

CITY OF NEW HAMPTON

FINANCIAL REPORT

JUNE 30, 2013

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CITY OF NEW HAMPTON

OFFICIALS

Title	Name	Term Expires
Mayor	Robert Martin	December 31, 2013
Mayor Pro Tem	Stanley Perkins	December 31, 2013
Council Member	Nita Geerts	December 31, 2013
Council Member	William Hurd	December 31, 2013
Council Member	Scott Perkins	December 31, 2013
Council Member	Darwin Sittig	December 31, 2013
Clerk/Treasurer	Suellen Kolbet	Indefinite
Attorney	Kevin Kennedy	Indefinite

**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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013 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, the aggregate remaining fund information, and the discretely presented component unit of the City of New Hampton as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and budgetary comparison information on pages 5 to 5d and pages 19 through 20 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of New Hampton's basic 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 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, such information are fairly stated in all material respects in relation to the basic financial statements prepared on the cash basis as explained in the second paragraph of our report on page 2 as a whole.

We also have previously audited, in accordance with U.S. generally accepted auditing standards, the basic financial statements of the City of New Hampton as of and for the years ended June 30, 2009 through 2012, (none of which is presented herein), and we expressed a modified 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, due to the omission of the financial transactions of component units which should be included. Those audits were conducted for purposes of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The schedule of receipts by source and disbursements by function appearing on page 24 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2009 through 2012 basic financial statements. The information has been subjected to the auditing procedures applied in the audits of those basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 2012, are fairly stated in all material respects in relation to the basic financial statements from which it has been derived.

The financial statements of City of New Hampton for the years ended June 30, 2004 through 2008 (none of which is presented herein), were audited by other auditors whose report dated March 10, 2009, expressed a modified 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 five years in the period ended June 30, 2008, appearing on page 24 states that, in their opinion was fairly stated in all material respects in relation to the financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2014, 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* in considering City of New Hampton's internal control over financial reporting and compliance.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
January 21, 2014

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, 2013. Please read this in conjunction with the transmittal letter and the City's financial statements contained within this audit report.

2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased \$1,435,354 or 29.95% from FY 2012 to FY 2013. Of which, bond proceeds received in 2012 accounted for \$1,570,000 of this decrease. Property taxes for all purposes increased \$76,317.
- Program disbursements excluding debt service and capital projects increased \$25,706 or 1.04%.
- The City's total cash basis net position is \$2,915,538. Of this amount, the governmental activities claim cash basis net position of \$2,461,656.
- Net position (cash basis) in the business-type activities, which represents the City's sewer and water operations, increased \$5,773.

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 position-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 position-cash basis reports information which helps answer this question.

The statement of activities and net position-cash basis presents information showing how the City's net cash position changed during the most recent fiscal year. Over time, increases or decreases in the City's net cash position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities and net position-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 Municipal 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) capital projects funds. 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 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.

REPORTING THE CITY'S FINANCIAL ACTIVITIES (Continued)

Fund Financial Statements (Continued)

The following analysis shows the change in net position for the years ending June 30, 2013 and 2012:

	Changes in Cash Basis Net Position of Governmental Activities							Percent Change
	(In Thousands)							
	Governmental Activities		Business-type Activities		Total			
2012	2013	2012	2013	2012	2013			
Receipts:								
Program revenue								
Charges for service	\$ 314	\$ 351	\$ 798	\$ 784	\$ 1,112	\$ 1,135		2.07%
Operating grants	519	531			519	531		2.31%
Capital grants	66	89			66	89		34.85%
General revenue								
Property taxes	1,561	1,638			1,561	1,638		4.93%
Tax increment financing collections	384	386			384	386		0.52%
Other city taxes		10				10		
Local option sales tax	346	335			346	335		-3.18%
Unrestricted investment earnings	16	10	1	1	17	11		-35.29%
Gain (loss) on the sale of capital assets		1				1		
Bond proceeds	1,570				1,570			
Other revenue	17	7	10	28	27	35		29.63%
Total receipts	<u>4,793</u>	<u>3,358</u>	<u>809</u>	<u>813</u>	<u>5,602</u>	<u>4,171</u>		<u>-25.54%</u>
Program disbursements:								
Public safety	619	625			619	625		0.97%
Public works	398	423			398	423		6.28%
Health & social services	2	2			2	2		0.00%
Culture & recreation	548	567			548	567		3.47%
Community & economic development	493	485			493	485		-1.62%
General government	404	388			404	388		-3.96%
Debt service	375	550			375	550		46.67%
Capital projects	596	1,370			596	1,370		129.87%
Other expenses			740	816	740	816		10.27%
Total disbursements	<u>3,435</u>	<u>4,410</u>	<u>740</u>	<u>816</u>	<u>4,175</u>	<u>5,226</u>		<u>25.17%</u>
Increase (decrease) in cash basis net position before transfers	1,358	(1,052)	69	(3)	1,427	(1,055)		-173.93%
Transfers	139	6	(139)	9	-	15		
Increase (decrease) in cash basis net position	1,497	(1,046)	(70)	6	1,427	(1,040)		-172.88%
Cash basis net position beginning of year	2,011	3,508	518	448	2,529	3,956		56.43%
Cash basis net position end of year	<u>\$ 3,508</u>	<u>\$ 2,462</u>	<u>\$ 448</u>	<u>\$ 454</u>	<u>\$ 3,956</u>	<u>\$ 2,916</u>		<u>-26.29%</u>

Individual Major Fund Analysis

As the City completed the year, its governmental funds reported a combined cash balance of \$2,461,656, a \$1,046,336 decrease from the 2012 fiscal year end balance of \$3,507,992. In 2012, the City received bond proceeds for capital projects which are now being paid back.

The general fund cash balance increased \$124,107 from the prior year of \$1,132,477. The increase was due to an increase in utility franchise tax and charges for services. This combined with an increase in public safety and health and social services disbursements resulted in an increase in the cash balance. The cash balance at year end was \$1,256,584.

REPORTING THE CITY'S FINANCIAL ACTIVITIES (Continued)

Individual Major Fund Analysis (Continued)

The urban renewal tax increment fund cash balance increased \$19,066 from the prior year of \$128,295 to \$147,361. The fund is used for urban renewal tax increment capital projects and debt payments. Tax increment receipts increased about \$3,000 while disbursements decreased approximately \$23,000.

The local option sales tax fund accounts for revenue from the tax authorized by referendum and used for street improvements. At the end of the fiscal year, the cash balance was \$729,925 compared to the prior year ending balance of \$735,431. Local option sales tax revenue decreased \$10,809 in fiscal year 2013.

The employee benefits fund within the special revenue fund of the City is used to account for property taxes levied for payment of employee benefits. This fund ended fiscal year 2013 with a \$2,683 cash balance compared to the prior year ending cash balance of \$6,132.

The road use tax fund is used to account for the road use tax allocation from the State to be used for road construction and maintenance. Receipts in this fund increased \$3,267 while expenses increased \$37,307 resulting in an ending cash balance of \$18,116. This was a \$5,307 decrease from the prior year ending cash balance of \$23,423.

The 2012 street improvement projects fund within the capital projects fund of the City is used to account for receipts used for street improvements. The City received debt proceeds of \$1,500,000 in 2012 with most of this being spent in fiscal year 2013. Capital projects expenses increased approximately \$1,000,000 in fiscal year 2013 resulting in a decrease of \$1,205,512 in the cash balance from \$1,265,061 to \$59,549.

The debt service fund ended fiscal year 2013 with a cash balance of \$3,475 balance compared to the prior year ending negative balance of \$9,393. Property tax revenue increased \$9,222 and bond principal and interest payments increased \$174,997 in fiscal year 2013. This increase was covered by an increase in transfers of \$175,663.

Proprietary Fund Highlights

The water fund, which accounts for the operation and maintenance of the City's water system, ended fiscal year 2013 with a cash basis net position balance of \$125,670. This reflects a decrease of \$7,983 from the end of fiscal year 2012 when the net position balance was \$133,653. The water fund had a net operating profit of \$64,927 for fiscal year 2013.

The sewer fund, which accounts for the operation and maintenance of the sewer system and the wastewater treatment facility, ended fiscal year 2013 with a net position balance of \$328,212. This reflects an increase of \$13,756 from the end of fiscal year 2012 when the net position balance was \$314,456. The sewer fund had a net operating profit of \$35,049 for fiscal year 2013.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. This amendment increased budgeted disbursements by \$108,302 and budgeted receipts by \$53,687.

DEBT ADMINISTRATION

At June 30, 2013, the City had approximately \$3,300,000 in bonds and other long-term debt, compared to approximately \$3,750,000 last year, as shown below:

DEBT ADMINISTRATION (Continued)

Outstanding Debt at Year-End
Year ended June 30,

	2013	2012	2011	2010	2009
General obligation bonds	\$ 3,300,000	\$ 3,750,000	\$ 2,470,000	\$ 2,800,000	\$ 2,665,000
Revenue notes					
Urban renewal tax increment financing revenue bonds		3,589	3,589	3,589	3,589
Total	\$ 3,300,000	\$ 3,753,589	\$ 2,473,589	\$ 2,803,589	\$ 2,668,589

Details of the debt issued by the City’s specific issues can be found in Note 3 under the notes to the financial statements.

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 \$3,300,000 is significantly below its constitutional debt limit of \$9,716,913.

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 2013 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 4.4%, versus 4.4% a year ago. This compares with the State’s unemployment rate of 4.6% and the national rate of 7.5%.

Inflation in the Midwest is similar to the national Consumer Price Index increase. The Midwest’s CPI was 1.3 percent for calendar year 2013 compared with the national rate of 1.8 percent.

These indicators were taken into account when adopting the budget for fiscal year 2013. Amounts available for appropriation in the operating budget are \$9.2 million, compared to the 2012 final budget of \$7.5 million.

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 POSITION - CASH BASIS
For the Year Ended June 30, 2013

Functions and Programs	Disbursements	Program Receipts		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
Public safety	\$ 625,262	\$ 12,100	\$ 25,955	
Public works	422,842	148,353	431,980	
Health and social services	1,655			
Culture and recreation	566,602	117,561	29,914	
Community and economic development	485,105	49,808	22,140	
General government	388,292	22,151	19,022	
Debt service	450,000		2,230	
Capital projects	1,369,752	700		\$ 89,127
Interest on long-term debt	100,425			
Total governmental activities	4,409,935	350,673	531,241	89,127
Business-type activities				
Water utilities	302,378	261,854		
Sewer utilities	513,495	522,437		
Total business-type activities	815,873	784,291	-	-
Total primary government	\$ 5,225,808	\$ 1,134,964	\$ 531,241	\$ 89,127
Component unit				
Business-type activities				
Light plant	\$ 3,421,139	\$ 4,125,993		
General Receipts				
Property and other City taxes levied for:				
General purposes				
Debt service				
Hotel/Motel Tax				
Tax increment financing				
Local option sales tax				
Investment earnings				
Miscellaneous items				
Sale of assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted				
Nonexpendable				
Cemetery perpetual care				
Expendable				
Streets				
Urban renewal purposes				
Other purposes				
Unrestricted				
Total cash basis net position				

See Notes to Financial Statements.

EXHIBIT A

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Light Plant
\$ (587,207)		\$ (587,207)	
157,491		157,491	
(1,655)		(1,655)	
(419,127)		(419,127)	
(413,157)		(413,157)	
(347,119)		(347,119)	
(447,770)		(447,770)	
(1,279,925)		(1,279,925)	
(100,425)		(100,425)	
(3,438,894)		(3,438,894)	\$ -
	\$ (40,524)	(40,524)	
	8,942	8,942	
-	(31,582)	(31,582)	-
(3,438,894)	(31,582)	(3,470,476)	-
			704,854
1,417,178		1,417,178	
220,590		220,590	
9,680		9,680	
386,406		386,406	
334,967		334,967	
9,674	1,065	10,739	16,746
6,633	27,620	34,253	40,908
1,100		1,100	40,000
6,330	8,670	15,000	(15,000)
2,392,558	37,355	2,429,913	82,654
(1,046,336)	5,773	(1,040,563)	787,508
3,507,992	448,109	3,956,101	5,060,387
\$ 2,461,656	\$ 453,882	\$ 2,915,538	\$ 5,847,895
\$ 78,582		\$ 78,582	
18,116		18,116	
147,361		147,361	
882,457		882,457	
1,335,140	\$ 453,882	1,789,022	\$ 5,847,895
\$ 2,461,656	\$ 453,882	\$ 2,915,538	\$ 5,847,895

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CITY OF NEW HAMPTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	General	Special Revenue	
		Urban Renewal Increment	Road Use Tax
Receipts			
Property taxes	\$ 969,360		
Tax increment financing		\$ 386,406	
Other City tax	80,267		
Licenses and permits	13,419		
Use of money and property	36,366		
Intergovernmental	123,317		\$ 341,980
Charges for services	301,957		
Miscellaneous	166,606		
Total receipts	1,691,292	386,406	341,980
Disbursements			
Operating			
Public safety	532,337		
Public works	87,555		335,287
Health and social services	1,655		
Culture and recreation	530,396		
Community and economic development	105,346	358,400	
General government	307,247		
Debt service			
Principal			
Interest and fees			
Capital projects	148,629		
Total disbursements	1,713,165	358,400	335,287
Excess (deficiency) of receipts over disbursements	(21,873)	28,006	6,693
Other financing sources (uses)			
Proceeds from sale of equipment	1,100		
Transfers in	168,752		
Transfers (out)	(23,872)	(8,940)	(12,000)
Total other financing sources (uses)	145,980	(8,940)	(12,000)
Net change in cash balances	124,107	19,066	(5,307)
Cash balances beginning of year	1,132,477	128,295	23,423
Cash balances end of year	\$ 1,256,584	\$ 147,361	\$ 18,116
Cash Basis Balances			
Nonspendable			
Cemetery perpetual care			
Restricted			
Urban renewal purposes		\$ 147,361	
Debt service			
Streets			\$ 18,116
Capital improvements and equipment			
Other purposes			
Assigned	\$ 766,499		
Unassigned	490,085		
Total cash basis balances	\$ 1,256,584	\$ 147,361	\$ 18,116

See Notes to Financial Statements.

EXHIBIT B

Special Revenue		Capital Projects		Other Nonmajor Governmental Funds	Total Governmental Funds
Employee Benefits	Local Option Sales Tax	2012 Street Improvement	Debt Service		
\$ 367,551			\$ 220,590		\$ 1,557,501
	\$ 334,967			\$ 9,680	386,406
				413	424,914
			2,230		13,419
		\$ 240		820	36,779
					467,527
					303,017
					166,606
<u>367,551</u>	<u>334,967</u>	<u>240</u>	<u>222,820</u>	<u>10,913</u>	<u>3,356,169</u>
92,925					625,262
					422,842
					1,655
36,206					566,602
21,359					485,105
81,045					388,292
			450,000		450,000
			100,425		100,425
		1,205,752		15,371	1,369,752
<u>231,535</u>	<u>-</u>	<u>1,205,752</u>	<u>550,425</u>	<u>15,371</u>	<u>4,409,935</u>
<u>136,016</u>	<u>334,967</u>	<u>(1,205,512)</u>	<u>(327,605)</u>	<u>(4,458)</u>	<u>(1,053,766)</u>
					1,100
			340,473	24,142	533,367
<u>(139,465)</u>	<u>(340,473)</u>			<u>(2,287)</u>	<u>(527,037)</u>
<u>(139,465)</u>	<u>(340,473)</u>	<u>-</u>	<u>340,473</u>	<u>21,855</u>	<u>7,430</u>
<u>(3,449)</u>	<u>(5,506)</u>	<u>(1,205,512)</u>	<u>12,868</u>	<u>17,397</u>	<u>(1,046,336)</u>
<u>6,132</u>	<u>735,431</u>	<u>1,265,061</u>	<u>(9,393)</u>	<u>226,566</u>	<u>3,507,992</u>
<u>\$ 2,683</u>	<u>\$ 729,925</u>	<u>\$ 59,549</u>	<u>\$ 3,475</u>	<u>\$ 243,963</u>	<u>\$ 2,461,656</u>
				\$ 78,582	\$ 78,582
					147,361
			\$ 3,475		3,475
		\$ 59,549			18,116
\$ 2,683	\$ 729,925			12,849	72,398
				175,844	908,452
					766,499
				(23,312)	466,773
<u>\$ 2,683</u>	<u>\$ 729,925</u>	<u>\$ 59,549</u>	<u>\$ 3,475</u>	<u>\$ 243,963</u>	<u>\$ 2,461,656</u>

CITY OF NEW HAMPTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

	Enterprise Funds			Component Unit Light Plant
	Primary Government			
	Water	Sewer	Total	
Operating Receipts				
Charges for services	\$ 261,854	\$ 522,437	\$ 784,291	\$ 4,125,993
Total operating receipts	261,854	522,437	784,291	4,125,993
Operating Disbursements				
Business-type activities	196,927	487,388	684,315	3,104,234
Total operating disbursements	196,927	487,388	684,315	3,104,234
Excess of operating receipts over operating disbursements	64,927	35,049	99,976	1,021,759
Nonoperating Receipts (Disbursements)				
Interest on investments	585	480	1,065	16,746
Insurance proceeds	21,830		21,830	
Miscellaneous	5,790		5,790	40,908
Gain on sale of capital assets				40,000
Capital projects	(105,451)	(26,107)	(131,558)	
Debt service				(316,905)
Total nonoperating receipts (disbursements)	(77,246)	(25,627)	(102,873)	(219,251)
Excess (deficiency) of receipts over (under) disbursements	(12,319)	9,422	(2,897)	802,508
Transfers				
Operating transfers in	4,336	4,334	8,670	
Operating transfers out				(15,000)
Total other financing sources (uses)	4,336	4,334	8,670	(15,000)
Net change in cash balances	(7,983)	13,756	5,773	787,508
Cash balances beginning of year	133,653	314,456	448,109	5,060,387
Cash balances end of year	<u>\$ 125,670</u>	<u>\$ 328,212</u>	<u>\$ 453,882</u>	<u>\$ 5,847,895</u>
Cash Basis Balances				
Restricted for debt service				\$ 1,892,676
Unreserved	\$ 125,670	\$ 328,212	\$ 453,882	3,955,219
Total cash basis balances	<u>\$ 125,670</u>	<u>\$ 328,212</u>	<u>\$ 453,882</u>	<u>\$ 5,847,895</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 POSITION
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2013

Total enterprise funds cash balances	\$ 453,882
Amounts reported for business-type activities in the statement of activities and net position are different because:	
Not applicable	-
Cash basis net position of business-type activities	\$ 453,882
Net change in cash balances	\$ 5,773
Amounts reported for business-type activities in the statement of activities and net position are different because:	
Not applicable	-
Change in cash balance of business-type activities	\$ 5,773

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 recreation, 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 position 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 position presents the City's nonfiduciary net position. Net position is reported in three categories:

- *Nonexpendable restricted net position* is subject to externally imposed stipulations which require them to be maintained permanently by the City.
- *Expendable restricted net position* result when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net position* consists of cash balances that do not meet the definition of the preceding categories. Unrestricted net position often has constraints on cash balances imposed by management, which can be removed or modified.

The statement of activities and net position 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

- *Urban Renewal Tax Increment*

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

- *Road Use Tax*

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

- *Employee Benefits*

This fund is used to account for property tax levied to finance the payment of employee benefits.

- *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.

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.

Capital Projects

Capital projects 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.

- *2012 Street Improvement*

To account for debt proceeds in order to make improvements to necessary street improvements.

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

b. Significant Accounting Policies (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 position 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.
- *Assigned* - amounts the Council intends to use for specific purposes.
- *Unassigned* - all amounts not included in other spendable classifications.

NOTES TO FINANCIAL STATEMENTS

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

b. Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as other information. During the year ended June 30, 2013, disbursements exceeded the amount budgeted in the public works function.

2. Deposits and Investments

The City's deposits in banks at June 30, 2013 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 \$3,415 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, 2013 is as follows:

	Balance June 30, 2012	Borrowed	Paid	Balance June 30, 2013	Amounts Due Within One Year
General Obligation					
Corporate Purpose					
2009A Bond	\$ 330,000		\$ (40,000)	\$ 290,000	\$ 40,000
2009B Bond	895,000		(140,000)	755,000	145,000
2012 Bond	1,570,000		(150,000)	1,420,000	150,000
Debt service	210,000		(65,000)	145,000	70,000
Fire station	745,000		(55,000)	690,000	55,000
Total bonded debt	\$ 3,750,000	\$ None	\$ (450,000)	\$ 3,300,000	\$ 460,000

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

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	
	Principal	Interest
2014	\$ 460,000	\$ 84,553
2015	470,000	73,705
2016	400,000	61,610
2017	415,000	51,850
2018	420,000	41,200
2019-2023	1,135,000	82,030
	\$ 3,300,000	\$ 394,948

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

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 5.78%, 5.38%, and 4.50% of their annual covered salary and the City is required to contribute 8.67%, 8.07%, and 6.95% of covered salary for the years ended June 30, 2013, 2012, and 2011 respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$98,442, \$91,445, and \$83,259 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 24 active and no 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, 2013, the City contributed \$292,461 and plan members eligible for benefits contributed \$25,431 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, 2013, primarily relating to the general fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 37,862
Sick leave	<u>36,001</u>
	<u>\$ 73,863</u>

This liability has been computed based on rates of pay in effect at June 30, 2013.

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, 2013 had a total of \$826,931 to pay in rebates through the year 2023.

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.

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NOTES TO FINANCIAL STATEMENTS

9. **Transfers**

The detail of interfund and intrafund transfers for the year ended June 30, 2013 is as follows:

Transfers to		Transfers from	
General		General	
General	\$ 141,752	General	\$ 15,202
Equipment replacement	27,000	Equipment replacement	8,670
	\$ 168,752		\$ 23,872
Debt Service		Special Revenue	
General obligation bond	\$ 340,473	Trust	\$ 2,287
Special Revenue		Special Revenue	
Housing rehabilitation grant	\$ 8,940	Employee benefits	\$ 139,465
Capital Projects		Road use tax	12,000
Community Center	\$ 15,202	Local option sales tax	340,473
Proprietary		Urban renewal tax increment	8,940
Water	\$ 4,336		\$ 500,878
Sewer	4,334	Proprietary	
	\$ 8,670	Light Plant	\$ 15,000

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 cash fund balances at June 30, 2013:

Special Revenue	
Grants	\$ 9,743
Capital Projects	
Library improvement	13,400
Community Center	169

The deficits will be eliminated by a transfer of funds from the general fund and receipt of grant proceeds.

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 \$171,200. As of June 30, 2013, \$67,693 in claims had been paid.

12. **General Fund Balance**

The City has assigned \$766,499 of the \$1,256,584 general fund balance to be available for equipment replacement and special projects.

13. New Governmental Accounting Standard Board (GASB) Standards

The Governmental Accounting Standards Board (GASB) has issued two statements not yet implemented by the City. The statements which might impact the City are as follows:

GASB Statement 66, *Technical Corrections – 2012*, an amendment of GASB Statements 10 and 62, issued March 2012, effective for the fiscal year ending June 30, 2014. The objective of this statement is to improve accounting and financial reporting for governmental entities by resolving conflicting guidance in GASB Statements 54 and 62, on risk financing activities and operating leases.

GASB Statement 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27, issued June 2012, will be effective for the fiscal year ended June 30, 2015. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions which are provided by other entities.

The City's management has not yet determined the effect these statements will have on the City's financial statements.

14. Commitments

The total outstanding construction and purchase commitments of the City at June 30, 2013 amount to \$49,148. These commitments are related to seal coating of streets.

15. Subsequent Events

Management has evaluated subsequent events through January 21, 2014, the date on which the financial statements were available to be issued.

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Other Information

CITY OF NEW HAMPTON
 BUDGETARY COMPARISON SCHEDULE OF
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES
 BUDGET AND ACTUAL (CASH BASIS)
 ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
 OTHER INFORMATION
 For the Year Ended June 30, 2013

	Primary Government		Component Unit
	Governmental Funds Actual	Proprietary Funds Actual	
Receipts			
Property tax	\$ 1,557,501		
Tax increment financing	386,406		
Other City taxes	424,914		
Licenses and permits	13,419		
Use of money and property	36,779	\$ 1,065	\$ 16,746
Intergovernmental	467,527		
Charges for services	303,017	784,291	4,125,993
Miscellaneous	166,606	27,620	80,908
Total receipts	<u>3,356,169</u>	<u>812,976</u>	<u>4,223,647</u>
Disbursements			
Public safety	625,262		
Public works	422,842		
Health and social services	1,655		
Culture and recreation	566,602		
Community and economic development	485,105		
General government	388,292		
Debt service	550,425		
Capital projects	1,369,752		
Business-type activities		815,873	3,421,139
Total disbursements	<u>4,409,935</u>	<u>815,873</u>	<u>3,421,139</u>
Excess of receipts over (under) disbursements	(1,053,766)	(2,897)	802,508
Other financing sources, net	<u>7,430</u>	<u>8,670</u>	<u>(15,000)</u>
Excess of receipts and other financing sources over (under) disbursements and other financing uses	(1,046,336)	5,773	787,508
Balances beginning of year	<u>3,507,992</u>	<u>448,109</u>	<u>5,060,387</u>
Balances end of year	<u>\$ 2,461,656</u>	<u>\$ 453,882</u>	<u>\$ 5,847,895</u>

See Notes to Other Information.

Less Funds Not Required to be Budgeted	Total Actual	Budgeted Amounts		Final to Total Variance
		Original	Final	
	\$ 1,557,501	\$ 1,547,448	\$ 1,545,307	\$ 12,194
	386,406	397,000	397,000	(10,594)
	424,914	374,283	374,278	50,636
	13,419	11,400	11,400	2,019
	54,590	156,400	156,400	(101,810)
\$ 50,000	417,527	377,674	408,505	9,022
51,707	5,161,594	4,675,992	4,675,992	485,602
45,790	229,344	57,800	82,802	146,542
<u>147,497</u>	<u>8,245,295</u>	<u>7,597,997</u>	<u>7,651,684</u>	<u>593,611</u>
	625,262	628,041	657,407	32,145
	422,842	419,877	419,948	(2,894)
	1,655	1,750	1,750	95
	566,602	550,520	578,594	11,992
	485,105	520,094	523,094	37,989
	388,292	400,496	433,287	44,995
	550,425	552,722	552,722	2,297
	1,369,752	1,750,000	1,750,000	380,248
<u>147,497</u>	<u>4,089,515</u>	<u>4,387,077</u>	<u>4,402,077</u>	<u>312,562</u>
<u>147,497</u>	<u>8,499,450</u>	<u>9,210,577</u>	<u>9,318,879</u>	<u>819,429</u>
-	(254,155)	(1,612,580)	(1,667,195)	1,413,040
	<u>1,100</u>			<u>1,100</u>
-	(253,055)	(1,612,580)	(1,667,195)	1,414,140
-	<u>9,016,488</u>	<u>6,679,964</u>	<u>6,679,964</u>	<u>2,336,524</u>
<u>\$ -</u>	<u>\$ 8,763,433</u>	<u>\$ 5,067,384</u>	<u>\$ 5,012,769</u>	<u>\$ 3,750,664</u>

CITY OF NEW HAMPTON

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2013

The budgetary comparison is presented 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. 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 \$108,302. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public works function.

See Independent Auditor's Report.

Supplementary Information

CITY OF NEW HAMPTON
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	Special Revenue				
	Housing Rehabilitation Grant	Hotel/Motel Tax	Hotel/Motel Capital Reserve	Grants	Trust
RECEIPTS					
Other City tax		\$ 7,260	\$ 2,420		
Use of money and property					\$ 413
Charges for services					
Total receipts	\$ -	7,260	2,420	\$ -	413
DISBURSEMENTS					
Capital projects					
Total disbursements	-	-	-	-	-
Excess (deficiency) of receipts over disbursements	-	7,260	2,420	-	413
OTHER FINANCING SOURCES (USES)					
Transfers in	8,940				
Transfers out					(2,287)
Total other financing sources (uses)	8,940	-	-	-	(2,287)
Net change in cash fund balances	8,940	7,260	2,420	-	(1,874)
Cash fund balances - beginning	61,782			(9,743)	97,316
Cash fund balances - ending	\$ 70,722	\$ 7,260	\$ 2,420	\$ (9,743)	\$ 95,442
Cash Basis Balances					
Nonspendable					
Cemetery perpetual care					
Restricted					
Capital improvements and equipment					
Other purposes	\$ 70,722	\$ 7,260	\$ 2,420		\$ 95,442
Unassigned				\$ (9,743)	
Total cash basis balances	\$ 70,722	\$ 7,260	\$ 2,420	\$ (9,743)	\$ 95,442

See Independent Auditor's Report.

SCHEDULE 1

Capital Projects				Permanent Cemetery Perpetual Care	Total
Library Improvement	Industrial Park	Community Center	Wastewater Facility		
					\$ 9,680
					413
				\$ 820	820
\$ -	\$ -	\$ -	\$ -	820	10,913
		15,371			15,371
-	-	15,371	-	-	15,371
-	-	(15,371)	-	820	(4,458)
		15,202			24,142
					(2,287)
-	-	15,202	-	-	21,855
-	-	(169)	-	820	17,397
(13,400)	1,716		11,133	77,762	226,566
\$ (13,400)	\$ 1,716	\$ (169)	\$ 11,133	\$ 78,582	\$ 243,963
				\$ 78,582	\$ 78,582
	\$ 1,716		\$ 11,133		12,849
					175,844
\$ (13,400)		\$ (169)			(23,312)
\$ (13,400)	\$ 1,716	\$ (169)	\$ 11,133	\$ 78,582	\$ 243,963

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CITY OF NEW HAMPTON
 SCHEDULE OF INDEBTEDNESS
 For the Year Ended June 30, 2013

Bonded Indebtedness	Interest Rate	Issue Date	Amount Originally Issued	Outstanding July 1, 2012
GENERAL OBLIGATION				
2009B	1.0-3.7%	12/22/09	\$ 1,295,000	\$ 895,000
Debt service	2.60 - 3.90%	4/1/05	620,000	210,000
Fire station	3.50 - 4.25%	2/5/08	925,000	745,000
2009A	2.5-3.8%	12/22/09	400,000	330,000
2012	1.0 - 1.85%	4/3/12	1,570,000	<u>1,570,000</u>
Total				<u><u>\$ 3,750,000</u></u>

See Independent Auditor's Report.

SCHEDULE 2

Issued During Year	Redeemed During Year	Paid During Year	Outstanding June 30, 2013	Interest Paid	Interest Due and Unpaid
		\$ 140,000	\$ 755,000	\$ 26,605	
		65,000	145,000	7,990	
		55,000	690,000	29,443	
		40,000	290,000	11,020	
		150,000	1,420,000	22,767	
\$ -	\$ -	\$ 450,000	\$ 3,300,000	\$ 97,825	\$ -

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CITY OF NEW HAMPTON
BOND AND NOTE MATURITIES
For the Year Ended June 30, 2013

General Obligation Bonds

Year Ending June 30,	2012 Issued April 1, 2012		2009B Issued December 22, 2009		Debt Service Issued April 1, 2005		Fire Station Issued February 5, 2008	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2014	1.00%	\$ 150,000	2.50%	\$ 145,000	3.80%	\$ 70,000	3.75%	\$ 55,000
2015	1.00%	150,000	2.80%	145,000	3.90%	75,000	3.75%	60,000
2016	1.00%	150,000	3.10%	150,000			3.75%	60,000
2017	1.00%	155,000	3.40%	155,000			3.80%	65,000
2018	1.10%	155,000	3.70%	160,000			3.95%	65,000
2019	1.25%	160,000					4.00%	70,000
2020	1.45%	165,000					4.00%	75,000
2021	1.65%	165,000					4.10%	75,000
2022	1.85%	170,000					4.15%	80,000
2023							4.25%	85,000
	Total	\$ 1,420,000	Total	\$ 755,000	Total	\$ 145,000	Total	\$ 690,000

See Independent Auditor's Report.

SCHEDULE 3

2009A		
Issued December 22, 2009		
Interest Rates	Amount	Total
2.50%	\$ 40,000	\$ 460,000
3.40%	40,000	470,000
3.40%	40,000	400,000
3.40%	40,000	415,000
3.80%	40,000	420,000
3.80%	45,000	275,000
3.80%	45,000	285,000
		240,000
		250,000
		85,000
Total	<u>\$ 290,000</u>	<u>\$ 3,300,000</u>

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CITY OF NEW HAMPTON
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENT BY FUNCTION
ALL GOVERNMENTAL FUNDS
Years Ended June 30,

	2013	2012	2011	2010
Receipts				
Property tax	\$ 1,557,501	\$ 1,532,880	\$ 1,509,487	\$ 1,399,341
Tax increment financing collections	386,406	383,923	417,178	386,696
Other City tax	424,914	374,347	362,298	370,891
Licenses and permits	13,419	10,853	12,527	11,254
Use of money and property	36,779	56,405	49,223	48,475
Intergovernmental	467,527	460,792	504,077	651,196
Charges for services	303,017	249,135	254,405	255,787
Miscellaneous	166,606	154,288	104,281	287,605
Total	\$ 3,356,169	\$ 3,222,623	\$ 3,213,476	\$ 3,411,245
Disbursements				
Operating				
Public safety	\$ 625,262	\$ 619,112	\$ 614,817	\$ 608,400
Public works	422,842	397,813	405,633	398,702
Health and social services	1,655	1,600	3,365	3,393
Culture and recreation	566,602	548,126	513,769	524,162
Community and economic development	485,105	492,972	529,103	498,473
General government	388,292	404,429	398,113	383,840
Debt service	550,425	375,428	429,818	1,667,264
Capital projects	1,369,752	595,860	407,103	1,057,159
Total	\$ 4,409,935	\$ 3,435,340	\$ 3,301,721	\$ 5,141,393

See Independent Auditor's Report.

SCHEDULE 4

	2009		2008		2007		2006		2005		2004
\$	1,389,964	\$	1,235,473	\$	1,213,212	\$	1,179,950	\$	960,948	\$	951,305
	415,229		390,551		343,984		303,879		334,234		369,535
	374,030		366,741		369,337		289,019		266,988		260,538
	15,364		16,857		16,103		15,049		13,224		14,471
	86,425		145,834		141,326		90,320		56,462		88,315
	400,970		549,523		609,462		1,720,876		803,915		556,215
	270,125		227,328		231,765		216,864		353,156		296,959
	587,285		354,074		154,376		133,242		172,769		142,338
\$	3,539,392	\$	3,286,381	\$	3,079,565	\$	3,949,199	\$	2,961,696	\$	2,679,676
\$	507,824	\$	548,296	\$	533,654	\$	694,434	\$	474,699	\$	452,200
	388,494		452,855		396,343		395,535		365,578		348,886
	3,393		3,393		3,393		3,393		3,655		3,607
	506,677		521,332		630,174		528,719		577,764		570,504
	462,040		613,842		496,359		1,759,025		1,257,134		339,580
	369,859		363,608		437,915		428,778		401,524		503,406
	385,393		305,668		321,734		401,824		357,563		377,582
	1,243,903		746,640		46,113				188,935		660,911
\$	3,867,583	\$	3,555,634	\$	2,865,685	\$	4,211,708	\$	3,626,852	\$	3,256,676

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, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise City of New Hampton's basic financial statements and have issued our report thereon dated January 21, 2014. Our report expressed a modified opinion on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles, due to the omission of the financial transactions of component units which should be included.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of New Hampton's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly we do not express an opinion on the effectiveness of City of New Hampton's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control discussed below that we consider to be a significant deficiency.

Overlapping Duties

During our review of internal controls, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. The City has implemented various procedures to enhance their internal control however, 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 receipt and posting functions, disbursement preparation and posting functions, and reconciliation function from receipt and disbursement functions 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. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

Recommendation

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 and continue reviewing operating procedures in order to obtain maximum internal control possible under the circumstances.

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 from 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*.

City of New Hampton's Response to Finding

City of New Hampton's response to the finding identified in our audit is described above. City of New Hampton's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
January 21, 2014

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, 2013, 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 8 below are compliance comments required by the Iowa Auditor of State. A separate report dated January 21, 2014 contains our report on the City's internal control over financial reporting. This letter does not affect our report dated January 21, 2014 on the basic financial statements of City of New Hampton. Comment numbers 1 and 8 are repeat comments from the prior year. All other prior year comments have been resolved. These comments are not intended to and do not constitute legal opinions. 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, 2013 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, 2013 exceeded the amounts budgeted in the public works function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

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

The City will amend the budget when necessary and will not allow disbursements to exceed the budget.

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. Urban Renewal Annual Report
The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1.
9. Financial Condition
The City has three accounts with deficit balances at June 30, 2013 totaling \$23,312.

Recommendation

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

Response

The City will investigate alternatives 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.

Decorah, Iowa
January 21, 2014