

**CITY OF NEW HAMPTON**

**FINANCIAL REPORT**

**JUNE 30, 2010**

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CITY OF NEW HAMPTON

OFFICIALS  
(After January 2009)

<b>Title</b>	<b>Name</b>	<b>Term Expires</b>
<b>Mayor</b>	<b>Darwin Sitting</b>	<b>December 31, 2011</b>
<b>Mayor Pro Tem</b>	<b>Robert Martin</b>	<b>December 31, 2011</b>
<b>Council Member</b>	<b>Robert Clites</b>	<b>December 31, 2011</b>
<b>Council Member</b>	<b>Nita Geerts</b>	<b>December 31, 2011</b>
<b>Council Member</b>	<b>William Hurd</b>	<b>December 31, 2011</b>
<b>Council Member</b>	<b>Stanley Perkins</b>	<b>December 31, 2011</b>
<b>Council Member</b>	<b>Donald Schueth</b>	<b>December 31, 2011</b>
<b>Clerk/Treasurer</b>	<b>Suellen Kolbet</b>	<b>Indefinite</b>
<b>Attorney</b>	<b>Kevin Kennedy</b>	<b>Indefinite</b>

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**INDEPENDENT AUDITOR'S REPORT  
ON THE FINANCIAL STATEMENTS**

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

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 City of New Hampton, as of and for the year ended June 30, 2010, 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'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 the 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, City of New Hampton prepares its financial statements 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, 2010 on the governmental activities, each major fund, 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, the business-type activities, each major fund and the aggregate remaining fund information of the City of New Hampton as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2010, on our consideration of City of New Hampton's internal control over financial reporting and on 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.

U.S. generally accepted accounting principles require that the management's discussion and analysis and budgetary comparison information on page 4 and pages 17 through 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Hacker, Nelson & Co., P.C.*

Decorah, Iowa  
December 29, 2010

## CITY OF NEW HAMPTON

### MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the City of New Hampton's financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2010. Please read this in conjunction with the transmittal letter and the City's financial statements contained within this audit report.

#### 2010 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased \$1,558,378 or approximately 44.03% from FY 2009 to FY 2010. Of which, bond proceeds accounted for \$1,686,525. Property taxes for all purposes increased \$9,377.
- Program disbursements excluding debt service and capital projects increased \$178,683.
- The City's total cash basis net assets are \$2,480,855. Of this amount, the governmental activities claim cash basis net assets of \$2,099,591.

#### USING THIS ANNUAL REPORT

This 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.
- Government-wide financial statements consist of a statement of activities and net assets-cash basis. This provides information about the activities of the City as a whole and provides an overall view of the City's finances.
- The fund financial statements reveal how governmental services were financed in the short term as well as what remains for future spending. The fund financial statements report the City's operations in greater detail than the government-wide statements by providing information about the funds.
- Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- The supplementary information provides detailed information about the nonmajor governmental funds. In addition, the budgetary comparison schedules support the financial statements with a comparison of the City's budget for the year. Also, the schedule of indebtedness and bond and note maturities reflect the City's debt activity.

#### 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 Statements

One of the most important questions that are asked about the City's finances is: *"Is the City, as a whole, better or worse off as a result of this year's activities?"* The statement of activities and net assets-cash basis reports information which helps answer this question.

The statement of activities and net assets-cash basis presents information showing how the City's net cash assets changed during the most recent fiscal year. Over time, increases or decreases in the City's net cash 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-cash basis report three kinds of activities.

1. **Governmental activities:** These include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects.
2. **Business-type activities:** These include the City's utilities which specifically are the water system (production, storage, transmission, distribution, treatment, and billing) and sewer system (collection, transmission, treatment and discharge). These services are primarily characterized by their reliance on user charges as opposed to property or other general tax proceeds.
3. **Component unit:** The only component unit of the City shown in the financial report is that of the New Hampton Light Plant. 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 fund financial statements provide detailed information about the City's most significant funds and not the City as a whole. Some funds are required by State law while others are required by bond covenants or Council policy. The City's two kinds of funds – governmental and proprietary (business-type) – are different by definition and use somewhat different accounting approaches. These differences are summarized below.

**Governmental funds:** These account for most of the City's basic services and focus on how money flows into and out of those funds as well as balances at year end that are available for spending. Governmental funds include: 1) the general fund 2) special revenue funds (i.e., tax increment financing funds, employee benefits tax proceeds, and road use taxes) 3) the debt service fund and 4) the capital projects fund. These funds are reported on the basis of cash receipts and disbursements. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental 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 balance sheet and a statement of revenues, expenditures, and changes in fund balance.

**Proprietary (business-type) funds:** These account for the City's enterprise funds which are those for which rate payers or other customers pay for the services rendered. Enterprise funds are reported in the same way as the government-wide financial statements.

The following analysis shows the change in net assets for the year ending June 30, 2010:

Changes in Cash Basis Net Assets of Governmental Activities							
(In Thousands)							
	Governmental		Business-type		Total		Percent Change
	Activities	2010	Activities	2010	2009	2010	
	2009		2009				
Receipts:							
Program revenue							
Charges for service	\$ 300	\$ 382	\$ 680	\$ 706	\$ 980	\$ 1,088	11.02%
Operating grants	453	457	-	-	453	457	0.88%
Capital grants	524	310	-	-	524	310	-40.84%
General revenue							
Property taxes	1,419	1,429	-	-	1,419	1,429	0.70%
Tax increment financing collections	415	387	-	-	415	387	-6.75%
Local option sales tax	345	341	-	-	345	341	-1.16%
Unrestricted investment earnings	72	25	8	4	80	29	-63.75%
Bond proceeds		1,687			-	1,687	
Other revenue	11	80	17	16	28	96	242.86%
Total receipts	3,539	5,098	705	726	4,244	5,824	37.23%
Program disbursements:							
Public safety	508	608	-	-	508	608	19.69%
Public works	388	399	-	-	388	399	2.84%
Health & social services	3	3	-	-	3	3	0.00%
Culture & recreation	507	524	-	-	507	524	3.35%
Community & economic development	462	499	-	-	462	499	8.01%
General government	370	384	-	-	370	384	3.78%
Debt service	385	1,667			385	1,667	332.99%
Capital projects	1,244	1,057			1,244	1,057	-15.03%
Other expenses	-	-	1,084	953	1,084	953	-12.08%
Total disbursements	3,867	5,141	1,084	953	4,951	6,094	23.09%
Decrease in cash basis net assets before transfers	(328)	(43)	(379)	(227)	(707)	(270)	-61.81%
Transfers	(58)	(400)	58	400	-	-	
Increase (decrease) in cash basis net assets	(386)	(443)	(321)	173	(707)	(270)	-61.81%
Cash basis net assets beginning of year	2,929	2,543	529	208	3,458	2,751	-20.45%
Cash basis net assets end of year	\$ 2,543	\$ 2,100	\$ 208	\$ 381	\$ 2,751	\$ 2,481	-9.81%

## Individual Major Fund Analysis

As the City completed the year, its governmental funds reported a combined cash fund balance of \$2,099,591, a \$443,623 decrease from the 2009 fiscal year end balance of \$2,543,214. In 2010, the City received bond proceeds for capital projects and repayment of bonds.

### Proprietary Fund Highlights

The water fund, which accounts for the operation and maintenance of the City's water system, ended fiscal year 2010 with a cash basis net asset balance of \$236,928. This reflects a decrease of \$1,432 from the end of fiscal year 2009 when the net asset balance was \$238,360.

The sewer fund, which accounts for the operation and maintenance of the sewer system and the wastewater treatment facility, ended fiscal year 2010 with a net asset balance of \$144,336. This reflects an increase of \$174,290 from the end of fiscal year 2009 when the net asset balance was \$(29,954). The sewer fund had a net operating loss of \$17,093 for fiscal year 2010 and the increase in net assets was due to net transfers of \$400,000 into fund.

### BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. These amendments increased budgeted disbursements by \$2,877,762. The City had sufficient cash balances to absorb these additional costs as well as bond proceeds used to pay off old debt at lower interest rates.

### DEBT ADMINISTRATION

At June 30, 2010, the City had approximately \$2,800,000 in bonds and other long-term debt, compared to approximately \$2,665,000 last year, as shown below:

	Outstanding Debt at Year-End				
	Year ended June 30,				
	2010	2009	2008	2007	2006
General obligation bonds	\$ 2,800,000	\$ 2,665,000	\$ 2,915,000	\$ 2,200,000	\$ 2,400,000
Revenue notes					
Urban renewal tax increment financing revenue bonds	3,589	3,589	3,589	3,589	20,475
Total	\$ 2,803,589	\$ 2,668,589	\$ 2,918,589	\$ 2,203,589	\$ 2,420,475

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 \$2,800,000 is significantly below its constitutional debt limit of \$9,090,664.

### 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 2010 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 7.4%, versus 8.5% a year ago. This compares with the State's unemployment rate of 6.7% and the national rate of 9.5%.

Inflation in the Midwest is slightly lower than the national Consumer Price Index increase. The Midwest's CPI was .2 percent for calendar year 2010 compared with the national rate of -.1 percent.

These indicators were taken into account when adopting the budget for fiscal year 2011. Amounts available for appropriation in the operating budget are \$7.9 million, compared to the 2010 final budget of \$7.5 million.

Below is a summary of the tax levy rates per \$1,000 of taxable valuation for FY09-10:

Purpose	2009/2010	2010/2011
General Levy	\$8.10000	\$8.10000
Emergency Levy		
Support Public Library	\$0.27000	\$0.27000
Liability, property insurance	\$0.13751	\$0.21101
FICA and IPERS	\$1.21789	\$0.81037
Employee Benefits	\$1.97579	\$2.45665
Debt Service	\$1.89879	\$2.05191
Total Levy	\$13.59998	\$13.89994

#### CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This management's discussion and analysis letter along with the financial report have been designed to present our current and prospective citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and operating activities. It is our hope that such information will assist in assessing the City's achievements and challenges. If you have any questions or desire any additional information about this report, please contact Suellen Kolbet, City Clerk, at (641) 394-5906 or visit the City Hall Offices at 112 East Spring Street in New Hampton.

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CITY OF NEW HAMPTON  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
For the Year Ended June 30, 2010

Functions and Programs	Disbursements	Program Receipts		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities				
Public safety	\$ 608,400	\$ 10,438	\$ 3,914	
Public works	398,702	141,334	391,350	
Health and social services	3,393			
Culture and recreation	524,162	87,506	20,573	
Community and economic development	498,473	41,031	26,718	\$ 169,725
General government	383,840	21,501	14,148	
Debt service	1,560,000			-
Capital projects	1,057,159	79,944		140,341
Interest on long-term debt	107,264			
<b>Total governmental activities</b>	<b>5,141,393</b>	<b>381,754</b>	<b>456,703</b>	<b>310,066</b>
Business-type activities				
Water utilities	228,916	214,687		
Sewer utilities	724,355	491,468		
<b>Total business-type activities</b>	<b>953,271</b>	<b>706,155</b>	<b>-</b>	<b>-</b>
<b>Total primary government</b>	<b>\$ 6,094,664</b>	<b>\$ 1,087,909</b>	<b>\$ 456,703</b>	<b>\$ 310,066</b>
<b>Component unit</b>				
Business-type activities				
Light plant	\$ 2,533,366	\$ 3,179,827		
<b>General Receipts</b>				
Property and other City taxes levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Investment earnings				
Miscellaneous items				
Bond proceeds				
<b>Transfers</b>				
<b>Total general receipts and transfers</b>				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See Notes to Financial Statements.

EXHIBIT A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Light Plant
\$ (594,048)		\$ (594,048)	
133,982		133,982	
(3,393)		(3,393)	
(416,083)		(416,083)	
(260,999)		(260,999)	
(348,191)		(348,191)	
(1,560,000)		(1,560,000)	
(836,874)		(836,874)	
(107,264)		(107,264)	
(3,992,870)		(3,992,870)	\$ -
	\$ (14,229)	(14,229)	
	(232,887)	(232,887)	
-	(247,116)	(247,116)	-
(3,992,870)	(247,116)	(4,239,986)	-
			646,461
1,214,369		1,214,369	
214,916		214,916	
386,696		386,696	
340,947		340,947	
25,229	3,768	28,997	40,263
80,565	16,206	96,771	90,440
1,686,525		1,686,525	
(400,000)	400,000	-	
3,549,247	419,974	3,969,221	130,703
(443,623)	172,858	(270,765)	777,164
2,543,214	208,406	2,751,620	3,482,804
\$ 2,099,591	\$ 381,264	\$ 2,480,855	\$ 4,259,968
\$ (1,129)		\$ (1,129)	
123,478		123,478	
(797)		(797)	
934,391		934,391	
1,043,648	\$ 381,264	1,424,912	\$ 4,259,968
\$ 2,099,591	\$ 381,264	\$ 2,480,855	\$ 4,259,968

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CITY OF NEW HAMPTON  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2010

	Special Revenue				
	General	Road Use Tax	Employee Benefits	Urban Renewal Increment	Local Option Sales Tax
<b>Receipts</b>					
Property taxes	\$ 860,514		\$ 323,911		
Tax increment financing				\$ 373,617	
Other City tax	29,944				\$ 340,947
Licenses and permits	11,254				
Use of money and property	46,627				
Intergovernmental	149,572	\$ 326,350			
Charges for services	254,047				
Miscellaneous	206,423				
<b>Total receipts</b>	<b>1,558,381</b>	<b>326,350</b>	<b>323,911</b>	<b>373,617</b>	<b>340,947</b>
<b>Disbursements</b>					
Operating					
Public safety	509,001		99,399		
Public works	85,109	313,593			
Health and social services	3,393				
Culture and recreation	492,389		31,773		
Community and economic development	103,550		28,415	347,186	
General government	300,585		83,255		
Debt service					
Principal					
Interest					
Capital projects	279,709				
<b>Total disbursements</b>	<b>1,773,736</b>	<b>313,593</b>	<b>242,842</b>	<b>347,186</b>	<b>-</b>
<b>Excess (deficiency) of receipts over disbursements</b>	<b>(215,355)</b>	<b>12,757</b>	<b>81,069</b>	<b>26,431</b>	<b>340,947</b>
<b>Other financing sources (uses)</b>					
Proceed from debt issuance	149,240				
Transfers in	42,632				
Transfers (out)	(26,500)	(14,500)	-	(1,013)	(563,026)
<b>Total other financing sources (uses)</b>	<b>165,372</b>	<b>(14,500)</b>	<b>-</b>	<b>(1,013)</b>	<b>(563,026)</b>
<b>Net change in cash balances</b>	<b>(49,983)</b>	<b>(1,743)</b>	<b>81,069</b>	<b>25,418</b>	<b>(222,079)</b>
Cash balances beginning of year	1,467,396	614	9,611	98,060	834,644
<b>Cash balances end of year</b>	<b>\$ 1,417,413</b>	<b>\$ (1,129)</b>	<b>\$ 90,680</b>	<b>\$ 123,478</b>	<b>\$ 612,565</b>
<b>Cash Basis Fund Balances</b>					
Unreserved					
General fund	\$ 1,417,413				
Special revenue funds		\$ (1,129)	\$ 90,680	\$ 123,478	\$ 612,565
Capital projects fund					
Debt service					
Permanent fund					
<b>Total cash basis fund balances</b>	<b>\$ 1,417,413</b>	<b>\$ (1,129)</b>	<b>\$ 90,680</b>	<b>\$ 123,478</b>	<b>\$ 612,565</b>

See Notes to Financial Statements.

EXHIBIT B

Debt Service	Capital Projects Main Street	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 214,916		\$ -	\$ 1,399,341
		13,079	386,696
		-	370,891
		-	11,254
		1,848	48,475
	\$ 169,725	5,549	651,196
	52,227	1,740	255,787
		28,955	287,605
<u>214,916</u>	<u>221,952</u>	<u>51,171</u>	<u>3,411,245</u>
		-	608,400
		-	398,702
		-	3,393
		-	524,162
		19,322	498,473
		-	383,840
1,560,000			1,560,000
107,264			107,264
	758,631	18,819	1,057,159
<u>1,667,264</u>	<u>758,631</u>	<u>38,141</u>	<u>5,141,393</u>
<u>(1,452,348)</u>	<u>(536,679)</u>	<u>13,030</u>	<u>(1,730,148)</u>
1,288,525	248,760	-	1,686,525
163,026		1,013	206,671
		(1,632)	(606,671)
<u>1,451,551</u>	<u>248,760</u>	<u>(619)</u>	<u>1,286,525</u>
(797)	(287,919)	12,411	(443,623)
(1,197)	(175,329)	309,415	2,543,214
<u>\$ (1,994)</u>	<u>\$ (463,248)</u>	<u>\$ 321,826</u>	<u>\$ 2,099,591</u>
			\$ 1,417,413
		\$ 117,402	942,996
\$ (1,994)	\$ (463,248)	128,282	(334,966)
		76,142	(1,994)
			76,142
<u>\$ (1,994)</u>	<u>\$ (463,248)</u>	<u>\$ 321,826</u>	<u>\$ 2,099,591</u>

CITY OF NEW HAMPTON  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2010

	Enterprise Funds			Component Unit Light Plant
	Primary Government			
	Water	Sewer	Total	
<b>Operating Receipts</b>				
Charges for services	\$ 214,687	\$ 491,468	\$ 706,155	\$ 3,179,827
<b>Total operating receipts</b>	<u>214,687</u>	<u>491,468</u>	<u>706,155</u>	<u>3,179,827</u>
<b>Operating Disbursements</b>				
Business-type activities	174,945	508,561	683,506	2,216,719
<b>Total operating disbursements</b>	<u>174,945</u>	<u>508,561</u>	<u>683,506</u>	<u>2,216,719</u>
Excess of operating receipts over (under) operating disbursements	<u>39,742</u>	<u>(17,093)</u>	<u>22,649</u>	<u>963,108</u>
<b>Nonoperating Receipts (Disbursements)</b>				
Interest on investments	1,967	1,801	3,768	40,263
Miscellaneous	10,830	5,376	16,206	90,440
Capital projects	(53,971)	(215,794)	(269,765)	
Debt service			-	(316,647)
<b>Total nonoperating receipts</b>	<u>(41,174)</u>	<u>(208,617)</u>	<u>(249,791)</u>	<u>(185,944)</u>
Excess of receipts over disbursements	<u>(1,432)</u>	<u>(225,710)</u>	<u>(227,142)</u>	<u>777,164</u>
<b>Transfers</b>				
Operating transfers in	66,500	415,000	481,500	-
Operating transfers out	(66,500)	(15,000)	(81,500)	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>400,000</u>	<u>400,000</u>	<u>-</u>
Net change in cash balances	(1,432)	174,290	172,858	777,164
Cash balances beginning of year	238,360	(29,954)	208,406	3,482,804
Cash balances end of year	<u>\$ 236,928</u>	<u>\$ 144,336</u>	<u>\$ 381,264</u>	<u>\$ 4,259,968</u>
<b>Cash Basis Fund Balances</b>				
Reserved for debt service				\$ 1,894,556
Unreserved	\$ 236,928	\$ 144,336	\$ 381,264	2,365,412
<b>Total cash basis fund balances</b>	<u>\$ 236,928</u>	<u>\$ 144,336</u>	<u>\$ 381,264</u>	<u>\$ 4,259,968</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  
For the Year Ended June 30, 2010

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Total enterprise funds cash balances	\$ 381,264
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	<u>\$ 381,264</u>
Net change in cash balances	\$ 172,858
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	<u>\$ 172,858</u>

See Notes to Financial Statements.

CITY OF NEW HAMPTON

NOTES TO FINANCIAL STATEMENTS

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1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

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 a Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreations, community and economic development and general government services. The City also provides water and sewer utilities for its citizens as well as electrical power through the component unit noted below.

b. Significant Accounting Policies

*Reporting Entity*

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; or the organization is fiscally dependent on the primary government.

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

The New Hampton Municipal 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 the 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 are 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.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

*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 Joint Communication System, Iowa Northland Region Council of Governments, Floyd-Mitchell Chickasaw Solid Waste Agency, Economic Development Advisory Board, and Chickasaw County Assessor's Conference Board.

*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 normally supported by property tax and intergovernmental revenues, or other non-exchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

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 that are 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 revenues are reported instead as general receipts.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

*Fund Financial Statements*

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

The City reports the following major governmental funds:

*Governmental*

*General Fund*

The general fund is the general operating fund of the City. All general tax revenues and other revenues 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 expenditures, the fixed charges, and the capital improvement costs not paid from other funds.

*Special Revenue*

The special revenue funds are used to account for revenues derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

*Road Use*

To account for state revenues allocated to the City to be used to maintain and improve the City's streets.

*Urban Renewal Tax Increment*

This fund is used to account for urban renewal projects financed by tax increment financing.

*Local Option Sales Tax*

This fund is used to account for the receipt of the tax with a later transfer to and disbursement by the fund allowed by the vote of the citizens.

*Employee Benefits*

To account for non-proprietary employee related benefits funded by a property tax levy.

*Debt Service*

The debt service fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

*Capital Projects*

Capital projects funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

*Fund Financial Statements (Continued)*

The City reports the following major proprietary funds:

*Water Fund*

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

*Sewer Fund*

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

*Measurement Focus and Basis of Accounting*

The City of New 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, accrued items, capital assets, and debt. Accordingly, the cash basis financial statements do not present the financial position, results of its operations, or the cash flows of its proprietary fund types in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from 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.

*Budgets and Budgetary Accounting*

The budgetary comparison and related disclosures are reported as required supplementary information. During the year ended June 30, 2010, disbursements did not exceed the amounts budgeted.

2. Deposits and Investments

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

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

NOTES TO FINANCIAL STATEMENTS

2. Deposits and Investments (Continued)

The Light Plant has an investment through the Iowa Public Agency Investment Trust which is valued at an amortized cost of \$3,412 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

*Credit risk* – The Light Plant’s investment in the Iowa Public Agency Investment Trust is unrated.

3. Bonds and Notes Payable

A summary of the changes in debt, by type, for the year ended June 30, 2010 is as follows:

	Balance June 30, 2009	Borrowed	Paid	Balance June 30, 2010	Amounts Due Within One Year
<b>General Obligation</b>					
<b>Corporate Purpose Notes</b>					
1999 Bond	\$ 1,270,000		\$ (1,270,000)	\$ None	
2009A Bond		\$ 400,000		400,000	\$ 30,000
2009B Bond		1,295,000	(130,000)	1,165,000	135,000
Swimming pool restoration	100,000		(50,000)	50,000	50,000
Debt service	400,000		(60,000)	340,000	65,000
Fire station	895,000		(50,000)	845,000	50,000
Tax increment financing bonds	3,589			3,589	3,589
<b>Total bonded debt</b>	<b>\$ 2,668,589</b>	<b>\$ 1,695,000</b>	<b>\$ (1,560,000)</b>	<b>\$ 2,803,589</b>	<b>\$ 333,589</b>

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
2011	\$ 330,000	\$ 97,493	\$ 3,589	\$ 107	\$ 333,589	\$ 97,600
2012	290,000	82,653			290,000	82,653
2013	300,000	75,058			300,000	75,058
2014	310,000	66,538			310,000	66,538
2015	320,000	57,190			320,000	57,190
2016-2020	1,010,000	148,110			1,010,000	148,110
2021-2023	240,000	20,553			240,000	20,553
	<b>\$ 2,800,000</b>	<b>\$ 547,595</b>	<b>\$ 3,589</b>	<b>\$ 107</b>	<b>\$ 2,803,589</b>	<b>\$ 547,702</b>

The Code of Iowa requires principal and interest on general obligation bonds to be paid from the debt service fund.

3. **Bonds and Notes Payable (Continued)**

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of various construction and refurbishing projects within the urban renewal district. The bonds are payable solely from the TIF receipts generated by increased property values in the City's TIF district and credited to the special revenue, urban renewal tax increment fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 10 percent of the debt service requirements over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for the 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. Total principal and interest remaining on the bonds is \$3,696, payable through June 2011. For the current year, interest paid and total TIF receipts were \$107 and \$373,617, respectively.

**General Obligation Bonds**

On December 22, 2009, the City issued \$400,000 of General Obligation Capital Loan Notes. The proceeds of these notes were used to purchase a new fire truck and to fund the City's share of the main street reconstruction project completed in 2009. The issue of bonds bears interest ranging from 2.5% to 3.8% and matures from June 1, 2011 to June 1, 2020.

On December 22, 2009, the City also issued \$1,295,000 of General Obligation Capital Loan Notes. The proceeds of these notes were used to refinance existing debt. The issue of bonds bears interest ranging from 1.0% to 3.7% and matures from June 1, 2010 to June 1, 2018. The City's intent in the sale was to take advantage of lower interest rates.

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.

IPERS' plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$79,578, \$72,965, and \$65,805 respectively, equal to the required contributions for each year.

5. **Other Postemployment Benefits (OPEB)**

*Plan Description*

The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 23 active and 2 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 with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

*Funding Policy*

The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$548 for single coverage and \$1,272 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$344,782 and plan members eligible for benefits contributed \$26,783 to the plan.

NOTES TO FINANCIAL STATEMENTS

6. 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 payable to employees at June 30, 2010, primarily relating to the general fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 36,917
Sick leave	36,572
	\$ 73,489

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

7. 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 rebates vary according to the agreement. The City as of June 30, 2010 had a total of \$1,217,377 to pay in rebates through the year 2020.

8. Related Party Transactions

The City had business transactions between the City and City officials totaling \$5,541 during the year ended June 30, 2010.

9. Risk Management

The City of New 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.

10. Transfers

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

Transfers to		Transfers from	
General		Special Revenue	
General	\$ 1,632	Trust	\$ 1,632
Equipment replacement	41,000	General	
	\$ 42,632	General	\$ 26,500
Debt Service		Special Revenue	
General Obligation Bond	\$ 163,026	Road use tax	\$ 14,500
		Local option sales tax	\$ 563,026
		Urban renewal tax increment	\$ 1,013

NOTES TO FINANCIAL STATEMENTS

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10. Transfers (Continued)

Transfers to	Transfers from
<b>Capital Projects</b>	
Wastewater facility	Water
\$ 1,013	Water
<b>Water</b>	\$ 66,500
Equipment replacement	Sewer
\$ 81,500	Sewer
<b>Sewer</b>	\$ 15,000
Equipment replacement	
\$ 400,000	

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

11. Deficit Fund Balance

The City had the following deficit fund balances at June 30, 2010:

<b>Special Revenue</b>	
Grants	\$ 4,437
Library improvement	13,400
Road use tax	1,129
Debt Service	1,994
<b>Capital Projects</b>	
Fire station	480
Community center	24,832
Main street	463,248

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

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 \$193,500. As of June 30, 2010, \$85,333 in claims had been paid.

13. General Fund Balance

The City has designated \$1,132,248 of the \$1,417,413 general fund balance to be available for equipment replacement and special projects.

14. Commitments

The total outstanding construction and purchase commitments of the City at June 30, 2010 amount to \$811,386. These are related to the wastewater facility and streetscape design projects.

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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  
 For the Year Ended June 30, 2010

	Primary Government		Component Unit
	Governmental Funds Actual	Proprietary Funds Actual	
<b>Receipts</b>			
Property tax	\$ 1,399,341		
Tax increment financing	386,696		
Other City taxes	370,891		
Licenses and permits	11,254		
Use of money and property	48,475	\$ 3,768	\$ 40,263
Intergovernmental	651,196		
Charges for services	255,787	706,155	3,179,827
Miscellaneous	287,605	16,206	90,440
<b>Total receipts</b>	<b>3,411,245</b>	<b>726,129</b>	<b>3,310,530</b>
<b>Disbursements</b>			
Public safety	608,400		
Public works	398,702		
Health and social services	3,393		
Culture and recreation	524,162		
Community and economic development	498,473		
General government	383,840		
Debt service	1,667,264		
Capital projects	1,057,159		
Business-type activities		953,271	2,533,366
<b>Total disbursements</b>	<b>5,141,393</b>	<b>953,271</b>	<b>2,533,366</b>
<b>Excess of receipts over (under) disbursements</b>	<b>(1,730,148)</b>	<b>(227,142)</b>	<b>777,164</b>
<b>Other financing sources, net</b>	<b>1,286,525</b>	<b>400,000</b>	<b>-</b>
<b>Excess of receipts and other financing sources over (under) disbursements and other financing uses</b>	<b>(443,623)</b>	<b>172,858</b>	<b>777,164</b>
<b>Balances beginning of year</b>	<b>2,543,214</b>	<b>208,406</b>	<b>3,482,804</b>
<b>Balances end of year</b>	<b>\$ 2,099,591</b>	<b>\$ 381,264</b>	<b>\$ 4,259,968</b>

See Notes to Required Supplementary Information.

Less Funds Not Required to be Budgeted	Total Actual	Budgeted Amounts		Final to Total Variance
		Original	Final	
	\$ 1,399,341	\$ 1,392,836	\$ 1,392,836	\$ 6,505
	386,696	371,000	371,000	15,696
	370,891	370,373	370,373	518
	11,254	16,200	16,200	(4,946)
	92,506	184,100	184,100	(91,594)
\$ 15,000	636,196	355,258	463,071	173,125
49,591	4,092,178	4,390,700	4,390,700	(298,522)
50,000	344,251	27,760	45,211	299,040
114,591	7,333,313	7,108,227	7,233,491	99,822
	608,400	587,962	624,425	16,025
	398,702	402,068	451,446	52,744
	3,393	3,468	3,468	75
	524,162	570,284	585,305	61,143
	498,473	486,756	506,970	8,497
	383,840	385,649	396,535	12,695
	1,667,264	393,331	1,668,331	1,067
	1,057,159	275,000	1,532,600	475,441
114,591	3,372,046	6,636,873	6,850,073	3,478,027
114,591	8,513,439	9,741,391	12,619,153	4,105,714
	(1,180,126)	(2,633,164)	(5,385,662)	4,205,536
	1,686,525	-	1,725,000	(38,475)
-	506,399	(2,633,164)	(3,660,662)	4,167,061
	6,234,424	3,662,350	3,662,350	2,572,074
\$ -	\$ 6,740,823	\$ 1,029,186	\$ 1,688	\$ 6,739,135

CITY OF NEW HAMPTON

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2010

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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 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 from 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, two budget amendments increased budgeted expenditures by \$2,877,762. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements did not exceed the amount budgeted.

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**INDEPENDENT AUDITOR'S REPORT ON THE  
SUPPLEMENTARY INFORMATION**

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

Our report on our audit of the financial statements of City of New Hampton as of and for the year ended June 30, 2010 appears on pages 2-3. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining nonmajor fund financial statements and other supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements and other supplemental schedules are the responsibility of management and were derived from and relate 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 the audit of the 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 U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements prepared on the cash basis as explained in the third paragraph of our report on page 2 as a whole.

We have previously audited in accordance with U.S. generally accepted auditing standards, the financial statements of the City of New Hampton as of and for the years ended June 30, 2009, (none of which is presented herein), and expressed a qualified opinion 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. The financial statements of City of New Hampton for the years ended June 30, 2003 through 2008, (none of which is presented herein), were audited by other auditors whose report dated March 10, 2009, expressed a qualified opinion 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. Their report, as of the same date, on the information set forth in the required supplementary information for each of the six years in the period ended June 30, 2008, appearing on page 23 states that, in their opinion was fairly stated in all material respects in relation to the financial statements from which it has been derived. In our opinion, the information set forth in the required supplementary information for the periods ended June 30, 2009 and June 30, 2010, appearing on page 23, is fairly stated, in all material respects in relation to the financial statements from which it has been derived.

*Hacker, Nelson & Co., P.C.*

Decorah, Iowa  
December 29, 2010

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CITY OF NEW HAMPTON  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2010

	Special Revenue				
	Housing Rehabilitation Grant	Grants	Trust	Library Improvement	Park & Rec Special
<b>RECEIPTS</b>					
Tax increment financing	\$ 13,079				
Use of money and property			\$ 1,848		
Intergovernmental	-	\$ 5,549			
Charges for services	940				
Miscellaneous					
Total receipts	<u>14,019</u>	<u>5,549</u>	<u>1,848</u>	<u>\$ -</u>	<u>\$ -</u>
<b>DISBURSEMENTS</b>					
<b>Operating</b>					
Community and economic development	18,014	295			
Capital projects					
Total disbursements	<u>18,014</u>	<u>295</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(3,995)</u>	<u>5,254</u>	<u>1,848</u>	<u>-</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in					
Transfers out			(1,632)		
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,632)</u>	<u>-</u>	<u>-</u>
Net change in cash fund balances	<u>(3,995)</u>	<u>5,254</u>	<u>216</u>		
Cash fund balances - beginning	<u>37,252</u>	<u>(9,691)</u>	<u>99,427</u>	<u>(13,400)</u>	<u>2,339</u>
Cash fund balances - ending	<u>\$ 33,257</u>	<u>\$ (4,437)</u>	<u>\$ 99,643</u>	<u>\$ (13,400)</u>	<u>\$ 2,339</u>

See Independent Auditor's Report on the Supplementary Information.

Capital Projects							Permanent Cemetery Perpetual Care	Total
Industrial Park	Community Center	Swimming Pool	Police Renovation	Wastewater Facility	Assessments	Fire Station		
								\$ 13,079
								1,848
								5,549
							\$ 800	1,740
						\$ 28,955		28,955
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	28,955	800	51,171
				1,013				19,322
			8,219			10,600		18,819
-	-	-	8,219	1,013	-	10,600	-	38,141
-	-	-	(8,219)	(1,013)	-	18,355	800	13,030
				1,013				1,013
								(1,632)
-	-	-	-	1,013	-	-	-	(619)
			(8,219)	-		18,355	800	12,411
1,716	(24,832)	8	146,488	11,133	2,468	(18,835)	75,342	309,415
\$ 1,716	\$ (24,832)	\$ 8	\$ 138,269	\$ 11,133	\$ 2,468	\$ (480)	\$ 76,142	\$ 321,826

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CITY OF NEW HAMPTON  
SCHEDULE OF INDEBTEDNESS  
For the Year Ended June 30, 2010

Bonded Indebtedness	Interest Rate	Issue Date	Amount Originally Issued	Outstanding July 1, 2009
<b>GENERAL OBLIGATION</b>				
Wastewater treatment plant	3.85 - 4.70%	1/1/99	\$ 2,200,000	\$ 1,270,000
Wastewater treatment plant	1.0-3.7%	12/22/09	1,295,000	
Swimming pool restoration	4.75 - 5.10%	1/11/01	395,000	100,000
Debt service loan agreement	2.60 - 3.90%	4/1/05	620,000	400,000
Fire station	3.50 - 4.25%	2/5/08	925,000	895,000
Main Street/Fire truck	2.5-3.8%	12/22/09	400,000	
<b>Total</b>				<u><u>\$ 2,665,000</u></u>
<b>URBAN RENEWAL TAX INCREMENT</b>				
Financing (TIF) Revenue Bonds				
Gage	6.00%	11/6/97	28,000	<u><u>\$ 3,589</u></u>

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 2

Issued During Year	Redeemed During Year	Paid During Year	Outstanding June 30, 2010	Interest Paid	Interest Due and Unpaid
	\$ 1,270,000		\$ -	\$ 32,162	\$ -
\$ 1,295,000		\$ 130,000	1,165,000	14,232	
		50,000	50,000	5,075	
		60,000	340,000	14,520	
		50,000	845,000	34,818	
400,000		-	400,000	-	
<u>\$ 1,695,000</u>	<u>\$ 1,270,000</u>	<u>\$ 290,000</u>	<u>\$ 2,800,000</u>	<u>\$ 100,807</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,589</u>	<u>\$ 107</u>	<u>\$ 107</u>

CITY OF NEW HAMPTON  
BOND AND NOTE MATURITIES  
For the Year Ended June 30, 2010

General Obligation Bonds

Year Ending June 30,	Wastewater Treatment Issued December 22, 2009		Swim Pool Restoration Issued January 11, 2001		Debt Service Issued April 1, 2005		Fire Station Issued February 5, 2008		Main Street/Fire Truck Issued December 22, 2009		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
	2011	1.40%	\$ 135,000	5.10%	\$ 50,000	3.40%	\$ 65,000	3.60%	\$ 50,000	2.50%	
2012	1.80%	135,000			3.60%	65,000	3.65%	50,000	2.50%	40,000	290,000
2013	2.20%	140,000			3.70%	65,000	3.70%	55,000	2.50%	40,000	300,000
2014	2.50%	145,000			3.80%	70,000	3.75%	55,000	2.50%	40,000	310,000
2015	2.80%	145,000			3.90%	75,000	3.75%	60,000	3.40%	40,000	320,000
2016	3.10%	150,000					3.75%	60,000	3.40%	40,000	250,000
2017	3.40%	155,000					3.80%	65,000	3.40%	40,000	260,000
2018	3.70%	160,000					3.95%	65,000	3.80%	40,000	265,000
2019							4.00%	70,000	3.80%	45,000	115,000
2020							4.00%	75,000	3.80%	45,000	120,000
2021							4.10%	75,000			75,000
2022							4.15%	80,000			80,000
2023							4.25%	85,000			85,000
	Total	\$ 1,165,000	Total	\$ 50,000	Total	\$ 340,000	Total	\$ 845,000	Total	\$ 400,000	\$ 2,800,000

Year Ending June 30,	Tax Increment Financing (TIF) Bonds Gage Issued November 6, 1997	
	Interest Rates	Amount
	2011	6.00%

CITY OF NEW HAMPTON  
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENT BY FUNCTION  
ALL GOVERNMENTAL FUNDS

	2010	2009	2008	2007	2006	2005	2004	2003
<b>Receipts</b>								
Property tax	\$ 1,399,341	\$ 1,389,964	\$ 1,235,473	\$ 1,213,212	\$ 1,179,950	\$ 960,948	\$ 951,305	\$ 1,001,779
Tax increment financing collections	386,696	415,229	390,551	343,984	303,879	334,234	369,535	409,305
Other City tax	370,891	374,030	366,741	369,337	289,019	266,988	260,538	375,341
Licenses and permits	11,254	15,364	16,857	16,103	15,049	13,224	14,471	11,424
Use of money and property	48,475	86,425	145,834	141,326	90,320	56,462	88,315	106,404
Intergovernmental	651,196	400,970	549,523	609,462	1,720,876	803,915	556,215	1,148,943
Charges for services	255,787	270,125	227,328	231,765	216,864	353,156	296,959	162,731
Miscellaneous	287,605	587,285	354,074	154,376	133,242	172,769	142,338	199,180
<b>Total</b>	<b>\$ 3,411,245</b>	<b>\$ 3,539,392</b>	<b>\$ 3,286,381</b>	<b>\$ 3,079,565</b>	<b>\$ 3,949,199</b>	<b>\$ 2,961,696</b>	<b>\$ 2,679,676</b>	<b>\$ 3,415,107</b>
<b>Disbursements</b>								
<b>Operating</b>								
Public safety	\$ 608,400	\$ 507,824	\$ 548,296	\$ 533,654	\$ 694,434	\$ 474,699	\$ 452,200	\$ 445,072
Public works	398,702	388,494	452,855	396,343	395,535	365,578	348,886	375,085
Health and social services	3,393	3,393	3,393	3,393	3,393	3,655	3,607	3,607
Culture and recreation	524,162	506,677	521,332	630,174	528,719	577,764	570,504	517,958
Community and economic development	498,473	462,040	613,842	496,359	1,759,025	1,257,134	339,580	940,540
General government	383,840	369,859	363,608	437,915	428,778	401,524	503,406	473,947
Debt service	1,667,264	385,393	305,668	321,734	401,824	357,563	377,582	230,840
Capital projects	1,057,159	1,243,903	746,640	46,113	-	188,935	660,911	232,850
<b>Total</b>	<b>\$ 5,141,393</b>	<b>\$ 3,867,583</b>	<b>\$ 3,555,634</b>	<b>\$ 2,865,685</b>	<b>\$ 4,211,708</b>	<b>\$ 3,626,852</b>	<b>\$ 3,256,676</b>	<b>\$ 3,219,899</b>

See Independent Auditor's Report on the Supplementary Information.

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**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 New Hampton  
New Hampton, Iowa**

We have audited the 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 City of New Hampton as of and for the year ended June 30, 2010, which collectively comprise City of New Hampton's basic financial statements and have issued our report thereon dated December 29, 2010. Our report expressed a qualified opinion on the government financial statements which were prepared in conformity with another 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 City of New Hampton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of New Hampton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of New Hampton's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a 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 that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, as discussed below that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

1. Financial Report Preparation

Reporting financial data reliably in accordance with generally accepted accounting principles requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Obtaining additional generally accepted accounting principles knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in their ability to prepare and take responsibility for reliable generally accepted accounting principles financial statements.

Response

The City Clerk will obtain additional generally accepted accounting principles knowledge in any way possible that is economically feasible, in order to improve the ability to prepare and take responsibility for reliable generally accepted accounting principles financial statements.

Conclusion

Response accepted.

2. Overlapping Duties

The City's offices are not large enough to permit an adequate segregation of duties for effective internal controls. The concentration of closely related duties and responsibilities such as the recording and processing of cash receipts, preparing grant expenditure reports, preparing financial information for posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records. While we do recognize that the City is not large enough to permit a segregation of duties for effective internal controls, we believe it is important the Council be aware that this condition does exist.

Response

The City staff will make changes whenever possible and economically feasible.

Conclusion

Response accepted.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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, 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*.

We noted certain matters that we reported to management of City of New Hampton in a separate letter dated December 29, 2010.

The City of New Hampton's response to the findings identified in our audit is described above. We did not audit City of New Hampton's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Hacker, Nelson & Co., P.C.*

Decorah, Iowa  
December 29, 2010

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## MANAGEMENT LETTER

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

In planning and performing our audit of the basic financial statements of the City of New Hampton for the year ended June 30, 2010, we considered the City's internal control to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on internal control.

In accordance with Chapter 11 of the Code of Iowa, we are required to report on the City's compliance with certain sections of the Iowa Code, Attorney General's Opinions and other matters. Items 1 through 7 below are compliance comments required by the Iowa Auditor of State. A separate report dated December 29, 2010 contains our report on significant deficiencies in the City's internal control. This letter does not affect our report dated December 29, 2010 on the basic financial statements of City of New Hampton. Comment number 8 is a repeat comment from the prior year. All other prior year comments have been resolved. We did not audit the City's responses and, accordingly, we express no opinion on them.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

1. **Certified Budget**  
The City's disbursements during the year ended June 30, 2010 did not exceed the amounts in the amended budget.
2. **Questionable Disbursements**  
We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. **Travel Expense**  
No expenditures of City money for travel expenses of spouses of City official and/or employees were noted.

4. Business Transactions

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

<u>Name, Title, and Business Connection</u>	<u>Description</u>	<u>Amount</u>
Nita Geerts, Council Member		
Husband is owner of Geerts	Services, by bid	\$ 4,405
	Services, non-bid	\$ 1,136

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

5. Bond Coverage

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

6. Council Minutes

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

7. 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.

8. Financial Condition

The City has seven accounts with deficit balances at June 30, 2010 totaling \$509,520.

Recommendation

The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response

Transfers will be made to eliminate deficit balances where possible.

Conclusion

Response accepted.

This report is intended solely for the information and use of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the City of New Hampton during the course of our examination.

If you have any questions concerning these or other matters, we would be happy to discuss them with you at your convenience.

Decorah, Iowa  
December 29, 2010

*Hacker, Nelson & Co., P.C.*