

**CITY OF HAMPTON**  
**Hampton, Iowa**

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

June 30, 2010

## TABLE OF CONTENTS

|   | <u>Page</u>     |
|---|-----------------|
| <b>OFFICIALS</b> .....  | 1               |
| <b>INDEPENDENT AUDITORS' REPORT</b> .....                               | 2-3             |
| <b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....                       | 4-9             |
| <b>BASIC FINANCIAL STATEMENTS:</b>                                      | <u>Exhibit</u>  |
| Government-Wide Financial Statement:                                    |                 |
| Statement of Activities and Net Assets-Cash Basis.....A.....            | 10-11           |
| Governmental Fund Financial Statement:                                  |                 |
| Statement of Cash Receipts, Disbursements and                           |                 |
| Changes in Cash Balances.....B.....                                     | 12-13           |
| Proprietary Fund Financial Statement:                                   |                 |
| Statement of Cash Receipts, Disbursements and                           |                 |
| Changes in Cash Balances.....C.....                                     | 14-15           |
| Notes to Financial Statements.....                                      | 16-24           |
| <b>REQUIRED SUPPLEMENTARY INFORMATION:</b>                              |                 |
| Budgetary Comparison Schedule of Receipts, Disbursements and            |                 |
| Changes in Balances – Budget and Actual (Cash Basis) – All              |                 |
| Governmental Funds and Proprietary Funds .....                          | 25-26           |
| Notes to Required Supplementary Information – Budgetary Reporting ..... | 27              |
| <b>OTHER SUPPLEMENTARY INFORMATION:</b>                                 | <u>Schedule</u> |
| Statement of Cash Receipts, Disbursements and Changes in                |                 |
| Cash Balances- Nonmajor Governmental Funds.....1 .....                  | 28-29           |
| Schedule of Indebtedness.....2 .....                                    | 30-31           |
| Bond and Note Maturities.....3 .....                                    | 32              |
| Schedule of Receipts by Source and Disbursements                        |                 |
| By Function- All Governmental Funds.....4 .....                         | 33-34           |
| <b>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL</b>                 |                 |
| <b>OVER FINANCIAL REPORTING AND ON COMPLIANCE AND</b>                   |                 |
| <b>OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL</b>                     |                 |
| <b>STATEMENTS PERFORMED IN ACCORDANCE WITH</b>                          |                 |
| <b><i>GOVERNMENT AUDITING STANDARDS</i></b> .....                       | 35-36           |
| <b>SCHEDULE OF FINDINGS</b> .....                                       | 37-42           |

# CITY OF HAMPTON

## Officials

| <u>Name</u>                  | <u>Title</u>        | <u>Term Expires</u> |
|------------------------------|---------------------|---------------------|
| <b>(Before January 2010)</b> |                     |                     |
| 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          |

## **(After January 2010)**

|                          |                     |              |
|--------------------------|---------------------|--------------|
| Diane Weldin .....       | Mayor .....         | January 2012 |
| Bill Hodge.....          | Council Member..... | January 2012 |
| James Davies.....        | Council Member..... | 2014         |
| Karen Schmidt .....      | Council Member..... | 2012         |
| Craig Eckhardt .....     | Council Member..... | 2014         |
| Steve Harms .....        | Council Member..... | 2012         |
| Richard Lukensmeyer..... | Council Member..... | 2014         |
| 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, 2010, 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, 2010, 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 17, 2010, on our consideration of the City of Hampton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 25 through 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 six years ended June 30, 2009 (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 17, 2010

*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, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2010 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental activities increased approximately 75% or \$3,218,313 from fiscal 2009 to fiscal 2010. Capital grants, contributions and restricted interest increased approximately \$305,344 and bond proceeds increased \$2,729,500.
- Disbursements increased 35% or approximately \$1,446,856 in fiscal 2010 from fiscal 2009. The Highway 65 Project in the Capital Projects program contributed to this increase.
- The City's total cash basis net assets increased by \$1,901,945. Of this amount, the assets of the governmental activities increased approximately \$2,109,151 and the assets of the business type activities decreased by approximately \$207,206.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the city's indebtedness.

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

The required financial statement for governmental funds is 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. All of these Enterprise Funds are considered to be major funds of the City.

The required financial statement for proprietary funds is 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 \$4,591,771. The analysis that follows focuses on the changes in cash balances for governmental activities.

| Cash Basis Net Assets of Governmental Activities<br>(Expressed in Thousands) |                     |         |
|--|---------------------|---------|
|  | Year Ended June 30, |         |
|  | 2010                | 2009    |
| Receipts and Transfers   |                     |         |
| Program Receipts   |                     |         |
| Charges for Service  | \$334               | \$351   |
| Operating Grants, Contributions and Restricted Interest                      | 453                 | 553     |
| Capital Grants, Contributions and Restricted Interest                        | 474                 | 169     |
| General Receipts   |                     |         |
| Property Tax   | 1,358               | 1,425   |
| Local Option Sales Tax   | 357                 | 312     |
| Unrestricted Investment Earnings   | 95                  | 116     |
| Bond Proceeds  | 2,757               | 28      |
| Other General Receipts   | 454                 | 102     |
| Transfers, Net   | 289                 | (156)   |
| Total Receipts and Transfers   | 6,571               | 2,900   |
| Disbursements  |                     |         |
| Public Safety  | 1,076               | 922     |
| Public Works   | 461                 | 640     |
| Health and Social Services   | 5                   | 6       |
| Culture and Recreation   | 542                 | 602     |
| Community and Economic Development   | 261                 | 156     |
| General Government   | 316                 | 271     |
| Debt Service   | 317                 | 330     |
| Capital projects   | 1,484               | 160     |
| Total Disbursements  | 4,462               | 3,087   |
| Decrease in Cash Basis Net Assets  | 2,109               | (187)   |
| Cash Basis Net Assets Beginning of Year                                      | 2,483               | 2,670   |
| Cash Basis Net Assets End of Year  | \$4,592             | \$2,483 |

The City's total receipts for governmental activities increased 115% or approximately \$3,514,065. The total cost of all programs and services increased approximately \$1,374,294 or 45% with no new programs added this year. The significant increase in receipts was primarily a result of proceeds received from the issuance of general obligation urban renewal bonds. The significant increase in disbursements was primarily a result of incurring costs associated with the Highway 65 Capital project.

The cost of all governmental activities this year was \$4.462 million compared to \$3.087 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 \$3.201 million because some of the cost was paid by those directly benefiting from the programs (\$333,691) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$927,418). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2010 from approximately \$1,073,493 to approximately \$1,261,109. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$1,357,727 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, |         |
|---|---------------------|---------|
|   | 2010                | 2009    |
| Receipts                                  |                     |         |
| Program Receipts                          |                     |         |
| Charges for Service                       |                     |         |
| Water                                     | \$666               | \$690   |
| Sewer                                     | 532                 | 513     |
| Solid Waste                               | 29                  | 29      |
| Meter Deposits                            | 8                   | 9       |
| General Receipts                          |                     |         |
| Transfers                                 | 0                   | 156     |
|   | 1,235               | 1,397   |
| Disbursements and Transfers               |                     |         |
| Water                                     | 570                 | 575     |
| Sewer                                     | 268                 | 253     |
| Solid Waste                               | 31                  | 31      |
| Meter Deposits                            | 7                   | 5       |
| Debt Service                              | 277                 | 216     |
| Transfers                                 | 289                 | 0       |
| Total Disbursements and Transfers         | 1,442               | 1,080   |
| Increase in Cash Balance                  | (207)               | 317     |
| Cash Basis Net Assets - Beginning of Year | 2,219               | 1,902   |
| Cash Basis Net Assets - End of Year       | \$2,012             | \$2,219 |

Total business type activities receipts for the fiscal year were \$1,234,933 compared to \$1,241,257 last year.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Hampton completed the year, its governmental funds reported a combined fund balance of \$4,591,771, an increase of \$2,109,151 from last year's total of \$2,482,620. 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 \$383,399 from the prior year to \$659,063. This decrease is partially due to the transfer of \$441,290 to the Capital Project – Aquatic Center Fund to be used for the construction of the new Aquatic Center. Of the remaining fund balance, \$87,920 is allocated to the Pool, \$1,269 is allocated to the Fire Truck Fund and \$51,370 represents Library funds. The unreserved General Fund cash balance is \$518,504.
- The Road Use Tax Fund cash balance increased by \$81,666 to \$232,137 during the fiscal year. The City intends to use this money to upgrade the condition of all City roads.
- The Employee Benefits Fund cash balance decreased by \$80,359 to \$(21,024) during the fiscal year. This decrease is due to a 35% increase in the cost of health insurance through Wellmark during the fiscal year.
- Tax Increment Fund ended the fiscal year with a cash balance of \$48,124 a decrease of \$724,980 from the previous year. The decrease was the result of a \$550,000 transfer to the Highway 65 Capital Project Fund and payment 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 increased by \$1,103 to \$244,230 during the fiscal year.
- The Capital Projects – Highway 65 Fund cash balance increased by \$2,442,908 to \$2,421,370 during the fiscal year. The City issued \$2,732,400 in general obligation urban renewal bonds and transferred \$550,000 to this fund from the TIF fund to finance this capital project. Disbursements totaled \$1,079,008 for the fiscal year.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$96,407 to \$884,032, due primarily to no transfers were required in fiscal 2010.
- The Water Revenue Note Sinking Fund cash balance decreased by \$212,016 to \$5,911. This is due to the payment made on the Water Tower Local Option Tax Revenue Bond.
- The Water Improvement Fund was closed during the fiscal year ended June 30, 2010 as the debt requiring this fund was paid in full. The \$100,000 balance was transferred to the Capital Project – Aquatic Center Fund.
- The Water Reserve Fund cash balance remained \$62,568 during the fiscal year.
- The Water Construction Fund was closed during the fiscal year ended June 30, 2010 as the debt requiring this fund was paid in full. The \$254,403 balance was transferred to the Capital Project – Aquatic Center Fund.
- The Sewer Fund cash balance increased by \$264,570 to \$972,549. This is a result of sewer rate increase revenues.
- The Solid Waste Fund cash balance decreased by \$1,829 to \$60,036.

- The Meter Deposit Fund cash balance increased by \$65 to \$26,978.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget. The amendment was approved on May 25, 2010 and resulted in an increase in operating revenues relating to LOST, Cemetery Trust Income, FEMA Reimbursements, I-Jobs grant reimbursements, special assessments, miscellaneous revenues and Proceeds of Long Term Debt for the Highway 65 project. An increase in operating disbursements was related to Public Safety vehicle and equipment replacements, storm expenses, increases due to harsh winter conditions and general overruns related to Public Works, Employee Benefits and Enterprise Funds.

**DEBT ADMINISTRATION**

At June 30, 2010, the City had approximately \$3,094,700 in bonds and other long-term debt, compared to approximately \$784,600 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 \$3,094,700 is below its constitutional debt limit of \$7,738,155.

|  | Outstanding Debt at Year-End<br>(Expressed in Thousands) |              |
|--|--|--------------|
|  | June 30,   |              |
|  | 2010   | 2009         |
| General Obligation Notes/Bonds                         | \$3,095  | \$368        |
| Urban renewal tax increment<br>financing revenue bonds | 0  | 150          |
| Revenue Notes  | 0  | 267          |
| <b>Total</b>   | <b>\$3,095</b>   | <b>\$785</b> |

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

City elected and appointed officials considered many factors when setting the fiscal year 2011 budget, tax rates, and fees that will be charged for various City activities. These factors include the economy, assessed valuations, capital projects, debt obligations, employee benefit obligations, increased operating costs, aging infrastructure, equipment needs, 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. The City made attempts to counter the ever increasing costs of providing employee benefits.

These factors were taken into account when adopting the budget for fiscal year 2011. Budgeted disbursements are expected to remain relatively constant however; the Highway Project and Aquatic Center Project will be noticeable in 2011 budget expenditures.

**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 1<sup>st</sup> 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, 2010

|                                  | Disbursements | Program Receipts    |  |  |
|----------------------------------|---------------|---------------------|--|--|
|                                  |               | Charges for Service | Operating Grants, Contributions, and Restricted Interest | Capital Grants, Contributions, and Restricted Interest |
| <b>Functions/Programs:</b>       |               |                     |  |  |
| Governmental Activities:         |               |                     |  |  |
| Public Safety                    | \$1,075,886   | \$90,417            | \$44,351   | \$0  |
| Public Works                     | 461,021       | 46,407              | 391,269  | 0  |
| Health & Social Services         | 5,347         | 0                   | 0  | 0  |
| Culture & Recreation             | 542,457       | 162,414             | 17,533   | 132,641  |
| Community & Economic Development | 260,655       | 34,453              | 0  | 114,090  |
| General Government               | 315,659       | 0                   | 0  | 0  |
| Debt Service                     | 316,896       | 0                   | 0  | 0  |
| Capital Projects                 | 1,484,203     | 0                   | 0  | 227,534  |
| Total Governmental Activities    | 4,462,124     | 333,691             | 453,153  | 474,265  |
| Business Type Activities:        |               |                     |  |  |
| Water                            | 569,350       | 665,757             | 0  | 0  |
| Water Revenue Note Sinking       | 276,991       | 0                   | 0  | 0  |
| Sewer Rental                     | 267,212       | 531,782             | 0  | 0  |
| Solid Waste                      | 31,248        | 29,419              | 0  | 0  |
| Meter Deposits                   | 7,910         | 7,975               | 0  | 0  |
| Total Business Type Activities   | 1,152,711     | 1,234,933           | 0  | 0  |
| Total                            | \$5,614,835   | \$1,568,624         | \$453,153  | \$474,265  |

**General Receipts:**

Property and Other City Tax Levied For:

General Purposes

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:

Nonexpendable:

Cemetery Perpetual Care

Expendable:

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<br>Activities | Business - Type<br>Activities | Total         |
|----------------------------|-------------------------------|---------------|
| \$(941,118)                | \$0                           | \$(941,118)   |
| (23,345)                   | 0                             | (23,345)      |
| (5,347)                    | 0                             | (5,347)       |
| (229,869)                  | 0                             | (229,869)     |
| (112,112)                  | 0                             | (112,112)     |
| (315,659)                  | 0                             | (315,659)     |
| (316,896)                  | 0                             | (316,896)     |
| (1,256,669)                | 0                             | (1,256,669)   |
| (3,201,015)                | 0                             | (3,201,015)   |
| 0                          | 96,407                        | 96,407        |
| 0                          | (276,991)                     | (276,991)     |
| 0                          | 264,570                       | 264,570       |
| 0                          | (1,829)                       | (1,829)       |
| 0                          | 65                            | 65            |
| 0                          | 82,222                        | 82,222        |
| \$(3,201,015)              | \$82,222                      | \$(3,118,793) |
| \$1,180,122                | \$0                           | \$1,180,122   |
| 177,605                    | 0                             | 177,605       |
| 356,900                    | 0                             | 356,900       |
| 95,024                     | 0                             | 95,024        |
| 2,757,100                  | 0                             | 2,757,100     |
| 453,987                    | 0                             | 453,987       |
| 289,428                    | (289,428)                     | 0             |
| 5,310,166                  | (289,428)                     | 5,020,738     |
| 2,109,151                  | (207,206)                     | 1,901,945     |
| 2,482,620                  | 2,219,280                     | 4,701,900     |
| \$4,591,771                | \$2,012,074                   | \$6,603,845   |
| \$184,781                  | \$0                           | \$184,781     |
| 232,137                    | 0                             | 232,137       |
| 48,124                     | 0                             | 48,124        |
| 271,347                    | 68,479                        | 339,826       |
| 89,189                     | 0                             | 89,189        |
| 3,766,193                  | 1,943,595                     | 5,709,788     |
| \$4,591,771                | \$2,012,074                   | \$6,603,845   |

**CITY OF HAMPTON**

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN  
CASH BALANCES – GOVERNMENTAL FUNDS  
As of and for the Year Ended June 30, 2010

|   | Special Revenue |                 |                      |
|---|-----------------|-----------------|----------------------|
|   | General         | Road Use<br>Tax | Employee<br>Benefits |
| <b>Receipts:</b>  |                 |                 |                      |
| Property Tax  | \$860,811       | \$0             | \$294,639            |
| Other City Tax  | 81,171          | 0               | 12,553               |
| Licenses & Permits  | 14,616          | 0               | 0                    |
| Use of Money & Property                                       | 105,403         | 0               | 0                    |
| Intergovernmental   | 54,583          | 391,269         | 0                    |
| Charges for Service   | 303,853         | 0               | 0                    |
| Special Assessments   | 10,460          | 0               | 0                    |
| Miscellaneous   | 31,756          | 13              | 0                    |
| Total Receipts  | 1,462,653       | 391,282         | 307,192              |
| <b>Disbursements:</b>   |                 |                 |                      |
| Operating:  |                 |                 |                      |
| Public Safety   | 831,236         | 0               | 243,788              |
| Public Works  | 86,834          | 309,616         | 64,571               |
| Health & Social Services                                      | 5,347           | 0               | 0                    |
| Culture & Recreation  | 465,425         | 0               | 68,675               |
| Community & Economic Development                              | 26,816          | 0               | 0                    |
| General Government  | 305,142         | 0               | 10,517               |
| Debt Service  | 0               | 0               | 0                    |
| Capital Projects  | 0               | 0               | 0                    |
| Total Disbursements   | 1,720,800       | 309,616         | 387,551              |
| Excess (Deficiency) of Receipts Over (Under)<br>Disbursements | (258,147)       | 81,666          | (80,359)             |
| <b>Other Financing Sources (Uses):</b>                        |                 |                 |                      |
| Bond Proceeds   | 0               | 0               | 0                    |
| Operating Transfers In  | 317,648         | 0               | 0                    |
| Operating Transfers Out                                       | (442,900)       | 0               | 0                    |
| Total Other Financing Sources (Uses)                          | (125,252)       | 0               | 0                    |
| Net Change in Cash Balances                                   | (383,399)       | 81,666          | (80,359)             |
| Cash Balances Beginning of Year                               | 1,042,462       | 150,471         | 59,335               |
| Cash Balances End of Year                                     | \$659,063       | \$232,137       | \$(21,024)           |
| <b>Cash Basis Fund Balances</b>                               |                 |                 |                      |
| Reserved:   |                 |                 |                      |
| Debt Service  | \$0             | \$0             | \$0                  |
| Cemetery Perpetual Care                                       | 0               | 0               | 0                    |
| Pool  | 87,920          | 0               | 0                    |
| Fire Truck  | 1,269           | 0               | 0                    |
| Unreserved:   |                 |                 |                      |
| General Fund  | 569,874         | 0               | 0                    |
| Special Revenue Funds   | 0               | 232,137         | (21,024)             |
| Capital Projects Funds  | 0               | 0               | 0                    |
| Total Cash Basis Fund Balances                                | \$659,063       | \$232,137       | \$(21,024)           |

See Notes to Financial Statements

**Exhibit B**

| Special Revenue              |                               |              |                               |             |             |
|------------------------------|-------------------------------|--------------|-------------------------------|-------------|-------------|
| Local<br>Option<br>Sales Tax | Tax<br>Increment<br>Financing | Debt Service | Capital<br>Projects<br>Hwy 65 | Nonmajor    | Total       |
| \$0                          | \$0                           | \$177,605    | \$0                           | \$24,672    | \$1,357,727 |
| 356,900                      | 0                             | 7,433        | 0                             | 1,051       | 459,108     |
| 0                            | 0                             | 0            | 0                             | 0           | 14,616      |
| 0                            | 0                             | 0            | 0                             | 10,738      | 116,141     |
| 0                            | 0                             | 0            | 226,320                       | 341,624     | 1,013,796   |
| 0                            | 0                             | 0            | 0                             | 0           | 303,853     |
| 0                            | 0                             | 0            | 0                             | 61,440      | 71,900      |
| 0                            | 0                             | 0            | 13,196                        | 142,641     | 187,606     |
| 356,900                      | 0                             | 185,038      | 239,516                       | 582,166     | 3,524,747   |
| 0                            | 0                             | 0            | 0                             | 862         | 1,075,886   |
| 0                            | 0                             | 0            | 0                             | 0           | 461,021     |
| 0                            | 0                             | 0            | 0                             | 0           | 5,347       |
| 0                            | 0                             | 0            | 0                             | 8,357       | 542,457     |
| 0                            | 87,464                        | 0            | 0                             | 146,375     | 260,655     |
| 0                            | 0                             | 0            | 0                             | 0           | 315,659     |
| 0                            | 87,516                        | 183,935      | 24,840                        | 20,605      | 316,896     |
| 0                            | 0                             | 0            | 1,054,168                     | 430,035     | 1,484,203   |
| 0                            | 174,980                       | 183,935      | 1,079,008                     | 606,234     | 4,462,124   |
| 356,900                      | (174,980)                     | 1,103        | (839,492)                     | (24,068)    | (937,377)   |
| 0                            | 0                             | 0            | 2,732,400                     | 24,700      | 2,757,100   |
| 0                            | 0                             | 0            | 550,000                       | 797,303     | 1,664,951   |
| (356,900)                    | (550,000)                     | 0            | 0                             | (25,723)    | (1,375,523) |
| (356,900)                    | (550,000)                     | 0            | 3,282,400                     | 796,280     | 3,046,528   |
| 0                            | (724,980)                     | 1,103        | 2,442,908                     | 772,212     | 2,109,151   |
| 0                            | 773,104                       | 243,127      | (21,538)                      | 235,659     | 2,482,620   |
| \$0                          | \$48,124                      | \$244,230    | \$2,421,370                   | \$1,007,871 | \$4,591,771 |
| \$0                          | \$0                           | \$244,230    | \$0                           | \$27,117    | \$271,347   |
| 0                            | 0                             | 0            | 0                             | 184,781     | 184,781     |
| 0                            | 0                             | 0            | 0                             | 0           | 87,920      |
| 0                            | 0                             | 0            | 0                             | 0           | 1,269       |
| 0                            | 0                             | 0            | 0                             | 0           | 569,874     |
| 0                            | 48,124                        | 0            | 0                             | 191,688     | 450,925     |
| 0                            | 0                             | 0            | 2,421,370                     | 604,285     | 3,025,655   |
| \$0                          | \$48,124                      | \$244,230    | \$2,421,370                   | \$1,007,871 | \$4,591,771 |

**CITY OF HAMPTON**

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES  
IN CASH BALANCES – PROPRIETARY FUNDS  
As of and for the Year Ended June 30, 2010

|   | Water                   | Water Revenue<br>Note Sinking | Water<br>Improvement |
|---|-------------------------|-------------------------------|----------------------|
| <b>Operating Receipts:</b>  |                         |                               |                      |
| Charges for Service   | \$621,027               | \$0                           | \$0                  |
| Miscellaneous   | 44,730                  | 0                             | 0                    |
| Total Operating Receipts  | <u>665,757</u>          | <u>0</u>                      | <u>0</u>             |
| <b>Operating Disbursements:</b>   |                         |                               |                      |
| Business Type Activities  | <u>569,350</u>          | <u>0</u>                      | <u>0</u>             |
| Excess (Deficiency) of Operating Receipts<br>Over (Under) Operating Disbursements | <u>96,407</u>           | <u>0</u>                      | <u>0</u>             |
| <b>Non-Operating Disbursements</b>  |                         |                               |                      |
| Debt Service  | <u>0</u>                | <u>(276,991)</u>              | <u>0</u>             |
| Excess (Deficiency) of Receipts Over (Under)<br>Disbursements                     | 96,407                  | (276,991)                     | 0                    |
| Operating Transfers In (Out)  | <u>0</u>                | <u>64,975</u>                 | <u>(100,000)</u>     |
| Net Change in Cash Balances   | 96,407                  | (212,016)                     | (100,000)            |
| Cash Balances Beginning of Year   | <u>787,625</u>          | <u>217,927</u>                | <u>100,000</u>       |
| Cash Balances End of Year   | <u><u>\$884,032</u></u> | <u><u>\$5,911</u></u>         | <u><u>\$0</u></u>    |
| <b>Cash Basis Fund Balances</b>   |                         |                               |                      |
| Reserved for Debt Service   | \$0                     | \$5,911                       | \$0                  |
| Unreserved  | <u>884,032</u>          | <u>0</u>                      | <u>0</u>             |
| Total Cash Basis Fund Balances  | <u><u>\$884,032</u></u> | <u><u>\$5,911</u></u>         | <u><u>\$0</u></u>    |

See Notes to Financial Statements

Exhibit C

| Water Reserve | Water Construction | Sewer Rental | Solid Waste | Meter Deposits | Total       |
|---------------|--------------------|--------------|-------------|----------------|-------------|
| \$0           | \$0                | \$525,701    | \$29,374    | \$0            | \$1,176,102 |
| 0             | 0                  | 6,081        | 45          | 7,975          | 58,831      |
| 0             | 0                  | 531,782      | 29,419      | 7,975          | 1,234,933   |
| 0             | 0                  | 267,212      | 31,248      | 7,910          | 875,720     |
| 0             | 0                  | 264,570      | (1,829)     | 65             | 359,213     |
| 0             | 0                  | 0            | 0           | 0              | (276,991)   |
| 0             | 0                  | 264,570      | (1,829)     | 65             | 82,222      |
| 0             | (254,403)          | 0            | 0           | 0              | (289,428)   |
| 0             | (254,403)          | 264,570      | (1,829)     | 65             | (207,206)   |
| 62,568        | 254,403            | 707,979      | 61,865      | 26,913         | 2,219,280   |
| \$62,568      | \$0                | \$972,549    | \$60,036    | \$26,978       | \$2,012,074 |
| \$62,568      | \$0                | \$0          | \$0         | \$0            | \$68,479    |
| 0             | 0                  | 972,549      | 60,036      | 26,978         | 1,943,595   |
| \$62,568      | \$0                | \$972,549    | \$60,036    | \$26,978       | \$2,012,074 |

## City of Hampton

### Notes to Financial Statements

June 30, 2010

#### 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.

## Notes to Financial Statements (Continued)

---

### Note 1: Summary of Significant Accounting Policies (Continued)

#### B. Basis of Presentation

Government-wide Financial Statement - 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 the following categories/components:

*Nonexpendable restricted net assets* are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

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

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding categories. 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.

## **Notes to Financial Statements (Continued)**

---

### **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 a discretionary major fund used to account for employee benefits financed by property tax collections.

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

The Tax Increment Financing Fund is a discretionary major fund used to account for urban renewal projects financed by tax increment financing.

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

The Capital Projects Highway 65 Fund is used to account for the receipts and disbursements of the Highway 65 Construction project.

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.

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

## **Notes to Financial Statements (Continued)**

---

### **Note 1: Summary of Significant Accounting Policies (Continued)**

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

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

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

The Meter Deposit Fund is 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 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.

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, 2010, disbursements exceeded the amounts budgeted in the Public Safety, Culture and Recreation, Debt Service, and Business Type Activities functions.

## Notes to Financial Statements (Continued)

### Note 2: Cash and Pooled Investments

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments at June 30, 2010 are as follows:

| Type                       | Carrying Amount | Fair Value | Maturity          |
|----------------------------|-----------------|------------|-------------------|
| Corporate/Government Bonds | \$5,000         | \$5,060    | February 17, 2012 |
| Fixed Income               | \$158,786       | \$163,366  | Various           |

### Note 3: Bonds and Notes Payable

Annual debt service requirements to maturity for General Obligation Notes and Bonds are as follows:

| Year<br>Ending<br>June 30, | General Obligation<br>Notes and Bonds |             |
|----------------------------|---------------------------------------|-------------|
|                            | Principal                             | Interest    |
| 2011                       | \$465,000                             | \$166,985   |
| 2012                       | 315,000                               | 161,400     |
| 2013                       | 320,000                               | 155,857     |
| 2014                       | 330,000                               | 149,480     |
| 2015                       | 335,000                               | 142,052     |
| 2016-2020                  | 1,850,000                             | 556,088     |
| 2021-2025                  | 1,925,000                             | 207,722     |
| Total                      | \$5,540,000                           | \$1,539,584 |

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. The Bond was paid in full during the year ended June 30, 2010.

## **Notes to Financial Statements (Continued)**

---

### **Note 3: Bonds and Notes Payable (Continued)**

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 was 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%.

On July 6, 2009, the City issued \$2,760,000 of General Obligation Bonds, Series 2009, (Urban Renewal). The bonds were issued to pay the costs of construction, reconstruction and installation of roadway and related storm sewer, sanitary sewer and water system utility improvements including costs associated with the Highway 65 Reconstruction Project. The Bonds are general obligations of the City, however a portion of the debt will be serviced by tax increment financing revenues collected from the City's Urban Renewal Area. Interest ranges from 2.25% to 4.3% over the life of the bonds. Interest is due semiannually commencing in December of 2009, principal is due annually commencing in June of 2011 through June, 2024.

The City issued \$2,470,000 of General Obligation Local Option Sales Tax Bonds, Series 2010, dated July 22, 2010. The bonds were issued to pay the costs of acquisition, construction and equipping a new aquatic center. The bonds are general obligations of the City, however the debt will be serviced primarily by Local Option Sales Tax revenues. The City received a good faith deposit of \$24,700 in June of 2010, and the remainder of the proceeds in July of 2010. Interest ranges from 1.00% to 3.6% over the life of the Bonds. Interest is due semiannually commencing in December of 2010 through June of 2025. Principal payments are due annually commencing in June of 2011 through June of 2025.

The City is in compliance with the provisions of the Note and Bond 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.

## Notes to Financial Statements (Continued)

---

### Note 4: Pension and Retirement Benefits (Continued)

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contributes an actuarially determined contribution rate. The City's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$84,178, \$84,522 and \$73,015, respectively, equal to the required contribution for each year.

### Note 5: Other Postemployment Benefits – (OPEB)

Plan Description – The City operates a single-employer retiree benefit which provides medical/prescription drug benefits for retirees and their spouses. There are 27 active and 3 retired members in the plan. Participants must be 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent member monthly premiums for the City and plan members are \$443 for single coverage and \$1,125 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$363,820 and plan members eligible for benefits contributed \$38,933 to the plan.

### Note 6: 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, 2010, primarily relating to the General Fund, is as follows:

| Type of Benefit | Amount           |
|-----------------|------------------|
| Vacation        | \$54,312         |
| Overtime        | 103,419          |
|                 | <u>\$157,731</u> |

This liability has been computed based on rates of pay in effect at June 30, 2010.

## Notes to Financial Statements (Continued)

---

### Note 7: Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

| <u>Transfer To</u>      | <u>Transfer From</u>    | <u>Amount</u>      |
|-------------------------|-------------------------|--------------------|
| General                 | Special Revenue:        |                    |
|                         | Local Option Sales Tax  | \$285,134          |
|                         | Emergency               | 25,723             |
|                         | Enterprise              |                    |
|                         | Water Sinking           | 6,791              |
|                         |                         | <u>317,648</u>     |
| Capital Projects        | Special Revenue:        |                    |
| Highway 65              | Tax Increment Financing | <u>550,000</u>     |
| Aquatic Center          | General                 | 441,290            |
|                         | Enterprise:             |                    |
|                         | Water Improvement       | 100,000            |
|                         | Water Construction      | 254,403            |
|                         |                         | <u>795,693</u>     |
| Enterprise              | Special Revenue:        |                    |
| Water Sinking           | Local Option Sales Tax  | <u>71,766</u>      |
| Permanent               |                         |                    |
| Cemetery Perpetual Care | General                 | 1,610              |
|                         |                         | <u>\$1,736,717</u> |

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

### Note 8: Related Party Transactions

The City had business transactions between the City and City officials totaling \$9,850 during the year ended June 30, 2010.

### Note 9: 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.

## **Notes to Financial Statements (Continued)**

---

### **Note 9: 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, 2010, 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 10: 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 11: 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, 2010, disbursements in the Culture and Recreation and Debt Service functions exceeded the amounts budgeted.

### **Note 12: Excess Fund Balances**

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

### **Note 13: Financial Condition**

We noted the fund balances of the Employee Benefits Fund, the Economic Development Fund and the Capital Project Oak Hills Project Fund were in deficit at the end of the year.

### **Note 14: Subsequent Events**

The City issued \$2,470,000 General Obligation Local Option Sales Tax Bonds, Series 2010 dated July 22, 2010. The bonds were issued to pay the costs of acquisition, construction and equipping a new aquatic center. The bonds are general obligations of the City, however the debt will be serviced primarily by Local Option Sales Tax revenues. The City did receive \$24,700 as a good faith deposit in June of 2010, that amount is shown as outstanding debt at June 30, 2010.

**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, 2010

|   | Governmental<br>Funds Actual | Proprietary<br>Funds Actual | Total              |
|---|------------------------------|-----------------------------|--------------------|
| Receipts:   |                              |                             |                    |
| Property Tax  | \$1,357,727                  | \$0                         | \$1,357,727        |
| Other City Tax  | 459,108                      | 0                           | 459,108            |
| Licenses & Permits  | 14,616                       | 0                           | 14,616             |
| Use of Money & Property   | 116,141                      | 0                           | 116,141            |
| Intergovernmental   | 1,013,796                    | 0                           | 1,013,796          |
| Charges for Service   | 303,853                      | 1,176,102                   | 1,479,955          |
| Special Assessments   | 71,900                       | 0                           | 71,900             |
| Miscellaneous   | 187,606                      | 58,831                      | 246,437            |
| Total Receipts  | <u>3,524,747</u>             | <u>1,234,933</u>            | <u>4,759,680</u>   |
| Disbursements:  |                              |                             |                    |
| Public Safety   | 1,075,886                    | 0                           | 1,075,886          |
| Public Works  | 461,021                      | 0                           | 461,021            |
| Health & Social Services  | 5,347                        | 0                           | 5,347              |
| Culture & Recreation  | 542,457                      | 0                           | 542,457            |
| Community & Economic Development  | 260,655                      | 0                           | 260,655            |
| General Government  | 315,659                      | 0                           | 315,659            |
| Debt Service  | 316,896                      | 0                           | 316,896            |
| Capital Projects  | 1,484,203                    | 0                           | 1,484,203          |
| Business Type Activities  | 0                            | 1,152,711                   | 1,152,711          |
| Total Disbursements   | <u>4,462,124</u>             | <u>1,152,711</u>            | <u>5,614,835</u>   |
| Excess (Deficiency) of Receipts Over<br>(Under) Disbursements   | (937,377)                    | 82,222                      | (855,155)          |
| Other Financing Sources (Uses), Net   | <u>3,046,528</u>             | <u>(289,428)</u>            | <u>2,757,100</u>   |
| Excess (Deficiency) of Receipts and Other Financing<br>Sources Over (Under) Disbursements<br>and Other Financing Uses | 2,109,151                    | (207,206)                   | 1,901,945          |
| Balances Beginning of Year  | <u>2,482,620</u>             | <u>2,219,280</u>            | <u>4,701,900</u>   |
| Balances End of Year  | <u>\$4,591,771</u>           | <u>\$2,012,074</u>          | <u>\$6,603,845</u> |

See Accompanying Independent Auditors' Report

| Budgeted Amounts |             | Final to Total |
|------------------|-------------|----------------|
| Original         | Final       | Variance       |
| \$1,348,929      | \$1,348,929 | \$8,798        |
| 373,591          | 403,591     | 55,517         |
| 16,050           | 16,050      | (1,434)        |
| 170,500          | 182,500     | (66,359)       |
| 960,000          | 995,423     | 18,373         |
| 1,298,600        | 1,298,600   | 181,355        |
| 25,605           | 66,605      | 5,295          |
| 22,500           | 123,500     | 122,937        |
| 4,215,775        | 4,435,198   | 324,482        |
| 930,400          | 1,143,900   | 68,014         |
| 522,900          | 556,400     | 95,379         |
| 5,700            | 5,700       | 353            |
| 420,150          | 451,150     | (91,307)       |
| 282,500          | 285,500     | 24,845         |
| 287,075          | 344,575     | 28,916         |
| 204,540          | 292,040     | (24,856)       |
| 2,371,000        | 2,950,000   | 1,465,797      |
| 988,841          | 1,305,842   | 153,131        |
| 6,013,106        | 7,335,107   | 1,720,272      |
| (1,797,331)      | (2,899,909) | 2,044,754      |
| 0                | 2,974,000   | (216,900)      |
| (1,797,331)      | 74,091      | 1,827,854      |
| 7,173,651        | 7,173,651   | (2,471,751)    |
| \$5,376,320      | \$7,247,742 | \$(643,897)    |

## **City of Hampton**

### **Notes to Required Supplementary Information – Budgetary Reporting**

**June 30, 2010**

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 nine 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 \$1,322,001. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the Culture and Recreation and Debt Service functions.

## **Other Supplementary Information**

**CITY OF HAMPTON**

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES  
IN CASH BALANCES – NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2010

|   | Special Revenue  |                |                  |                         |                  |
|---|------------------|----------------|------------------|-------------------------|------------------|
|   | Make A<br>Splash | Forfeiture     | Emergency<br>Tax | Economic<br>Development | Library<br>Trust |
| <b>Receipts:</b>  |                  |                |                  |                         |                  |
| Property Tax  | \$0              | \$0            | \$24,672         | \$0                     | \$0              |
| Other City Tax  | 0                | 0              | 1,051            | 0                       | 0                |
| Use of Money & Property   | 315              | 752            | 0                | 0                       | 9                |
| Intergovernmental   | 0                | 0              | 0                | 114,090                 | 0                |
| Special Assessments   | 0                | 0              | 0                | 0                       | 0                |
| Miscellaneous   | 132,641          | 0              | 0                | 0                       | 0                |
| <b>Total Receipts</b>   | <b>132,956</b>   | <b>752</b>     | <b>25,723</b>    | <b>114,090</b>          | <b>9</b>         |
| <b>Disbursements:</b>   |                  |                |                  |                         |                  |
| <b>Operating:</b>   |                  |                |                  |                         |                  |
| Public Safety   | 0                | 862            | 0                | 0                       | 0                |
| Culture & Recreation  | 0                | 0              | 0                | 0                       | 0                |
| Community & Economic Development                                      | 0                | 0              | 0                | 146,375                 | 0                |
| Debt Service  | 0                | 0              | 0                | 0                       | 0                |
| Capital Projects  | 0                | 0              | 0                | 0                       | 0                |
| <b>Total Disbursements</b>  | <b>0</b>         | <b>862</b>     | <b>0</b>         | <b>146,375</b>          | <b>0</b>         |
| <b>Excess (Deficiency) of Receipts Over<br/>(Under) Disbursements</b> | <b>132,956</b>   | <b>(110)</b>   | <b>25,723</b>    | <b>(32,285)</b>         | <b>9</b>         |
| <b>Other Financing Sources (Uses):</b>                                |                  |                |                  |                         |                  |
| Bond Proceeds   | 0                | 0              | 0                | 0                       | 0                |
| Operating Transfers In  | 0                | 0              | 0                | 0                       | 0                |
| Operating Transfers Out   | 0                | 0              | (25,723)         | 0                       | 0                |
|   | 0                | 0              | (25,723)         | 0                       | 0                |
| <b>Net Change in Cash Balances</b>                                    | <b>132,956</b>   | <b>(110)</b>   | <b>0</b>         | <b>(32,285)</b>         | <b>9</b>         |
| Cash Balances Beginning of Year                                       | 0                | 2,707          | 0                | 11,363                  | 2,588            |
| <b>Cash Balances End of Year</b>                                      | <b>\$132,956</b> | <b>\$2,597</b> | <b>\$0</b>       | <b>\$(20,922)</b>       | <b>\$2,597</b>   |
| <b>Cash Basis Fund Balances</b>                                       |                  |                |                  |                         |                  |
| <b>Reserved for:</b>  |                  |                |                  |                         |                  |
| Debt Service  | \$0              | \$0            | \$0              | \$0                     | \$0              |
| Cemetery Perpetual Care   | 0                | 0              | 0                | 0                       | 0                |
| <b>Unreserved:</b>  |                  |                |                  |                         |                  |
| Special Revenue Funds   | 132,956          | 2,597          | 0                | (20,922)                | 2,597            |
| Capital Project Funds   | 0                | 0              | 0                | 0                       | 0                |
| <b>Total Cash Basis Fund Balances</b>                                 | <b>\$132,956</b> | <b>\$2,597</b> | <b>\$0</b>       | <b>\$(20,922)</b>       | <b>\$2,597</b>   |

See Accompanying Independent Auditors' Report.

**Schedule 1**

| Special Revenue | Debt Service        | Capital Projects |                  |                | Permanent               |             |
|-----------------|---------------------|------------------|------------------|----------------|-------------------------|-------------|
| Cemetery Trust  | Special Assessments | Airport Project  | Oak-Hill Project | Aquatic Center | Cemetery Perpetual Care | Total       |
| \$0             | \$0                 | \$0              | \$0              | \$0            | \$0                     | \$24,672    |
| 0               | 0                   | 0                | 0                | 0              | 0                       | 1,051       |
| 4,522           | 0                   | 0                | 0                | 0              | 5,140                   | 10,738      |
| 0               | 0                   | 227,534          | 0                | 0              | 0                       | 341,624     |
| 0               | 61,440              | 0                | 0                | 0              | 0                       | 61,440      |
| 10,000          | 0                   | 0                | 0                | 0              | 0                       | 142,641     |
| 14,522          | 61,440              | 227,534          | 0                | 0              | 5,140                   | 582,166     |
| 0               | 0                   | 0                | 0                | 0              | 0                       | 862         |
| 8,357           | 0                   | 0                | 0                | 0              | 0                       | 8,357       |
| 0               | 0                   | 0                | 0                | 0              | 0                       | 146,375     |
| 0               | 20,605              | 0                | 0                | 0              | 0                       | 20,605      |
| 0               | 0                   | 190,786          | 0                | 239,249        | 0                       | 430,035     |
| 8,357           | 20,605              | 190,786          | 0                | 239,249        | 0                       | 606,234     |
| 6,165           | 40,835              | 36,748           | 0                | (239,249)      | 5,140                   | (24,068)    |
| 0               | 0                   | 0                | 0                | 24,700         | 0                       | 24,700      |
| 0               | 0                   | 0                | 0                | 795,693        | 1,610                   | 797,303     |
| 0               | 0                   | 0                | 0                | 0              | 0                       | (25,723)    |
| 0               | 0                   | 0                | 0                | 820,393        | 1,610                   | 796,280     |
| 6,165           | 40,835              | 36,748           | 0                | 581,144        | 6,750                   | 772,212     |
| 68,295          | (13,718)            | (7,044)          | (6,563)          | 0              | 178,031                 | 235,659     |
| \$74,460        | \$27,117            | \$29,704         | \$(6,563)        | \$581,144      | \$184,781               | \$1,007,871 |
| \$0             | \$27,117            | \$0              | \$0              | \$0            | \$0                     | \$27,117    |
| 0               | 0                   | 0                | 0                | 0              | 184,781                 | 184,781     |
| 74,460          | 0                   | 0                | 0                | 0              | 0                       | 191,688     |
| 0               | 0                   | 29,704           | (6,563)          | 581,144        | 0                       | 604,285     |
| \$74,460        | \$27,117            | \$29,704         | \$(6,563)        | \$581,144      | \$184,781               | \$1,007,871 |

CITY OF HAMPTON  
 SCHEDULE OF INDEBTEDNESS  
 Year Ended June 30, 2010

| Obligation                                       | Date of<br>Issue | Interest<br>Rates | Amount<br>Originally<br>Issued |
|--|------------------|-------------------|--------------------------------|
| General Obligation Notes/Bonds:                  |                  |                   |                                |
| Fire Truck/Street Improvement/Industrial<br>Park | Sept. 1, 2000    | 4.90 – 5.50%      | \$1,300,000                    |
| Oakhill Drive Project                            | May 29, 2008     | 2.60 – 3.90%      | 165,000                        |
| Urban Renewal (Highway 65)                       | July 6, 2009     | 2.25 – 4.30%      | 2,760,000                      |
| Local Option Sales Tax (Aquatic Center)          | July 22, 2010    | 1.00 – 3.60%      | 2,470,000                      |
|  |                  |                   |                                |
| Local Option Tax Revenue Bond<br>Water Tower     | Feb. 25, 2008    | 3.50 – 3.90%      | 324,000                        |

See Accompanying Independent Auditors' Report.

**Schedule 2**

| Balance<br>Beginning<br>of Year | Issued<br>During<br>Year | Redeemed<br>During<br>Year | Balance<br>End of<br>Year | Interest<br>Paid | Interest<br>Due and<br>Unpaid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|-------------------------------|
| \$340,000                       | \$0                      | \$165,000                  | \$175,000                 | \$18,535         | \$0                           |
| 150,000                         | 0                        | 15,000                     | 135,000                   | 5,205            | 0                             |
| 27,600                          | 2,732,400                | 0                          | 2,760,000                 | 87,116           | 0                             |
| 0                               | 24,700                   | 0                          | 24,700                    | 0                | 0                             |
| <u>\$517,600</u>                | <u>\$2,757,100</u>       | <u>\$180,000</u>           | <u>\$3,094,700</u>        | <u>\$110,856</u> | <u>\$0</u>                    |
| <br>                            |                          |                            |                           |                  |                               |
| <u>\$267,000</u>                | <u>\$0</u>               | <u>\$267,000</u>           | <u>\$0</u>                | <u>\$9,991</u>   | <u>\$0</u>                    |

## CITY OF HAMPTON

Bond and Note Maturities  
June 30, 2010

## General Obligation Notes

| Oak Hill Project<br>Note Issued<br>May 29, 2009 |                   |                  | Fire Truck, Street<br>Industrial Park Issued<br>September 1, 2000 |                  |                  |
|---|-------------------|------------------|---|------------------|------------------|
| Year Ending<br>June 30,                         | Interest<br>Rates | Amount           | Interest<br>Rates   | Amount           | Total            |
| 2011  | 3.10%             | \$15,000         | 5.50%   | \$175,000        | \$190,000        |
| 2012  | 3.20%             | 15,000           | 0.00%   | 0                | 15,000           |
| 2013  | 3.35%             | 15,000           | 0.00%   | 0                | 15,000           |
| 2014  | 3.45%             | 15,000           | 0.00%   | 0                | 15,000           |
| 2015  | 3.60%             | 15,000           | 0.00%   | 0                | 15,000           |
| 2016  | 3.70%             | 20,000           | 0.00%   | 0                | 20,000           |
| 2017  | 3.80%             | 20,000           | 0.00%   | 0                | 20,000           |
| 2018  | 3.90%             | 20,000           | 0.00%   | 0                | 20,000           |
|   |                   | <u>\$135,000</u> |   | <u>\$175,000</u> | <u>\$310,000</u> |

## General Obligation Bonds

| Highway 65 Project<br>Bond Issued<br>July 6, 2009 |                   |                    | Aquatic Center<br>Bond Issued<br>July 22, 2010 |                    |                    |
|---|-------------------|--------------------|--|--------------------|--------------------|
| Year Ending<br>June 30,                           | Interest<br>Rates | Amount             | Interest<br>Rates                              | Amount             | Total              |
| 2011  | 2.25%             | \$160,000          | 1.00%  | \$115,000          | \$275,000          |
| 2012  | 2.25%             | 165,000            | 1.00%  | 135,000            | 300,000            |
| 2013  | 2.50%             | 165,000            | 1.25%  | 140,000            | 305,000            |
| 2014  | 2.70%             | 170,000            | 1.60%  | 145,000            | 315,000            |
| 2015  | 3.00%             | 175,000            | 2.00%  | 145,000            | 320,000            |
| 2016  | 3.20%             | 185,000            | 2.25%  | 150,000            | 335,000            |
| 2017  | 3.40%             | 190,000            | 2.50%  | 155,000            | 345,000            |
| 2018  | 3.60%             | 195,000            | 2.80%  | 160,000            | 355,000            |
| 2019  | 3.80%             | 205,000            | 3.00%  | 165,000            | 370,000            |
| 2020  | 4.00%             | 210,000            | 3.15%  | 175,000            | 385,000            |
| 2021  | 4.10%             | 220,000            | 3.20%  | 180,000            | 400,000            |
| 2022  | 4.20%             | 230,000            | 3.35%  | 190,000            | 420,000            |
| 2023  | 4.25%             | 240,000            | 3.40%  | 195,000            | 435,000            |
| 2024  | 4.30%             | 250,000            | 3.50%  | 205,000            | 455,000            |
| 2025  | 0.00%             | 0                  | 3.60%  | 215,000            | 215,000            |
|   |                   | <u>\$2,760,000</u> |  | <u>\$2,470,000</u> | <u>\$5,230,000</u> |

See Accompanying Independent Auditors' Report.

**CITY OF HAMPTON**

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

|                                     | 2010               | 2009               | 2008               |
|-------------------------------------|--------------------|--------------------|--------------------|
| <b>Receipts:</b>                    |                    |                    |                    |
| Property Tax                        | \$1,357,727        | \$1,327,231        | \$1,198,746        |
| Tax Increment Financing Collections | 0                  | 0                  | 1,903              |
| Other City Tax                      | 459,108            | 410,127            | 369,711            |
| Licenses & Permits                  | 14,616             | 26,211             | 10,970             |
| Use of Money & Property             | 116,141            | 133,678            | 180,305            |
| Intergovernmental                   | 1,013,796          | 740,528            | 609,780            |
| Charges for Service                 | 303,853            | 335,997            | 328,877            |
| Special Assessments                 | 71,900             | 15,487             | 14,841             |
| Miscellaneous                       | 187,606            | 40,351             | 66,357             |
| Total                               | <u>\$3,524,747</u> | <u>\$3,029,610</u> | <u>\$2,781,490</u> |
| <b>Disbursements:</b>               |                    |                    |                    |
| <b>Operating:</b>                   |                    |                    |                    |
| Public Safety                       | \$1,075,886        | \$921,632          | \$782,560          |
| Public Works                        | 461,021            | 640,344            | 466,381            |
| Health & Social Services            | 5,347              | 5,605              | 4,561              |
| Culture & Recreation                | 542,457            | 602,299            | 469,363            |
| Community & Economic<br>Development | 260,655            | 156,472            | 205,235            |
| General Government                  | 315,659            | 271,409            | 280,606            |
| Debt Service                        | 316,896            | 329,696            | 706,596            |
| Capital Projects                    | 1,484,203          | 160,373            | 355,102            |
| Total                               | <u>\$4,462,124</u> | <u>\$3,087,830</u> | <u>\$3,270,404</u> |

See Accompanying Independent Auditors' Report.

**Schedule 4**

| 2007               | 2006               | 2005               | 2004               |
|--------------------|--------------------|--------------------|--------------------|
| \$1,271,143        | \$1,200,086        | \$1,098,479        | \$1,219,295        |
| 637,728            | 700,657            | 1,037,593          | 859,211            |
| 436,195            | 362,539            | 341,315            | 342,954            |
| 14,107             | 25,962             | 17,912             | 11,441             |
| 169,065            | 101,527            | 58,941             | 46,261             |
| 604,861            | 466,141            | 807,345            | 559,730            |
| 189,941            | 196,399            | 191,931            | 244,227            |
| 22,976             | 20,609             | 27,145             | 41,078             |
| 48,244             | 137,686            | 118,548            | 96,558             |
| <u>\$3,394,260</u> | <u>\$3,211,606</u> | <u>\$3,699,209</u> | <u>\$3,420,755</u> |
| <br>               |                    |                    |                    |
| \$807,758          | \$753,825          | \$771,515          | \$770,806          |
| 426,900            | 389,270            | 356,646            | 423,711            |
| 3,154              | 4,792              | 3,840              | 10,364             |
| 457,181            | 416,746            | 413,960            | 370,225            |
| <br>               |                    |                    |                    |
| 102,761            | 202,027            | 232,831            | 249,308            |
| 218,948            | 175,041            | 118,705            | 146,120            |
| 542,176            | 812,783            | 624,400            | 887,549            |
| 112,569            | 0                  | 215,123            | 0                  |
| <u>\$2,671,447</u> | <u>\$2,754,484</u> | <u>\$2,737,020</u> | <u>\$2,858,083</u> |



**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, 2010, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 17, 2010. 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 an 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Hampton's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items A, B and C to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as item D to be significant deficiencies.

#### 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, 2010 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.

The 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 City's responses, we did not audit the 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, and 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 17, 2010

*Gardiner Thomsen, P.C.*

**City of Hampton  
Hampton, Iowa**

**Schedule of Findings**

**Year Ended June 30, 2010**

**Findings Related to the Financial Statements**

**INTERNAL CONTROL DEFICIENCIES:**

- 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. We have added a part time clerk 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 transactions 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 an other 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.

**City of Hampton  
Hampton, Iowa**

**Schedule of Findings (Continued)**

**Year Ended June 30, 2010**

**Findings Related to the Financial Statements (Continued)**

- C. Period End Financial Reporting Process – The City does not always follow established procedures for period end financial reporting process. These include 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. A review should be performed to ensure that all transactions and journal entries have been recorded.

*Response* – We will review the procedures suggested.

*Conclusion* – Response accepted.

- D. Financial Reporting – During the audit, we identified material amounts of Library receipts and disbursements that were not posted to the general ledger. Also, proceeds from long term debt were not recorded at face value and the discount on the debt was not recorded on the City’s general ledger. 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 all receipts and disbursements are correctly 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, 2010, exceeded the amounts budgeted in the Culture and Recreation and Debt Service 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.”

**City of Hampton  
Hampton, Iowa**

**Schedule of Findings (Continued)**

**Year Ended June 30, 2010**

**Other Findings Related to Required Statutory Reporting: (Continued)**

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

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

*Conclusion* – Response accepted.

2. Questionable Disbursements – Certain expenditures we believe may 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 were noted. These expenditures are detailed as follows:

| <b>Paid to</b>      | <b>Purpose</b>     | <b>Amount</b> |
|---------------------|--------------------|---------------|
| Christensen Jewelry | Recognition Awards | \$187         |

According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

*Recommendation* – The Council should determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including requirements for proper documentation.

*Response* – We are working on drafting new policies for retirement parties and recognition of employees.

*Conclusion* – Response acknowledged.

3. Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

**City of Hampton  
Hampton, Iowa**

**Schedule of Findings (Continued)**

**Year Ended June 30, 2010**

**Other Findings Related to Required Statutory Reporting: (Continued)**

4. Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

| Name, Title & Business<br>Connection  | Transaction<br>Description                    | Amount  |
|---|---|---------|
| <b>Trev Murphy, Waste Water Employee</b><br>Parents own Murphy's Heating & Plumbing | Building & Equipment<br>Repairs & Maintenance | \$5,267 |
| <b>Carrie Blau, Secretary</b><br>Spouse of Adam Blau                                | Mowing Services                               | 375     |
| <b>James Davies, City Councilperson</b><br>Employed at Creative Solutions Unlimited | Website Renewal                               | 500     |
| <b>Dan Schipper, Fire Fighter</b><br>Owner of Schipper Tire & Auto Sales            | Vehicle Repairs & Maintenance                 | 732     |

I  
In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Adam Blau, Creative Solutions and Schipper Tire & Auto Sales do not appear to represent conflicts of interest since total transactions were less than \$1,500 during the fiscal year. In accordance with Chapter 362.5(5) of the Code of Iowa, the transactions with Murphy's Heating and Plumbing don't appear to represent conflicts of interest since Trev Murphy did not participate in the acquisition of the services.

*Recommendation* –The City should refrain from conducting business with related parties. The City should consult legal counsel for the disposition of this matter.

*Response* – We will refrain from conducting business with related parties when possible.

*Conclusion* – Response accepted.

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.

**City of Hampton  
Hampton, Iowa**

**Schedule of Findings (Continued)**

**Year Ended June 30, 2010**

**Other Findings Related to Required Statutory Reporting: (Continued)**

7. Deposits and Investments – Except as noted, no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

The City’s deposits exceed the maximum allowed by the City’s Depository Resolution at First National Bank of Hampton during the year. Also, USB Financial Services underwent a name change during the fiscal year and the depository resolution was not updated to reflect the change.

*Recommendation* – The depository resolution should be changed to accommodate anticipated deposits and updated to reflect the change in the bank name. These changes should be approved by the City Council.

*Response* – A new depository resolution will be approved by the City Council as soon as possible.

*Conclusion* – Response accepted.

8. Excess Fund Balances – We noted the fund balances in the Special Revenue Funds: Make A Splash, Forfeiture, Library Trust, Cemetery Trust, Cemetery Perpetual Care, Debt Service, Debt Service Special Assessments; Capital Projects Funds: Hwy 65 and Aquatic Center; and Enterprise Funds: Water, Water Revenue, 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.

*Response* – The City will investigate alternatives. The Make A Splash Fund balance represents donations to be used for the construction of the new aquatic center during the next fiscal year. The Debt Service fund balances will be used to make debt payments in future years. The Capital Project fund balances represent debt proceeds and transfers to be used in the next fiscal year for those specific projects. The remaining fund balances are earmarked for future improvements.

*Conclusion* – Response accepted.

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

**City of Hampton  
Hampton, Iowa**

**Schedule of Findings (Continued)**

**Year Ended June 30, 2010**

**Other Findings Related to Required Statutory Reporting: (Continued)**

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 acknowledged.

11. Financial Position – We noted that the Special Revenue Funds: Employee Benefits, Economic Development and Capital Project – Oak Hill Project had deficit fund balances of \$21,024, \$20,922 and \$6,563 respectively at June 30, 2010.

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

*Response* – The Employee Benefits deficit was due to an increase in employee health insurance costs during the fiscal year and will be eliminated through the levy for this fund. The Economic Development deficit was due to grant disbursements being made before the reimbursement was received by the City. The deficit will be eliminated upon receipt of the grant. The Capital Project – Oak Hill Project deficit will be eliminated through a transfer from General Fund when the project is complete.

*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 \$7,516,780 for the year ended June 30, 2010, a 75% increase from the prior year. The receipts included \$1,357,727 in property tax, \$1,234,933 from charges for service, \$453,153 from operating grants, contributions and restricted interest, \$474,265 from capital grants, contributions and restricted interest, \$356,900 from local option sales tax, \$95,024 from unrestricted investment earnings, \$2,757,100 from bond proceeds and \$453,987 from other general receipts.

Disbursements for the year totaled \$5,614,835 a 35% increase from the prior year, and included \$1,484,203 for Capital Projects, \$1,075,886 for Public Safety, and \$542,457 for Culture and Recreation. Also, disbursements for business type activities totaled \$1,152,711.

The significant increase in receipts and disbursements respectively is due primarily to an increase in debt proceeds and increased disbursements for 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/index.html>.