

CITY OF HAMPTON

Hampton, Iowa

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

June 30, 2011

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CITY OF HAMPTON

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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, 2011, 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, 2011, 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 November 15, 2011, 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 26 through 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hampton's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2010 (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 5, 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.

November 15, 2011

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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased approximately 1.66% or \$109,341 from fiscal 2010 to fiscal 2011. Capital grants, contributions and restricted interest decreased approximately \$256,675 and bond proceeds decreased \$297,771. Tax increment Financing receipts increased \$503,883.
- Disbursements increased 95% or approximately \$4,245,365 in fiscal 2011 from fiscal 2010. The Highway 65 Project and the Aquatic Center Project in the Capital Projects program contributed to this increase.
- The City's total cash basis net assets decreased by \$2,050,405. Of this amount, the assets of the governmental activities decreased approximately \$2,245,555 and the assets of the business type activities increased by approximately \$195,150.

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 six Enterprise Funds to provide

separate information for the water, sewer and solid waste funds. The Water and Sewer 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 \$2,346,216, decreasing from \$4,591,771 a year ago. The analysis that follows focuses on the changes in cash balances for governmental activities.

Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2011	2010
Receipts and Transfers		
Program Receipts		
Charges for Service	\$383	\$334
Operating Grants, Contributions and Restricted Interest	512	453
Capital Grants, Contributions and Restricted Interest	218	474
General Receipts		
Property Tax	1,423	1,358
Tax Increment Financing	504	0
Local Option Sales Tax	328	357
Unrestricted Investment Earnings	62	95
Bond Proceeds	2,459	2,757
Other General Receipts	473	454
Transfers, Net	100	289
Total Receipts and Transfers	6,462	6,571
Disbursements		
Public Safety	950	1,076
Public Works	506	461
Health and Social Services	5	5
Culture and Recreation	704	542
Community and Economic Development	103	261
General Government	261	316
Debt Service	481	317
Capital projects	5,698	1,484
Total Disbursements	8,708	4,462
Increase (Decrease) in Cash Basis Net Assets	(2,246)	2,109
Cash Basis Net Assets Beginning of Year	4,592	2,483
Cash Basis Net Assets End of Year	\$2,346	\$4,592

The City's total receipts for governmental activities increased 1.66% or approximately \$109,341. The total cost of all programs and services increased approximately \$4,245,365 or 95% with no new programs added this year. The decrease in receipts was primarily a result of a decrease in proceeds received from the issuance of debt, a decrease in Capital grants received and an increase in tax increment financing. The significant increase in disbursements was primarily a result of incurring costs associated with the Highway 65 Capital project and the Aquatic Center Project.

The cost of all governmental activities this year was \$8.708 million compared to \$4.462 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 \$7.595 million because some of the cost was paid by those directly benefiting from the programs (\$382,613) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$729,553). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2011 from approximately \$1,261,109 to approximately \$1,112,166. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$1,423,117 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,	
	2011	2010
Receipts		
Program Receipts		
Charges for Service		
Water	\$650	\$666
Sewer	523	532
Solid Waste	29	29
Meter Deposits	7	8
	1,209	1,235
Disbursements and Transfers		
Water	555	570
Sewer	314	268
Solid Waste	38	31
Meter Deposits	7	7
Debt Service	0	277
Transfers	100	289
Total Disbursements and Transfers	1,014	1,442
Increase (Decrease) in Cash Balance	195	(207)
Cash Basis Net Assets - Beginning of Year	2,012	2,219
Cash Basis Net Assets - End of Year	\$2,207	\$2,012

Total business type activities receipts for the fiscal year were \$1,209,518 compared to \$1,234,933 last year. The business type activities disbursements for the fiscal year were \$914,368 compared to \$1,152,711. The significant difference is due to the final debt payment was paid on the Water Tower Bond during the prior fiscal year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Hampton completed the year, its governmental funds reported a combined fund balance of \$2,346,216, a decrease of \$2,245,555 from last year's total of \$4,591,771. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$146,800 from the prior year to \$805,863. This increase is partially due to a decrease in Public Safety, Public Works and General Government disbursements. Of the remaining fund balance, \$208,174 is restricted for the Pool, and \$50,706 represents Library funds. The unreserved General Fund cash balance is \$546,983.
- The Road Use Tax Fund cash balance increased by \$47,385 to \$279,522 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 increased by \$76,877 to \$55,853 during the fiscal year. This increase is due to an increase in property taxes collected due to a 35% increase in the cost of health insurance through Wellmark during the prior fiscal year.
- Tax Increment Fund ended the fiscal year with a cash balance of \$279,503 an increase of \$231,379 from the previous year. The increase was the result of the collection of tax increment financing receipts.
- The Capital Projects – Highway 65 Fund cash balance decreased by \$2,475,713 to (\$54,343) 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 in the prior fiscal year. Disbursements totaled \$2,794,925 for the current fiscal year.
- The Capital Projects – Aquatic Center cash balance decreased from \$581,144 to \$443,422 during the fiscal year. The City issued \$2,445,300 in General Obligation Local Option Sales Tax Bonds and spent \$2,786,896 on the project.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$44,639 to \$928,671, due primarily to no transfers were required in fiscal 2011.
- The Sewer Fund cash balance increased by \$188,832 to \$1,161,381. This is a result of sewer rate increase revenues to fund the Waste Water Treatment Plant project.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget. The amendment was approved on May 24, 2011 and resulted in an increase in operating revenues relating to Band Shell fund raising, Cemetery Fence fundraising, FEMA and IDOT Reimbursements, SRF loan draw down's, I-Jobs grant reimbursements and Proceeds of Long Term Debt for the LOST Bond. An increase in operating disbursements was related to Public Safety, Public Works for fuel and storm related expenditures, Culture and Recreation for Band Shell and Cemetery fence restorations. General Government for nuisance mowing and snow removal contracting, salaries, attorney fees. Debt Service for increased administration fees being charged to the city. Capital Projects for FAA Grant, Hwy 65 payments to IDOT, WWTP Design fees and Progress Park design fees. Enterprise Funds for landfill assessment increase.

DEBT ADMINISTRATION

At June 30, 2011, the City had approximately \$5,089,029 in bonds and other long-term debt, compared to approximately \$3,094,700 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 \$5,075,000 is below its constitutional debt limit of \$8,053,370.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2011	2010
General Obligation Notes/Bonds	\$5,075	\$3,095
Revenue Notes	14	0
Total	\$5,089	\$3,095

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City elected and appointed officials considered many factors when setting the fiscal year 2012 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 benefits 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 again 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 2012. Budgeted disbursements are expected to remain relatively constant.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ron Dunt, City Manager, 122 1st Ave NW, Hampton, Iowa.

Basic Financial Statements

CITY OF HAMPTON

STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS

As of and for the Year Ended June 30, 2011

	Disbursements	Charges for Service	Program Receipts	
			Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Functions/Programs:				
Governmental Activities:				
Public Safety	\$949,883	\$101,763	\$80,949	\$0
Public Works	506,036	46,313	412,748	0
Health & Social Services	5,006	0	0	0
Culture & Recreation	703,886	204,106	18,129	0
Community & Economic Development	103,114	0	0	39,284
General Government	260,866	30,431	137	0
Debt Service	480,783	0	0	0
Capital Projects	5,697,915	0	0	178,306
Total Governmental Activities	8,707,489	382,613	511,963	217,590
Business Type Activities:				
Water	555,096	649,735	0	0
Sewer Rental	314,705	523,537	0	0
Solid Waste	37,892	29,046	0	0
Meter Deposits	6,675	7,200	0	0
Total Business Type Activities	914,368	1,209,518	0	0
Total	\$9,621,857	\$1,592,131	\$511,963	\$217,590

General Receipts:

Property and Other City Tax Levied For:

 General Purposes

 Debt Service

Tax Increment Financing

Local Option Sales Tax

Unrestricted Interest on Investments

Bond/Note Proceeds

Miscellaneous

Sale of Assets

Transfers

Total General Receipts & Transfers

Change in Cash Basis Net Assets

Cash Basis Net Assets Beginning of Year

Cash Basis Net Assets End of Year

Cash Basis Net Assets

Restricted:

 Nonexpendable:

 Cemetery Perpetual Care

 Expendable:

 Urban Renewal Purposes

 Debt Service

 Streets

 Other Purposes

Unrestricted

Total Cash Basis Net Assets

See Notes to Financial Statements

Exhibit A

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities	Business - Type Activities	Total
\$(767,171)	\$0	\$(767,171)
(46,975)	0	(46,975)
(5,006)	0	(5,006)
(481,651)	0	(481,651)
(63,830)	0	(63,830)
(230,298)	0	(230,298)
(480,783)	0	(480,783)
(5,519,609)	0	(5,519,609)
(7,595,323)	0	(7,595,323)
0	94,639	94,639
0	208,832	208,832
0	(8,846)	(8,846)
0	525	525
0	295,150	295,150
\$(7,595,323)	\$295,150	\$(7,300,173)
\$1,245,638	\$0	\$1,245,638
177,479	0	177,479
503,883	0	503,883
328,276	0	328,276
62,018	0	62,018
2,459,329	0	2,459,329
465,451	0	465,451
7,694	0	7,694
100,000	(100,000)	0
5,349,768	(100,000)	5,249,768
(2,245,555)	195,150	(2,050,405)
4,591,771	2,012,074	6,603,845
\$2,346,216	\$2,207,224	\$4,553,440
\$185,447	\$0	\$185,447
279,503	0	279,503
265,756	0	265,756
279,522	38,479	318,001
589,397	0	589,397
746,591	2,168,745	2,915,336
\$2,346,216	\$2,207,224	\$4,553,440

CITY OF HAMPTON

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

As of and for the Year Ended June 30, 2011

	General	Special Revenue	
		Road Use Tax	Employee Benefits
Receipts:			
Property Tax	\$794,558	\$0	\$433,021
Tax Increment Financing	0	0	0
Other City Tax	74,595	0	20,026
Licenses & Permits	12,200	0	0
Use of Money & Property	69,975	0	0
Intergovernmental	65,560	412,748	0
Charges for Service	385,500	0	0
Special Assessments	1,150	0	0
Miscellaneous	61,888	0	243
Total Receipts	1,465,426	412,748	453,290
Disbursements:			
Operating:			
Public Safety	707,965	0	240,858
Public Works	77,073	365,363	63,600
Health & Social Services	5,006	0	0
Culture & Recreation	586,652	0	65,304
Community & Economic Development	23,010	0	0
General Government	254,215	0	6,651
Debt Service	0	0	0
Capital Projects	0	0	0
Total Disbursements	1,653,921	365,363	376,413
Excess (Deficiency) of Receipts Over (Under) Disbursements	(188,495)	47,385	76,877
Other Financing Sources (Uses):			
Note Proceeds	0	0	0
Bond Proceeds	0	0	0
Discount on Bond	0	0	0
Sale of Capital Assets	7,694	0	0
Operating Transfers In	328,276	0	0
Operating Transfers Out	(675)	0	0
Total Other Financing Sources (Uses)	335,295	0	0
Net Change in Cash Balances	146,800	47,385	76,877
Cash Balances Beginning of Year	659,063	232,137	(21,024)
Cash Balances End of Year	\$805,863	\$279,522	\$55,853
Cash Basis Fund Balances			
Nonspendable – Cemetery Perpetual Care	\$0	\$0	\$0
Restricted for:			
Urban Renewal Purposes	0	0	0
Debt Service	0	0	0
Streets	0	279,522	0
Pool	208,174	0	0
Other Purposes	0	0	55,853
Assigned	50,706	0	0
Unassigned	546,983	0	0
Total Cash Basis Fund Balances	\$805,863	\$279,522	\$55,853
See Notes to Financial Statements			

Exhibit B

Special Revenue		Capital Projects			
Local Option Sales Tax	Tax Increment Financing	Hwy 65	Aquatic Center	Nonmajor	Total
\$0	\$18,059	\$0	\$0	\$177,479	\$1,423,117
0	503,883	0	0	0	503,883
328,276	18,385	0	0	6,821	448,103
0	0	0	0	0	12,200
0	0	0	0	6,312	76,287
0	0	249,212	0	39,284	766,804
0	0	0	0	0	385,500
0	0	0	0	21,982	23,132
0	0	0	0	193,754	255,885
328,276	540,327	249,212	0	445,632	3,894,911
0	0	0	0	1,060	949,883
0	0	0	0	0	506,036
0	0	0	0	0	5,006
0	0	0	0	51,930	703,886
0	52,000	0	0	28,104	103,114
0	0	0	0	0	260,866
0	256,948	0	0	205,310	462,258
0	0	2,794,925	2,786,896	116,094	5,697,915
0	308,948	2,794,925	2,786,896	402,498	8,688,964
328,276	231,379	(2,545,713)	(2,786,896)	43,134	(4,794,053)
0	0	0	0	14,029	14,029
0	0	0	2,445,300	0	2,445,300
0	0	0	(18,525)	0	(18,525)
0	0	0	0	0	7,694
0	0	70,000	222,399	37,238	657,913
(328,276)	0	0	0	(228,962)	(557,913)
(328,276)	0	70,000	2,649,174	(177,695)	2,548,498
0	231,379	(2,475,713)	(137,722)	(134,561)	(2,245,555)
0	48,124	2,421,370	581,144	670,957	4,591,771
\$0	\$279,503	\$(54,343)	\$443,422	\$536,396	\$2,346,216
\$0	\$0	\$0	\$0	\$185,447	\$185,447
0	279,503	0	0	0	279,503
0	0	0	0	265,756	265,756
0	0	0	0	0	279,522
0	0	0	0	0	208,174
0	0	0	443,422	90,122	589,397
0	0	0	0	87,392	138,098
0	0	(54,343)	0	(92,321)	400,319
\$0	\$279,503	\$(54,343)	\$443,422	\$536,396	\$2,346,216

CITY OF HAMPTON

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

As of and for the Year Ended June 30, 2011

	Water	Sewer Rental	Nonmajor	Total
Operating Receipts:				
Charges for Service	\$599,792	\$518,771	\$29,046	\$1,147,609
Miscellaneous	49,943	4,766	7,200	61,909
Total Operating Receipts	649,735	523,537	36,246	1,209,518
Operating Disbursements:				
Business Type Activities	555,096	314,705	44,567	914,368
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	94,639	208,832	(8,321)	295,150
Operating Transfers Out	(50,000)	(20,000)	(30,000)	(100,000)
Net Change in Cash Balances	44,639	188,832	(38,321)	195,150
Cash Balances Beginning of Year	884,032	972,549	155,493	2,012,074
Cash Balances End of Year	\$928,671	\$1,161,381	\$117,172	\$2,207,224
Cash Basis Fund Balances				
Reserved for Debt Service	\$0	\$0	\$38,479	\$38,479
Unreserved	928,671	1,161,381	78,693	2,168,745
Total Cash Basis Fund Balances	\$928,671	\$1,161,381	\$117,172	\$2,207,224

See Notes to Financial Statements

City of Hampton

Notes to Financial Statements

June 30, 2011

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 from general and emergency levies 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 the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefits Fund is used to account for employee benefits financed by property tax collections.

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

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

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

The Capital Projects Aquatic Center Fund is used to account for the receipts and disbursements associated with the construction of the new Aquatic Center.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

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

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restricted classifications-committed assigned and then unassigned fund balances.

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. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the Culture and Recreation, Debt Service and Capital Project functions.

Note 2: Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 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, 2011 are as follows:

Type	Carrying Amount	Fair Value	Maturity
Corporate/Government Bonds	\$5,000	\$5,415	February 17, 2012
Fixed Income	\$158,743	\$163,001	Various

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

Notes to Financial Statements (Continued)

Note 3: Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Notes		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2012	\$15,000	\$4,320	\$300,000	\$157,081
2013	15,000	3,840	305,000	152,017
2014	15,000	3,338	315,000	146,143
2015	15,000	2,820	320,000	139,232
2016	20,000	2,280	335,000	131,083
2017-2021	40,000	2,320	1,855,000	493,705
2022-2026	0	0	1,525,000	134,420
Total	\$120,000	\$18,918	\$4,955,000	\$1,353,681

Year Ending June 30,	Total	
	Principal	Interest
2012	\$315,000	\$161,401
2013	320,000	155,857
2014	330,000	149,481
2015	335,000	142,052
2016	355,000	133,363
2017-2021	1,895,000	496,025
2022-2026	1,525,000	134,420
Total	\$5,075,000	\$1,372,599

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%.

Notes to Financial Statements (Continued)

Note 3: Bonds and Notes Payable (Continued)

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.

On October 27, 2010, the City issued not to exceed \$376,000 of Sewer Revenue Capital Loan Notes. During the year ended June 30, 2011, the City drew \$14,029 of these funds for planning and design of a new waste water treatment plant. These notes are payable solely from sewer customer receipts, net of specified operating disbursements. The City will continue to draw on this note as necessary.

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 4.50% of their annual covered salary and the City is required to contribute 6.95% 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, 2011, 2010 and 2009 were \$92,701, \$84,178 and \$84,522, 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, dental and deductible 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. The dental benefits are self-funded by the City, and are paid through a third party administrator, Three Rivers Benefit Corporation. The City also started to partially fund deductibles, and these are paid through Three Rivers Benefit Corporation.

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 \$392 for single coverage and \$978 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$335,455 and plan members eligible for benefits contributed \$31,847 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, 2011, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$60,222
Overtime	117,834
	<u>\$178,056</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

Notes to Financial Statements (Continued)

Note 7: Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General	Special Revenue: Local Option Sales Tax	<u>\$328,276</u>
Special Revenue: Band Shell	Enterprise: Water Sinking Water Reserve	<u>5,911</u> <u>24,089</u> <u>30,000</u>
Capital Projects Aquatic Center	Special Revenue: Make A Splash	<u>222,399</u>
Hwy 65	Enterprise: Water Sewer Rental	<u>50,000</u> <u>20,000</u> <u>70,000</u>
Oak Hills Drive	Debt Service: Special Assessments	<u>6,563</u>
Permanent Cemetery Perpetual Care	General	<u>675</u>
		<u>\$657,913</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 \$2,589 during the year ended June 30, 2011.

Notes to Financial Statements (Continued)

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.

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, 2011, 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, 2011, disbursements in the Culture and Recreation, Debt Service and Capital Projects functions exceeded the amounts budgeted.

Note 12: Excess Fund Balances

We noted the fund balances of the Forfeiture Fund, the Band Shell Fund, the Debt Service Fund, the Cemetery Perpetual Care Fund, the Library Trust Fund, the Meter Deposit Fund, the Cemetery Trust Fund, the Water Fund, the Water Reserve Fund, the Sewer Rental Fund and the Solid Waste Fund were in excess of disbursements for the current year.

Notes to Financial Statements (Continued)

Note 13: Financial Condition

We noted the fund balances of the Economic Development Fund, the Capital Project Hwy 65 Project Fund, the Capital Project Waste Water Treatment Plant Fund and the Capital Project Progress Park Fund were in deficit at the end of the year.

Note 14: Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	<u>General</u>	<u>Special Revenue Emergency Levy</u>
Balances June 30, 2010, as previously reported	\$659,063	\$0
Change in fund type classification per implementation of GASB Statement No. 54	0	0
Balances July 1, 2010, as restated	<u>\$659,063</u>	<u>\$0</u>

Note 15: Subsequent Events

On August 9, 2011, the City held a public hearing for and approved a resolution to take additional action for the issuance of not to exceed \$570,000 General Obligation Capital Loan Notes for the Progress Park Rolling Prairie Trail Spurs Project.

On August 23, 2011, the City held a public hearing for the consideration of plans, specifications, form of contract and estimate of costs for the Rolling Prairie Trail Spurs Project and on September 9, 2011, the City awarded a construction contract to Heartland Asphalt for \$91,614.

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, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property Tax	\$1,423,117	\$0	\$1,423,117
Tax Increment Financing	503,883	0	503,883
Other City Tax	448,103	0	448,103
Licenses & Permits	12,200	0	12,200
Use of Money & Property	76,287	0	76,287
Intergovernmental	766,804	0	766,804
Charges for Service	385,500	1,147,609	1,533,109
Special Assessments	23,132	0	23,132
Miscellaneous	255,885	61,909	317,794
Total Receipts	3,894,911	1,209,518	5,104,429
Disbursements:			
Public Safety	949,883	0	949,883
Public Works	506,036	0	506,036
Health & Social Services	5,006	0	5,006
Culture & Recreation	703,886	0	703,886
Community & Economic Development	103,114	0	103,114
General Government	260,866	0	260,866
Debt Service	462,258	0	462,258
Capital Projects	5,697,915	0	5,697,915
Business Type Activities	0	914,368	914,368
Total Disbursements	8,688,964	914,368	9,603,332
Excess (Deficiency) of Receipts Over (Under) Disbursements	(4,794,053)	295,150	(4,498,903)
Other Financing Sources (Uses), Net	2,548,498	(100,000)	2,448,498
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(2,245,555)	195,150	(2,050,405)
Balances Beginning of Year	4,591,771	2,012,074	6,603,845
Balances End of Year	\$2,346,216	\$2,207,224	\$4,553,440

See Accompanying Independent Auditors' Report

Budgeted Amounts		Final to Total Variance
Original	Final	
\$1,408,343	\$1,408,343	\$14,774
435,478	435,478	68,405
389,222	389,222	58,881
17,050	17,050	(4,850)
167,000	167,000	(90,713)
880,825	1,018,825	(252,021)
1,292,100	1,293,600	239,509
43,000	43,000	(19,868)
177,000	2,884,300	(2,566,506)
4,810,018	7,656,818	(2,552,389)
1,008,800	1,047,800	97,917
535,800	549,800	43,764
5,700	5,700	694
400,770	967,728	263,842
201,000	201,000	97,886
245,930	291,930	31,064
462,108	462,218	(40)
4,978,800	6,122,047	424,132
1,089,800	1,098,800	184,432
8,928,708	10,747,023	1,143,691
(4,118,690)	(3,090,205)	(1,408,698)
0	3,168	2,445,330
(4,118,690)	(3,087,037)	1,036,632
7,225,516	7,225,516	(621,671)
\$3,106,826	\$4,138,479	\$414,961

City of Hampton

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

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 \$1,818,315. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the Culture and Recreation, Debt Service and Capital Projects functions.

Other Supplementary Information

CITY OF HAMPTON

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN CASH BALANCES – NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2011**

	Special Revenue				
	Make A Splash	Forfeiture	Band Shell	Economic Development	Library Trust
Receipts:					
Property Tax	\$0	\$0	\$0	\$0	\$0
Other City Tax	0	0	0	0	0
Use of Money & Property	1,128	355	264	0	8
Intergovernmental	0	0	0	39,284	0
Special Assessments	0	0	0	0	0
Miscellaneous	97,018	0	81,288	0	0
Total Receipts	98,146	355	81,552	39,284	8
Disbursements:					
Operating:					
Public Safety	0	1,060	0	0	0
Culture & Recreation	0	0	32,863	0	0
Community & Economic Development	0	0	0	28,104	0
Debt Service	0	0	0	0	0
Capital Projects	0	0	0	0	0
Total Disbursements	0	1,060	32,863	28,104	0
Excess (Deficiency) of Receipts Over (Under) Disbursements	98,146	(705)	48,689	11,180	8
Other Financing Sources (Uses):					
Note Proceeds	0	0	0	0	0
Operating Transfers In	0	0	30,000	0	0
Operating Transfers Out	(222,399)	0	0	0	0
	(222,399)	0	30,000	0	0
Net Change in Cash Balances	(124,253)	(705)	78,689	11,180	8
Cash Balances Beginning of Year	132,956	2,597	0	(20,922)	2,597
Cash Balances End of Year	\$8,703	\$1,892	\$78,689	\$(9,742)	\$2,605
Cash Basis Fund Balances					
Nonspendable – Cemetery Perpetual Care	\$0	\$0	\$0	\$0	\$0
Restricted for:					
Debt Service	0	0	0	0	0
Other Purposes	0	1,892	0	0	2,605
Assigned	8,703	0	78,689	0	0
Unassigned	0	0	0	(9,742)	0
Total Cash Basis Fund Balances	\$8,703	\$1,892	\$78,689	\$(9,742)	\$2,605

See Accompanying Independent Auditors' Report.

Schedule 1

Special Revenue	Debt Service		Capital Projects			Permanent		
Cemetery Trust	Debt Service	Special Assessments	Airport Project	Oak-Hill Project	Wastewater Treatment Plant	Progress Park	Cemetery Perpetual Care	Total
\$0	\$177,479	\$0	\$0	\$0	\$0	\$0	\$0	\$177,479
0	6,821	0	0	0	0	0	0	6,821
4,566	0	0	0	0	0	0	(9)	6,312
0	0	0	0	0	0	0	0	39,284
0	0	21,982	0	0	0	0	0	21,982
15,448	0	0	0	0	0	0	0	193,754
20,014	184,300	21,982	0	0	0	0	(9)	445,632
0	0	0	0	0	0	0	0	1,060
19,067	0	0	0	0	0	0	0	51,930
0	0	0	0	0	0	0	0	28,104
0	185,075	20,235	0	0	0	0	0	205,310
0	0	0	19,486	0	78,770	17,838	0	116,094
19,067	185,075	20,235	19,486	0	78,770	17,838	0	402,498
947	(775)	1,747	(19,486)	0	(78,770)	(17,838)	(9)	43,134
0	0	0	0	0	14,029	0	0	14,029
0	0	0	0	6,563	0	0	675	37,238
0	0	(6,563)	0	0	0	0	0	(228,962)
0	0	(6,563)	0	6,563	14,029	0	675	(177,695)
947	(775)	(4,816)	(19,486)	6,563	(64,741)	(17,838)	666	(134,561)
74,460	244,230	27,117	29,704	(6,563)	0	0	184,781	670,957
\$75,407	\$243,455	\$22,301	\$10,218	\$0	\$(64,741)	\$(17,838)	\$185,447	\$536,396
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$185,447	\$185,447
0	243,455	22,301	0	0	0	0	0	265,756
75,407	0	0	10,218	0	0	0	0	90,122
0	0	0	0	0	0	0	0	87,392
0	0	0	0	0	(64,741)	(17,838)	0	(92,321)
\$75,407	\$243,455	\$22,301	\$10,218	\$0	\$(64,741)	\$(17,838)	\$185,447	\$536,396

CITY OF HAMPTON

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN CASH BALANCES – NONMAJOR PROPRIETARY FUNDS
Year Ended June 30, 2011

	Water Revenue Note Sinking	Water Reserve	Solid Waste	Meter Deposits	Total
Operating Receipts:					
Charges for Service	\$0	\$0	\$29,046	\$0	\$29,046
Miscellaneous	0	0	0	7,200	7,200
Total Operating Receipts	0	0	29,046	7,200	36,246
Operating Disbursements:					
Business Type Activities	0	0	37,892	6,675	44,567
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	0	0	(8,846)	525	(8,321)
Operating Transfers Out	(5,911)	(24,089)	0	0	(30,000)
Net Change in Cash Balances	(5,911)	(24,089)	(8,846)	525	(38,321)
Cash Balances Beginning of Year	5,911	62,568	60,036	26,978	155,493
Cash Balances End of Year	\$0	\$38,479	\$51,190	\$27,503	\$117,172
Cash Basis Fund Balances					
Restricted for Debt Service	\$0	\$38,479	\$0	\$0	\$38,479
Unrestricted	0	0	51,190	27,503	78,693
Total Cash Basis Fund Balances	\$0	\$38,479	\$51,190	\$27,503	\$117,172

See Notes to Financial Statements

CITY OF HAMPTON
 SCHEDULE OF INDEBTEDNESS
 Year Ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Notes/Bonds:			
Fire Truck/Street Improvement/Industrial Park	September 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
Revenue Notes:			
Sewer Revenue Capital Loan Note	October 27, 2010	0.00%	376,000

See Accompanying Independent Auditors' Report.

Schedule 3

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$175,000	\$0	\$175,000	\$0	\$9,625	\$0
135,000	0	15,000	120,000	4,785	0
2,760,000	0	160,000	2,600,000	96,498	0
24,700	2,445,300	115,000	2,355,000	56,077	0
<u>\$3,094,700</u>	<u>\$2,445,300</u>	<u>\$465,000</u>	<u>\$5,075,000</u>	<u>\$166,985</u>	<u>\$0</u>
<u>\$0</u>	<u>\$14,029</u>	<u>\$0</u>	<u>\$14,029</u>	<u>\$0</u>	<u>\$0</u>

CITY OF HAMPTON

Bond and Note Maturities
June 30, 2011

General Obligation Notes

Oak Hill Project Note Issued May 29, 2009		
Year Ending June 30,	Interest Rates	Amount
2012	3.20%	\$15,000
2013	3.35%	15,000
2014	3.45%	15,000
2015	3.60%	15,000
2016	3.70%	20,000
2017	3.80%	20,000
2018	3.90%	20,000
		<u>\$120,000</u>

General Obligation Bonds

Highway 65 Project Bond Issued July 6, 2009			Aquatic Center Bond Issued July 22, 2010		
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Total
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>\$2,600,000</u>		<u>\$2,355,000</u>	<u>\$4,955,000</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**

	2011	2010	2009
Receipts:			
Property Tax	\$1,423,117	\$1,357,727	\$1,327,231
Tax Increment Financing Collections	503,883	0	0
Other City Tax	448,103	459,108	410,127
Licenses & Permits	12,200	14,616	26,211
Use of Money & Property	76,287	116,141	133,678
Intergovernmental	766,804	1,013,796	740,528
Charges for Service	385,500	303,853	335,997
Special Assessments	23,132	71,900	15,487
Miscellaneous	255,885	187,606	40,351
Total	<u>\$3,894,911</u>	<u>\$3,524,747</u>	<u>\$3,029,610</u>
Disbursements:			
Operating:			
Public Safety	\$949,883	\$1,075,886	\$921,632
Public Works	506,036	461,021	640,344
Health & Social Services	5,006	5,347	5,605
Culture & Recreation	703,886	542,457	602,299
Community & Economic Development	103,114	260,655	156,472
General Government	260,866	315,659	271,409
Debt Service	462,258	316,896	329,696
Capital Projects	5,697,915	1,484,203	160,373
Total	<u>\$8,688,964</u>	<u>\$4,462,124</u>	<u>\$3,087,830</u>

See Accompanying Independent Auditors' Report.

Schedule 5

2008	2007	2006	2005
\$1,198,746	\$1,271,143	\$1,200,086	\$1,098,479
1,903	637,728	700,657	1,037,593
369,711	436,195	362,539	341,315
10,970	14,107	25,962	17,912
180,305	169,065	101,527	58,941
609,780	604,861	466,141	807,345
328,877	189,941	196,399	191,931
14,841	22,976	20,609	27,145
66,357	48,244	137,686	118,548
<u>\$2,781,490</u>	<u>\$3,394,260</u>	<u>\$3,211,606</u>	<u>\$3,699,209</u>
\$782,560	\$807,758	\$753,825	\$771,515
466,381	426,900	389,270	356,646
4,561	3,154	4,792	3,840
469,363	457,181	416,746	413,960
205,235	102,761	202,027	232,831
280,606	218,948	175,041	118,705
706,596	542,176	812,783	624,400
355,102	112,569	0	215,123
<u>\$3,270,404</u>	<u>\$2,671,447</u>	<u>\$2,754,484</u>	<u>\$2,737,020</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, 2011, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 15, 2011. 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 a significant deficiency.

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, 2011 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.

November 15, 2011

Gardiner Thomsen, P.C.

**City of Hampton
Hampton, Iowa**

Schedule of Findings

Year Ended June 30, 2011

Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES:

A. Segregation of Duties

Condition – Various functions of the City are performed by the same person.

Cause – Limited staff available to segregate duties.

Criteria – Due to the limited staff, the City Council should monitor the operations of the City on a continuing basis.

Effect – Because of lack of segregation of duties, unauthorized transactions could occur in the City's operations.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned – We have reviewed 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.

B. Preparation of Full Disclosure Financial Statements

Condition – During the audit, we noted that the internal control system does not include a process for preparing the annual financial statements and the related disclosures in accordance with GAAP.

Cause – Management requested that Gardiner Thomsen, P.C. assist in preparing the draft of the financial statements, including the related footnote disclosures. The outsourcing is a result of management's cost/benefit decision to use our accounting expertise rather than incurring this internal resource cost.

Criteria – Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements, in conformity with U.S. Generally Accepted Accounting Principles (GAAP).

Effect – Although the auditors are preparing the financial statements and the related footnotes, management of the City thoroughly reviews them and accepts responsibility for their completeness and accuracy.

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 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.

**City of Hampton
Hampton, Iowa**

Schedule of Findings (Continued)

Year Ended June 30, 2011

Findings Related to the Financial Statements (Continued)

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

C. Period End Financial Reporting Process

Condition – During the audit, we noted that the internal control system does not include a process for reconciling items in the general ledger from subsidiary ledgers, to the reconciled bank balances, ensuring that all recurring and nonrecurring adjustments to the financial statements have been made at month end.

Cause – The City does not reconcile the general ledger to the reconciled bank balances at each month end to ensure all transactions have been properly recorded.

Criteria – The City should reconcile the general ledger to the reconciled bank balances at each month end to ensure all transactions have been properly recorded.

Effect – Because of the lack of monthly reconciliations, transactions could occur without being recorded on the City's general ledger.

Recommendation – Reconciling the subsidiary ledgers to the general ledger should be performed monthly. A review should be performed to ensure that all transactions have been recorded. The City should reconcile the general ledger to the reconciled bank balances on a monthly basis.

Response and Corrective Action Planned – We will review the procedures as suggested.

D. Financial Reporting

Condition – During the audit, we noted that the internal control system does not include a process for ensuring that all transactions were properly recorded.

Cause – The City did not record the proceeds from the issuance of long term debt at face value and the discount on the debt was not recorded.

Criteria – The City should implement procedures to ensure all receipts and disbursements are correctly recorded in the City's financial statements.

Effect – Because of the lack of monthly reconciliations, transactions could occur without being recorded on the City's general ledger.

Recommendation – The City should implement procedures to ensure all receipts and disbursements are correctly recorded in the City's financial statements. The City should reconcile the general ledger to the reconciled bank balances on a monthly basis.

**City of Hampton
Hampton, Iowa**

Schedule of Findings (Continued)

Year Ended June 30, 2011

Findings Related to the Financial Statements (Continued)

Response and Corrective Action Planned – We will include procedures in the monthly reconciliation process to ensure all amounts are included.

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, 2011, exceeded the amounts budgeted in the Culture and Recreation, Debt Service and Capital Projects functions. Chapter 384.20 of the Code of Iowa states in part, that “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

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

Conclusion – Response accepted.

2. Questionable Disbursements -- No 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.
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, 2011

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 Connection	Transaction Description	Amount
Trev Murphy , Waste Water Employee Parents own Murphy's Heating & Plumbing	Building & Equipment Repairs & Maintenance	\$904
Carrie Blau , Secretary Spouse of Adam Blau	Mowing Services	1,000
James Davies , City Councilperson Employed at Creative Solutions Unlimited	Professional Fees & Equipment	680
Richard Lukensmeyer , City Councilperson Father of Abby Lukensmeyer	Translator for Police Department	5

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Murphy's Heating & Plumbing, Adam Blau, Creative Solutions and Abby Lukensmeyer do not appear to represent conflicts of interest since total transactions were less than \$1,500 during the fiscal year.

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

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, 2011

Other Findings Related to Required Statutory Reporting: (Continued)

7. Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted. However, it was noted that interest earned on proceeds from the General Obligation Local Option Sales Tax Bonds (Aquatic Center) was not credited to the proper fund.

Recommendation – Chapter 12C9.2 of the Code of Iowa states that interest earned on proceeds of notes, bonds, refunding bonds and other evidence of indebtedness be used to pay the principal or interest as it comes due on the indebtedness or be credited to the Capital projects Fund for which the indebtedness was issued. The interest earned on these proceeds should be credited to the appropriate fund in accordance with the Code of Iowa.

Response – We will make this correction.

Conclusion – Response accepted.

8. Excess Fund Balances – We noted the fund balances in the Special Revenue Funds: Forfeiture, Band Shell, Library Trust, Cemetery Trust; Cemetery Perpetual Care; Debt Service; and Enterprise Funds: Water, Water Reserve, Sewer Rental, 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 Forfeiture Fund will be used in future years for the enhancement of law enforcement. The Band Shell Fund represents contributions to be used to renovate the Band Shell in the subsequent fiscal year. The Debt Service fund balances will be used to make debt payments in future years. The remaining fund balances are earmarked for future improvements including water infrastructure and a waste water treatment plant.

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, 2011

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: Economic Development and Capital Projects Funds: Hwy 65 Project, Waste Water Treatment Plant Project and Progress Park Project had deficit fund balances of \$9,742; \$54,343; \$64,741 and \$17,838 respectively at June 30, 2011.

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

Response – 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 Projects – Hwy 65 deficit is due to construction costs incurred prior to the receipt of state grants and the final deficit will be eliminated through a transfer from General Fund when the project is complete. The Capital Projects – Waste Water Treatment Plant and Progress Park Funds are in the planning and design states. The deficits will be eliminated through future debt issuances and with a transfer from the General Fund.

Conclusion – Response accepted.

NEWS RELEASE

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

The City's receipts totaled \$7,571,452 for the year ended June 30, 2011, a 1% increase from the prior year. The receipts included \$1,423,117 in property tax, \$1,592,131 from charges for service, \$511,963 from operating grants, contributions and restricted interest, \$217,590 from capital grants, contributions and restricted interest, \$328,276 from local option sales tax, \$62,018 from unrestricted investment earnings, \$2,459,329 from bond proceeds and \$465,451 from other general receipts.

Disbursements for the year totaled \$9,621,857 a 71% increase from the prior year, and included \$5,697,915 for Capital Projects, \$949,883 for Public Safety, and \$703,886 for Culture and Recreation. Also, disbursements for business type activities totaled \$914,368.

The significant increase in disbursements respectively is due primarily to an increase in disbursements for Capital Projects with the Aquatic Center Project and the Hwy 65 Project.

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>.