

CITY OF NEW HAMPTON
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
June 30, 2005

CITY OF NEW HAMPTON

TABLE OF CONTENTS

| | | <u>Page No.</u> |
|--|-----------------|-----------------|
| OFFICIALS | | 1 |
| INDEPENDENT AUDITOR'S REPORT | | 2-3 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | | 4-10 |
| BASIC FINANCIAL STATEMENTS | <u>Exhibit</u> | |
| Government-wide Financial Statement: Statement of Activities and Net Assets – Cash Basis | A | 11 |
| Governmental Fund Financial Statements: Statement of Cash Receipts, Disbursements and Changes in Cash Balances | B | 12-13 |
| Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets – Governmental Funds | C | 14 |
| Proprietary Fund Financial Statements: Statement of Cash Receipts, Disbursements and Changes in Cash Balances | D | 15 |
| Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets – Proprietary Funds | E | 16 |
| Notes to Financial Statements | | 17-24 |
| REQUIRED SUPPLEMENTARY INFORMATION | | |
| Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds | | 25 |
| Notes to Required Supplementary Information – Budgetary Reporting | | 26 |
| OTHER SUPPLEMENTARY INFORMATION | <u>Schedule</u> | |
| Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds | 1 | 27 |
| Schedule of Indebtedness | 2 | 28 |
| Bond and Note Maturities | 3 | 29-30 |
| Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds | 4 | 31 |
| INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u> | | 32-33 |
| SCHEDULE OF FINDINGS | | 34-36 |

CITY OF NEW HAMPTON

OFFICIALS

| | | |
|----------------|-----------------|-------------------|
| Darwin Sitting | Mayor | December 31, 2005 |
| Robert Martin | Mayor Pro Tem | December 31, 2005 |
| Robert Clites | Council Member | December 31, 2005 |
| Nita Geerts | Council Member | December 31, 2005 |
| William Hurd | Council Member | December 31, 2005 |
| Donald Schueth | Council Member | December 31, 2005 |
| Dawn Wegman | Council Member | December 31, 2005 |
| Suellen Kolbet | Clerk/Treasurer | Indefinite |
| Kevin Kennedy | Attorney | Indefinite |

INDEPENDENT AUDITOR'S 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, the aggregate remaining fund information, and the discretely presented component unit of the City of New Hampton, Iowa, as of and for the year ended June 30, 2005, 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 New 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.

The financial statements referred to above do not include the financial activity of all the component units identified in Note 1. Such financial activity should be reported in the governmental activities and the Special Revenue Funds of the City's primary government in order to be in conformity with U.S. generally accepted accounting principles. The amount of financial activity that should be reported is not known.

In our opinion, except for the effects of the omission of the financial activity of the component units for the year ended June 30, 2005 on the governmental activities and the aggregate remaining fund information, as described above, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities and the aggregate remaining fund information at June 30, 2005, 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 addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities, each major fund, and the discretely presented component unit of the City of New Hampton as of June 30, 2005 and the respective changes in cash basis financial position of the business type activities and each major fund 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 January 13, 2006 on our consideration of the City'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 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 10 and 25 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied 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 performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of New 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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities increased 31%, or approximately \$853,000 from fiscal 2004 to fiscal 2005. The revenue sources with major changes from the prior year are as follows:

| | Increase (Decrease) |
|--------------------------|------------------------|
| Grants and contributions | \$ 326,000 |
| Investment earnings | (31,000) |
| Bond proceeds | 620,000 |
| Sale of assets | (49,000) |
| All others, net | (13,000) |
| | <u>\$ 853,000</u> |

Disbursements increased 11% or approximately \$370,000, in fiscal 2005 from fiscal 2004. The disbursements with major changes from the prior year are as follows:

| | |
|------------------------------------|-------------------|
| Public safety | \$ 22,000 |
| Public works | 17,000 |
| Culture and recreation | 7,000 |
| Community and economic development | 917,000 |
| General government | (102,000) |
| Debt service | (20,000) |
| Capital project | (472,000) |
| All others, net | 1,000 |
| | <u>\$ 370,000</u> |

The City's total cash basis net assets decreased 19% or approximately \$680,000 from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities decreased approximately \$45,000 and the assets of the business type activities decreased by approximately \$635,000.

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. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

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

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

Other Supplementary Information provides detailed information about the non-major governmental funds and the indebtedness of the City.

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 service, 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 and the sanitary sewer system. These activities are financed primarily by user charges.

- Component unit information represents that of the New Hampton Municipal Electric Light Plant which is the only component unit included in the City's budget and annual reporting process. The Light Plant is separately audited, however limited information is presented discretely from that of the City's. A component unit is a legally separate entity but one whose financial and accounting practices are closely linked to those of the City.

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 Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund 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 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 and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$2,196,039 to \$2,150,883. The analysis that follows focuses on the changes in cash balances for governmental activities.

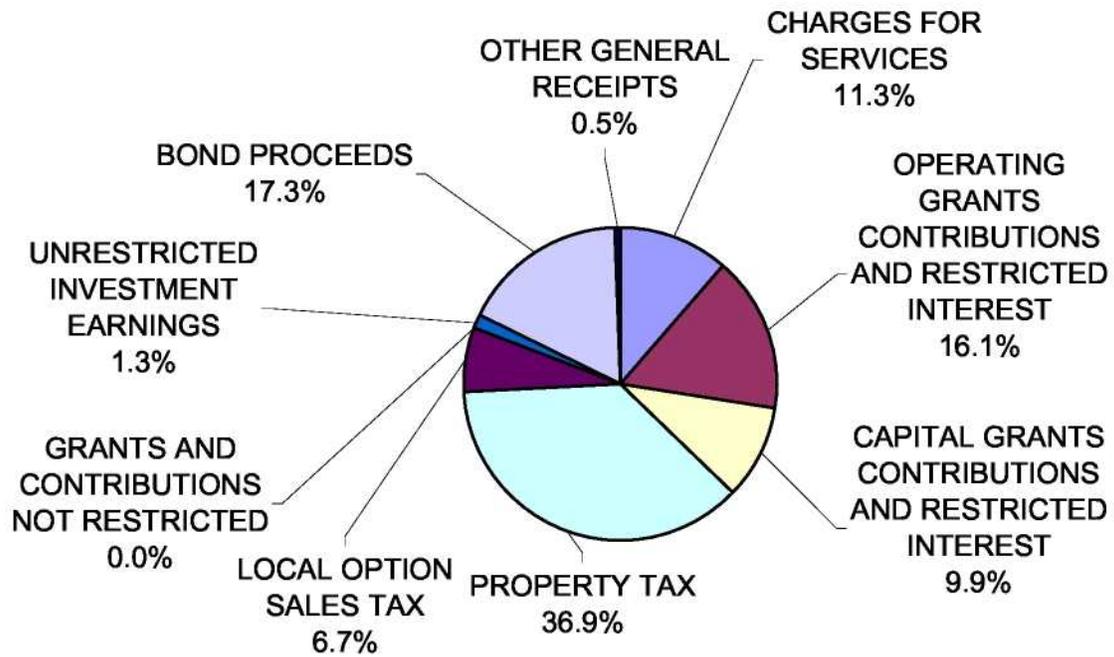
Changes in Cash Basis Net Assets of Governmental Activities

| | Year ended June 30, | | |
|--|---------------------|---------------------|---------------------|
| | 2005 | 2004 | 2003 |
| Receipts and transfers: | | | |
| Program receipts: | | | |
| Charges for service | \$ 403,065 | \$ 402,889 | \$ 309,451 |
| Operating grants, contributions and restricted interest | 578,096 | 504,575 | 718,751 |
| Capital grants, contributions and restricted interest | 354,439 | 102,287 | 471,398 |
| General receipts: | | | |
| Property tax | 1,322,485 | 1,349,932 | 1,440,994 |
| Local option sales tax | 239,685 | 231,446 | 345,431 |
| Grants and contributions not restricted to specific purposes | - | - | - |
| Unrestricted investment earnings | 44,909 | 75,649 | 106,404 |
| Bond proceeds | 620,000 | - | - |
| Sale of assets | - | 49,000 | - |
| Other general receipts | 19,017 | 12,898 | 22,678 |
| Transfers, net | - | - | - |
| Total receipts and transfers | <u>3,581,696</u> | <u>2,728,676</u> | <u>3,415,107</u> |
| Disbursements and transfers: | | | |
| Public safety | 474,699 | 452,200 | 445,072 |
| Public works | 365,578 | 348,886 | 375,085 |
| Health and social services | 3,655 | 3,607 | 3,607 |
| Culture and recreation | 577,764 | 570,504 | 517,958 |
| Community and economic development | 1,257,134 | 339,580 | 940,540 |
| General government | 401,524 | 503,406 | 473,947 |
| Debt service | 357,563 | 377,582 | 230,840 |
| Capital projects | 188,935 | 660,911 | 232,850 |
| Transfers, net | - | - | 19,528 |
| Total disbursements and transfers | <u>3,626,852</u> | <u>3,256,676</u> | <u>3,239,427</u> |
| Increase (decrease) in cash basis net assets | (45,156) | (528,000) | 175,680 |
| Cash basis net assets beginning of year | <u>2,196,039</u> | <u>2,724,039</u> | <u>2,548,359</u> |
| Cash basis net assets end of year | <u>\$ 2,150,883</u> | <u>\$ 2,196,039</u> | <u>\$ 2,724,039</u> |

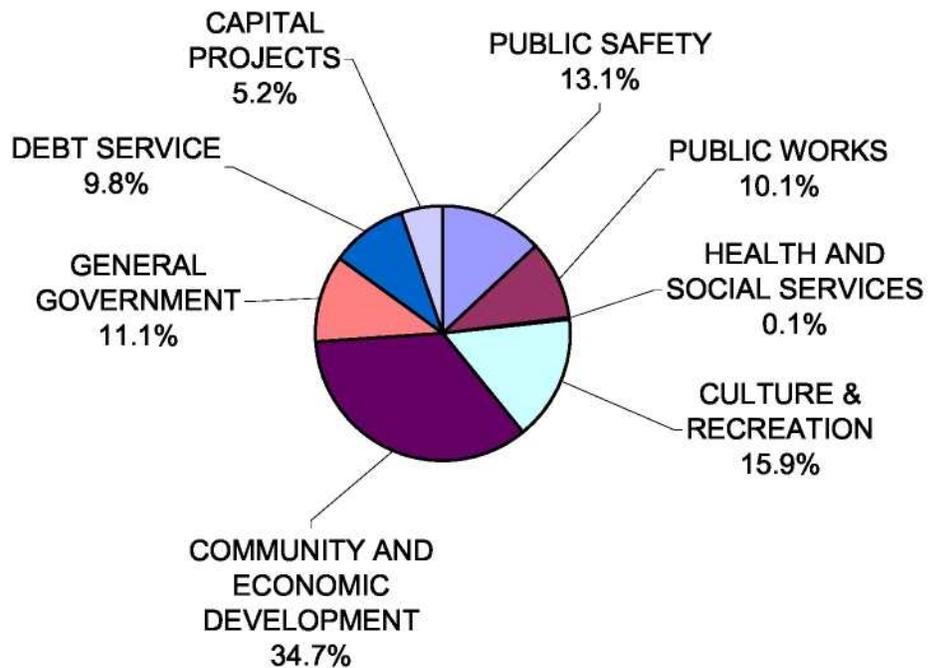
The City's total receipts for governmental activities increased by 31% or approximately \$853,000. The total cost of all programs and services increased by approximately \$370,000 or 11% with no new programs added this year. The increase in receipts was primarily from the bond proceeds and grant funds. The increase in expenditures was largely due to economic development grants awarded to a new industry locating in the community.

The cost of all governmental activities this year was \$3,626,852 compared to \$3,256,676 last year. However, as shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$988,251 because some of the cost was paid by those directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants, contributions and charges for services. Overall, the large cost of Capital Projects was financed by using cash reserves and a bond sale in 2005.

Receipts by Source



Disbursements by Function



The analysis that follows focuses on the changes in cash balances for business type activities:

Changes in Cash Basis Net Assets of Business Type Activities

| | Year ended June 30, | | |
|---|---------------------|---------------------|---------------------|
| | 2005 | 2004 | 2003 |
| Receipts and transfers: | | | |
| Program receipts: | | | |
| Charges for service | | | |
| Water | \$ 188,214 | \$ 183,775 | \$ 180,819 |
| Sewer | 498,061 | 487,617 | 489,291 |
| General receipts: | | | |
| Unrestricted investment earnings | 13,311 | | 33,792 |
| Other general receipts | 2,560 | - | - |
| Transfers | - | - | 19,528 |
| Total receipts and transfers | <u>702,146</u> | <u>671,392</u> | <u>723,430</u> |
| Disbursements and transfers: | | | |
| Water | 189,904 | 204,868 | 247,463 |
| Sewer | 1,147,256 | 571,543 | 572,859 |
| Transfers | - | - | - |
| Total disbursements and transfers | <u>1,337,160</u> | <u>776,411</u> | <u>820,322</u> |
| Increase (decrease) in cash balance | (635,014) | (105,019) | (96,892) |
| Cash basis net assets beginning of year | 1,458,120 | 1,563,139 | 1,660,031 |
| Cash basis net assets end of year | <u>\$ 823,106</u> | <u>\$ 1,458,120</u> | <u>\$ 1,563,139</u> |

Total business type activities receipts for the fiscal year were \$702,146 compared to \$671,392 last year. This increase was primarily due to an increase in utility revenues and miscellaneous revenue, as well as a water rate increase. The cash balance decreased by approximately \$635,000 because a Sewer Revenue Bond issue was called in its entirety. Total disbursements and transfers for the fiscal year increased by 72% for a total of \$1,337,160.

The component unit (Light Plant) had total cash receipts of \$7,186,776 for 2005 compared to \$3,034,510 for 2004. Total cash disbursements for 2005 was \$4,569,997 compared to \$3,382,310 for 2004. The cash balance increased \$2,616,779 to \$7,918,332.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of New Hampton completed the year, its governmental funds reported a combined fund balance of \$2,150,883, a decrease of more than \$45,000 compared to last year's total of \$2,196,039. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased by more than \$80,000. This is due in part to an increase in fuel, utilities, salaries, and static revenues.
- The Road Use Tax Fund cash balance increased by \$2,935 to \$132,015 during the fiscal year. This increase was attributable to the mild winter and the fact that not as many road maintenance projects were completed.
- The Urban Renewal Tax Increment Fund was established for Economic Development projects. The balance decreased by \$50,227 to \$562,990. The fund is used to collect incremental taxes and fund tax increment projects. The reserve balance in the fund will be used to finance water and sewer lines that have been constructed to serve the new industrial park.
- The Industrial Park Fund has a deficit balance of \$455,543. This fund includes expenditures for the water and sewer project to the new industrial park, as well as several other capital projects. When complete, this will be funded by the reserve balance in the Tax Increment Fund as well as from General Obligation bonds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$2,291 to \$581,120.
- The Sewer Fund cash balance decreased by \$637,305 to \$241,986, due primarily to the cost of retiring an entire bond issue.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. This amendment increased budgeted disbursements by \$2,692,098. The City had sufficient cash balances to absorb these additional costs. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the debt service function by \$199.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$2,700,694 in bonds and other long-term debt, compared to approximately \$2,968,360 last year, as shown below:

Outstanding Debt at Year-End

| | Year ended June 30, | | |
|---|---------------------|---------------------|---------------------|
| | 2005 | 2004 | 2003 |
| General obligation bonds | \$ 2,590,000 | \$ 2,105,000 | \$ 2,235,000 |
| Revenue notes | - | 640,000 | 745,000 |
| Urban renewal tax increment financing revenue bonds | 110,694 | 223,360 | 347,615 |
| Total | <u>\$ 2,700,694</u> | <u>\$ 2,968,360</u> | <u>\$ 3,327,615</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 \$2,590,000 is significantly below its constitutional debt limit of \$7,869,034.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of New Hampton's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. Unemployment in the County now stands at 5.7%, versus 6.3% a year ago. This compares with the State's unemployment rate of 4.1% and the national rate of 4.7%.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2005 compared with the national rate of 3.4 percent.

These indicators were taken into account when adopting the budget for fiscal year 2006. Amounts available for appropriation in the operating budget are \$3.36 million, an increase of 5% over the final 2005 budget. This increase is due to several factors. In 2005 the City used reserves to fund several capital projects, and also received a large amount of grant funds for a new industrial facility that will employ 150 persons.

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 Suellen Kolbet, City Clerk at 641-394-5906.

BASIC FINANCIAL STATEMENTS

CITY OF NEW HAMPTON
 STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
 As of and for the year ended June 30, 2005

| Functions/Programs | Program Receipts | | | | Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | | | |
|---|-----------------------|----------------------|--|--|---|--------------------------|---------------------|---------------------|
| | Disbursements | Charges for Services | Operating Grants, Contributions, and Restricted Interest | Capital Grants, Contributions, and Restricted Interest | Primary Government | | | Component Unit |
| | | | | | Governmental Activities | Business Type Activities | Total | Light Plant |
| Primary government | | | | | | | | |
| Governmental activities | | | | | | | | |
| Public safety | \$ (474,699) | \$ 15,468 | \$ 16,613 | \$ - | \$ (442,618) | \$ - | \$ (442,618) | \$ - |
| Public works | (365,578) | 152,624 | 306,975 | - | 94,021 | - | 94,021 | - |
| Health and social services | (3,655) | - | - | - | (3,655) | - | (3,655) | - |
| Culture and recreation | (577,764) | 116,552 | 53,310 | 246,388 | (161,514) | - | (161,514) | - |
| Community and economic development | (1,257,134) | 48,666 | 186,198 | 108,051 | (914,219) | - | (914,219) | - |
| General government | (401,524) | 69,755 | 15,000 | - | (316,769) | - | (316,769) | - |
| Debt service | (357,563) | - | - | - | (357,563) | - | (357,563) | - |
| Capital projects | (188,935) | - | - | - | (188,935) | - | (188,935) | - |
| Total governmental activities | <u>(3,626,852)</u> | <u>403,065</u> | <u>578,096</u> | <u>354,439</u> | <u>(2,291,252)</u> | <u>-</u> | <u>(2,291,252)</u> | <u>-</u> |
| Business type activities | | | | | | | | |
| Water | (189,904) | 188,214 | - | - | - | (1,690) | (1,690) | - |
| Sewer | (1,147,256) | 498,061 | - | - | - | (649,195) | (649,195) | - |
| Total business type activities | <u>(1,337,160)</u> | <u>686,275</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(650,885)</u> | <u>(650,885)</u> | <u>-</u> |
| Total primary government | <u>\$ (4,964,012)</u> | <u>\$ 1,089,340</u> | <u>\$ 578,096</u> | <u>\$ 354,439</u> | <u>(2,291,252)</u> | <u>(650,885)</u> | <u>(2,942,137)</u> | <u>-</u> |
| Component unit | | | | | | | | |
| Light plant | <u>\$ (4,569,997)</u> | <u>\$ 3,069,564</u> | <u>\$ -</u> | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,500,433)</u> |
| General Receipts | | | | | | | | |
| Property tax levied for | | | | | | | | |
| General purposes | | | | | 943,040 | - | 943,040 | - |
| Tax increment financing | | | | | 334,234 | - | 334,234 | - |
| Debt service | | | | | 45,211 | - | 45,211 | - |
| Local option sales tax | | | | | 239,685 | - | 239,685 | - |
| Grants and contributions not restricted to specific purpose | | | | | - | - | - | - |
| Unrestricted interest on investments | | | | | 44,909 | 13,311 | 58,220 | 116,587 |
| Bond proceeds | | | | | 620,000 | - | 620,000 | 3,900,000 |
| Miscellaneous | | | | | 19,017 | 2,560 | 21,577 | 100,625 |
| Sale of assets | | | | | - | - | - | - |
| Transfers | | | | | - | - | - | - |
| Total general receipts and transfers | | | | | <u>2,246,096</u> | <u>15,871</u> | <u>2,261,967</u> | <u>4,117,212</u> |
| Change in cash basis net assets | | | | | (45,156) | (635,014) | (680,170) | 2,616,779 |
| Cash basis net assets beginning of year | | | | | <u>2,196,039</u> | <u>1,458,120</u> | <u>3,654,159</u> | <u>5,301,553</u> |
| Cash basis net assets end of year | | | | | <u>\$ 2,150,883</u> | <u>\$ 823,106</u> | <u>\$ 2,973,989</u> | <u>\$ 7,918,332</u> |
| Cash Basis Net Assets | | | | | | | | |
| Restricted | | | | | | | | |
| Streets | | | | | \$ 132,015 | \$ - | \$ 132,015 | \$ - |
| Urban renewal purposes | | | | | 562,990 | - | 562,990 | - |
| Debt service | | | | | (223) | - | (223) | 1,918,809 |
| Other purposes | | | | | 199,980 | - | 199,980 | - |
| Unrestricted | | | | | <u>1,256,121</u> | <u>823,106</u> | <u>2,079,227</u> | <u>5,999,523</u> |
| Total cash basis net assets | | | | | <u>\$ 2,150,883</u> | <u>\$ 823,106</u> | <u>\$ 2,973,989</u> | <u>\$ 7,918,332</u> |

See notes to financial statements.

CITY OF NEW HAMPTON

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

As of and for the year ended June 30, 2005

| | General | Special Revenue | | Capital | Other Nonmajor | Total |
|--|------------------|-----------------|----------------------------|-------------------------------|-----------------------|------------------|
| | | Road Use Tax | Urban Renewal Increment | Project Industrial Park | Governmental Funds | |
| Receipts | | | | | | |
| Property tax | \$ 697,782 | \$ - | \$ - | \$ - | \$ 263,166 | \$ 960,948 |
| Tax increment financing collections | - | - | 334,234 | - | - | 334,234 |
| Other city tax | 25,792 | - | - | - | 241,196 | 266,988 |
| Licenses and permits | 13,224 | - | - | - | - | 13,224 |
| Use of money and property | 53,407 | - | - | 291 | 2,764 | 56,462 |
| Intergovernmental | 106,412 | 306,975 | - | 80,000 | 310,528 | 803,915 |
| Charges for service | 353,156 | - | - | - | - | 353,156 |
| Special assessments | - | - | - | - | - | - |
| Miscellaneous | 111,877 | - | - | 27,760 | 33,132 | 172,769 |
| Total receipts | 1,361,650 | 306,975 | 334,234 | 108,051 | 850,786 | 2,961,696 |
| Disbursements | | | | | | |
| Operating | | | | | | |
| Public safety | 422,059 | - | - | - | 52,640 | 474,699 |
| Public works | 79,038 | 286,540 | - | - | - | 365,578 |
| Health and social services | 3,655 | - | - | - | - | 3,655 |
| Culture and recreation | 483,485 | - | - | - | 94,279 | 577,764 |
| Community and economic development | 94,972 | - | 247,099 | 583,822 | 331,241 | 1,257,134 |
| General government | 334,539 | - | - | - | 66,985 | 401,524 |
| Debt service | - | - | 112,320 | - | 245,243 | 357,563 |
| Capital projects | 178,811 | - | - | - | 10,124 | 188,935 |
| Total disbursements | 1,596,559 | 286,540 | 359,419 | 583,822 | 800,512 | 3,626,852 |
| Excess of receipts over (under) disbursements | (234,909) | 20,435 | (25,185) | (475,771) | 50,274 | (665,156) |

CITY OF NEW HAMPTON

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

As of and for the year ended June 30, 2005

| | General | Special Revenue | | Capital Project | Other Nonmajor Governmental Funds | Total |
|--------------------------------------|--------------|-----------------|----------------------------|--------------------|---|--------------|
| | | Road Use Tax | Urban Renewal Increment | Industrial Park | | |
| Other financing sources (uses) | | | | | | |
| Bond proceeds | - | - | - | 620,000 | - | 620,000 |
| Sale of capital assets | - | - | - | - | - | - |
| Operating transfers in | 244,547 | - | - | - | 215,321 | 459,868 |
| Operating transfers out | (90,150) | (17,500) | (25,042) | - | (327,176) | (459,868) |
| Total other financing sources (uses) | 154,397 | (17,500) | (25,042) | 620,000 | (111,855) | 620,000 |
| Net change in cash balances | (80,512) | 2,935 | (50,227) | 144,229 | (61,581) | (45,156) |
| Cash balances beginning of year | 1,336,633 | 129,080 | 613,217 | (599,772) | 716,881 | 2,196,039 |
| Cash balances end of year | \$ 1,256,121 | \$ 132,015 | \$ 562,990 | \$ (455,543) | \$ 655,300 | \$ 2,150,883 |
| Cash Basis Fund Balances | | | | | | |
| Reserved | | | | | | |
| Debt service | \$ - | \$ - | \$ - | \$ - | \$ (223) | \$ (223) |
| Unreserved | | | | | | |
| General fund | 1,256,121 | - | - | - | - | 1,256,121 |
| Special revenue funds | - | 132,015 | 562,990 | - | 570,294 | 1,265,299 |
| Capital projects fund | - | - | - | (455,543) | 13,567 | (441,976) |
| Permanent fund | - | - | - | - | 71,662 | 71,662 |
| Total cash basis fund balances | \$ 1,256,121 | \$ 132,015 | \$ 562,990 | \$ (455,543) | \$ 655,300 | \$ 2,150,883 |

CITY OF NEW HAMPTON

RECONCILIATION OF THE STATEMENT OF CASH
RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2005

| | |
|--|----------------------------|
| Total governmental funds cash balances (page 13) | \$ 2,150,883 |
| Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because: | |
| Not applicable | <u> -</u> |
| Cash basis net assets of governmental activities (page 11) | <u>\$ 2,150,883</u> |
| Net change in cash balances (page 13) | \$ (45,156) |
| Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because: | |
| Not applicable | <u> -</u> |
| Change in cash balance of governmental activities (page 11) | <u>\$ (45,156)</u> |

See notes to financial statements.

CITY OF NEW HAMPTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the year ended June 30, 2005

| | Enterprise Funds | | | Component Unit |
|--|--------------------|-------------------|-------------------|---------------------|
| | Primary Government | | | |
| | Water | Sewer | Total | Light Plant |
| Operating receipts: | | | | |
| Charges for service | \$ 156,506 | \$ 488,776 | \$ 645,282 | \$ 3,069,564 |
| Miscellaneous | 31,708 | 9,285 | 40,993 | 100,625 |
| Total operating receipts | <u>188,214</u> | <u>498,061</u> | <u>686,275</u> | <u>3,170,189</u> |
| Operating disbursements: | | | | |
| Business type activities | 189,904 | 466,043 | 655,947 | 4,569,997 |
| Total operating disbursements | <u>189,904</u> | <u>466,043</u> | <u>655,947</u> | <u>4,569,997</u> |
| Excess of operating receipts over (under) operating disbursements | <u>(1,690)</u> | <u>32,018</u> | <u>30,328</u> | <u>(1,399,808)</u> |
| Non-operating receipts (disbursements): | | | | |
| Interest on investments | 3,289 | 10,022 | 13,311 | 116,587 |
| Bond proceeds | - | - | - | 3,900,000 |
| Miscellaneous | 692 | 1,868 | 2,560 | - |
| Debt service | - | (681,213) | (681,213) | - |
| Total non-operating receipts (disbursements) | <u>3,981</u> | <u>(669,323)</u> | <u>(665,342)</u> | <u>4,016,587</u> |
| Excess of receipts over (under) disbursements | 2,291 | (637,305) | (635,014) | 2,616,779 |
| Transfers | | | | |
| Operating transfers in | 59,800 | 835,368 | 895,168 | - |
| Operating transfers out | (59,800) | (835,368) | (895,168) | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in cash balances | 2,291 | (637,305) | (635,014) | 2,616,779 |
| Cash balances beginning of year | 578,829 | 879,291 | 1,458,120 | 5,301,553 |
| Cash balances end of year | <u>\$ 581,120</u> | <u>\$ 241,986</u> | <u>\$ 823,106</u> | <u>\$ 7,918,332</u> |
| Cash Basis Fund Balance | | | | |
| Reserved for debt service | \$ - | \$ - | \$ - | \$ 1,918,809 |
| Unreserved | 581,120 | 241,986 | 823,106 | 5,999,523 |
| Total cash basis fund balances | <u>\$ 581,120</u> | <u>\$ 241,986</u> | <u>\$ 823,106</u> | <u>\$ 7,918,332</u> |

See notes to financial statements.

CITY OF NEW HAMPTON

RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
PROPRIETARY FUNDS

As of and for the year ended June 30, 2005

| | |
|---|---------------------|
| Total enterprise funds cash balances (page 15) | \$ 823,106 |
| Amounts reported for business type activities in the Statement of Activities and Net Assets are different because: | |
| Not applicable | <u>-</u> |
| Cash basis net assets of business type activities (page 11) | <u>\$ 823,106</u> |
| Net change in cash balances (page 15) | \$ (635,014) |
| Amounts reported for business type activities in the Statement of Activities and Net Assets are different because: | |
| Not applicable | <u>-</u> |
| Change in cash balance of business type activities (page 11) | <u>\$ (635,014)</u> |

See notes to financial statements.

CITY OF NEW HAMPTON
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of New Hampton is a political subdivision of the State of Iowa located in Chickasaw County. It was first incorporated in 1873 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 government. The City also provides water and sewer utilities for its citizens as well as electrical power through the component unit noted below.

A. Reporting Entity

Except as discussed below for financial reporting purposes, City of New 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.

These financial statements present the City of New Hampton (the primary government) and the discretely presented component unit, New Hampton Municipal Electric Light Plant. The component unit discussed below is included in the City's reporting entity because of the significance of the operational or financial relationship with the City.

The New Hampton Municipal Electric Light Plant is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Light Plant is governed by a five-member board appointed by the City Council and Utility's operating budget is subject to the approval of the City Council. The Light Plant has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

The following component units are not included in the City's reporting entity because the financial transactions were not available.

The New Hampton Firefighters Association is legally separate from the City. The Association has been established to prevent and extinguish fires and to protect lives and property against fires, to promote fire prevention and fire safety and to answer all emergency calls for which there is no other established agency. Although the Association is legally separate from the City, its purpose is to benefit the City of New Hampton (the primary government) by providing the above services and by soliciting contributions and managing those funds.

CITY OF NEW HAMPTON
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Reporting Entity (continued)

The New Hampton Public Library Memorial Foundation is legally separate from the City. Although the New Hampton Public Library Memorial Foundation is legally separate from the City, its purpose is to benefit the City of New Hampton (the primary government) by maintaining an association of persons interested in the New Hampton Public Library, to promote and stimulate use of the New Hampton Public Library, to work with and support the library staff and Board of Trustees in their efforts to inform and educate the public as to the library's resources and services and to generate financial support for the further development of library services.

Jointly Governed Organizations - The City also 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: Chickasaw County Emergency Management, Chickasaw County Ambulance Service, Chickasaw County Joint Communication System, Iowa Northland Region Council of Governments, Floyd-Mitchell Solid Waste Agency, Economic Development Advisory Board, and Chickasaw County Assessor's Conference Board.

B. Basis of Presentation

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

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

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

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

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

CITY OF NEW HAMPTON
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation – (continued)

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 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 road construction and maintenance.

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

Capital Projects:

Industrial Park is used to account for capital improvements being done on the City's Industrial park area.

The City reports the following major proprietary funds:

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

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

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.

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.

CITY OF NEW HAMPTON
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the debt service function.

NOTE 2 - CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2005 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 had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

CITY OF NEW HAMPTON
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2005

NOTE 3 - BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds and urban renewal tax increment financing revenue bonds are as follows:

| Year Ending June 30, | General Obligation Bonds | | Tax Increment Financing (TIF) Bonds | | Total | |
|----------------------------|--------------------------|-------------------|--|-----------------|---------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2006 | \$ 190,000 | \$ 113,186 | \$ 90,219 | \$ 7,220 | \$ 280,219 | \$ 120,406 |
| 2007 | 200,000 | 102,353 | 16,886 | 1,296 | 216,886 | 103,649 |
| 2008 | 210,000 | 94,468 | 3,589 | 215 | 213,589 | 94,683 |
| 2009 | 220,000 | 85,970 | - | - | 220,000 | 85,970 |
| 2010 | 230,000 | 76,913 | - | - | 230,000 | 76,913 |
| 2011 - 2015 | 1,065,000 | 245,484 | - | - | 1,065,000 | 245,484 |
| 2016 - 2020 | 475,000 | 45,045 | - | - | 475,000 | 45,045 |
| | <u>\$ 2,590,000</u> | <u>\$ 763,419</u> | <u>\$ 110,694</u> | <u>\$ 8,731</u> | <u>\$ 2,700,694</u> | <u>\$ 772,150</u> |

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

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

NOTE 4 - PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$60,627, \$58,030, and \$54,950, respectively, equal to the required contributions for each year.

CITY OF NEW HAMPTON
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2005

NOTE 5 - COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

| | |
|------------|------------------|
| Vacation | \$ 42,287 |
| Sick leave | <u>36,737</u> |
| Total | <u>\$ 79,024</u> |

This liability has been computed based on rates of pay in effect at June 30, 2005.

NOTE 6 - ECONOMIC DEVELOPMENT

The City, to encourage economic development, provides rebates to businesses and developers. The rebates are paid only from incremental property taxes therefore do not constitute a general obligation of the City. Terms of the rebates vary according to the agreement. The City as of June 30, 2005 had a total of \$3,723,233 to pay in rebates through the year 2018.

NOTE 7 - MAJOR UTILITY CONSUMER

An agreement, dated November 12, 1993, with a consumer states that the City will provide it with sewage treatment services for a period of fifteen years, beginning November 1993, with the stipulation that the consumer share in the additional cost of providing that service and to guarantee the City a minimum of \$77,000 per year. The amounts paid to the City are in lieu of any other rates or charges for the service.

NOTE 8 - RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials totaling \$1,222 during the year ended June 30, 2005.

CITY OF NEW HAMPTON
 NOTES TO FINANCIAL STATEMENTS
 Year ended June 30, 2005

NOTE 9 – TRANSFERS

The detail of interfund and intrafund transfers for the year ended June 30, 2005 are as follows:

| Transfers to | | Transfers from | |
|-------------------------------|-------------------|-----------------------------|-------------------|
| General | | Special Revenue | |
| General | \$ 4,123 | Trust | <u>\$ 4,123</u> |
| General | 2,923 | Permanent | |
| | | Cemetery Perpetual Care | <u>\$ 2,923</u> |
| Equipment replacement | 77,500 | General | |
| Equipment replacement | 17,500 | General | <u>\$ 77,500</u> |
| General | <u>22,755</u> | Special Revenue | |
| | <u>\$ 124,801</u> | Road Use Tax | <u>\$ 17,500</u> |
| | | Special Revenue | |
| | | Emergency | <u>\$ 22,755</u> |
| Special Revenue | | Special Revenue | |
| Housing Rehabilitation | <u>\$ 2,835</u> | Urban Renewal Tax Increment | \$ 2,835 |
| Debt Service | | Urban Renewal Tax Increment | 14,788 |
| TIF Obligation Bonds | <u>\$ 14,788</u> | Urban Renewal Tax Increment | <u>3,974</u> |
| Capital Projects | | | <u>\$ 21,597</u> |
| TIF Project | <u>\$ 3,974</u> | Special Revenue | |
| Debt Service | | Local Option Sales Tax | <u>\$ 178,133</u> |
| General Obligation Bond | <u>\$ 178,133</u> | Water | |
| Water | | Water | <u>\$ 59,800</u> |
| Equipment replacement - water | <u>\$ 59,800</u> | Sewer | |
| Sewer | | Sewer | \$ 150,000 |
| Revenue Bond | \$ 150,000 | Sewer | 10,000 |
| Equipment replacement - sewer | 10,000 | Sewer reserve | <u>3,561</u> |
| Sewer | <u>3,561</u> | | <u>\$ 163,561</u> |
| | <u>\$ 163,561</u> | | |

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

CITY OF NEW HAMPTON
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2005

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 - DEFICIT FUND BALANCE

The City had the following deficit fund balances at June 30, 2005:

| | |
|------------------------------|----------|
| Special Revenue | |
| Housing Rehabilitation Grant | \$ 1,753 |
| Grants | 6,197 |
| Library Improvement | 13,400 |
| Debt Service | |
| General Obligation Bonds | 223 |
| Capital Projects | |
| Industrial Park Development | 455,543 |
| TIF | 42 |

The deficits in the special revenue will be eliminated by a transfer of funds from the general fund and receipt of grant proceeds. The deficits in the capital projects accounts will decrease as TIF and other financing is acquired to complete projects in progress

NOTE 12 - SELF FUNDING

The City has established a partially self-funded group medical plan which is on a calendar year basis. The plan allows the City lower monthly premiums for coverage in exchange for the potential of claims actually filed. If all the covered individuals submitted the maximum claim to be paid by the City, the total would be \$237,900. As of June 30, 2005, \$50,342 in claims had been paid.

NOTE 13 - GENERAL FUND BALANCE

The City has designated \$816,746 of the \$1,256,121 General Fund balance to be available for equipment replacement and special projects.

NOTE 14 - COMMITMENTS

The City belongs to a 28E with the County and local School to construct and operate a wellness center. The City has agreed to contribute \$100,000 towards the project. The City has given \$60,000 to date and will pay \$10,000 per year for the next four to complete its obligation.

NOTE 15 - SUBSEQUENT EVENTS

In August 2005, the City entered into a construction contract for \$489,081 for additional work to be done in the industrial park.

Required Supplementary Information

CITY OF NEW HAMPTON
 BUDGETARY COMPARISON SCHEDULE
 OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) -
 ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

As of and for the year ended June 30, 2005

| | Primary Government | | Component Unit | Less Funds Not Required to be Budgeted | Net | Budgeted Amounts | | Final to Net Variance |
|--|--------------------|-------------------|----------------|--|---------------|------------------|--------------|-----------------------|
| | Governmental Funds | Proprietary Funds | | | | Original | Final | |
| | Actual | Actual | | | | | | |
| Receipts | | | | | | | | |
| Property tax | \$ 960,948 | \$ - | \$ - | \$ - | \$ 960,948 | \$ 957,933 | \$ 957,933 | \$ 3,015 |
| Tax increment financing collections | 334,234 | - | - | - | 334,234 | 310,281 | 310,281 | 23,953 |
| Other city tax | 266,988 | - | - | - | 266,988 | 258,721 | 258,721 | 8,267 |
| Licenses and permits | 13,224 | - | - | - | 13,224 | 14,500 | 14,500 | (1,276) |
| Use of money and property | 56,462 | 13,311 | 116,587 | - | 186,360 | 257,226 | 257,226 | (70,866) |
| Intergovernmental | 803,915 | - | - | - | 803,915 | 418,439 | 1,331,246 | (527,331) |
| Charges for service | 353,156 | 645,282 | 3,069,564 | - | 4,068,002 | 3,310,050 | 3,310,050 | 757,952 |
| Special assessments | - | - | - | - | - | - | - | - |
| Miscellaneous | 172,769 | 43,553 | 100,625 | 74,058 | 242,889 | 57,400 | 100,946 | 141,943 |
| Total receipts | 2,961,696 | 702,146 | 3,286,776 | 74,058 | 6,876,560 | 5,584,550 | 6,540,903 | 335,657 |
| Disbursements | | | | | | | | |
| Public safety | 474,699 | - | - | - | 474,699 | 477,332 | 484,265 | (9,566) |
| Public works | 365,578 | - | - | - | 365,578 | 432,382 | 435,930 | (70,352) |
| Health and social services | 3,655 | - | - | - | 3,655 | 3,703 | 3,703 | (48) |
| Culture and recreation | 577,764 | - | - | - | 577,764 | 511,955 | 611,165 | (33,401) |
| Community and economic development | 1,257,134 | - | - | - | 1,257,134 | 294,263 | 1,272,137 | (15,003) |
| General government | 401,524 | - | - | 74,058 | 327,466 | 335,112 | 339,848 | (12,382) |
| Debt service | 357,563 | - | - | - | 357,563 | 357,364 | 357,364 | 199 |
| Capital projects | 188,935 | - | - | - | 188,935 | 360,000 | 682,093 | (493,158) |
| Business type activities | - | 1,337,160 | 4,569,997 | - | 5,907,157 | 5,439,705 | 6,717,409 | (810,252) |
| Total disbursements | 3,626,852 | 1,337,160 | 4,569,997 | 74,058 | 9,459,951 | 8,211,816 | 10,903,914 | (1,443,963) |
| Excess of receipts over (under) disbursements | (665,156) | (635,014) | (1,283,221) | - | (2,583,391) | (2,627,266) | (4,363,011) | 1,779,620 |
| Other financing sources, net | 620,000 | - | 3,900,000 | - | 4,520,000 | 400,000 | 620,000 | 3,900,000 |
| Excess of receipts and other financing sources over (under) disbursements and other financing uses | (45,156) | (635,014) | 2,616,779 | - | 1,936,609 | (2,227,266) | (3,743,011) | 5,679,620 |
| Balances beginning of year | 2,196,039 | 1,458,120 | 5,301,553 | - | 8,955,712 | 6,985,507 | 6,985,507 | 1,970,205 |
| Balances end of year | \$ 2,150,883 | \$ 823,106 | \$ 7,918,332 | \$ - | \$ 10,892,321 | \$ 4,758,241 | \$ 3,242,496 | \$ 7,649,825 |

See accompanying independent auditor's report.

CITY OF NEW HAMPTON

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING

June 30, 2005

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 including the New Hampton Municipal Electric Light Plant. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary 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, the budget was amended once to increase budgeted disbursements by \$2,692,098. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the debt service function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF NEW HAMPTON
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2005

| | Special Revenue | | | | | | | Debt Service | | Capital Projects | | | | Permanent | Total | |
|---|-------------------|-----------------|------------------------|------------------------|-------------------|-------------------|---------------------|---------------------|--------------------------|----------------------|---------------|----------------|---------------------|-----------------|-------------------|-------------------------|
| | Employee Benefits | Emergency | Local Option Sales Tax | Housing Rehabilitation | | Trust | Library Improvement | Park & Rec. Special | General Obligation Bonds | TIF Obligation Bonds | Swimming Pool | TIF Project | Wastewater Facility | Street Program | | Cemetery Perpetual Care |
| | | | | Grant | Grants | | | | | | | | | | | |
| Receipts | | | | | | | | | | | | | | | | |
| Property tax | \$ 195,861 | \$ 22,327 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 44,978 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 263,166 |
| Other city tax | 1,147 | 131 | 239,685 | - | - | - | - | 233 | - | - | - | - | - | - | 241,196 | |
| Use of money and property | - | - | - | - | - | 1,383 | - | - | - | - | 1 | - | - | - | 2,764 | |
| Intergovernmental | - | - | - | 47,659 | 262,869 | - | - | - | - | - | - | - | - | - | 310,528 | |
| Special assessments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | |
| Miscellaneous | 1,314 | - | - | 5,058 | - | - | 25,000 | - | - | - | - | - | - | - | 33,132 | |
| Total receipts | 198,322 | 22,458 | 239,685 | 52,717 | 262,869 | 1,383 | 25,000 | - | 45,211 | - | 1 | - | - | - | 850,786 | |
| Disbursements | | | | | | | | | | | | | | | | |
| Operating | | | | | | | | | | | | | | | | |
| Public safety | 52,640 | - | - | - | - | - | - | - | - | - | - | - | - | - | 52,640 | |
| Public works | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | |
| Health and social services | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | |
| Culture and recreation | 25,279 | - | - | - | - | - | 69,000 | - | - | - | - | - | - | - | 94,279 | |
| Community and economic development | 20,375 | - | - | 49,106 | 261,760 | - | - | - | - | - | - | - | - | - | 331,241 | |
| General government | 66,985 | - | - | - | - | - | - | - | - | - | - | - | - | - | 66,985 | |
| Debt service | - | - | - | - | - | - | - | 230,283 | 14,960 | - | - | - | - | - | 245,243 | |
| Capital projects | - | - | - | - | - | - | - | - | - | - | 10,124 | - | - | - | 10,124 | |
| Total disbursements | 165,279 | - | - | 49,106 | 261,760 | - | 69,000 | - | 230,283 | 14,960 | - | 10,124 | - | - | 800,512 | |
| Excess of receipts over (under) disbursements | 33,043 | 22,458 | 239,685 | 3,611 | 1,109 | 1,383 | (44,000) | - | (185,072) | (14,960) | 1 | (10,124) | - | - | 50,274 | |
| Other financing sources (uses) | | | | | | | | | | | | | | | | |
| Operating transfers in | - | - | - | - | - | 10,547 | - | - | 179,732 | 14,960 | - | 10,082 | - | - | 215,321 | |
| Operating transfers out | (107,094) | (22,458) | (179,732) | - | - | (5,985) | - | - | - | - | - | - | - | - | (327,176) | |
| Total other financing sources (uses) | (107,094) | (22,458) | (179,732) | - | - | 4,562 | - | - | 179,732 | 14,960 | - | 10,082 | - | - | (111,855) | |
| Net change in cash balances | (74,051) | - | 59,953 | 3,611 | 1,109 | 5,965 | (44,000) | - | (5,340) | - | 1 | (42) | - | - | (61,581) | |
| Cash balances beginning of year | 78,688 | - | 419,430 | (5,364) | (7,306) | 99,320 | 30,600 | 2,339 | 5,117 | - | 7 | - | 11,133 | 2,468 | 80,449 | |
| Cash balances end of year | \$ 4,637 | \$ - | \$ 479,383 | \$ (1,753) | \$ (6,197) | \$ 105,285 | \$ (13,400) | \$ 2,339 | \$ (223) | \$ - | \$ 8 | \$ (42) | \$ 11,133 | \$ 2,468 | \$ 71,662 | |
| Cash Basis Fund Balances | | | | | | | | | | | | | | | | |
| Reserved | | | | | | | | | | | | | | | | |
| Debt Service | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (223) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (223) | |
| Unreserved | | | | | | | | | | | | | | | | |
| Special revenue funds | 4,637 | - | 479,383 | (1,753) | (6,197) | 105,285 | (13,400) | 2,339 | - | - | - | - | - | - | 570,294 | |
| Capital projects fund | - | - | - | - | - | - | - | - | - | - | 8 | (42) | 11,133 | 2,468 | 13,567 | |
| Permanent fund | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 71,662 | |
| Total cash basis fund balances | \$ 4,637 | \$ - | \$ 479,383 | \$ (1,753) | \$ (6,197) | \$ 105,285 | \$ (13,400) | \$ 2,339 | \$ (223) | \$ - | \$ 8 | \$ (42) | \$ 11,133 | \$ 2,468 | \$ 655,300 | |

See accompanying independent auditor's report.

CITY OF NEW HAMPTON
SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2005

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued | Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid | Interest Due and Unpaid | Bond Due and Unpaid |
|--|---------------|----------------|--------------------------|---------------------------|--------------------|----------------------|---------------------|------------------|-------------------------|---------------------|
| General Obligation Bonds | | | | | | | | | | |
| Wastewater treatment plant | Jan 1, 1999 | 3.85 - 4.70% | \$ 2,200,000 | \$ 1,800,000 | \$ - | \$ 100,000 | \$ 1,700,000 | \$ 79,333 | \$ - | \$ - |
| Swimming pool restoration | Jan 11, 2001 | 4.75 - 5.10 | 395,000 | 305,000 | - | 35,000 | 270,000 | 15,150 | - | - |
| Debt Service Loan Agreement | Apr 1, 2005 | 2.60 - 3.90 | 620,000 | - | 620,000 | - | 620,000 | - | - | - |
| Total | | | | \$ 2,105,000 | \$ 620,000 | \$ 135,000 | \$ 2,590,000 | \$ 94,483 | \$ - | \$ - |
| Urban Renewal Tax Increment Financing (TIF) Revenue Bonds | | | | | | | | | | |
| *Fareway | Dec 1, 1990 | 6.00 - 7.00% | \$ 137,500 | \$ 28,000 | \$ - | \$ 13,000 | \$ 15,000 | \$ 1,960 | \$ - | \$ - |
| DJ's | Jun 1, 1993 | 8.00 | 19,000 | 2,750 | - | 2,750 | - | 220 | - | - |
| Tri-State Signing | Jul 8, 1994 | 6.50 | 18,500 | 2,500 | - | 2,500 | - | 163 | - | - |
| Zip's Truck Equipment | Jul 8, 1994 | 6.50 | 59,000 | 15,000 | - | 7,200 | 7,800 | 975 | - | - |
| New Hampton Metal Fabrication | Jul 8, 1994 | 6.50 | 8,100 | 1,900 | - | 950 | 950 | 124 | - | - |
| Plum Building Systems | Jul 8, 1994 | 6.50 | 54,000 | 13,875 | - | 6,600 | 7,275 | 902 | - | - |
| Custom Foods | Jul 26, 1994 | 6.50 | 315,000 | 80,000 | - | 39,000 | 41,000 | 5,200 | - | - |
| Dr. Boeding | Jul 26, 1994 | 6.50 | 14,500 | 3,700 | - | 1,800 | 1,900 | 241 | - | - |
| New Hampton Electric | Dec 9, 1994 | 6.50 | 7,000 | 1,200 | - | 1,200 | - | 78 | - | - |
| Tom's Restaurant | Dec 9, 1994 | 6.50 | 4,650 | 1,125 | - | 525 | 600 | 73 | - | - |
| Precision of New Hampton | Dec 9, 1994 | 6.50 | 5,000 | 775 | - | 775 | - | 50 | - | - |
| Tri-Mark #3 | Jan 27, 1995 | 6.50 | 125,000 | 17,000 | - | 17,000 | - | 1,105 | - | - |
| Super 8 Motel | Aug 3, 1995 | 6.50 | 117,500 | 38,500 | - | 12,500 | 26,000 | 2,503 | - | - |
| Brummond | Sept 19, 1996 | 6.50 | 12,000 | 2,500 | - | 2,500 | - | 150 | - | - |
| Schluetter | Nov 6, 1997 | 6.00 | 8,000 | 1,353 | - | 1,353 | - | 81 | - | - |
| Gage | Nov 6, 1997 | 6.00 | 28,000 | 13,182 | - | 3,013 | 10,169 | 791 | - | - |
| Total | | | | \$ 186,443 | \$ - | \$ 112,666 | \$ 110,694 | \$ 14,616 | \$ - | \$ - |
| Revenue Bonds | | | | | | | | | | |
| Sewer | May 1, 1994 | 5.70 - 6.50% | \$ 1,500,000 | \$ 640,000 | \$ - | \$ 640,000 | \$ - | \$ 40,715 | \$ - | \$ - |

*Bonds are a general obligation and TIF bond combination. Principal and interest paid through Debt Service Fund.

See notes to financial statements.

CITY OF NEW HAMPTON
BOND AND NOTE MATURITIES

June 30, 2005

GENERAL OBLIGATION BONDS

| Year Ending June 30, | Wastewater Treatment | | Swim Pool Restoration | | Debt Service | | Total |
|----------------------------|----------------------|---------------------|-----------------------|-------------------|--------------------|-------------------|---------------------|
| | Issued Jan 1, 1999 | | Issued Jan 11, 2001 | | Issued Apr 1, 2005 | | |
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | |
| 2006 | 4.10% | \$ 100,000 | 4.85% | \$ 40,000 | 2.60% | \$ 50,000 | \$ 190,000 |
| 2007 | 4.15 | 105,000 | 4.90 | 40,000 | 2.85 | 55,000 | 200,000 |
| 2008 | 4.20 | 110,000 | 4.95 | 45,000 | 3.00 | 55,000 | 210,000 |
| 2009 | 4.25 | 115,000 | 5.00 | 45,000 | 3.20 | 60,000 | 220,000 |
| 2010 | 4.30 | 120,000 | 5.05 | 50,000 | 3.30 | 60,000 | 230,000 |
| 2011 | 4.35 | 125,000 | 5.10 | 50,000 | 3.40 | 65,000 | 240,000 |
| 2012 | 4.40 | 130,000 | - | - | 3.60 | 65,000 | 195,000 |
| 2013 | 4.45 | 135,000 | - | - | 3.70 | 65,000 | 200,000 |
| 2014 | 4.50 | 140,000 | - | - | 3.80 | 70,000 | 210,000 |
| 2015 | 4.55 | 145,000 | - | - | 3.90 | 75,000 | 220,000 |
| 2016 | 4.60 | 150,000 | - | - | - | - | 150,000 |
| 2017 | 4.65 | 160,000 | - | - | - | - | 160,000 |
| 2018 | 4.70 | 165,000 | - | - | - | - | 165,000 |
| | | <u>\$ 1,700,000</u> | | <u>\$ 270,000</u> | | <u>\$ 620,000</u> | <u>\$ 2,590,000</u> |

Tax Increment Financing (TIF) Bonds

| Year Ending June 30, | Fareway | | Zip's Truck Equipment | | New Hampton Metal Fabrication | |
|----------------------------|--------------------|------------------|-----------------------|-----------------|----------------------------------|---------------|
| | Issued Dec 1, 1993 | | Issued Jul 8, 1994 | | Issued Jul 8, 1994 | |
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount |
| 2006 | 7.00% | \$ 15,000 | 6.50% | \$ 7,800 | 6.50% | \$ 950 |
| 2007 | - | - | - | - | - | - |
| 2008 | - | - | - | - | - | - |
| | | <u>\$ 15,000</u> | | <u>\$ 7,800</u> | | <u>\$ 950</u> |

CITY OF NEW HAMPTON
BOND AND NOTE MATURITIES

June 30, 2005

| Year Ending June 30, | Tax Increment Financing (TIF) Bonds | | | | | |
|----------------------------|-------------------------------------|-----------------|---------------------|------------------|---------------------|-----------------|
| | Plum Bldg Systems | | Custom Foods | | Dr. Boeding | |
| | Issued Jul 8, 1994 | | Issued Jul 26, 1994 | | Issued Jul 26, 1994 | |
| | Interest | | Interest | | Interest | |
| | Rates | Amount | Rates | Amount | Rates | Amount |
| 2006 | 6.50% | \$ 7,275 | 6.50% | \$ 41,000 | 6.50% | \$ 1,900 |
| 2007 | | - | | - | | - |
| 2008 | | - | | - | | - |
| | | <u>\$ 7,275</u> | | <u>\$ 41,000</u> | | <u>\$ 1,900</u> |

| Year Ending June 30, | Tax Increment Financing (TIF) Bonds | | | | | | |
|----------------------------|-------------------------------------|---------------|--------------------|------------------|--------------------|------------------|-------------------|
| | Tom's Restaurant | | Super 8 Motel | | Gage | | Total |
| | Issued Dec 9, 1994 | | Issued Aug 3, 1995 | | Issued Nov 6, 1997 | | |
| | Interest | | Interest | | Interest | | |
| Rates | Amount | Rates | Amount | Rates | Amount | | |
| 2006 | 6.50% | \$ 600 | 6.50% | \$ 12,500 | 6.00% | \$ 3,194 | \$ 90,219 |
| 2007 | | - | 6.50 | 13,500 | 6.00 | 3,386 | 16,886 |
| 2008 | | - | | - | 6.00 | 3,589 | 3,589 |
| | | <u>\$ 600</u> | | <u>\$ 26,000</u> | | <u>\$ 10,169</u> | <u>\$ 110,694</u> |

See accompanying independent auditor's report.

CITY OF NEW HAMPTON

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

| | Years ended June 30, | | |
|-------------------------------------|----------------------|---------------------|---------------------|
| | 2005 | 2004 | 2003 |
| Receipts | | | |
| Property tax | \$ 960,948 | \$ 709,635 | \$ 1,001,779 |
| Tax increment financing collections | 334,234 | 369,535 | 409,305 |
| Other city tax | 266,988 | 27,684 | 375,341 |
| Licenses and permits | 13,224 | 14,471 | 11,424 |
| Use of money and property | 56,462 | 84,676 | 106,404 |
| Intergovernmental | 803,915 | 411,132 | 1,148,943 |
| Charges for service | 353,156 | 296,959 | 162,731 |
| Special assessments | - | - | - |
| Miscellaneous | 172,769 | 141,178 | 199,180 |
| Total | <u>\$ 2,961,696</u> | <u>\$ 2,055,270</u> | <u>\$ 3,415,107</u> |
| Disbursements | | | |
| Operating | | | |
| Public safety | \$ 474,699 | \$ 405,249 | \$ 445,072 |
| Public works | 365,578 | 348,886 | 375,085 |
| Health and social services | 3,655 | 3,607 | 3,607 |
| Culture and recreation | 577,764 | 537,329 | 517,958 |
| Community and economic development | 1,257,134 | 189,757 | 940,540 |
| General government | 401,524 | 417,426 | 473,947 |
| Debt service | 357,563 | 132,214 | 230,840 |
| Capital projects | 188,935 | 656,937 | 202,850 |
| Total | <u>\$ 3,626,852</u> | <u>\$ 2,691,405</u> | <u>\$ 3,189,899</u> |

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
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, the aggregate remaining fund information, and the discretely presented component unit of the City of New Hampton, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 13, 2006. Our report expressed a qualified opinion on the government financial statements which were prepared in conformity with an other comprehensive basis of accounting, due to the omission of the financial transactions of component units which should be included. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of New Hampton's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of New Hampton's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

Compliance

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City of New Hampton. 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.

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 New Hampton, and other parties to whom the City of New Hampton may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of New 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.

Hagen & Kallwang, P.C.

January 13, 2006

CITY OF NEW HAMPTON

SCHEDULE OF FINDINGS

Year ended June 30, 2005

Part I: Summary of the Independent Auditor's Results

- (a) A qualified opinion was issued on the primary government financial statements which 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.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A Single Audit was not necessary since Federal funds expended during the year were less than \$500,000.

Part II: Findings Related to the Financial Statements

Instances of Non-Compliance

No matters were noted

Reportable Conditions

II-A-05

Segregation of Duties - The City is not large enough to permit an adequate segregation of duties for an effective system of internal control. The concentration of closely related duties and responsibilities such as the handling of cash receipts and disbursements, recording of the cash transactions and preparing various reports by a small staff makes it impossible to establish an adequate system of automatic checks for good internal control.

Recommendation - We realize this condition will be difficult to improve on. However, we do believe it is important that council be aware this condition does exist and make changes when cost effective.

Response and Corrective Action Plan - We will make changes and improvements whenever possible and economically feasible.

Conclusion - Response accepted.

CITY OF NEW HAMPTON

SCHEDULE OF FINDINGS

Year ended June 30, 2005

Part III: Other Findings Related to Statutory Reporting

III-A-05

Official Depositories - A resolution naming official depositories has been adopted by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year.

III-B-05

Certified Budget - Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response - The budget will be amended appropriately in the future.

Conclusion - Response accepted.

III-C-05

Questionable Expenditures - No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

III-D-05

Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

III-E-05

Business Transactions - The following business transactions between the City and City officials or employees were noted:

| <u>Name, Title, and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|---|------------------------------------|---------------|
| Nita Geerts, Council Member Husband is owner of Geerts Plumbing & Heating, Inc. | Services | \$1,222 |

In accordance with Chapter 362.5(10) of the Code of Iowa the above transactions do not appear to represent conflicts of interest since the non-bid transactions were less than \$1,500 during the fiscal year.

CITY OF NEW HAMPTON

SCHEDULE OF FINDINGS

Year ended June 30, 2005

Part III: Other Findings Related to Statutory Reporting (continued)

III-F-05

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

IV-G-05

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

IV-H-05

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 except the City did not receive the minimum interest rate on three time certificates.

Recommendation - We recommend the City contact the local bank and request a check for the difference of what the City should have earned and what it was paid.

Response - The banks have been contacted and checks for the difference in interest have been received.

Conclusion - Response accepted.

III-I-05

Revenue Bonds - The City was in compliance with its bond resolutions prior to the bonds being called early.

III-J-05

Financial Condition - The City has several accounts with deficit balances at June 30, 2005.

Recommendation - They should investigate alternatives to eliminate these deficits in order to return the accounts to a sound financial position.

Response and corrective action plan - We will investigate alternatives to eliminate deficit balances.

Conclusion - Response accepted.

See accompanying independent auditor's report.