

CITY OF HAMPTON, IOWA
FINANCIAL STATEMENTS
JUNE 30, 2012

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Officials

Name	Title	Term Expires
Before January, 2012		
Elected Officials		
Diane Weldin	Mayor	January, 2012
Bill Hodge	Council Member	January, 2012
James Davies	Council Member	January, 2014
Karen Schmidt	Council Member	January, 2012
Craig Eckhardt	Council Member	January, 2014
Steve Harms	Council Member	January, 2012
Richard Lukensmeyer	Council Member	January, 2014
Appointed Officials		
Ron Dunt	City Manager	Indefinite
Michael Cross	City Attorney	Indefinite
After January, 2012		
Elected Officials		
Shawn Dietz	Mayor	January, 2014
Ryan Stock	Council Member	Resigned July 24, 2012
James Davies	Council Member	January, 2014
Dyanne Pralle	Council Member	January, 2016
Craig Eckhardt	Council Member	January, 2014
Steve Harms	Council Member	January, 2016
Richard Lukensmeyer	Council Member	January, 2014
Appointed Officials		
Ron Dunt	City Manager	Indefinite
Michael Cross	City Attorney	Indefinite

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Hampton, Iowa

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, 2012 which collectively comprise the City's basic financial statements, as 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 auditing standards generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America.

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, 2012, and the respective changes in the 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 2, 2012 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, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Honorable Mayor and
Members of the City Council
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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. The financial statements for the seven years ended June 30, 2011 (which are not presented herein) were audited by other auditors in accordance with the standards referred to in the second paragraph of this report who expressed unqualified opinions on those financial statements. The supplementary information included on pages 22 through 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards general accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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. Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 9 and page 21 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
November 2, 2012

Management's Discussion and Analysis June 30, 2012

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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased approximately 34%, or \$2,215,000, from fiscal year 2011 to fiscal year 2012. Capital grants, contributions and restricted interest increased approximately \$193,000 and bond proceeds decreased approximately \$1,845,000. Tax increment financing receipts decreased approximately \$189,000.

Disbursements for governmental activities decreased approximately 52%, or \$4,566,000, in fiscal year 2012 from fiscal year 2011. The Highway 65 Project and Aquatic Center Project in the Capital Projects program were completed in fiscal year 2011, resulting in this decrease.

The City's total cash basis net assets increased approximately \$348,000 from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased approximately \$106,000 and the assets of the business-type activities increased by approximately \$242,000.

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 - cash basis. 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 are 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 the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other information further explains and supports the financial statements with a comparison of the City's budget for the year.

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 accounting principles generally accepted in the United States of America. 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 that 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; state and federal grants; and charges for service finance most of these activities.
- Business-type activities include the water works, the sanitary sewer system and solid waste disposal funds. 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 service. 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 the (a) General Fund; (b) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing; (c) the Debt Service Fund; (d) the Capital Projects Funds; and (e) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2. Proprietary funds account for the City's enterprise funds. Enterprise funds are used to report business-type activities. The City maintains five enterprise funds to provide separate information for 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 increased from \$2,346,216 a year ago to \$2,452,012. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Receipts and Transfers		
Program Receipts		
Charges for service	\$ 408,248	\$ 382,613
Operating grants, contributions and restricted interest	463,127	511,963
Capital grants, contributions and restricted interest	410,803	217,590
General Receipts		
Property tax	1,320,184	1,423,117
Tax increment financing	314,793	503,883
Local option sales tax	379,191	328,276
Unrestricted investment earnings	33,658	62,018
Bond and note proceeds	614,141	2,459,329
Other general receipts	302,791	473,145
Transfers, net	<u>—</u>	<u>100,000</u>
Total Receipts and Transfers	<u>4,246,936</u>	<u>6,461,934</u>
Disbursements		
Public safety	862,068	949,883
Public works	526,617	506,036
Health and social services	830	5,006
Culture and recreation	835,944	703,886
Community and economic development	130,852	103,114
General government	306,272	260,866
Debt service	278,218	480,783
Capital projects	<u>1,200,339</u>	<u>5,697,915</u>
Total Disbursements	<u>4,141,140</u>	<u>8,707,489</u>
Increase (Decrease) in Cash Basis Net Assets	105,796	(2,245,555)
Cash Basis Net Assets - Beginning of Year	<u>2,346,216</u>	<u>4,591,771</u>
Cash Basis Net Assets - End of Year	<u>\$ 2,452,012</u>	<u>\$ 2,346,216</u>

The City's total receipts for governmental activities decreased by 34%, or \$2,214,998. The total cost of all programs and services decreased \$4,566,349, or 52%, 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. The significant decrease in disbursements was primarily a result of the completion of the Highway 65 Project and the Aquatic Center Project.

The cost of all governmental activities this year was \$4,141,140 compared to \$8,707,489 last year. However, as shown on the statement of activities and net assets on page 10, the amount taxpayers ultimately financed for these activities was \$2,858,962 because some of the cost was paid by those directly benefiting from the programs (\$408,248) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$873,930). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2012 from \$1,112,166 to \$1,282,178. The City paid for the remaining "public benefit" portion of governmental activities with \$1,320,184 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business-Type Activities

	Year Ended June 30,	
	2012	2011
Receipts		
Program Receipts		
Charges for Service		
Water	\$ 634,773	\$ 649,735
Sewer	549,364	523,537
Solid waste	29,180	29,046
Meter deposits	9,885	7,200
Total Receipts	1,223,202	1,209,518
Disbursements and Transfers		
Water	576,389	555,096
Sewer	357,113	314,705
Solid waste	41,439	37,892
Meter deposits	5,669	6,675
Transfers	—	100,000
Total Disbursements and Transfers	980,610	1,014,368
Increase in Cash Basis Net Assets	242,592	195,150
Cash Basis Net Assets - Beginning of Year	2,207,224	2,012,074
Cash Basis Net Assets - End of Year	\$ 2,449,816	\$ 2,207,224

Total business-type activities receipts for the fiscal year were \$1,223,202 compared to \$1,209,518 last year. The business-type activities disbursements for the fiscal year were \$980,610 compared to \$914,368. The difference is due to vehicle and equipment purchases, engineering expenses, water well rehabilitation and facility maintenance.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Hampton completed the year, its governmental funds reported a combined fund balance of \$2,452,012, an increase of \$105,796 from last year's total of \$2,346,216.

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 \$96,783 from the prior year to \$902,646. This increase is partially due to a decrease in Public Safety capital projects disbursements. Of the remaining fund balance, \$364,675 is restricted for the pool and \$49,082 represents library funds. The unrestricted General Fund cash balance was \$488,889.

The Road Use Tax Fund cash balance increased by \$90,435 to \$369,957 during the fiscal year. This increase is due to a decrease in operational expenses and an increase in tax revenue received from the State of Iowa.

The Employee Benefits Fund cash balance increased \$63,998 to \$119,851 during the fiscal year. This increase is due to an increase in property taxes collected due to a 12% increase in the cost of health insurance through Wellmark during the prior fiscal year.

The Debt Service Fund ended the fiscal year with a cash balance of \$246,877, an increase of \$3,422 from the previous year. The increase was a the result of the collection of property taxes.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The Water Fund cash balance increased by \$58,384 to \$987,055, due primarily to no transfers required in fiscal year 2012.

The Sewer Fund cash balance increased by \$192,251 to \$1,353,632. This is the result of sewer rate increase to fund the Waste Water Treatment Plant project.

BUDGETARY HIGHLIGHTS

Over the course of the year ended June 30, 2012, the City amended its budget one time. The amendment was approved on May 22, 2012. The amendment resulted in a decrease in budgeted revenue for capital projects since anticipated bond issuance did not occur in the fiscal year. Other revenue decreased and was amended due to lower return on investments. Increased amended revenue for library operations, hotel/motel tax, airplane fuel sales, proceeds of debt and CDBG/FEMA grants. Expenditure amendment included restoration projects for band shell and cemetery fence, equipment repair/maintenance, CDBG housing program, library operations, miscellaneous contract work and professional fees.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$5,388,670 in bonds and other long-term debt, compared to \$5,089,029 last year, as shown below:

Outstanding Debt at Year End

	<u>Year Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
General obligation bonds and notes	\$ 5,058,000	\$ 5,075,000
Revenue notes	329,670	14,029
Line of credit	<u>298,500</u>	<u>—</u>
Total	<u>\$ 5,686,170</u>	<u>\$ 5,089,029</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$5,058,000 is below its constitutional debt limit of \$8,053,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City elected and appointed officials considered many factors when setting the fiscal year 2013 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 2013. 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 demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Ron Dunt, City Manager, 122 - 1st Avenue, NW, New Hampton, Iowa.

Basic Financial Statements

Statement of Activities and Net Assets - Cash Basis

Year Ended June 30, 2012

Functions/Programs	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		Total
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	
Governmental Activities						
Public safety	\$ 862,068	\$ 128,392	\$ 7,907	\$ —	\$ (725,769)	\$ (725,769)
Public works	526,617	65,553	455,220	—	(5,844)	(5,844)
Health and social services	830	—	—	—	(830)	(830)
Culture and recreation	835,944	200,060	—	—	(635,884)	(635,884)
Community and economic development	130,852	—	—	—	(130,852)	(130,852)
General government	306,272	14,243	—	—	(292,029)	(292,029)
Debt service	278,218	—	—	—	(278,218)	(278,218)
Capital projects	1,200,339	—	—	410,803	(789,536)	(789,536)
Total Governmental Activities	4,141,140	408,248	463,127	410,803	(2,858,962)	(2,858,962)
Business-Type Activities						
Water	576,389	634,773	—	—	—	58,384
Sewer	357,113	549,364	—	—	—	192,251
Other proprietary	47,108	39,065	—	—	—	(8,043)
Total Business-Type Activities	980,610	1,223,202	—	—	—	242,592
Total	\$ 5,121,750	\$ 1,631,450	\$ 463,127	\$ 410,803	(2,858,962)	242,592
General Receipts						
Property and Other City Tax Levied for						
General purposes					1,445,477	1,445,477
Debt service					3,423	3,423
Tax increment financing					314,793	314,793
Local option sales tax					379,191	379,191
Unrestricted interest on investments					33,658	33,658
Special assessments					29,698	29,698
Miscellaneous					143,127	143,127
Note proceeds					614,141	614,141
Sale of assets					1,250	1,250
Total General Receipts					2,964,758	2,964,758
Change in Cash Basis Net Assets					105,796	242,592
Cash Basis Net Assets - Beginning of Year					2,346,216	2,207,224
Cash Basis Net Assets - End of Year					\$ 2,452,012	\$ 2,449,816
Cash Basis Net Assets						
Restricted						
Nonexpendable						
Cemetery perpetual care					\$ 187,715	\$ 187,715
Expendable						
Streets					369,957	369,957
Employee benefits					119,851	119,851
Debt service					278,384	278,384
Pool					364,675	364,675
Other purposes					550,174	550,174
Unrestricted					581,256	2,449,816
Total Cash Basis Net Assets					\$ 2,452,012	\$ 2,449,816

See accompanying notes to the financial statements.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Governmental Funds - All Fund Types

As of and for the Year Ended June 30, 2012

	General	Special Revenue		Debt Service	Nonmajor	Total
		Road Use Tax	Employee Benefits			
Receipts						
Property tax	\$ 894,346	\$ —	\$ 415,923	\$ 3,422	\$ 6,493	\$ 1,320,184
TIF collections	—	—	—	—	314,793	314,793
Other city tax	110,309	—	18,323	—	379,275	507,907
Licenses and permits	14,243	—	—	—	—	14,243
Use of money and property	60,065	—	—	—	5,720	65,785
Intergovernmental	7,907	423,131	—	—	442,891	873,929
Charges for service	394,005	—	—	—	—	394,005
Special assessments	672	—	—	—	29,026	29,698
Miscellaneous	56,934	7,260	—	—	46,807	111,001
Total Receipts	<u>1,538,481</u>	<u>430,391</u>	<u>434,246</u>	<u>3,422</u>	<u>1,225,005</u>	<u>3,631,545</u>
Disbursements						
Operating						
Public safety	638,693	—	223,375	—	—	862,068
Public works	122,142	339,956	64,519	—	—	526,617
Health and social services	830	—	—	—	—	830
Culture and recreation	687,103	—	77,126	—	71,715	835,944
Community and economic development	46,070	—	—	—	84,782	130,852
General government	301,044	—	5,228	—	—	306,272
Debt service	—	—	—	—	278,218	278,218
Capital projects	—	—	—	—	1,200,339	1,200,339
Total Disbursements	<u>1,795,882</u>	<u>339,956</u>	<u>370,248</u>	<u>—</u>	<u>1,635,054</u>	<u>4,141,140</u>
Receipts Over (Under) Disbursements	<u>(257,401)</u>	<u>90,435</u>	<u>63,998</u>	<u>3,422</u>	<u>(410,049)</u>	<u>(509,595)</u>
Other Financing Sources (Uses)						
Note proceeds	—	—	—	—	614,141	614,141
Sale of land	1,250	—	—	—	—	1,250
Operating transfers in	379,191	—	—	—	179,257	558,448
Operating transfers out	(26,257)	—	—	—	(532,191)	(558,448)
Total Other Financing Sources (Uses)	<u>354,184</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>261,207</u>	<u>615,391</u>
Net Change in Cash Balances ...	96,783	90,435	63,998	3,422	(148,842)	105,796
Cash Balances - Beginning of Year	805,863	279,522	55,853	243,455	961,523	2,346,216
Cash Balances - End of Year	<u>\$ 902,646</u>	<u>\$ 369,957</u>	<u>\$ 119,851</u>	<u>\$ 246,877</u>	<u>\$ 812,681</u>	<u>\$ 2,452,012</u>
Cash Basis Fund Balances						
Nonspendable - Cemetery						
Perpetual Care	\$ —	\$ —	\$ —	\$ —	\$ 187,715	\$ 187,715
Restricted for						
Streets	—	369,957	—	—	—	369,957
Employee benefits	—	—	119,851	—	—	119,851
Debt service	—	—	—	246,877	31,507	278,384
Pool	364,675	—	—	—	—	364,675
Other purposes	—	—	—	—	550,174	550,174
Assigned	49,082	—	—	—	77,352	126,434
Unassigned	488,889	—	—	—	(34,067)	454,822
Total Cash Basis Fund Balances	<u>\$ 902,646</u>	<u>\$ 369,957</u>	<u>\$ 119,851</u>	<u>\$ 246,877</u>	<u>\$ 812,681</u>	<u>\$ 2,452,012</u>

See accompanying notes to the financial statements.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Proprietary Funds

As of and for the Year Ended June 30, 2012

	Major		Nonmajor	Total
	Water	Sewer		
Operating Receipts				
Charges for service	\$ 634,773	\$ 549,364	\$ 29,180	\$ 1,213,317
Miscellaneous.....	<u>—</u>	<u>—</u>	9,885	<u>9,885</u>
Total Operating Receipts	<u>634,773</u>	<u>549,364</u>	<u>39,065</u>	<u>1,223,202</u>
Operating Disbursements				
Business-type activities	<u>576,389</u>	<u>357,113</u>	<u>47,108</u>	<u>980,610</u>
Operating Receipts Over (Under)				
Operating Disbursements	58,384	192,251	(8,043)	242,592
Cash Balances - Beginning of Year	<u>928,671</u>	<u>1,161,381</u>	<u>117,172</u>	<u>2,207,224</u>
Cash Balances - End of Year	<u>\$ 987,055</u>	<u>\$ 1,353,632</u>	<u>\$ 109,129</u>	<u>\$ 2,449,816</u>
Cash Basis Fund Balances				
Unreserved	<u>\$ 987,055</u>	<u>\$ 1,353,632</u>	<u>\$ 109,129</u>	<u>\$ 2,449,816</u>

See accompanying notes to the financial statements.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The City of Hampton, Iowa, 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 nonpartisan 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 administrative services. The City also provides water, sewer and solid wastes utilities for its citizens.

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, Landfill of North Iowa, Franklin County Emergency Management Commission, Franklin County E911 Service Board and Franklin County Conference Board.

Basis of Presentation

Government-Wide Financial Statements

The statement of activities and net assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities and net assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories:

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 asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Total expendable restricted net assets at June 30, 2012 were \$1,683,041.

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The statement of activities and net assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. All general tax receipts 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 the 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 *Debt Service Fund* is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

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

The *Enterprise, Sewer Fund* accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

Basis of Accounting

The City of Hampton maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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, they 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 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-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from nonoperating 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 nonoperating receipts and disbursements.

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 City Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as other information. Disbursements for the year ended June 30, 2012 exceeded the amounts budgeted in the Capital Projects function.

The City's deposits at June 30, 2012 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, 2012 were as follows:

Government Bond Mutual Funds	\$ 184,928
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Notes to the Financial Statements

(2) Deposits and Investments

Interest Rate Risk

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

(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
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	20,000	1,540	345,000	121,788
2018-2022	20,000	780	1,930,000	430,438
2023-2027	—	—	1,105,000	75,900
	<u>\$ 105,000</u>	<u>\$ 14,598</u>	<u>\$ 4,655,000</u>	<u>\$ 1,196,601</u>

Year Ending June 30,	Revenue Notes		Line of Credit		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ —	\$ —	\$ —	\$ 3,134	\$ 320,000	\$ 158,991
2014	329,670	—	298,500	3,134	958,170	152,615
2015	—	—	—	—	335,000	142,052
2016	—	—	—	—	355,000	133,363
2017	—	—	—	—	365,000	123,328
2018-2022	—	—	—	—	1,950,000	431,218
2023-2027	—	—	—	—	1,105,000	75,900
	<u>\$ 329,670</u>	<u>\$ —</u>	<u>\$ 298,500</u>	<u>\$ 6,268</u>	<u>\$ 5,388,170</u>	<u>\$ 1,217,467</u>

The Code of Iowa requires principal and interest on general obligation notes and bonds be paid from the Debt Service Fund. However, \$457,081 of general obligation principal and interest was paid from the General Fund and Special Revenue, Tax Increment Financing Fund during the year ended June 30, 2012.

In May, 2007, the City issued \$165,000 of General 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 Oak Hill Drive Project. On May 29, 2008, the notes were refunded by issuing \$165,000 of General Obligation Capital Loan Notes, Series 2008 with interest rates ranging from 2.6% to 3.9%.

Notes to the Financial Statements

(3) Bonds and Notes Payable

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 for the debt will be serviced by tax increment financing revenue collected from the City's Urban Renewal Area. Interest rates range from 2.25% to 4.3% over the life of the bonds.

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 revenue. Interest rates range from 1% to 3.6% over the life of the bonds.

On October 27, 2010, the City issued \$376,000 of Sewer Revenue Capital Loan Notes for the purpose of planning and designing a new waste water treatment plant. These notes are payable solely from sewer customer receipts, net of specified operating disbursements. Proceeds of the note are available to be drawn as needed. As of June 30, 2012, \$329,670 had been drawn down on the note. For the current year, there was no principal or interest paid.

On April 23, 2012, the City entered into a line of credit agreement not to exceed \$570,000 for the purpose of providing access to funds to pay certain approved expenses associated with the Progress Park Project pending receipt of funding under a certain Community Attraction and Tourism Program grant award in the amount of \$800,000. The line of credit advances are general obligations of the City and bears interest at a fixed rate of 1.05% per annum. As of June 30, 2012, \$298,500 had been drawn on the note.

The City was in compliance with the provisions of the note and bond resolutions.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$118,147, \$92,701 and \$84,178, respectively, equal to the required contributions for each year.

Notes to the Financial Statements

(5) Other Postemployment Benefits (OPEB)

Plan Description

The City operates a single-employer retiree benefit plan which provides medical/prescription drug, dental and deductible benefits for retirees and their spouses. There are 27 active members and 3 retired members in the plan. Participants must be age 55 or older at retirement. The medical/prescription drug benefits are provided through a fully insured plan through 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 which 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 active member monthly premiums are \$437 for single coverage and \$1,093 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed a total of \$322,829 and plan members eligible for benefits contributed a total of \$20,126 to the plan.

(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 maximum liability for earned vacation termination payments payable to employees at June 30, 2012, primarily relating to the General Fund was as follows:

Type of Benefit	Amount
Vacation	\$ 67,000
Overtime.....	126,000
Total	<u>\$ 193,000</u>

This liability has been computed based on rates of pay as of June 30, 2012.

Notes to the Financial Statements

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue Local Option Sales Tax	<u>\$ 379,191</u>
Special Revenue Economic Development	General	<u>24,742</u>
Highway 65	Special Revenue Urban Renewal Tax Increment	<u>153,000</u>
Permanent Cemetery Perpetual Care	General	<u>1,515</u>
Total		<u>\$ 558,448</u>

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

(8) Related Party Transactions

The City had business transactions between the City and City officials or businesses owned by City officials totaling \$2,147 during the year ended June 30, 2012.

(9) Landfill of North Iowa

The City, in conjunction with 17 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, 2012, the City paid \$6,052 for its share of the costs.

(10) Risk Management

The City of Hampton 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.

Notes to the Financial Statements

(11) Deficit Balance

The Capital Project Waste Water Treatment Plant Fund had a deficit balance at June 30, 2012. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon issuance of project financing.

(12) Subsequent Events

Management has evaluated subsequent events through November 2, 2012, the date which the financial statements were available to be issued.

(13) Construction Commitment

The City has entered into several contracts totaling approximately \$5.62 million for various improvement projects. As of June 30, 2012, costs of approximately \$5.18 million had been paid on the contracts. The balance of approximately \$440,000 remaining at June 30, 2012 will be paid as work on the projects progress.

Other Information

Schedule of Budgetary Comparison of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Year Ended June 30, 2012

	Govern- mental Funds Actual	Propri- etary Funds Actual	Net Actual	Budgeted Amounts		Over (Under) Budget
				Original	Final	
Receipts						
Property tax	\$ 1,320,184	\$ —	\$ 1,320,184	\$ 1,279,015	\$ 1,279,015	\$ (41,169)
TIF collections	314,793	—	314,793	323,103	323,103	8,310
Other city tax	507,907	—	507,907	396,309	396,309	(111,598)
Licenses and permits	14,243	—	14,243	15,750	15,750	1,507
Use of money and property	65,785	—	65,785	120,000	100,000	34,215
Intergovernmental	873,929	—	873,929	1,647,000	1,888,000	1,014,071
Charges for service	394,005	1,223,202	1,617,207	1,350,000	1,388,000	(229,207)
Special assessments	29,698	—	29,698	31,000	36,000	6,302
Miscellaneous	111,001	—	111,001	42,500	(5,496,500)	(5,607,501)
Total Receipts	<u>3,631,545</u>	<u>1,223,202</u>	<u>4,854,747</u>	<u>5,204,677</u>	<u>(70,323)</u>	<u>(4,925,070)</u>
Disbursements						
Public safety	862,068	—	862,068	963,550	972,550	(110,482)
Public works	526,617	—	526,617	533,025	565,025	(38,408)
Health and social services ..	830	—	830	5,700	5,700	(4,870)
Culture and recreation	835,944	—	835,944	661,253	845,920	(9,976)
Community and economic development	130,852	—	130,852	116,000	157,000	(26,148)
General government	306,272	—	306,272	266,360	324,860	(18,588)
Debt service	278,218	—	278,218	278,018	477,901	(199,683)
Capital projects	1,200,339	—	1,200,339	942,000	(804,000)	2,004,339
Business-type activities	—	980,610	980,610	3,646,500	3,646,500	(2,665,890)
Total Disbursements	<u>4,141,140</u>	<u>980,610</u>	<u>5,121,750</u>	<u>7,412,406</u>	<u>6,191,456</u>	<u>(1,069,706)</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	(509,595)	242,592	(267,003)	(2,207,729)	(6,261,779)	(5,994,776)
Other Financing Sources, Net	<u>615,391</u>	<u>—</u>	<u>615,391</u>	<u>6,050,000</u>	<u>5,902,258</u>	<u>(5,286,867)</u>
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	105,796	242,592	348,388	3,842,271	(359,521)	707,909
Balances - Beginning of Year	<u>2,346,216</u>	<u>2,207,224</u>	<u>4,553,440</u>	<u>4,911,930</u>	<u>4,911,930</u>	<u>(358,490)</u>
Balances - End of Year	<u>\$ 2,452,012</u>	<u>\$ 2,449,816</u>	<u>\$ 4,901,828</u>	<u>\$ 8,754,201</u>	<u>\$ 4,552,409</u>	<u>\$ 349,419</u>

Supplementary Information

Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds

As of and for the Year Ended June 30, 2012

	Special Revenue							
	Make A Splash!	Forfeiture	Band Shell	Economic Development	Local Option Sales Tax	Tax Increment	Library Trust	Cemetery Trust
Receipts								
Property tax	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,493	\$ —	\$ —
TIF collections	—	—	—	—	—	314,793	—	—
Other city tax	—	—	—	—	379,191	84	—	—
Use of money and property	84	3	107	—	—	—	—	4,773
Intergovernmental	—	—	—	32,089	—	—	—	—
Special assessments	—	—	—	—	—	—	—	—
Miscellaneous	35,304	—	—	—	—	—	—	—
Total Receipts	<u>35,388</u>	<u>3</u>	<u>107</u>	<u>32,089</u>	<u>379,191</u>	<u>321,370</u>	<u>—</u>	<u>4,773</u>
Disbursements								
Operating								
Culture and recreation	—	—	45,535	—	—	—	—	26,180
Community and economic development	—	—	—	32,782	—	52,000	—	—
Debt service	—	—	—	—	—	258,398	—	—
Capital projects	—	—	—	—	—	—	—	—
Total Disbursements	<u>—</u>	<u>—</u>	<u>45,535</u>	<u>32,782</u>	<u>—</u>	<u>310,398</u>	<u>—</u>	<u>26,180</u>
Receipts Over (Under) Disbursements	<u>35,388</u>	<u>3</u>	<u>(45,428)</u>	<u>(693)</u>	<u>379,191</u>	<u>10,972</u>	<u>—</u>	<u>(21,407)</u>
Other Financing Sources (Uses)								
Note proceeds	—	—	—	—	—	—	—	—
Operating transfers in	—	—	—	24,742	—	—	—	—
Operating transfers out	—	—	—	—	(379,191)	(153,000)	—	—
Total Other Financing Sources (Uses)	<u>—</u>	<u>—</u>	<u>—</u>	<u>24,742</u>	<u>(379,191)</u>	<u>(153,000)</u>	<u>—</u>	<u>—</u>
Net Change in Cash Balances	<u>35,388</u>	<u>3</u>	<u>(45,428)</u>	<u>24,049</u>	<u>—</u>	<u>(142,028)</u>	<u>—</u>	<u>(21,407)</u>
Cash Balances - Beginning of Year	8,703	1,892	78,689	(9,742)	—	279,503	2,605	75,407
Cash Balances - End of Year	<u>\$ 44,091</u>	<u>\$ 1,895</u>	<u>\$ 33,261</u>	<u>\$ 14,307</u>	<u>\$ —</u>	<u>\$ 137,475</u>	<u>\$ 2,605</u>	<u>\$ 54,000</u>
Cash Basis Fund Balances								
Nonspendable - Cemetery Perpetual Care	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Restricted for								
Debt service	—	—	—	—	—	—	—	—
Other purposes	—	1,895	—	14,307	—	137,475	2,605	54,000
Assigned	44,091	—	33,261	—	—	—	—	—
Unassigned	—	—	—	—	—	—	—	—
Total Cash Basis Fund Balances	<u>\$ 44,091</u>	<u>\$ 1,895</u>	<u>\$ 33,261</u>	<u>\$ 14,307</u>	<u>\$ —</u>	<u>\$ 137,475</u>	<u>\$ 2,605</u>	<u>\$ 54,000</u>

Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds

As of and for the Year Ended June 30, 2012

	Debt Service Special Assessment	Capital Projects					Permanent Cemetery Perpetual Care	Total
		Airport	Highway	Aquatic Center	Waste Water Treatment Project	Progress Park		
Receipts								
Property tax.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,493
TIF collections.....	—	—	—	—	—	—	—	314,793
Other city tax.....	—	—	—	—	—	—	—	379,275
Use of money and property.....	—	—	—	—	—	753	—	5,720
Intergovernmental.....	—	410,386	—	—	—	416	—	442,891
Special assessments.....	29,026	—	—	—	—	—	—	29,026
Miscellaneous.....	—	—	11,503	—	—	—	—	46,807
Total Receipts.....	29,026	410,386	11,503	—	—	416	753	1,225,005
Disbursements								
Operating								
Culture and recreation.....	—	—	—	—	—	—	—	71,715
Community and economic development.....	—	—	—	—	—	—	—	84,782
Debt service.....	19,820	—	—	—	—	—	—	278,218
Capital projects.....	—	393,585	17,877	234,258	284,967	269,652	—	1,200,339
Total Disbursements.....	19,820	393,585	17,877	234,258	284,967	269,652	—	1,635,054
Receipts Over (Under) Disbursements.....	9,206	16,801	(6,374)	(234,258)	(284,967)	(269,236)	753	(410,049)
Other Financing Sources (Uses)								
Note proceeds.....	—	—	—	—	315,641	298,500	—	614,141
Operating transfers in.....	—	—	153,000	—	—	—	1,515	179,257
Operating transfers out.....	—	—	—	—	—	—	—	(532,191)
Total Other Financing Sources (Uses).....	—	—	153,000	—	315,641	298,500	1,515	261,207
Net Change in Cash Balances.....	9,206	16,801	146,626	(234,258)	30,674	29,264	2,268	(148,842)
Cash Balances - Beginning of Year.....	22,301	10,218	(54,343)	443,422	(64,741)	(17,838)	185,447	961,523
Cash Balances - End of Year.....	\$ 31,507	\$ 27,019	\$ 92,283	\$ 209,164	\$ (34,067)	\$ 11,426	\$ 187,715	\$ 812,681
Cash Basis Fund Balances								
Nonspendable - Cemetery Perpetual Care.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 187,715	\$ 187,715
Restricted for								
Debt service.....	31,507	—	—	—	—	—	—	31,507
Other purposes.....	—	27,019	92,283	209,164	—	11,426	—	550,174
Assigned.....	—	—	—	—	—	—	—	77,352
Unassigned.....	—	—	—	—	(34,067)	—	—	(34,067)
Total Cash Basis Fund Balances.....	\$ 31,507	\$ 27,019	\$ 92,283	\$ 209,164	\$ (34,067)	\$ 11,426	\$ 187,715	\$ 812,681

Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Proprietary Funds

As of and for the Year Ended June 30, 2012

	Water Reserve	Solid Waste	Meter Deposits	Total
Operating Receipts				
Charges for service	\$ —	\$ 29,180	\$ —	\$ 29,180
Miscellaneous.....	<u>—</u>	<u>—</u>	9,885	9,885
Total Operating Receipts	<u>—</u>	<u>29,180</u>	<u>9,885</u>	<u>39,065</u>
Operating Disbursements				
Business-type activities	<u>—</u>	<u>41,439</u>	<u>5,669</u>	<u>47,108</u>
Operating Receipts Over (Under)				
Operating Disbursements	—	(12,259)	4,216	(8,043)
Cash Balances - Beginning of Year	<u>38,479</u>	<u>51,190</u>	<u>27,503</u>	<u>117,172</u>
Cash Balances - End of Year	<u>\$ 38,479</u>	<u>\$ 38,931</u>	<u>\$ 31,719</u>	<u>\$ 109,129</u>
Cash Basis Fund Balance				
Unreserved	<u>\$ 38,479</u>	<u>\$ 38,931</u>	<u>\$ 31,719</u>	<u>\$ 109,129</u>

Schedule of Indebtedness

Year Ended June 30, 2012

Obligation	Amount Originally Issued	Date of Issue	Interest Rates	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General Obligation Notes/Bonds								
Oak Hill Drive Project	\$ 165,000	5-29-08	2.60 - 3.90%	\$ 120,000	\$ —	\$ 15,000	\$ 105,000	\$ 4,320
Urban Renewal (Highway 65)	2,760,000	7-6-09	2.25 - 4.30	2,600,000	—	165,000	2,435,000	92,898
Local Option Sales Tax (Aquatic Center)	2,470,000	7-22-10	1.00 - 3.60	2,355,000	—	135,000	2,220,000	64,183
Line of Credit (Progress Park)	570,000	4-23-12	1.05	—	298,500	—	298,500	90
Total General Obligation Notes/Bonds				<u>\$ 5,075,000</u>	<u>\$ 298,500</u>	<u>\$ 315,000</u>	<u>\$ 5,058,500</u>	<u>\$ 161,491</u>
Revenue Notes								
Sewer Revenue Capital Loan Notes	376,000	10-27-10	0.00%	<u>\$ 14,029</u>	<u>\$ 315,641</u>	<u>\$ —</u>	<u>\$ 329,670</u>	<u>\$ —</u>

Schedule of Bond and Note Maturities

As of June 30, 2012

Year Ending June 30,	General Obligation Notes		General Obligation Bonds				
	Oak Hill Drive Project		Highway 65 Project		Aquatic Center		Total
	Issued May 29, 2009		Issued July 6, 2009		Issued July 22, 2010		
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2013	3.35%	\$ 15,000	2.50%	\$ 165,000	1.25%	\$ 140,000	\$ 305,000
2014	3.45	15,000	2.70	170,000	1.60	145,000	315,000
2015	3.60	15,000	3.00	175,000	2.00	145,000	320,000
2016	3.70	20,000	3.20	185,000	2.25	150,000	335,000
2017	3.80	20,000	3.40	190,000	2.50	155,000	345,000
2018	3.90	20,000	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		—		—	3.60	215,000	215,000
Total		<u>\$ 105,000</u>		<u>\$ 2,435,000</u>		<u>\$ 2,220,000</u>	<u>\$ 4,655,000</u>

Year Ending June 30,	Sewer Revenue Capital Loan Notes		\$570,000 Line of Credit	
	Anticipation Note		Issued April 23, 2012	
	Issued Oct. 27, 2010		Interest Rates	Amount
Interest Rates	Amount	Interest Rates	Amount	
2013	\$ —	1.05%	\$ —	
2014	<u>329,670</u>	1.05	<u>298,500</u>	
Total	<u>\$ 329,670</u>		<u>\$ 298,500</u>	

**Schedule of Receipts by Source and Disbursements by Function
All Governmental Funds**

Years Ended June 30, 2005 Through 2012

	2012	2011	2010	2009	2008	2007	2006	2005
Receipts								
Property tax	\$ 1,320,184	\$ 1,423,117	\$ 1,357,727	\$ 1,327,231	\$ 1,198,746	\$ 1,271,143	\$ 1,200,086	\$ 1,098,479
Tax increment financing collections	314,793	503,883	—	—	1,903	637,728	700,657	1,037,593
Other city tax	507,907	448,103	459,108	410,127	369,711	436,195	362,539	341,315
Licenses and permits	14,243	12,200	14,616	26,211	10,970	14,107	25,962	17,912
Use of money and property	65,785	76,287	116,141	133,678	180,305	169,065	101,527	58,941
Intergovernmental	873,929	766,804	1,013,796	740,528	609,780	604,861	466,141	807,345
Charges for service	394,005	385,500	303,853	335,997	328,877	189,941	196,399	191,931
Special assessments	29,698	23,132	71,900	15,487	14,841	22,976	20,609	27,145
Miscellaneous	111,001	255,885	187,606	40,351	66,357	48,244	137,686	118,548
Total Receipts	<u>\$ 3,631,545</u>	<u>\$ 3,894,911</u>	<u>\$ 3,524,747</u>	<u>\$ 3,029,610</u>	<u>\$ 2,781,490</u>	<u>\$ 3,394,260</u>	<u>\$ 3,211,606</u>	<u>\$ 3,699,209</u>
Disbursements								
Operating								
Public safety	\$ 862,068	\$ 949,883	\$ 1,075,886	\$ 921,632	\$ 782,560	\$ 807,758	\$ 753,825	\$ 771,515
Public works	526,617	506,036	461,021	640,344	466,381	426,900	389,270	356,646
Health and social services	830	5,006	5,347	5,605	4,561	3,154	4,792	3,840
Culture and recreation	835,944	703,886	542,457	602,299	469,363	457,181	416,746	413,960
Community and economic development	130,852	103,114	260,655	156,472	205,235	102,761	202,027	232,831
General government	306,272	260,866	315,659	271,409	280,606	218,948	175,041	118,705
Debt service	278,218	462,258	316,896	329,696	706,596	542,176	812,783	624,400
Capital projects	1,200,339	5,697,915	1,484,203	160,373	355,102	112,569	—	215,123
Total Disbursements	<u>\$ 4,141,140</u>	<u>\$ 8,688,964</u>	<u>\$ 4,462,124</u>	<u>\$ 3,087,830</u>	<u>\$ 3,270,404</u>	<u>\$ 2,671,447</u>	<u>\$ 2,754,484</u>	<u>\$ 2,737,020</u>

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Certified Public Accountants and Consultants

Independent Auditor's 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
City of Hampton, Iowa

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, 2012, which collectively comprise the City's basic financial statements, as listed in the table of contents, and have issued our report thereon dated November 2, 2012. 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 auditing standards generally accepted in the United States of America 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

The management of the City of Hampton is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 the City of Hampton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility 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 Part I of the accompanying schedule of findings as items 12-I-R-1, 12-I-R-2, 12-I-R-3 and 12-I-R-4 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hampton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance or other matters which are described in Part II of the accompanying schedule of findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 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 or 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. This report is not intended to be and should not be used by anyone other than these specified parties.

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Mason City, Iowa
November 2, 2012

Schedule of Findings

Year Ended June 30, 2012

Part I: Findings Related to the Financial Statements:

Internal Control Deficiencies

12-I-R-1 Segregation of Duties

Current Year Finding - 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. For example, we noted that the same person who prepares and records cash receipts is also responsible for the utility billing and bank deposits.

Auditor's Recommendation - We recognize that with a limited number of employees, proper segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances, segregate duties to the extent possible with existing personnel and utilize administrative personnel and City Council members to provide additional control through review of financial transactions and reports.

City's Response - The City Council is aware of the condition. We will continue to review procedures and make changes when appropriate. We are in the process of cross-training employees to further segregate duties.

Auditor's Conclusion - Response accepted.

12-I-R-2 Financial Statement Preparation

Current Year Finding - The City does not have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with the cash basis of accounting. As is inherent in many entities of this size, the City has management and employees who, while knowledgeable and skillful, do not have the time to maintain the current knowledge and expertise to fully prepare financial statements and the related disclosures.

Auditor's Recommendation - We recommend obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses.

City's Response - We will consider obtaining additional knowledge.

Auditor's Conclusion - Response accepted.

Schedule of Findings

Year Ended June 30, 2012

12-I-R-3 Period End Financial Reporting Process

Current Year Finding - During our 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. 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.

Auditor's Recommendation - The City should reconcile the general ledger to the reconciled bank balances at each month end to ensure that all transactions have been properly recorded. Because of the lack of monthly reconciliations, transactions could occur without being recorded on the City's general ledger. Reconciling the subsidiary ledgers to the general ledger should be performed monthly.

City's Response - We will review the procedures as suggested.

Auditor's Conclusion - Response accepted.

12-I-R-4 Financial Reporting

Current Year Finding - During our audit, we noted that the internal control system does not include a process for ensuring that all transactions were properly recorded. The City does not record the library receipts and disbursements or the DARE account activity maintained by the Police Department to the City's general ledger. In addition, we noted while library activity is reviewed and approved by the library trustees, it is not reviewed and approved by the City Council. We also noted two payments from the State of Iowa to the Volunteer Fire Department that were deposited directly by the Fire Department. These payments should have been deposited by the City and then paid to the Fire Department to properly track all City revenue. The City should implement procedures to ensure that all receipts and disbursements are correctly recorded in the City's financial statements and disbursements are properly approved by the Council. Because of the lack of monthly reconciliations noted in 12-1-R-1 above, transactions could occur without being recorded on the City's general ledger.

Auditor's Recommendation - The City should implement procedures to ensure all receipts and disbursements are properly recorded in the City's financial statements and disbursements are properly approved by the Council.

City's Response - We will include procedures in the monthly reconciliation process to ensure all amounts are recorded properly.

Auditor's Conclusion - Response accepted.

Instances of Noncompliance

There were no instances of noncompliance reported.

Schedule of Findings

Year Ended June 30, 2012

Part II: Other Findings Related to Statutory Reporting:

12-II-A Certified Budget - Disbursements for the year ended June 30, 2012 exceeded the amounts budgeted in the Capital Projects function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation." It was also noted the amounts to amend the Capital Projects function and other financing sources were entered on the incorrect line of the budget which caused disbursements to exceed amounts budgeted.

Auditor's Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

City's Response - This occurred due to an error in completing the budget amendment. We will try to avoid this in the future.

Auditor's Conclusion - Response accepted.

12-II-B Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion.

12-II-C Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

12-II-D Business Transactions - Business transactions between the City of Hampton and City officials which may appear to be conflicts of interest are as follows:

Name, Title and Business Connection	Transaction Description	Amount
Trev Murphy, Waste Water employee, parents own Murphy's Heating & Plumbing	Building and equipment repairs and maintenance	\$ 1,342
Carrie Blau, Secretary, spouse of Adam Blau	Mowing services	805

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

12-II-E 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.

Schedule of Findings

Year Ended June 30, 2012

12-II-F Council Minutes - Minutes of Council proceedings were published within 15 days as required by Chapter 372.13(6) of the Code of Iowa. Chapter 372.13(6) of the Code of Iowa also states, in part, "the clerk shall cause the minutes of the proceedings of the council, including the total expenditures from each city fund, to be published in a newspaper of general circulation in the city. The publication shall include a list of all claims allowed and a summary of all receipts and shall show the gross amount of the claims." The library is legally a part of the City's general fund; however, we noted the library receipts and disbursements are not being published.

Auditor's Recommendation - The City should comply with Chapter 372.13 of the Code of Iowa and publish library receipts and disbursements as part of the City's general fund.

City's Response - We will attempt to publish library receipts and disbursements as part of the General Fund.

Auditor's Conclusion - Response accepted.

12-II-G Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted. Chapter 12C.7(2) of the Code of Iowa states, "Interest or earnings on investments and time deposits made in accordance with the provisions of Chapter 12B and 12C shall be credited to the general fund of the governmental body making the investment or deposit, with the exception of specific funds for which investments are otherwise provided by law, constitutional funds, or when legally diverted to the state sinking fund for public deposits. Funds so excepted shall receive credit for interest or earnings derived from such investments or time deposits made from such funds." We noted all interest earned on pooled funds is being credited to the general fund.

Auditor's Recommendation - The City should make a monthly allocation to the individual funds based on the amount of money invested by that fund divided by the total of the pooled account, multiplied by the amount of monthly interest earned.

City's Response - We will attempt to make the necessary allocations.

Auditor's Conclusion - Response accepted.

12-II-H Excess Fund Balances - We noted that the fund balances in the Special Revenue Funds: Make A Splash!; Debt Service, Special Assessment; Capital Projects, Highway 65; and Enterprise Funds: Water and Sewer Rental were in excess of disbursements for the current year.

Auditor's Recommendation - The City should investigate alternatives to eliminate the excesses.

City's Response - The City will investigate alternatives. The Debt Service and Special Assessment fund balances will be used to make debt payments in future years. The Capital Project, Highway 65 fund balance will be utilized for final project expenses. The remaining fund balances are earmarked for future improvements including water infrastructure and a waste water treatment plant.

Auditor's Conclusion - Response accepted.

Schedule of Findings

Year Ended June 30, 2012

12-II-I Revenue Bonds and Notes - No instances of noncompliance with the revenue bond and note resolutions were noted.

12-II-J Separately Maintained Accounts - The Police Department maintains the DARE account within the Department. The receipts and 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.

Auditor's 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 and claims should be approved by the Council.

City's Response - We will consider establishing a DARE fund.

Auditor's Conclusion - Response accepted.

12-II-K Financial Position - The Capital Projects, Waste Water Treatment Plant Project had a deficit balance of \$34,067 at June 30, 2012.

Auditor's Recommendation - The City should investigate alternatives to eliminate this deficit in order to return the fund to a sound financial position.

City's Response - The Capital Projects, Waste Water Treatment Plant is in the planning and design state. The deficit will be eliminated through future debt issuances.

Auditor's Conclusion - Response accepted.

12-II-L Payment of General Obligation Bonds - Certain general obligation bonds were paid from the General Fund and the Special Revenue, Tax Increment Financing Fund. Chapter 384.4 of the Code of Iowa states, in part "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund."

Auditor's Recommendation - The City should transfer from the General Fund and Special Revenue, Tax Increment Financing Fund to the Debt Service Fund for future funding contributions. Payment of the bonds should then be disbursed from the Debt Service Fund.

City's Response - We will transfer in the future as recommended.

Auditor's Conclusion - Response accepted.