

CITY OF NEW HAMPTON

FINANCIAL REPORT

JUNE 30, 2011

TABLE OF CONTENTS

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)	4
BASIC FINANCIAL STATEMENTS	<u>Exhibit</u>
Government-Wide Financial Statements	
Statement of Activities and Net Assets - Cash Basis	A 5
Governmental Funds Financial Statements	
Statement of Cash Receipts, Disbursements and Changes in Cash Fund Balances	B 6
Proprietary Funds Financial Statements	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 7
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	D 8
Notes to Financial Statements	9-17
Required Supplementary Information	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	18
Notes to Required Supplementary Information-Budgetary Reporting	19
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION	20-21
OTHER SUPPLEMENTARY INFORMATION	<u>Schedule</u>
Governmental Activities	
Nonmajor Governmental Funds	
Schedule of Cash Receipts, Disbursements and Changes in Cash Fund Balances	1 22
Schedule of Indebtedness	2 23
Bond and Note Maturities	3 24
Schedule of Receipts by Source and Disbursements by Function	4 25
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 <i>GOVERNMENT AUDITING STANDARDS</i>	26-28
MANAGEMENT LETTER	29-30

CITY OF NEW HAMPTON

OFFICIALS
(Before January 2012)

Title	Name	Term Expires
Mayor	Darwin Sittig	December 31, 2011
Mayor Pro Tem	Robert Martin	December 31, 2011
Council Member	Nita Geerts	December 31, 2011
Council Member	William Hurd	December 31, 2011
Council Member	Stanley Perkins	December 31, 2011
Council Member	Scott Perkins	December 31, 2011
Clerk/Treasurer	Suellen Kolbet	Indefinite
Attorney	Kevin Kennedy	Indefinite

123 West Water Street
P.O. Box 507
Decorah, Iowa 52101
Telephone 563 382-3637
Fax 563 382-5797

HACKER, NELSON & CO., P.C.
Certified Public Accountants
And Business Consultants

www.hackernelson.com

9 North Locust Avenue
P.O. Box 529
New Hampton, Iowa 50659
Telephone 641 394-2245
Fax 641 394-3138

**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, 2011, 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, 2011 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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of New Hampton as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2012, 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 18 through 19 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
February 1, 2012

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, 2011. Please read this in conjunction with the transmittal letter and the City's financial statements contained within this audit report.

2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased \$1,884,294 or approximately 36.96% from FY 2010 to FY 2011. Of which, bond proceeds from 2010 accounted for \$1,686,525 of this decrease. Property taxes for all purposes increased \$110,146.
- Program disbursements excluding debt service and capital projects increased \$47,830.
- The City's total cash basis net assets are \$2,529,654. Of this amount, the governmental activities claim cash basis net assets of \$2,011,346.
- Net assets in the business-type activity, which represents the City's sewer and water operations, increased \$137,044. An increase in charges for services is the primary reason for the increase.

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 City has two kinds of funds:

Governmental funds: These account for most of the City's basic services. These 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 are a statement of cash receipts, disbursements, and changes in cash fund balances.

Proprietary (business-type) funds: These account for the City's enterprise funds that charge fees to customers 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, 2011:

Changes in Cash Basis Net Assets of Governmental Activities
(In Thousands)

	Governmental Activities		Business-type Activities		Total		Percent Change
	2010	2011	2010	2011	2010	2011	
Receipts:							
Program revenue							
Charges for service	\$ 382	\$ 309	\$ 706	\$ 900	\$ 1,088	\$ 1,209	11.12%
Operating grants	457	480	-	-	457	480	5.03%
Capital grants	310	97	-	-	310	97	-68.71%
General revenue							
Property taxes	1,429	1,539	-	-	1,429	1,539	7.70%
Tax increment financing collections	387	417	-	-	387	417	7.75%
Local option sales tax	341	333	-	-	341	333	-2.35%
Unrestricted investment earnings	25	21	4	2	29	23	-20.69%
Bond proceeds	1,687	-	-	-	1,687	-	
Other revenue	80	17	16	26	96	43	-55.21%
Total receipts	5,098	3,213	726	928	5,824	4,141	-28.90%
Program disbursements:							
Public safety	608	615	-	-	608	615	1.15%
Public works	399	406	-	-	399	406	1.75%
Health & social services	3	3	-	-	3	3	0.00%
Culture & recreation	524	514	-	-	524	514	-1.91%
Community & economic development	499	529	-	-	499	529	6.01%
General government	384	398	-	-	384	398	3.65%
Debt service	1,667	430	-	-	1,667	430	-74.21%
Capital projects	1,057	407	-	-	1,057	407	-61.49%
Other expenses	-	-	953	791	953	791	-17.00%
Total disbursements	5,141	3,302	953	791	6,094	4,093	-32.84%
(Decrease) increase in cash basis net assets before transfers	(43)	(89)	(227)	137	(270)	48	-117.78%
Transfers	(400)	-	400	-	-	-	
Increase (decrease) in cash basis net assets	(443)	(89)	173	137	(270)	48	-117.78%
Cash basis net assets beginning of year	2,543	2,100	208	381	2,751	2,481	-9.81%
Cash basis net assets end of year	\$ 2,100	\$ 2,011	\$ 381	\$ 518	\$ 2,481	\$ 2,529	1.93%

Individual Major Fund Analysis

As the City completed the year, its governmental funds reported a combined cash fund balance of \$2,011,346, an \$88,245 decrease from the 2010 fiscal year end balance of \$2,099,591. 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 2011 with a cash basis net asset balance of \$241,054. This reflects an increase of \$4,126 from the end of fiscal year 2010 when the net asset balance was \$236,928.

The sewer fund, which accounts for the operation and maintenance of the sewer system and the wastewater treatment facility, ended fiscal year 2011 with a net asset balance of \$277,254. This reflects an increase of \$132,918 from the end of fiscal year 2010 when the net asset balance was \$144,336. The sewer fund had a net operating profit of \$123,113 for fiscal year 2011.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. These amendments increased budgeted disbursements by \$600,825. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2011, the City had approximately \$2,470,000 in bonds and other long-term debt, compared to approximately \$2,800,000 last year, as shown below:

	Outstanding Debt at Year-End				
	Year ended June 30,				
	2011	2010	2009	2008	2007
General obligation bonds	\$ 2,470,000	\$ 2,800,000	\$ 2,665,000	\$ 2,915,000	\$ 2,200,000
Revenue notes					
Urban renewal tax increment financing revenue bonds	3,589	3,589	3,589	3,589	3,589
Total	\$ 2,473,589	\$ 2,803,589	\$ 2,668,589	\$ 2,918,589	\$ 2,203,589

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 \$2,470,000 is significantly below its constitutional debt limit of \$9,589,254.

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 2011 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 6.2%, versus 7.4% a year ago. This compares with the State's unemployment rate of 6.0% and the national rate of 9.1%.

Inflation in the Midwest is slightly lower than the national Consumer Price Index increase. The Midwest's CPI was 3.2 percent for calendar year 2011 compared with the national rate of 3.0 percent.

These indicators were taken into account when adopting the budget for fiscal year 2012. Amounts available for appropriation in the operating budget are \$7.9 million, compared to the 2011 final budget of \$7.5 million.

Below is a summary of the tax levy rates per \$1,000 of taxable valuation for FY10-11:

Purpose	2009/2010	2010/2011	2011/2012
General Levy	\$8.10000	\$8.10000	8.10
Support Public Library	\$0.27000	\$0.27000	\$0.27000
Liability, property insurance	\$0.13751	\$0.21101	\$.20230
FICA and IPERS	\$1.21789	\$0.81037	\$.81910
Employee Benefits	\$1.97579	\$2.45665	\$2.40886
Debt Service	\$1.89879	\$2.05191	\$1.67765
Total Levy	\$13.59998	\$13.89994	\$13.47791

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.

This Page Intentionally Left Blank

CITY OF NEW HAMPTON
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
For the Year Ended June 30, 2011

Functions and Programs	Disbursements	Program Receipts		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
Public safety	\$ 614,817	\$ 10,855	\$ 8,228	
Public works	405,633	140,388	397,778	
Health and social services	3,365			
Culture and recreation	513,769	101,656	25,851	
Community and economic development	529,103	36,123	24,256	\$ 8,514
General government	398,113	19,036	21,930	
Debt service	330,000		2,116	
Capital projects	407,103	1,025		88,897
Interest on long-term debt	99,818			
Total governmental activities	<u>3,301,721</u>	<u>309,083</u>	<u>480,159</u>	<u>97,411</u>
Business-type activities				
Water utilities	254,716	245,557		
Sewer utilities	536,075	654,634		
Total business-type activities	<u>790,791</u>	<u>900,191</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 4,092,512</u>	<u>\$ 1,209,274</u>	<u>\$ 480,159</u>	<u>\$ 97,411</u>
Component unit				
Business-type activities				
Light plant	<u>\$ 3,074,250</u>	<u>\$ 3,761,590</u>		
General Receipts				
Property and other City taxes levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Investment earnings				
Miscellaneous items				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted				
Nonexpendable				
Cemetery perpetual care				
Expendable				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

See Notes to Financial Statements.

EXHIBIT A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Light Plant
\$ (595,734)		\$ (595,734)	
132,533		132,533	
(3,365)		(3,365)	
(386,262)		(386,262)	
(460,210)		(460,210)	
(357,147)		(357,147)	
(327,884)		(327,884)	
(317,181)		(317,181)	
(99,818)		(99,818)	
(2,415,068)		(2,415,068)	\$ -
	\$ (9,159)	(9,159)	
	118,559	118,559	
-	109,400	109,400	-
(2,415,068)	109,400	(2,305,668)	-
			687,340
1,292,699		1,292,699	
246,408		246,408	
417,178		417,178	
332,678		332,678	
21,001	1,990	22,991	22,461
16,859	25,654	42,513	51,548
2,326,823	27,644	2,354,467	74,009
(88,245)	137,044	48,799	761,349
2,099,591	381,264	2,480,855	4,259,968
\$ 2,011,346	\$ 518,308	\$ 2,529,654	\$ 5,021,317
\$ 76,562		\$ 76,562	
11,690		11,690	
139,235		139,235	
(15,716)		(15,716)	
413,166		413,166	
1,386,409	\$ 518,308	1,904,717	\$ 5,021,317
\$ 2,011,346	\$ 518,308	\$ 2,529,654	\$ 5,021,317

This Page Intentionally Left Blank

CITY OF NEW HAMPTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	General	Special Revenue			Local Option Sales Tax
		Road Use Tax	Employee Benefits	Urban Renewal Increment	
Receipts					
Property taxes	\$ 915,728		\$ 347,351		
Tax increment financing				\$ 417,178	
Other City tax	29,620				\$ 332,678
Licenses and permits	12,527				
Use of money and property	48,042				
Intergovernmental	157,463	\$ 332,778			
Charges for services	253,985				
Miscellaneous	103,899		382		
Total receipts	1,521,264	332,778	347,733	417,178	332,678
Disbursements					
Operating					
Public safety	510,079		104,738		
Public works	87,534	305,459			
Health and social services	3,365				
Culture and recreation	483,845		29,924		
Community and economic development	104,133		29,925	386,533	
General government	309,060		89,053		
Debt service					
Principal					
Interest					
Capital projects	407,103				
Total disbursements	1,905,119	305,459	253,640	386,533	-
Excess (deficiency) of receipts over disbursements	(383,855)	27,319	94,093	30,645	332,678
Other financing sources (uses)					
Transfers in	101,464				
Transfers (out)		(14,500)	(85,783)	(14,888)	(166,375)
Total other financing sources (uses)	101,464	(14,500)	(85,783)	(14,888)	(166,375)
Net change in cash balances	(282,391)	12,819	8,310	15,757	166,303
Cash balances beginning of year	1,417,413	(1,129)	90,680	123,478	612,565
Cash balances end of year	\$ 1,135,022	\$ 11,690	\$ 98,990	\$ 139,235	\$ 778,868
Cash Basis Fund Balances					
Nonspendable					
Cemetery perpetual care					
Restricted					
Urban renewal purposes				\$ 139,235	
Streets		\$ 11,690			
Capital improvements and equipment					
Other purposes			\$ 98,990		\$ 778,868
Assigned	\$ 769,707				
Unassigned	365,315				
Total cash basis fund balances	\$ 1,135,022	\$ 11,690	\$ 98,990	\$ 139,235	\$ 778,868

See Notes to Financial Statements.

EXHIBIT B

Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 246,408		\$ 1,509,487
		417,178
		362,298
		12,527
	\$ 1,181	49,223
2,116	11,720	504,077
	420	254,405
		104,281
<u>248,524</u>	<u>13,321</u>	<u>3,213,476</u>
		614,817
	12,640	405,633
		3,365
		513,769
	8,512	529,103
		398,113
330,000		330,000
99,818		99,818
		407,103
<u>429,818</u>	<u>21,152</u>	<u>3,301,721</u>
<u>(181,294)</u>	<u>(7,831)</u>	<u>(88,245)</u>
166,375	14,888	282,727
	(1,181)	(282,727)
<u>166,375</u>	<u>13,707</u>	<u>-</u>
(14,919)	5,876	(88,245)
<u>(1,994)</u>	<u>(141,422)</u>	<u>2,099,591</u>
<u>\$ (16,913)</u>	<u>\$ (135,546)</u>	<u>\$ 2,011,346</u>
	\$ 76,562	\$ 76,562
		139,235
		11,690
	153,594	153,594
	150,127	1,027,985
		769,707
\$ (16,913)	(515,829)	(167,427)
<u>\$ (16,913)</u>	<u>\$ (135,546)</u>	<u>\$ 2,011,346</u>

CITY OF NEW HAMPTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
For the Year Ended June 30, 2011

	Enterprise Funds			Component Unit Light Plant
	Primary Government			
	Water	Sewer	Total	
Operating Receipts				
Charges for services	\$ 245,557	\$ 654,634	\$ 900,191	\$ 3,761,590
Total operating receipts	<u>245,557</u>	<u>654,634</u>	<u>900,191</u>	<u>3,761,590</u>
Operating Disbursements				
Business-type activities	185,323	531,521	716,844	2,758,605
Total operating disbursements	<u>185,323</u>	<u>531,521</u>	<u>716,844</u>	<u>2,758,605</u>
Excess of operating receipts over operating disbursements	<u>60,234</u>	<u>123,113</u>	<u>183,347</u>	<u>1,002,985</u>
Nonoperating Receipts (Disbursements)				
Interest on investments	745	1,245	1,990	22,461
Miscellaneous	12,540	13,114	25,654	51,548
Capital projects	(69,393)	(4,554)	(73,947)	
Debt service			-	(315,645)
Total nonoperating receipts	<u>(56,108)</u>	<u>9,805</u>	<u>(46,303)</u>	<u>(241,636)</u>
Excess of receipts over disbursements	<u>4,126</u>	<u>132,918</u>	<u>137,044</u>	<u>761,349</u>
Transfers				
Operating transfers in	73,000	50,000	123,000	-
Operating transfers out	(73,000)	(50,000)	(123,000)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	<u>4,126</u>	<u>132,918</u>	<u>137,044</u>	<u>761,349</u>
Cash balances beginning of year	<u>236,928</u>	<u>144,336</u>	<u>381,264</u>	<u>4,259,968</u>
Cash balances end of year	<u>\$ 241,054</u>	<u>\$ 277,254</u>	<u>\$ 518,308</u>	<u>\$ 5,021,317</u>
Cash Basis Fund Balances				
Restricted for debt service				\$ 1,892,556
Unreserved	\$ 241,054	\$ 277,254	\$ 518,308	3,128,761
Total cash basis fund balances	<u>\$ 241,054</u>	<u>\$ 277,254</u>	<u>\$ 518,308</u>	<u>\$ 5,021,317</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, 2011

Total enterprise funds cash balances	\$ 518,308
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>\$ 518,308</u>
Net change in cash balances	\$ 137,044
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>\$ 137,044</u>

See Notes to Financial Statements.

CITY OF NEW HAMPTON

NOTES TO FINANCIAL STATEMENTS

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 three categories:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

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

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

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 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 not paid from other funds.

Special Revenue

Road Use

To account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

Urban Renewal Tax Increment

This fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

Local Option Sales Tax

This fund is used to account for the receipt of the tax authorized by referendum and 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 property tax and other revenues to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

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.

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

b. Significant Accounting Policies (Continued)

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.

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

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

Governmental Cash Basis Fund Balances

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

Nonspendable

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

Restricted

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

Committed

Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changed the specified use by taking the same action it employed to commit those amounts.

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

b. Significant Accounting Policies (Continued)

Governmental Cash Basis Fund Balances (Continued)

Assigned

Amounts the Council intends to use for specific purposes.

Unassigned

All amounts not included in other spendable classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as required supplementary information.

2. Deposits and Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The Light Plant has an investment through the Iowa Public Agency Investment Trust which is valued at an amortized cost of \$3,413 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.

NOTES TO FINANCIAL STATEMENTS

3. **Bonds and Notes Payable**

A summary of the changes in debt, by type, for the year ended June 30, 2011 is as follows:

	Balance June 30, 2010	Borrowed	Paid	Balance June 30, 2011	Amounts Due Within One Year
General Obligation					
Corporate Purpose Notes					
2009A Bond	\$ 400,000		\$ (30,000)	\$ 370,000	\$ 40,000
2009B Bond	1,165,000		(135,000)	1,030,000	135,000
Swimming pool restoration	50,000		(50,000)	None	None
Debt service	340,000		(65,000)	275,000	65,000
Fire station	845,000		(50,000)	795,000	50,000
Tax increment financing bonds	3,589			3,589	3,589
Total bonded debt	\$ 2,803,589	\$ None	\$ (330,000)	\$ 2,473,589	\$ 293,589

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
2012	\$ 290,000	\$ 82,653	\$ 3,589	\$ 107	\$ 293,589	\$ 82,760
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	250,000	46,595			250,000	46,595
2017-2021	835,000	111,523			835,000	111,523
2022-2023	165,000	10,545			165,000	10,545
	\$ 2,470,000	\$ 450,102	\$ 3,589	\$ 107	\$ 2,473,589	\$ 450,209

The Code of Iowa requires principal and interest on general obligation bonds to 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 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 \$417,178, respectively.

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 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$83,259, \$79,578, and \$72,965 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 1 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, 2011, the City contributed \$323,104 and plan members eligible for benefits contributed \$28,089 to the plan.

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, 2011, primarily relating to the general fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 39,836
Sick leave	37,095
	\$ 76,931

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

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, 2011 had a total of \$1,106,790 to pay in rebates through the year 2021.

NOTES TO FINANCIAL STATEMENTS

8. 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.

9. Transfers

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

Transfers to		Transfers from	
General		Special Revenue	
General	\$ 86,964	Trust	\$ 1,181
Equipment replacement	14,500	Special Revenue	
	\$ 101,464	Employee benefits	\$ 85,783
Debt Service		Road use tax	14,500
General obligation bond	\$ 166,375	Local option sales tax	166,375
		Urban renewal tax increment	14,888
Special Revenue			\$ 281,546
Housing rehabilitation grant	\$ 14,888	Water	
Water		Water	\$ 73,000
Equipment replacement	\$ 73,000	Sewer	
Sewer		Sewer	\$ 50,000
Equipment replacement	\$ 50,000		

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

10. Deficit Fund Balance

The City had the following deficit fund balances at June 30, 2011:

Special Revenue	
Grants	\$ 9,743
Library improvement	13,400
Debt Service	16,913
Capital Projects	
Fire station	480
Community center	24,832
Main street	467,374

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.

NOTES TO FINANCIAL STATEMENTS

11. 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, 2011, \$112,443 in claims had been paid.

12. General Fund Balance

The City has assigned \$769,707 of the \$1,135,022 general fund balance to be available for equipment replacement and special projects.

13. Commitments

The total outstanding construction and purchase commitments of the City at June 30, 2011 amount to \$172,050. These are related to the streetscape design project.

This Page Intentionally Left Blank

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, 2011

	Primary Government		Component Unit
	Governmental Funds Actual	Proprietary Funds Actual	
Receipts			
Property tax	\$ 1,509,487		
Tax increment financing	417,178		
Other City taxes	362,298		
Licenses and permits	12,527		
Use of money and property	49,223	\$ 1,990	\$ 22,461
Intergovernmental	504,077		
Charges for services	254,405	900,191	3,761,590
Miscellaneous	104,281	25,654	51,548
Total receipts	3,213,476	927,835	3,835,599
Disbursements			
Public safety	614,817		
Public works	405,633		
Health and social services	3,365		
Culture and recreation	513,769		
Community and economic development	529,103		
General government	398,113		
Debt service	429,818		
Capital projects	407,103		
Business-type activities		790,791	3,074,250
Total disbursements	3,301,721	790,791	3,074,250
Excess of receipts over (under) disbursements	(88,245)	137,044	761,349
Balances beginning of year	2,099,591	381,264	4,259,968
Balances end of year	\$ 2,011,346	\$ 518,308	\$ 5,021,317

See Notes to Required Supplementary Information.

Less Funds Not Required to be Budgeted	Total Actual	Budgeted Amounts		Final to Total Variance
		Original	Final	
	\$ 1,509,487	\$ 1,506,244	\$ 1,506,244	\$ 3,243
	417,178	410,565	410,565	6,613
	362,298	346,310	346,310	15,988
	12,527	13,575	13,575	(1,048)
	73,674	100,875	100,875	(27,201)
\$ 25,000	479,077	446,581	488,659	(9,582)
48,209	4,867,977	4,529,152	4,529,152	338,825
40,000	141,483	62,000	83,220	58,263
113,209	7,863,701	7,415,302	7,478,600	385,101
	614,817	593,105	609,742	(5,075)
	405,633	423,343	429,276	23,643
	3,365	3,433	13,433	10,068
	513,769	510,872	521,461	7,692
	529,103	527,981	527,981	(1,122)
	398,113	393,014	411,653	13,540
	429,818	433,689	433,689	3,871
	407,103	382,261	551,261	144,158
113,209	3,751,832	4,116,374	4,155,882	404,050
113,209	7,053,553	7,384,072	7,654,378	600,825
-	810,148	31,230	(175,778)	985,926
-	6,740,823	5,167,804	5,167,804	1,573,019
\$ -	\$ 7,550,971	\$ 5,199,034	\$ 4,992,026	\$ 2,558,945

CITY OF NEW HAMPTON

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2011

The budgetary comparison is presented as required supplementary information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the general fund and each major special revenue fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds including the New Hampton Municipal Light Plant except receipts/disbursements between the City and 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, one budget amendment increased budgeted expenditures by \$270,306. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety and community and economic development functions.

123 West Water Street
P.O. Box 507
Decorah, Iowa 52101
Telephone 563 382-3637
Fax 563 382-5797

HACKER, NELSON & CO., P.C.
Certified Public Accountants
And Business Consultants

www.hackernelson.com

9 North Locust Avenue
P.O. Box 529
New Hampton, Iowa 50659
Telephone 641 394-2245
Fax 641 394-3138

**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, 2011 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, schedule of indebtedness, bond and note maturities, and schedule of receipts by source and disbursements by function are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements, schedule of indebtedness, bond and note maturities, and schedule of receipts by source and disbursements by function 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 through 2010, (none of which is presented herein), and we 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. Those audits were conducted for purposes of forming an opinion on the financial statements as a whole. The schedule of receipts by source and disbursements by function appearing on page 25, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the 2009 through 2010 financial statements. The information has been subjected to auditing procedures applied in the audits of those 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 set forth in the required supplementary information for the periods ended June 30, 2009 through 2010, are fairly stated, in all material respects in relation to the financial statements from which it has been derived.

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 supplementary information for each of the six years in the period ended June 30, 2008, appearing on page 25 states that, in their opinion was 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
February 1, 2012

This Page Intentionally Left Blank

CITY OF NEW HAMPTON
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	Special Revenue					
	Housing Rehabilitation Grant	Grants	Trust	Library Improvement	Park & Rec Special	Industrial Park
RECEIPTS						
Use of money and property			\$ 1,181			
Intergovernmental		\$ 3,206				
Charges for services						
Total receipts	\$ -	3,206	1,181	\$ -	\$ -	\$ -
DISBURSEMENTS						
Operating						
Public works						
Community and economic development		8,512				
Total disbursements	-	8,512	-	-	-	-
Excess (deficiency) of receipts over disbursements	-	(5,306)	1,181	-	-	-
OTHER FINANCING SOURCES (USES)						
Transfers in	14,888					
Transfers out			(1,181)			
Total other financing sources (uses)	14,888	-	(1,181)	-	-	-
Net change in cash fund balances	14,888	(5,306)	-			
Cash fund balances - beginning	33,257	(4,437)	99,643	(13,400)	2,339	1,716
Cash fund balances - ending	\$ 48,145	\$ (9,743)	\$ 99,643	\$ (13,400)	\$ 2,339	\$ 1,716
Cash Basis Fund Balances						
Nonspendable						
Cemetery perpetual care						
Restricted						
Capital improvements and equipment						\$ 1,716
Other purposes	\$ 48,145		\$ 99,643		\$ 2,339	
Unassigned		\$ (9,743)		\$ (13,400)		
Total cash basis fund balances	\$ 48,145	\$ (9,743)	\$ 99,643	\$ (13,400)	\$ 2,339	\$ 1,716

See Independent Auditor's Report on the Supplementary Information.

Capital Projects							Permanent Cemetery Perpetual Care	Total
Main Street	Community Center	Swimming Pool	Police Renovation	Wastewater Facility	Assessments	Fire Station		
								\$ 1,181
\$ 8,514								11,720
							\$ 420	420
8,514	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	420	13,321
12,640								12,640
								8,512
12,640	-	-	-	-	-	-	-	21,152
(4,126)	-	-	-	-	-	-	420	(7,831)
								14,888
								(1,181)
-	-	-	-	-	-	-	-	13,707
(4,126)							420	5,876
(463,248)	(24,832)	8	138,269	11,133	2,468	(480)	76,142	(141,422)
\$ (467,374)	\$ (24,832)	\$ 8	\$ 138,269	\$ 11,133	\$ 2,468	\$ (480)	\$ 76,562	\$ (135,546)
							\$ 76,562	\$ 76,562
		\$ 8	\$ 138,269	\$ 11,133	\$ 2,468			153,594
\$ (467,374)	\$ (24,832)					\$ (480)		150,127
								(515,829)
\$ (467,374)	\$ (24,832)	\$ 8	\$ 138,269	\$ 11,133	\$ 2,468	\$ (480)	\$ 76,562	\$ (135,546)

This Page Intentionally Left Blank

CITY OF NEW HAMPTON
SCHEDULE OF INDEBTEDNESS
For the Year Ended June 30, 2011

Bonded Indebtedness	Interest Rate	Issue Date	Amount Originally Issued	Outstanding July 1, 2010
GENERAL OBLIGATION				
2009B	1.0-3.7%	12/22/09	\$ 1,295,000	\$ 1,165,000
Swimming pool restoration	4.75 - 5.10%	1/11/01	395,000	50,000
Debt service	2.60 - 3.90%	4/1/05	620,000	340,000
Fire station	3.50 - 4.25%	2/5/08	925,000	845,000
2009A	2.5-3.8%	12/22/09	400,000	<u>400,000</u>
Total				<u><u>\$ 2,800,000</u></u>
URBAN RENEWAL TAX INCREMENT				
Financing (TIF) Revenue Bonds				
Tax increment financing bonds	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, 2011	Interest Paid	Interest Due and Unpaid
		\$ 135,000	\$ 1,030,000	\$ 30,925	
		50,000	-	2,550	
		65,000	275,000	12,540	
		50,000	795,000	33,068	
		30,000	370,000	18,410	
\$ -	\$ -	\$ 330,000	\$ 2,470,000	\$ 97,493	\$ -
\$ -	\$ -	\$ -	\$ 3,589	\$ 107	\$ 107

CITY OF NEW HAMPTON
BOND AND NOTE MATURITIES
For the Year Ended June 30, 2011

General Obligation Bonds

Year Ending June 30,	2009B		Debt Service		Fire Station		2009A		Total
	Issued December 22, 2009		Issued April 1, 2005		Issued February 5, 2008		Issued December 22, 2009		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
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	<u>\$ 1,030,000</u>	Total	<u>\$ 275,000</u>	Total	<u>\$ 795,000</u>	Total	<u>\$ 370,000</u>	<u>\$ 2,470,000</u>

Year Ending June 30,	Tax Increment Financing (TIF) Bonds Gage	
	Issued November 6, 1997	
	Interest Rates	Amount
2012	6.00%	\$ 3,589

See Independent Auditor's Report on the Supplementary Information.

This Page Intentionally Left Blank

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

	2011	2010	2009	2008
Receipts				
Property tax	\$ 1,509,487	\$ 1,399,341	\$ 1,389,964	\$ 1,235,473
Tax increment financing collections	417,178	386,696	415,229	390,551
Other City tax	362,298	370,891	374,030	366,741
Licenses and permits	12,527	11,254	15,364	16,857
Use of money and property	49,223	48,475	86,425	145,834
Intergovernmental	504,077	651,196	400,970	549,523
Charges for services	254,405	255,787	270,125	227,328
Miscellaneous	104,281	287,605	587,285	354,074
Total	\$ 3,213,476	\$ 3,411,245	\$ 3,539,392	\$ 3,286,381
Disbursements				
Operating				
Public safety	\$ 614,817	\$ 608,400	\$ 507,824	\$ 548,296
Public works	405,633	398,702	388,494	452,855
Health and social services	3,365	3,393	3,393	3,393
Culture and recreation	513,769	524,162	506,677	521,332
Community and economic development	529,103	498,473	462,040	613,842
General government	398,113	383,840	369,859	363,608
Debt service	429,818	1,667,264	385,393	305,668
Capital projects	407,103	1,057,159	1,243,903	746,640
Total	\$ 3,301,721	\$ 5,141,393	\$ 3,867,583	\$ 3,555,634

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 4

	2007	2006	2005	2004	2003
\$	1,213,212	\$ 1,179,950	\$ 960,948	\$ 951,305	\$ 1,001,779
	343,984	303,879	334,234	369,535	409,305
	369,337	289,019	266,988	260,538	375,341
	16,103	15,049	13,224	14,471	11,424
	141,326	90,320	56,462	88,315	106,404
	609,462	1,720,876	803,915	556,215	1,148,943
	231,765	216,864	353,156	296,959	162,731
	154,376	133,242	172,769	142,338	199,180
\$	3,079,565	\$ 3,949,199	\$ 2,961,696	\$ 2,679,676	\$ 3,415,107
\$	533,654	\$ 694,434	\$ 474,699	\$ 452,200	\$ 445,072
	396,343	395,535	365,578	348,886	375,085
	3,393	3,393	3,655	3,607	3,607
	630,174	528,719	577,764	570,504	517,958
	496,359	1,759,025	1,257,134	339,580	940,540
	437,915	428,778	401,524	503,406	473,947
	321,734	401,824	357,563	377,582	230,840
	46,113		188,935	660,911	232,850
\$	2,865,685	\$ 4,211,708	\$ 3,626,852	\$ 3,256,676	\$ 3,219,899

123 West Water Street
P.O. Box 507
Decorah, Iowa 52101
Telephone 563 382-3637
Fax 563 382-5797

HACKER, NELSON & CO., P.C.
Certified Public Accountants
And Business Consultants

www.hackernelson.com

9 North Locust Avenue
P.O. Box 529
New Hampton, Iowa 50659
Telephone 641 394-2245
Fax 641 394-3138

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, 2011, which collectively comprise City of New Hampton's basic financial statements and have issued our report thereon dated February 1, 2012. 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 February 1, 2012.

The City of New Hampton's responses to the findings identified in our audit are 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
February 1, 2012

123 West Water Street
P.O. Box 507
Decorah, Iowa 52101
Telephone 563 382-3637
Fax 563 382-5797

HACKER, NELSON & CO., P.C.
Certified Public Accountants
And Business Consultants

www.hackernelson.com

9 North Locust Avenue
P.O. Box 529
New Hampton, Iowa 50659
Telephone 641 394-2245
Fax 641 394-3138

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, 2011, 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 February 1, 2012 contains our report on significant deficiencies in the City's internal control. This letter does not affect our report dated February 1, 2012 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, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

1. Certified Budget

The City's disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public safety and community and economic development functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation

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

Response

Budget will be amended in the future to prevent exceeding budget disbursements.

Conclusion

Response accepted.

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

No business transactions between the City and City officials or employees were noted.

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 six accounts with deficit balances at June 30, 2011 totaling \$532,742.

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 where possible to eliminate deficit balances.

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.

Hacker, Nelson & Co., P.C.