

CITY OF NEW HAMPTON

FINANCIAL REPORT

JUNE 30, 2017

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CITY OF NEW HAMPTON

OFFICIALS

Name	Title	Term Expires
Debra Larsen	Mayor	December 31, 2019
Jill Eike	Mayor Pro Tem	December 31, 2017
Bruce Diiro	Council Member	December 31, 2017
Cory McDonald	Council Member	December 31, 2019
Joe Denner	Council Member	December 31, 2019
Scott Perkins	Council Member	December 31, 2017
Scott Carey	Council Member	December 31, 2019
Suellen Kolbet	Clerk/Treasurer	Indefinite
Kevin Kennedy	Attorney	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 cash basis financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the aggregate discretely presented component units of City of New Hampton, as of and for the year ended June 30, 2017, 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 the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes 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 City'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 City'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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the aggregate discretely presented component units of the City of New Hampton, as of June 30, 2017, and the respective changes in its cash basis financial position for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of New Hampton's June 30, 2017 basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the six years ended June 30, 2014, (which are not presented herein) and expressed modified opinions on the primary government financial statements, which were prepared on the basis of cash receipts and disbursements, due to the omission of the financial transactions of component units, which should be included. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the two years ended June 30, 2016, (which are not presented herein) and expressed an unmodified opinion on those financial statements, which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information shown on Schedules 1 through 4 is the responsibility of management and was derived from and relates 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, the supplementary information is fairly stated in all material respects in relation to the years ended June 30, 2009 through 2017 basic financial statements taken as a whole.

The financial statements of City of New Hampton for the year ended June 30, 2008 was audited by other auditors who expressed modified opinions on the primary government financial statements, which were prepared on the basis of cash receipts and disbursements, due to the omission of the financial transactions of component units, which should be included. Their report on the information presented on page 32 related to the 2008 financial statements stated that, in their opinion, such information was fairly stated in all material respects in relation to the 2008 financial statements taken as a whole.

The other information, the management's discussion and analysis, the budgetary comparison information, the schedule of the city's proportionate share of the net pension liability and the schedule of city contributions on pages 5 through 5d and pages 24 through 28, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2018, 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 solely 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 the effectiveness of the City of New Hampton's 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 4, 2018

CITY OF NEW HAMPTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of New Hampton provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2017. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2017 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased \$1,994,082 or 47.99% from fiscal year 2016 to fiscal year 2017. Bond proceeds of \$2,150,000 is the main reason for the large increase. Property taxes for all purposes increased \$27,732.

Program disbursements excluding debt service and capital projects decreased \$24,468 or .87%.

The City's total cash basis net position is \$4,680,989. Of this amount, the governmental activities claim cash basis net position of \$4,268,125.

Net position (cash basis) in the business-type activities, which represents the City's sewer and water operations, increased \$129,248 to an ending cash basis net position of \$412,864.

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.

The government-wide financial statement consists of a cash basis statement of activities and net position. This statement 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 tell 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 more detail than the government-wide financial statement by providing information about the most significant funds.

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

Other information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

The supplementary information provides detailed information about the nonmajor governmental funds. 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, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

The cash basis statement of activities and net position 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 cash basis statement of activities and net position report two kinds of activities and component units:

- Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business-type activities 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 tax and state and federal grants.
- Component units of the City shown in the financial report are the New Hampton Municipal Light Plant, New Hampton Firefighters Association, and New Hampton Public Library Memorial Foundation. A component unit is a legally separate entity but one whose financial and accounting practices are closely linked to those of the City.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the general fund, 2) the special revenue funds (such as tax increment financing funds, local option sales tax and road use taxes), 3) the debt service fund, and 4) the capital projects funds. These funds are reported on the basis of cash receipts and disbursements. The governmental funds financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES (Continued)

Fund Financial Statements (Continued)

2. Proprietary (business-type) funds 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 governmental funds financial statements.

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

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

The following analysis shows the changes in net position for the years ending June 30, 2017 and 2016:

	Changes in Cash Basis Net Position of Governmental Activities						
	(In Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2017	2016	2017	2016	2017	2016	
Receipts:							
Program receipts:							
Charges for service	\$ 330	\$ 380	\$ 1,081	\$ 828	\$ 1,411	\$ 1,208	16.80%
Operating grants	609	589			609	589	3.40%
Capital grants	567	116			567	116	388.79%
General receipts:							
Property taxes	1,597	1,569			1,597	1,569	1.78%
Tax increment financing	381	368			381	368	3.53%
Other City taxes	63	68			63	68	-7.35%
Local option sales tax	389	358			389	358	8.66%
Commercial/industrial tax replacement	48	56			48	56	-14.29%
Unrestricted investment earnings	9	11	2	7	11	18	-38.89%
Bond proceeds	2,150	635		165	2,150	800	168.75%
Other receipts	6	5	7	6	13	11	18.18%
Total receipts	6,149	4,155	1,090	1,006	7,239	5,161	40.26%
Program disbursements:							
Public safety	629	589			629	589	6.79%
Public works	510	530			510	530	-3.77%
Health and social services	2	1			2	1	100.00%
Culture and recreation	665	648			665	648	2.62%
Community and economic development	576	643			576	643	-10.42%
General government	398	393			398	393	1.27%
Debt service	485	400			485	400	21.25%
Capital projects	1,009	596			1,009	596	69.30%
Other disbursements	76	64	899	996	975	1,060	-8.02%
Total disbursements	4,350	3,864	899	996	5,249	4,860	8.00%
Change in cash basis net position before transfers	1,799	291	191	10	1,990	301	561.13%
Transfers	61		(61)		-	-	0.00%
Change in cash basis net position	1,860	291	130	10	1,990	301	561.13%
Cash basis net position beginning of year	2,408	2,117	283	273	2,691	2,390	12.59%
Cash basis net position end of year	\$ 4,268	\$ 2,408	\$ 413	\$ 283	\$ 4,681	\$ 2,691	73.95%

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City completed the year, its governmental funds reported a combined cash balance of \$4,268,125, a \$1,860,363 increase from the 2016 fiscal year end balance of \$2,407,762.

The general fund cash balance increased \$260,020 from the prior year of \$1,443,672. An increase in miscellaneous receipts of \$399,148, which included donations for capital improvement projects that are ongoing, caused the increase in cash balance. Overall, receipts excluding miscellaneous receipts increased only \$1,987 while disbursements decreased \$92,181. The cash balance at year-end was \$1,703,692.

The road use tax fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance. Receipts in this fund increased \$2,015 while disbursements decreased \$39,102 resulting in an ending cash balance of \$52,083. This was a \$15,848 increase from the prior year ending cash balance of \$36,235.

The local option sales tax fund within the special revenue fund of the City is used to account for receipts from the tax authorized by referendum and monies are transferred to the debt service fund to make debt service payments. Local option tax receipts increased \$30,727 during fiscal year 2017. This fund ended fiscal year 2017 with a \$209,069 cash balance compared to the prior year ending cash balance of \$149,328.

The Swimming Pool Renovation Fund within the capital projects funds of the City is used to account for receipts used for improvements to the City's swimming pool. The City had bond proceeds of \$400,000 during fiscal year 2017. The City also transferred in funds of \$130,090 from the capital improvement projects within the general fund. This project is still in process and only incurred \$8,920 of capital projects disbursements during fiscal year 2017. The fund ended fiscal year 2017 with a \$523,888 cash balance.

The 2017 Street Reconstruction Fund within the capital projects funds of the City is used to account for receipts used for improvements to the City's streets. The City had bond proceeds of \$1,750,000. The City only incurred \$338,167 of capital projects disbursements during fiscal year 2017 and ended the year with a cash balance of \$1,418,807 to continue projects into fiscal year 2018.

The debt service fund ended fiscal year 2017 with a cash balance of \$20,563 balance compared to the prior year balance of \$27,030. Property tax receipts increased \$23,081. Bond principal and interest payments increased \$97,302 in fiscal year 2017.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The water fund which accounts for the operation and maintenance of the City's water system ended fiscal year 2017 with a cash basis net position balance of \$260,121. This reflects an increase of \$40,255 from the end of fiscal year 2016 when the net position balance was \$219,866. The increase was attributable to an increase in charges for services of \$24,347 while the capital projects disbursements decreased \$41,510. The water fund had a net operating profit of \$93,776 for fiscal year 2017.

The sewer fund which accounts for the operation and maintenance of the sewer system and the wastewater treatment facility ended fiscal year 2017 with a net position balance of \$152,743. This reflects an increase of \$88,993 from the end of fiscal year 2016 when the net position balance was \$63,750. The increase was attributable to an increase in charges for services of \$229,268. The sewer fund had a net operating profit of \$141,417 for fiscal year 2017.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. This amendment increased budgeted disbursements by \$2,785,586 and budgeted receipts by \$2,757,165.

In spite of the City's budgetary practice, expenditures in the debt service function area exceeded the amount budgeted.

DEBT ADMINISTRATION

At June 30, 2017, the City had \$4,435,000 in bonds and other long-term debt, compared to \$2,770,000 last year, as shown below:

Outstanding Debt at Year-End					
Years ended June 30,					
	2017	2016	2015	2014	2013
General Obligation Bonds:	\$ 4,435,000	\$ 2,770,000	\$ 2,370,000	\$ 2,840,000	\$ 3,300,000

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 \$4,435,000 is significantly below its constitutional debt limit of \$10,233,249.

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 2017 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 2.9% versus 4.8% a year ago. This compares with the State's unemployment rate of 3.2% and the national rate of 4.4%.

These indicators were taken into account when adopting the budget for fiscal year 2017. Amounts available for appropriation in the operating budget are \$9.8 million, compared to the 2016 final budget of \$9.2 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
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
As of and for the Year Ended June 30, 2017

Functions and Programs	Disbursements	Program Receipts		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
Public safety	\$ 629,346	\$ 13,914	\$ 5,952	
Public works	510,234	166,625	533,317	
Health and social services	1,550			
Culture and recreation	665,008	125,449	24,328	
Community and economic development	576,266	3,703	27,518	
General government	397,664	20,010	17,663	
Debt service	485,000			
Capital projects	1,008,763			\$ 567,002
Interest on long-term debt	76,262			
Total governmental activities	<u>4,350,093</u>	<u>329,701</u>	<u>608,778</u>	<u>567,002</u>
Business-type activities:				
Water utilities	274,442	320,106		
Sewer utilities	624,996	761,073		
Total business-type activities	<u>899,438</u>	<u>1,081,179</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 5,249,531</u>	<u>\$ 1,410,880</u>	<u>\$ 608,778</u>	<u>\$ 567,002</u>
Component Units:				
Nonmajor	\$ 51,155			\$ 38,453
Business-type activities:				
Light Plant	4,507,468	\$ 5,113,863	\$ 630,742	
Total component units	<u>\$ 4,558,623</u>	<u>\$ 5,113,863</u>	<u>\$ 630,742</u>	<u>\$ 38,453</u>
General Receipts:				
Property and other City taxes levied for:				
General purposes				
Debt service				
Hotel/motel tax				
Tax increment financing				
Local option sales tax				
Commercial/industrial tax replacement				
Investment earnings				
Miscellaneous items				
Bond proceeds				
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				
Capital projects				
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 Units	
Governmental Activities	Business-type Activities	Total	Light Plant	Nonmajor
\$ (609,480)		\$ (609,480)		
189,708		189,708		
(1,550)		(1,550)		
(515,231)		(515,231)		
(545,045)		(545,045)		
(359,991)		(359,991)		
(485,000)		(485,000)		
(441,761)		(441,761)		
(76,262)		(76,262)		
<u>(2,844,612)</u>	<u>\$ -</u>	<u>(2,844,612)</u>		
	45,664	45,664		
	136,077	136,077		
	<u>181,741</u>	<u>181,741</u>		
<u>(2,844,612)</u>	<u>181,741</u>	<u>(2,662,871)</u>		
				\$ (12,702)
			\$ 1,237,137	-
			<u>1,237,137</u>	<u>(12,702)</u>
1,438,761		1,438,761		
157,810		157,810		
63,537		63,537		
381,167		381,167		
389,081		389,081		
47,805		47,805		
9,342	2,320	11,662	30,464	854
5,876	6,783	12,659	25,438	
2,150,000		2,150,000		
		-	1,700	
61,596	(61,596)	-		
<u>4,704,975</u>	<u>(52,493)</u>	<u>4,652,482</u>	<u>57,602</u>	<u>854</u>
1,860,363	129,248	1,989,611	1,294,739	(11,848)
2,407,762	283,616	2,691,378	5,401,894	392,238
<u>\$ 4,268,125</u>	<u>\$ 412,864</u>	<u>\$ 4,680,989</u>	<u>\$ 6,696,633</u>	<u>\$ 380,390</u>
\$ 80,502		\$ 80,502		
52,083		52,083		
102,336		102,336		
1,960,641		1,960,641		
415,319		415,319		
1,657,244	\$ 412,864	2,070,108	\$ 6,696,633	\$ 380,390
<u>\$ 4,268,125</u>	<u>\$ 412,864</u>	<u>\$ 4,680,989</u>	<u>\$ 6,696,633</u>	<u>\$ 380,390</u>

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CITY OF NEW HAMPTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2017

	General Fund	Special Revenue Funds	
		Road Use Tax	Local Option Sales Tax
RECEIPTS			
Property taxes	\$ 1,115,970		
Tax increment financing			
Other City taxes	29,368		\$ 389,081
Licenses and permits	12,942		
Use of money and property	34,694		
Intergovernmental	279,837	\$ 443,317	
Charges for services	262,489		
Miscellaneous	528,923		
Total receipts	2,264,223	443,317	389,081
DISBURSEMENTS			
Operating:			
Public safety	558,691		
Public works	107,765	402,469	
Health and social services	1,550		
Culture and recreation	610,348		
Community and economic development	116,509		
General government	317,119		
Debt service:			
Principal			
Interest and fees			
Capital projects	286,039		
Total disbursements	1,998,021	402,469	-
Excess (deficiency) of receipts over (under) disbursements	266,202	40,848	389,081
OTHER FINANCING SOURCES (USES)			
Proceeds from debt issuance			
Transfers in	121,960		
Transfers out	(128,142)	(25,000)	(329,340)
Net other financing sources (uses)	(6,182)	(25,000)	(329,340)
Net change in cash balances	260,020	15,848	59,741
Cash balances, beginning of year	1,443,672	36,235	149,328
Cash balances, end of year	\$ 1,703,692	\$ 52,083	\$ 209,069
CASH BASIS BALANCES			
Nonspendable:			
Cemetery perpetual care			
Restricted:			
Urban renewal purposes			
Debt service			
Streets		\$ 52,083	
Capital improvements and equipment			
Other purposes			\$ 209,069
Assigned	\$ 1,139,614		
Unassigned	564,078		
Total cash basis balances	\$ 1,703,692	\$ 52,083	\$ 209,069

See Notes to Financial Statements.

EXHIBIT B

Capital Projects Fund		Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Swimming Pool Renovation	2017 Street Reconstruction			
		\$ 157,810	\$ 293,423	\$ 1,567,203
			381,167	381,167
			63,537	481,986
				12,942
			1,081	35,775
				723,154
			781	263,270
\$ 2,718			1,722	533,363
2,718	\$ -	157,810	741,711	3,998,860
			70,655	629,346
				510,234
				1,550
			54,660	665,008
			459,757	576,266
			80,545	397,664
		485,000		485,000
		76,262		76,262
8,920	338,167		375,637	1,008,763
8,920	338,167	561,262	1,041,254	4,350,093
(6,202)	(338,167)	(403,452)	(299,543)	(351,233)
400,000	1,750,000			2,150,000
130,090	6,974	396,985	28,025	684,034
			(139,956)	(622,438)
530,090	1,756,974	396,985	(111,931)	2,211,596
523,888	1,418,807	(6,467)	(411,474)	1,860,363
-		27,030	751,497	2,407,762
\$ 523,888	\$ 1,418,807	\$ 20,563	\$ 340,023	\$ 4,268,125
			\$ 80,502	\$ 80,502
			102,336	102,336
		\$ 20,563		20,563
				52,083
\$ 523,888	\$ 1,418,807		17,946	1,960,641
			185,687	394,756
				1,139,614
			(46,448)	517,630
\$ 523,888	\$ 1,418,807	\$ 20,563	\$ 340,023	\$ 4,268,125

CITY OF NEW HAMPTON
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 TO THE CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
 GOVERNMENTAL FUNDS
 As of and for the Year Ended June 30, 2017

Total governmental funds cash balances (page 7)	\$ 4,268,125
Amounts reported for governmental activities in the cash basis statement of activities and net position are different because:	
Not applicable	-
Cash basis net position of governmental activities (page 6)	\$ 4,268,125
Net change in cash balances (page 7)	\$ 1,860,363
Amounts reported for governmental activities in the cash basis statement of activities and net position are different because:	
Not applicable	-
Change in cash basis net position of governmental activities (page 6)	\$ 1,860,363

CITY OF NEW HAMPTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2017

	Enterprise Funds			Component Unit
	Primary Government		Total	
	Water	Sewer		
Operating Receipts:				
Charges for services	\$ 320,106	\$ 761,073	\$ 1,081,179	\$ 5,744,605
Total operating receipts	<u>320,106</u>	<u>761,073</u>	<u>1,081,179</u>	<u>5,744,605</u>
Operating Disbursements:				
Business-type activities	226,330	619,656	845,986	4,272,194
Total operating disbursements	<u>226,330</u>	<u>619,656</u>	<u>845,986</u>	<u>4,272,194</u>
Excess of operating receipts over operating disbursements	<u>93,776</u>	<u>141,417</u>	<u>235,193</u>	<u>1,472,411</u>
Nonoperating Receipts (Disbursements):				
Interest on investments	956	1,364	2,320	30,464
Miscellaneous	6,783		6,783	25,438
Proceeds from sale of equipment			-	1,700
Capital projects	(48,112)	(5,340)	(53,452)	
Debt service			-	(235,274)
Net nonoperating disbursements	<u>(40,373)</u>	<u>(3,976)</u>	<u>(44,349)</u>	<u>(177,672)</u>
Excess of receipts over disbursements	<u>53,403</u>	<u>137,441</u>	<u>190,844</u>	<u>1,294,739</u>
Transfers:				
Operating transfers in	6,049		6,049	
Operating transfers out	(19,197)	(48,448)	(67,645)	
Net transfers in (out)	<u>(13,148)</u>	<u>(48,448)</u>	<u>(61,596)</u>	<u>-</u>
Net change in cash balances	<u>40,255</u>	<u>88,993</u>	<u>129,248</u>	<u>1,294,739</u>
Cash balances, beginning of year	<u>219,866</u>	<u>63,750</u>	<u>283,616</u>	<u>5,401,894</u>
Cash balances, end of year	<u>\$ 260,121</u>	<u>\$ 152,743</u>	<u>\$ 412,864</u>	<u>\$ 6,696,633</u>
Cash Basis Balances:				
Restricted for debt service				\$ 1,794,043
Unreserved	<u>\$ 260,121</u>	<u>\$ 152,743</u>	<u>\$ 412,864</u>	<u>4,902,590</u>
Total cash basis balances	<u>\$ 260,121</u>	<u>\$ 152,743</u>	<u>\$ 412,864</u>	<u>\$ 6,696,633</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 CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
 PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2017

Total enterprise funds cash balances (page 9)	\$ 412,864
Amounts reported for business-type activities in the cash basis statement of activities and net position are different because:	
Not applicable	-
Cash basis net position of business-type activities (page 6)	\$ 412,864
Net change in cash balances (page 9)	\$ 129,248
Amounts reported for business-type activities in the cash basis statement of activities and net position are different because:	
Not applicable	-
Change in cash basis net position of business-type activities (page 6)	\$ 129,248

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 (City) is a political subdivision of the State of Iowa located in Chickasaw County. It was first incorporated in 1873 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a 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.

Discretely Presented Component Units

These financial statements present the City of New Hampton (the primary government) and the discretely presented component units, New Hampton Municipal Light Plant (Light Plant), New Hampton Firefighters Association (Association), and New Hampton Public Library Memorial Foundation (Library). The component units discussed below are included in the City's reporting entity because of the significance of the operational or financial relationships with the City. The Light Plant is considered a major component unit and the New Hampton Firefighters Association and New Hampton Public Library Memorial Foundation are combined into one nonmajor component unit on the face of the government-wide cash basis statement of activities and net position.

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

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

b. Significant Accounting Policies (Continued)

Discretely Presented Component Units (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 Statement

The cash basis 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 supported by 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 cash basis statement of activities and net position presents the City's nonfiduciary net position. Net position is reported in the following three categories:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

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

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 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 Funds

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

The local option sales tax fund is used to account for collections of the tax authorized by referendum and used for capital improvements, equipment and community programs and services.

Debt Service Fund

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

Capital Projects Fund

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. The 2017 Street Reconstruction Fund accounts for financial resources to be used to make street improvements and the Swimming Pool Renovation Fund accounts for financial resources to be used for improvements to the swimming pool.

The City reports the following major proprietary funds:

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

The sewer fund accounts for the operation and maintenance of the City's wastewater 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 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 a 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 funds financial statements, cash basis fund balances are classified as follows:

Nonspendable - amounts which cannot be spent because they are legally or contractually required to be maintained intact.

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

Assigned - amounts the City Council intends to use for specific purposes.

Unassigned - all amounts not included in the preceding classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as other information. During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the debt service function.

NOTES TO FINANCIAL STATEMENTS

2. Deposits and Investments

The City's deposits in banks at June 30, 2017 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 ensure there will be no loss of public funds.

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

The Light Plant has an investment through the Iowa Public Agency Investment Trust (IPAIT), which is valued at an amortized cost of \$3,424 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT Investment.

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, 2017 is as follows:

	Balance June 30, 2016	Borrowed	Paid	Balance June 30, 2017	Amounts Due Within One Year
General Obligation:					
Corporate Purpose:					
2009A Bond	\$ 170,000		\$ (40,000)	\$ 130,000	\$ 40,000
2009B Bond	315,000		(155,000)	160,000	160,000
2012	970,000		(155,000)	815,000	155,000
2015	800,000		(70,000)	730,000	75,000
Fire Station	515,000		(65,000)	450,000	65,000
2017		\$ 2,150,000		2,150,000	140,000
Total bonded debt	\$ 2,770,000	\$ 2,150,000	\$ (485,000)	\$ 4,435,000	\$ 635,000

NOTES TO FINANCIAL STATEMENTS

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

General Obligation Bonds Payable at June 30, 2017:

\$400,000 General Obligation Bond, due semiannually in varying installments from December 2017 through June 2020 plus interest at 3.4% to 3.8%	\$ 130,000
\$1,295,000 General Obligation Bond, due semiannually in varying installments from December 2017 through June 2018 plus interest at 3.7%	160,000
\$1,570,000 General Obligation Capital Loan Note, Series 2012, due semiannually in varying installments from December 2017 through June 2022, plus interest at 1.1% to 1.85%	815,000
\$800,000 General Obligation Capital Loan Note, due semiannually in varying installments from December 2017 through June 2026 plus interest at 1.2% to 2.55%	730,000
\$925,000 General Obligation Bond, due semiannually in varying installments from December 2017 through June 2023 plus interest at 3.95% to 4.25%	450,000
\$2,150,000 General Obligation Capital Loan Note, due semiannually in varying installments from November 2017 through May 2032 plus interest at 2.49%	2,150,000
	\$ 4,435,000

Debt Payment Schedule

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
2018	\$ 635,000	\$ 107,812
2019	485,000	92,755
2020	500,000	81,832
2021	465,000	70,088
2022	480,000	59,281
2023-2027	1,215,000	165,974
2028-2032	655,000	49,551
	\$ 4,435,000	\$ 627,293

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

4. Pension Plan

Plan Description

IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits

A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

4. Pension Plan (Continued)

Contributions

Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions, including the New Hampton Municipal Light Plant, to IPERS for the year ended June 30, 2017 totaled \$142,076.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the City's liability was \$1,125,155 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2016, the City's proportion was 0.0178786%, which was an increase of 0.0009382% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$150,710, \$375,660, and \$35,426, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

NOTES TO FINANCIAL STATEMENTS

4. Pension Plan (Continued)

Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-term Expected Real Rate of Return
Core plus fixed income	28%	1.90%
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 1,963,131	\$ 1,125,155	\$ 418,076

4. **Pension Plan (Continued)**

IPERS' Fiduciary Net Position

Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

5. **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 \$187,050. The City may be contingently liable for any claims in excess of funds available at June 30, 2017. As of June 30, 2017, \$79,403 in claims had been paid. As of June 30, 2017, the City had a balance of \$104,612 in their self-fund cash account maintained by Group Services, Inc. to pay for claims.

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

Plan Description

The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 24 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a partially self-insured plan design. Wellmark Blue Cross and Blue Shield of Iowa is the provider of the fully insured high deductible benefits and Group Services, Inc. administers the self-funded portion of the plan. 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 benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$582 for single coverage and \$1,348 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2017, the City contributed \$304,350 and plan members eligible for benefits contributed \$33,817 to the plan.

7. **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, 2017, primarily relating to the general fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 50,358
Sick leave	<u>45,905</u>
	<u>\$ 96,263</u>

This liability has been computed based on rates of pay in effect at June 30, 2017.

NOTES TO FINANCIAL STATEMENTS

8. 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, 2017, had a total of \$299,348 to pay in rebates through the year 2027.

9. Risk Management

The City of New Hampton is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. Transfers

The detail of interfund and intrafund transfers for the year ended June 30, 2017 is as follows:

Transfers to		Transfers from	
General Fund:		General Fund:	
General	\$ 79,940	General	\$ 16,216
Equipment Replacement	42,020	Equipment Replacement	111,926
	\$ 121,960		\$ 128,142
Debt Service Fund:		Special Revenue Fund:	
General Obligation Bond	\$ 396,985	Trust	\$ 1,153
Special Revenue Fund:		Special Revenue Fund:	
Housing Rehabilitation Grant	\$ 11,809	Employee Benefits	\$ 75,000
		Road Use Tax	25,000
Capital Projects Fund:		Local Option Sales Tax	329,340
Community Center	\$ 16,216	2014 Street Improvement	6,974
2017 Street Reconstruction	6,974	Urban Renewal Increment	11,809
Swimming Pool Renovation	130,090	Hotel/Motel Tax	20,020
	\$ 153,280	Hotel/Motel Capital Reserve	25,000
			\$ 493,143
Proprietary:		Proprietary:	
Water	\$ 6,049	Water	\$ 19,197
		Sewer	48,448
			\$ 67,645

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

NOTES TO FINANCIAL STATEMENTS

11. Deficit Fund Balances

The City has the following deficit cash fund balances at June 30, 2017:

Special Revenue Fund:	
Employee Benefits	\$ 4,983
Grants	9,743
	<u>\$ 14,726</u>
Capital Projects Fund:	
Wastewater Facility	\$ 18,322
Library Improvement	13,400
	<u>\$ 31,722</u>

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

12. General Fund Balance

The City has assigned \$1,139,614 of the \$1,703,692 general fund balance to be available for equipment replacement and special projects.

13. Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

City Tax Abatements

The City provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapters 15A and 403 of the Code of Iowa. For these types of projects, the City enters into agreements with developers which require the City, after developers meet the terms of the agreements, to rebate a portion of the property tax paid by the developers, to pay the developers an economic development grant or to pay the developers a predetermined dollar amount. No other commitments were made by the City as part of these agreements.

For the year ended June 30, 2017, the City abated \$160,821 of property tax under the urban renewal and economic development projects.

Currently, the City has no tax abatements of other entities that affect the City.

14. New Accounting Pronouncement

The City adopted the tax abatement disclosure guidance set forth in Governmental Accounting Standards Board Statement No. 77, *Tax Abatement Disclosures*. The Statement sets forth guidance for the disclosure of information about the nature and magnitude of tax abatements which will make these transactions more transparent to financial statement users. Adoption of the guidance did not have an impact on amounts reported in the financial statements. The notes to financial statements include information about the City's tax abatements and tax abatements of other entities which impact the City.

15. New Governmental Accounting Standards Board (GASB) Standards

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

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015, will be effective for the fiscal year ended June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information.

GASB Statement No. 87, *Leases*, issued June 2017, will be effective for the fiscal year ended June 30, 2020. The Statement increases the usefulness of governments' financial statement by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

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

16. Commitments

The total outstanding construction and purchase commitments/retainage payables of the City at June 30, 2017 amount to \$1,927,014. These commitments are related to the 2017 street restoration project and resurfacing of the airport runway.

17. Subsequent Events

Management has evaluated subsequent events through January 4, 2018, the date on which the financial statements were available to be issued.

Other Information

CITY OF NEW HAMPTON
OTHER INFORMATION
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS)
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
Year Ended June 30, 2017

	Primary Government		Component Unit
	Governmental Funds Actual	Proprietary Funds Actual	
RECEIPTS			
Property taxes	\$ 1,567,203		
Tax increment financing	381,167		
Other City taxes	481,986		
Licenses and permits	12,942		
Use of money and property	35,775	\$ 2,320	\$ 30,464
Intergovernmental	723,154		
Charges for services	263,270	1,081,179	5,744,605
Miscellaneous	533,363	6,783	27,138
Total receipts	3,998,860	1,090,282	5,802,207
DISBURSEMENTS			
Public safety	629,346		
Public works	510,234		
Health and social services	1,550		
Culture and recreation	665,008		
Community and economic development	576,266		
General government	397,664		
Debt service	561,262		
Capital projects	1,008,763		
Business-type activities		899,438	4,507,468
Total disbursements	4,350,093	899,438	4,507,468
(Deficiency) excess of receipts (under) over disbursements	(351,233)	190,844	1,294,739
OTHER FINANCING SOURCES, NET	2,211,596	(61,596)	-
Excess of receipts and other financing sources over disbursements and other financing uses	1,860,363	129,248	1,294,739
BALANCES, beginning of year	2,407,762	283,616	5,401,894
BALANCES, end of year	\$ 4,268,125	\$ 412,864	\$ 6,696,633

See Notes to Budgetary Reporting Information and Independent Auditor's Report.

Less Funds Not Required to be Budgeted	Total Actual	Budgeted Amounts		Final to Total Variance
		Original	Final	
	\$ 1,567,203	\$ 1,544,403	\$ 1,544,403	\$ 22,800
	381,167	382,014	382,014	(847)
	481,986	488,872	513,872	(31,886)
	12,942	13,875	16,375	(3,433)
	68,559	56,375	56,375	12,184
\$ 90,000	633,154	545,885	753,712	(120,558)
57,849	7,031,205	6,063,157	6,792,157	239,048
6,783	560,501	33,100	75,938	484,563
<u>154,632</u>	<u>10,736,717</u>	<u>9,127,681</u>	<u>10,134,846</u>	<u>601,871</u>
	629,346	630,608	646,856	17,510
	510,234	522,437	534,837	24,603
	1,550	1,750	1,750	200
	665,008	674,332	691,811	26,803
	576,266	558,776	589,038	12,772
	397,664	404,191	412,202	14,538
	561,262	560,762	560,762	(500)
	1,008,763	271,780	2,246,780	1,238,017
<u>154,632</u>	<u>5,252,274</u>	<u>5,286,347</u>	<u>6,012,533</u>	<u>760,259</u>
<u>154,632</u>	<u>9,602,367</u>	<u>8,910,983</u>	<u>11,696,569</u>	<u>2,094,202</u>
-	1,134,350	216,698	(1,561,723)	2,696,073
-	2,150,000	-	1,750,000	400,000
-	3,284,350	216,698	188,277	3,096,073
-	8,093,272	6,701,698	6,701,698	1,391,574
<u>\$ -</u>	<u>\$ 11,377,622</u>	<u>\$ 6,918,396</u>	<u>\$ 6,889,975</u>	<u>\$ 4,487,647</u>

CITY OF NEW HAMPTON

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING
Year Ended June 30, 2017

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 nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business-type activities. Function disbursements required to be budgeted include disbursements for the general fund, the special revenue funds, the debt service fund, the capital projects funds, and the 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 disbursements by \$2,785,586. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the debt service function.

CITY OF NEW HAMPTON
OTHER INFORMATION
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
For the Last Three Years*
(In Thousands)

	2017	2016	2015
City's proportion of the net pension liability	0.0178786%	0.0169404%	0.0161797%
City's proportionate share of the net pension liability	\$ 1,125	\$ 837	\$ 642
City's covered-employee payroll	\$ 1,549	\$ 1,535	\$ 1,456
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.63%	54.53%	44.09%
IPERS' net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See Notes to Pension Liability Information and Independent Auditor's Report.

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CITY OF NEW HAMPTON
OTHER INFORMATION
SCHEDULE OF CITY CONTRIBUTIONS
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
For the Last Ten Years
(In Thousands)

	2017	2016	2015	2014	2013
Statutorily required contribution	\$ 142	\$ 141	\$ 141	\$ 134	\$ 133
Contributions in relation to the statutorily required contribution	(142)	(141)	(141)	(134)	(133)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 1,560	\$ 1,549	\$ 1,535	\$ 1,456	\$ 1,476
Contributions as a percentage of covered-employee payroll	9.10%	9.10%	9.19%	9.20%	9.01%

See Notes to Pension Liability Information and Independent Auditor's Report.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 128	\$ 114	\$ 106	\$ 93	\$ 88
<u>(128)</u>	<u>(114)</u>	<u>(106)</u>	<u>(93)</u>	<u>(88)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,523	\$ 1,517	\$ 1,483	\$ 1,387	\$ 1,114
8.40%	7.51%	7.15%	6.71%	7.90%

CITY OF NEW HAMPTON

NOTES TO OTHER INFORMATION - PENSION LIABILITY
Year Ended June 30, 2017

Changes of Benefit Terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups - emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Changes of Assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

Supplementary Information

CITY OF NEW HAMPTON
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2017

	Special Revenue Funds			
	Employee Benefits	Urban Renewal Increment	Hotel/Motel Tax	Hotel/Motel Capital Reserve
RECEIPTS				
Property taxes	\$ 293,423			
Tax increment financing		\$ 381,167		
Other City taxes			\$ 47,652	\$ 15,885
Use of money and property				
Charges for services				
Miscellaneous	1,722			
Total receipts	295,145	381,167	47,652	15,885
DISBURSEMENTS				
Operating:				
Public safety	70,655			
Culture and recreation	54,660			
Community and economic development	29,300	384,947	42,245	
General government	80,545			
Capital projects				
Total disbursements	235,160	384,947	42,245	-
Excess (deficiency) of receipts over (under) disbursements	59,985	(3,780)	5,407	15,885
OTHER FINANCING SOURCES (USES)				
Transfers in				
Transfers out	(75,000)	(11,809)	(20,020)	(25,000)
Net other financing sources (uses)	(75,000)	(11,809)	(20,020)	(25,000)
Net change in cash fund balances	(15,015)	(15,589)	(14,613)	(9,115)
Cash fund balances, beginning	10,032	117,925	42,657	44,541
Cash fund balances, ending	\$ (4,983)	\$ 102,336	\$ 28,044	\$ 35,426
CASH BASIS BALANCES:				
Nonspendable:				
Cemetery perpetual care				
Restricted:				
Urban renewal purposes		\$ 102,336		
Capital improvements and equipment			\$ 28,044	\$ 35,426
Other purposes				
Unassigned	\$ (4,983)			
Total cash basis balances	\$ (4,983)	\$ 102,336	\$ 28,044	\$ 35,426

See Independent Auditor's Report.

Special Revenue Funds			Capital Projects Fund					Permanent Cemetery Perpetual Care	Total
Housing Rehabilitation Grant	Grants	Trust	Library Improvement	Industrial Park	Community Center	Wastewater Facility	2014 Street Improvement		
		\$ 1,081							\$ 293,423
									381,167
									63,537
									1,081
\$ 61								\$ 720	781
									1,722
61	\$ -	1,081	\$ -	\$ -	\$ -	\$ -	\$ -	720	741,711
									70,655
									54,660
3,265									459,757
						21,272	354,365		80,545
									375,637
3,265	-	-	-	-	21,272	354,365	-	-	1,041,254
(3,204)	-	1,081	-	-	(21,272)	(354,365)	-	720	(299,543)
11,809					16,216				28,025
		(1,153)					(6,974)		(139,956)
11,809	-	(1,153)	-	-	16,216	-	(6,974)	-	(111,931)
8,605	-	(72)	-	-	(5,056)	(354,365)	(6,974)	720	(411,474)
20,337	(9,743)	93,347	(13,400)	1,716	21,286	336,043	6,974	79,782	751,497
\$ 28,942	\$ (9,743)	\$ 93,275	\$ (13,400)	\$ 1,716	\$ 16,230	\$ (18,322)	\$ -	\$ 80,502	\$ 340,023
								\$ 80,502	\$ 80,502
				\$ 1,716	\$ 16,230				102,336
\$ 28,942		\$ 93,275							17,946
	(9,743)		(13,400)			(18,322)			185,687
									(46,448)
\$ 28,942	\$ (9,743)	\$ 93,275	\$ (13,400)	\$ 1,716	\$ 16,230	\$ (18,322)	\$ -	\$ 80,502	\$ 340,023

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CITY OF NEW HAMPTON
 SCHEDULE OF INDEBTEDNESS
 Year Ended June 30, 2017

Bonded Indebtedness	Interest Rates	Issue Date	Amount Originally Issued	Outstanding July 1, 2016	Issued During Year
GENERAL OBLIGATION					
2009A Bond	2.5 to 3.8%	December 22, 2009	\$ 400,000	\$ 170,000	
2009B Bond	1.0 to 3.7%	December 22, 2009	1,295,000	315,000	
2012	1.0 to 1.85%	April 1, 2012	1,570,000	970,000	
2015	1.05 to 2.55%	December 22, 2015	800,000	800,000	
Fire Station	3.50 to 4.25%	February 1, 2008	925,000	515,000	
2017	2.49%	May 8, 2017	2,150,000		\$ 2,150,000
Total				<u>\$ 2,770,000</u>	<u>\$ 2,150,000</u>

SCHEDULE 2

Redeemed During Year	Outstanding June 30, 2017	Interest Paid	Interest Due and Unpaid
\$ 40,000	\$ 130,000	\$ 6,300	
155,000	160,000	11,190	
155,000	815,000	13,515	
70,000	730,000	21,412	
65,000	450,000	20,845	
	2,150,000		
\$ 485,000	\$ 4,435,000	\$ 73,262	\$ -

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CITY OF NEW HAMPTON
BOND AND NOTE MATURITIES
June 30, 2017

General Obligation Bonds

Year Ending June 30,	2009A Bond		2009B Bond		2012		2015	
	Issued December 22, 2009		Issued December 22, 2009		Issued April 1, 2012		Issued December 22, 2015	
	Interest		Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount
2018	3.80%	\$ 40,000	3.40%	\$ 160,000	1.10%	\$ 155,000	1.20%	\$ 75,000
2019	3.80%	45,000			1.25%	160,000	1.40%	75,000
2020	3.80%	45,000			1.45%	165,000	1.60%	80,000
2021					1.65%	165,000	1.75%	80,000
2022					1.85%	170,000	1.95%	80,000
2023							2.10%	80,000
2024							2.25%	85,000
2025							2.40%	85,000
2026							2.55%	90,000
2027								
2028								
2029								
2030								
2031								
2032								
	Total	\$ 130,000	Total	\$ 160,000	Total	\$ 815,000	Total	\$ 730,000

SCHEDULE 3

General Obligation Bonds

Fire Station		2017		Total
Issued February 1, 2008		Issued May 8, 2017		
Interest Rates	Amount	Interest Rates	Amount	
3.95%	\$ 65,000	2.49%	\$ 140,000	\$ 635,000
4.00%	70,000	2.49%	135,000	485,000
4.00%	75,000	2.49%	135,000	500,000
4.10%	75,000	2.49%	145,000	465,000
4.15%	80,000	2.49%	150,000	480,000
4.25%	85,000	2.49%	150,000	315,000
		2.49%	155,000	240,000
		2.49%	155,000	240,000
		2.49%	165,000	255,000
		2.49%	165,000	165,000
		2.49%	125,000	125,000
		2.49%	130,000	130,000
		2.49%	130,000	130,000
		2.49%	135,000	135,000
		2.49%	135,000	135,000
Total	\$ 450,000	Total	\$ 2,150,000	\$ 4,435,000

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

	2017	2016	2015	2014
RECEIPTS				
Property taxes	\$ 1,567,203	\$ 1,536,836	\$ 1,624,913	\$ 1,563,937
Tax increment financing	381,167	368,270	404,225	411,198
Other City taxes	481,986	457,825	517,713	475,534
Licenses and permits	12,942	15,133	15,095	15,077
Use of money and property	35,775	41,872	39,623	45,917
Intergovernmental	723,154	669,417	544,741	465,635
Charges for services	263,270	299,464	279,731	256,528
Miscellaneous	533,363	130,961	170,431	196,869
Total	\$ 3,998,860	\$ 3,519,778	\$ 3,596,472	\$ 3,430,695
DISBURSEMENTS				
Operating:				
Public safety	\$ 629,346	\$ 588,780	\$ 649,622	\$ 594,284
Public works	510,234	529,782	447,648	437,656
Health and social services	1,550	1,715	1,165	1,660
Culture and recreation	665,008	648,423	640,777	600,222
Community and economic development	576,266	643,076	571,251	549,984
General government	397,664	392,760	381,613	388,632
Debt service	561,262	463,960	546,205	547,053
Capital projects	1,008,763	595,655	705,011	310,009
Total	\$ 4,350,093	\$ 3,864,151	\$ 3,943,292	\$ 3,429,500

See Independent Auditor's Report.

SCHEDULE 4

	2013	2012	2011	2010	2009	2008
\$	1,557,501	\$ 1,532,880	\$ 1,509,487	\$ 1,399,341	\$ 1,389,964	\$ 1,235,473
	386,406	383,923	417,178	386,696	415,229	390,551
	424,914	374,347	362,298	370,891	374,030	366,741
	13,419	10,853	12,527	11,254	15,364	16,857
	36,779	56,405	49,223	48,475	86,425	145,834
	467,527	460,792	504,077	651,196	400,970	549,523
	303,017	249,135	254,405	255,787	270,125	227,328
	166,606	154,288	104,281	287,605	587,285	354,074
\$	3,356,169	\$ 3,222,623	\$ 3,213,476	\$ 3,411,245	\$ 3,539,392	\$ 3,286,381
\$	625,262	\$ 619,112	\$ 614,817	\$ 608,400	\$ 507,824	\$ 548,296
	422,842	397,813	405,633	398,702	388,494	452,855
	1,655	1,600	3,365	3,393	3,393	3,393
	566,602	548,126	513,769	524,162	506,677	521,332
	485,105	492,972	529,103	498,473	462,040	613,842
	388,292	404,429	398,113	383,840	369,859	363,608
	550,425	375,428	429,818	1,667,264	385,393	305,668
	1,369,752	595,860	407,103	1,057,159	1,243,903	746,640
\$	4,409,935	\$ 3,435,340	\$ 3,301,721	\$ 5,141,393	\$ 3,867,583	\$ 3,555,634

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 aggregate discretely presented component units of City of New Hampton, as of and for the year ended June 30, 2017, 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 4, 2018. Our report expressed unmodified opinions 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.

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 City'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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. 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.

Criteria

A properly designed segregation of duties allows entities to initiate, authorize, record, process and report financial data reliably in accordance with generally accepted accounting principles.

Recommendation

While we do recognize the City is not large enough to permit a segregation of duties for effective internal controls, we believe it is important the City 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 and Corrective Action Planned

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hacker, Nelson & Co., P.C.

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, 2017, 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 or state statutory compliance matters, accordingly, we provide no such assurance.

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 4, 2018, contains our report on the City's internal control over financial reporting. This letter does not affect our report dated January 4, 2018, on the basic financial statements of City of New Hampton. Comment numbers 9 and 10 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, 2017 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

Disbursements during the year ended June 30, 2017 exceeded the amount budgeted in the debt service 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 take steps to ensure disbursements do not exceed amounts budgeted.

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 disbursements of City money for travel expenses of spouses of City officials 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 ensure the coverage is adequate for current operations.

6. **City Council Minutes**

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

7. **Deposits and Investments**

No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

8. **Annual Urban Renewal Report**

The Annual Urban Renewal Report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

9. **Financial Condition**

The City has four accounts with deficit balances at June 30, 2017 totaling \$46,448 as follows:

Special Revenue Fund:		
Employee Benefits	\$	4,983
Grants		9,743
		<u>14,726</u>
	\$	<u>14,726</u>
Capital Projects Fund:		
Wastewater Facility	\$	18,322
Library Improvement		13,400
		<u>31,722</u>
	\$	<u>31,722</u>

Recommendation

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

Response and Corrective Action Planned

The City will investigate alternatives to eliminate deficit balances.

Conclusion

Response accepted.

10. Bank Account Authorized Signatures

We noted per returned bank confirmations that authorized signers for one bank account contained an individual who was not an authorized signer by the City.

Recommendation

We recommend the City update the authorized signers to include only those that are currently approved as authorized signers by the City Council.

Response and Corrective Action Planned

The signature card will be updated.

Conclusion

Response accepted.

This report, a public record by law, is intended solely for the information and use of the City Council, management and citizens of the City of New Hampton, and federal awarding agencies and pass-through entities to whom the City may report. The report is not intended to be, and should not be, used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by 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 4, 2018