on June 1, 2018. Interest rates range from 2.6% to 3.9%.

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

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

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% 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, 2008, 2007 and 2006 were $73,015, $66,026 and $63,965, respectively, equal to the required contribution for each year.

Note 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, 2008, primarily relating to the General Fund, is as follows:

Note 5: Compensated Absences (Continued)

Type of Benefit	Amount
Vacation	$58,033
Overtime	90,114
	$148,147

This liability has been computed based on rates of pay in effect at June 30, 2008.

Note 6: Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue:	
	Local Option Sales Tax	$143,567
	Emergency	24,673
	Special Assessment	26,272
		194,512
Enterprise	Special Revenue:	
Water Sinking	Local Option Sales Tax	143,566
	Enterprise:	
	Water Revenue	92,432
	Water Reserve	324,000
		559,998
Permanent		
Cemetery Perpetual Care	General	1,800
		$756,310

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

Note 7: Related Party Transactions

The City had business transactions between the City and City officials totaling $6,650 during the year ended June 30, 2008.

Note 8: Landfill of North Iowa

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

Note 8: Landfill of North Iowa(Continued)

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, 2008, 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.

Note 9: Risk Management

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

Note 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, 2008, disbursements in the Business – Type Activities function exceeded the amounts budgeted.

Note 11: Excess Fund Balances

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

Note 12: Financial Condition

We noted the fund balances of the Capital Projects funds were in a deficit at the end of the 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, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property Tax	$1,198,746	$0	$1,198,746
Tax Increment Financing	1,903	0	1,903
Other City Tax	369,711	0	369,711
Licenses & Permits	10,970	0	10,970
Use of Money & Property	180,305	0	180,305
Intergovernmental	609,780	0	609,780
Charges for Service	328,877	1,109,228	1,438,105
Special Assessments	14,841	0	14,841
Miscellaneous	66,357	123,587	189,944
Total Receipts	2,781,490	1,232,815	4,014,305
Disbursements:			
Public Safety	782,560	0	782,560
Public Works	466,381	0	466,381
Health & Social Services	4,561	0	4,561
Culture & Recreation	469,363	0	469,363
Community & Economic Development	205,235	0	205,235
General Government	280,606	0	280,606
Debt Service	706,596	0	706,596
Capital Projects	355,102	0	355,102
Business Type Activities	0	1,509,559	1,509,559
Total Disbursements	3,270,404	1,509,559	4,779,963
Excess (Deficiency) of Receipts Over (Under) Disbursements	(488,914)	(276,744)	(765,658)
Other Financing Sources (Uses), Net	21,434	467,566	489,000
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	(467,480)	190,822	(276,658)
Balances Beginning of Year	3,106,891	1,711,179	4,818,070
Balances End of Year	$2,639,411	$1,902,001	$4,541,412

See Accompanying Independent Auditors' Report

Budgeted Amounts		Final to Total
Original	Final	Variance
$1,201,290	$1,201,290	$(2,544)
0	0	1,903
361,386	361,386	8,325
21,450	21,450	(10,480)
179,500	179,500	805
718,000	868,000	(258,220)
1,087,800	1,087,800	350,305
50,000	50,000	(35,159)
37,500	101,500	88,444
3,656,926	3,870,926	143,379
835,914	835,914	53,354
457,100	492,100	25,719
5,500	5,500	939
398,818	548,818	79,455
329,000	329,000	123,765
298,680	323,680	43,074
297,336	722,336	15,740
488,000	488,000	132,898
1,153,307	1,578,307	68,748
4,263,655	5,323,655	543,692
(606,729)	(1,452,729)	687,071
420,000	899,000	(410,000)
(186,729)	(553,729)	277,071
4,256,273	4,256,273	561,797
$4,069,544	$3,702,544	$838,868

City of Hampton

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

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 nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. 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 Enterprise 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 $1,060,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the Business – Type Activities function.

Other Supplementary Information

CITY OF HAMPTON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES – NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2008

	Special Revenue			
	Forfeiture	Emergency Tax	Economic Development	Library Trust
Receipts:				
Property Tax	$0	$23,659	$0	$0
Other City Tax	0	1,014	0	0
Use of Money & Property	126	0	0	20
Intergovernmental	0	0	0	0
Miscellaneous	0	0	0	0
Total Receipts	126	24,673	0	20
Disbursements:				
Operating:				
Public Safety	699	0	0	0
Culture & Recreation	0	0	0	0
Debt Service	0	0	0	0
Capital Projects	0	0	0	0
Total Disbursements	699	0	0	0
Excess (Deficiency) of Receipts Over (Under) Disbursements	(573)	24,673	0	20
Other Financing Sources (Uses):				
Note Proceeds	0	0	0	0
Operating Transfers In	0	(24,673)	0	0
Operating Transfers Out	0	0	0	0
	0	(24,673)	0	0
Net Change in Cash Balances	(573)	0	0	20
Cash Balances Beginning of Year	3,837	0	19,869	2,555
Cash Balances End of Year	$3,264	$0	$19,869	$2,575
Cash Basis Fund Balances				
Reserved for:				
Debt Service	$0	$0	$0	$0
Cemetery Perpetual Care	0	0	0	0
Unreserved:				
Special Revenue Funds	3,264	0	19,869	2,575
Capital Project Funds	0	0	0	0
Total Cash Basis Fund Balances	$3,264	$0	$19,869	$2,575

See Accompanying Independent Auditors' Report.

Schedule 1

Special Revenue	Debt Service	Capital Projects			Permanent	
Cemetery Trust	Special Assessments	Airport Project	Oak-Hill Project	Hwy 65 Project	Cemetery Perpetual Care	Total
$0	$0	$0	$0	$0	$0	$23,659
0	0	0	0	0	0	1,014
8,043	0	0	0	0	(201)	7,988
0	0	177,945	0	0	0	177,945
0	17,012	0	0	0	0	17,012
8,043	17,012	177,945	0	0	(201)	227,618
0	0	0	0	0	0	699
4,757	0	0	0	0	0	4,757
0	172,260	0	0	0	0	172,260
0	0	182,957	158,577	13,568	0	355,102
4,757	172,260	182,957	158,577	13,568	0	532,818
3,286	(155,248)	(5,012)	(158,577)	(13,568)	(201)	(305,200)
0	165,000	0	0	0	0	165,000
0	0	0	0	0	1,800	1,800
0	(26,272)	0	0	0	0	(50,945)
0	138,728	0	0	0	1,800	115,855
3,286	(16,520)	(5,012)	(158,577)	(13,568)	1,599	(189,345)
64,067	23,828	14,738	148,026	0	175,153	452,073
$67,353	$7,308	$9,726	$(10,551)	$(13,568)	$176,752	$262,728
$0	$7,308	$0	$0	$0	$0	$7,308
0	0	0	0	0	176,752	176,752
67,353	0	0	0	0	0	93,061
0	0	9,726	(10,551)	(13,568)	0	(14,393)
$67,353	$7,308	$9,726	$(10,551)	$(13,568)	$176,752	$262,728

CITY OF HAMPTON
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Notes:			
AmericInn TIF/GL Coatings	Feb. 1, 1998	5.75 – 7.00%	$700,000
Fire Truck/Street Improvement/ Industrial Park	Sept. 1, 2000	4.90 – 5.50%	1,300,000
Franklin Prairie	Apr. 1, 2001	4.25 – 5.10%	250,000
Golden Triangle/FCDA Building	Nov. 19, 2001	2.80 – 4.40%	130,000
Oakhill Drive Project	May 24, 2007	3.90%	165,000
Oakhill Drive Project	May 29, 2008	2.60 – 3.90%	165,000
Revenue Notes			
Refunding Note – Water Plant	Aug. 1, 2002	2.75 – 4.40%	780,000
Local Option Tax Revenue Bond			
Water Tower	Feb. 1, 1998	4.15 – 5.90%	1,000,000
Water Tower (Refunding)	Feb. 25, 2008	3.50 – 3.90%	324,000
Promissory Note			
Water Tower	June 1, 1998	0.00%	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
$225,000	$0	$225,000	$0	$15,505	$0
650,000	0	150,000	500,000	35,045	0
140,000	0	25,000	115,000	6,875	0
73,000	0	73,000	0	3,111	0
165,000	0	165,000	0	6,560	0
0	165,000	0	165,000	0	0
$1,253,000	$165,000	$638,000	$780,000	$67,096	$0
$280,000	$0	$135,000	$145,000	$9,215	$0
$485,000	$0	$485,000	$0	$24,912	0
0	324,000	0	324,000	1,432	0
$485,000	$324,000	$485,000	$324,000	$26,344	$0
$25,000	$0	$25,000	$0	$0	$0

CITY OF HAMPTON

Bond and Note Maturities
June 30, 2008

General Obligation Notes

Year Ending June 30,	Oak Hill Project Note Issued May 29, 2008	
	Interest Rate	Amount
2009	2.60%	$15,000
2010	2.80	15,000
2011	3.10	15,000
2012	3.20	15,000
2013	3.35	15,000
2014-2018	3.45-3.90	90,000
		$165,000

Revenue Notes and Bonds

	Water Refunding Note Issued August 1, 2002		Local Option Sales and Service Tax Revenue Refunding Bonds Issued February 25, 2008		
	Interest Rate	Amount	Interest Rate	Amount	Total
2009	4.40%	145,000	3.50%	$57,000	$202,000
2010		0	3.60	63,000	63,000
2011		0	3.65	66,000	66,000
2012		0	3.80	68,000	68,000
2013		0	3.90	70,000	70,000
		$145,000		$324,000	$469,000

See Accompanying Independent Auditors' Report.

Schedule 3

General Obligation Notes

Fire Truck, Street Industrial Park Issued September 1, 2000		Franklin Prairie Issued April 1, 2001		
Interest Rates	Amount	Interest Rate	Amount	Total
5.35%	$160,000	4.80%	$25,000	$200,000
5.40	165,000	4.90	30,000	210,000
5.50	175,000	5.00	30,000	220,000
	0	5.10	30,000	45,000
	0		0	15,000
	0		0	90,000
	$500,000		$115,000	$780,000

CITY OF HAMPTON

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

	2008	2007
Receipts:		
Property Tax	$1,198,746	$1,271,143
Tax Increment Financing Collections	1,903	637,728
Other City Tax	369,711	436,195
Licenses & Permits	10,970	14,107
Use of Money & Property	180,305	169,065
Intergovernmental	609,780	604,861
Charges for Service	328,877	189,941
Special Assessments	14,841	22,976
Miscellaneous	66,357	48,244
Total	$2,781,490	$3,394,260
Disbursements:		
Operating:		
Public Safety	$782,560	$807,758
Public Works	466,381	426,900
Health & Social Services	4,561	3,154
Culture & Recreation	469,363	457,181
Community and Economic Development	205,235	102,761
General Government	280,606	218,948
Debt Service	706,596	542,176
Capital Projects	355,102	112,569
Total	$3,270,404	$2,671,447

See Accompanying Independent Auditors' Report.

Schedule 4

2006	2005	2004
$1,200,086	$1,098,479	$1,219,295
700,657	1,037,593	859,211
362,539	341,315	342,954
25,962	17,912	11,441
101,527	58,941	46,261
466,141	807,345	559,730
196,399	191,931	244,227
20,609	27,145	41,078
137,686	118,548	96,558
$3,211,606	$3,699,209	$3,420,755
$753,825	$771,515	$770,806
389,270	356,646	423,711
4,792	3,840	10,364
416,746	413,960	370,225
202,027	232,831	249,308
175,041	118,705	146,120
812,783	624,400	887,549
0	215,123	0
$2,754,484	$2,737,020	$2,858,083

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, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 10, 2008. 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 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, including 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, C and D 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, 2008 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.

October 10, 2008

Gardiner Thomsen, P.C.

City of Hampton
Hampton, Iowa

Schedule of Findings

Year Ended June 30, 2008

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. We are in the process of cross training employees to further segregate duties.

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.

Findings Related to the Financial Statements (Continued)

C. Period End Financial Reporting Process – The City does not have appropriate controls over the period end financial reporting process. These include the controls over procedures used to reconcile items in the general ledger from subsidiary ledgers, and ensuring that all recurring and nonrecurring adjustments to the financial statements have been made, including transfers.

Recommendation – Reconciling the subsidiary ledgers to the general ledger should be performed monthly and recurring journal entries should be made monthly, including transfers.

Response – We will review the procedures suggested.

Conclusion – Response accepted.

D. Financial Reporting – During the audit, we identified material amounts of loan proceeds that were not posted to the general ledger. Adjustments were subsequently made by the City to properly report the amount in the City's financial statements.

Recommendation – The City should implement procedures to ensure all receipts and financing sources are recorded in the City's financial statements.

Response – We will include procedures in our monthly reconciliation process to ensure all amounts are included.

Conclusion – Response accepted.

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, 2008, exceeded the amounts budgeted in the Business Type Activities function. 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.

Other Findings Related to Required Statutory Reporting: (Continued)

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
Karen Schmidt, City Councilperson		
Owner – Hampton Home Supply	Capital Equipment and Office Supply	$980
Owner – Home Video	Capital Equipment and Office Supply	158
Doug Tarr, Public Works Director & Code Enforcement		
Father-in-law owns Craighton Construction LLC	Building Repair	1,994
Trev Murphy, Waste Water Employee		
Parents own Murphy's Heating and Plumbing	Building Equipment Repairs	3,379
Wilma Mason, Communications Supervisor (Police Dept.)		
Wilma Mason	Training and Professional Fees	139

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Karen Schmidt, Doug Tarr, and Wilma Mason do not appear to represent conflicts of interest since total transactions were less than $1,500 during the fiscal year or were entered into through competitive bid.

Other Findings Related to Required Statutory Reporting: (Continued)

In accordance with Chapter 362.5(5) of the Code of Iowa, the transactions with Murphy's Heating and Plumbing do not appear to represent conflicts of interest since the City employee's employment is not directly affected as a result of the contract and the duties of his employment do not directly involve procurement or preparation of any part of the contracts.

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 ensure 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. However, we noted several of the approved claims listings published with the Council Minutes were not complete due to computer error.

Recommendation – The City should ensure the claims listing published with the Council Minutes is complete and accurate, that the individual claims approved by Council are included on the list.

Response – Individual claims are reviewed and approved by the Finance Committee and Council. The omission of several claims from the published report was inadvertent. We have corrected the computer problem and will ensure the listing equals the claims approved total in the future.

Conclusion - Response accepted.

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: Tax Increment Financing, Debt Service, Forfeiture, Economic Development, Library Trust, Cemetery Trust, Cemetery Perpetual Care, and Enterprise Funds: Water Improvement, Water Construction, Sewer, Solid Waste and Meter Deposits were in excess of disbursements for the current year.

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

Other Findings Related to Required Statutory Reporting: (Continued)

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, claims process 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 and financial report, claims should be approved by Council.

Response – We will consider establishing a DARE fund.

Conclusion – Response accepted.

11. Financial Position – We noted that the Capital Projects Funds: Oak Hill Project and Highway 65 Project had deficit fund balances of $(10,551) and $(13,568) respectively at June 30, 2008.

Recommendation - The City should investigate alternatives to eliminate these deficits.

Response – The Oak Hill Project deficit will be eliminated by special assessments collected in the future. The Highway 65 Project deficit will be eliminated when the City issues bonds for the construction.

Conclusion – Response accepted.

NEWS RELEASE

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

The City's receipts totaled $4,014,305 for the year ended June 30, 2008, a 9% decrease from 2007. The receipts included $1,281,225 in property tax, $2,002 from tax increment financing collections, $1,444,127 from charges for service, $538,393 from operating grants, contributions and restricted interest, $177,945 from capital grants, contributions and restricted interest, $287,133 from local option sales tax, $162,284 from unrestricted investment earnings and $121,196 from other general receipts.

Disbursements for the year totaled $4,779,963 a 24% increase from the prior year, and included $782,560 for Public Safety, $706,596 for Debt Service, and $469,363 for Culture and Recreation. Also, disbursements for business type activities totaled $1,509,559.

The significant decrease/increase in receipts and disbursements respectively is due primarily to lower tax receipts, especially Tax Increment Financing and increased disbursements for Community and Economic Development, Debt Service payments and Capital Projects.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's website at http://auditor.iowa.gov/reports/reports.htm .