NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

June 30, 2004

HAGEN & KALLEVANG, P.C.
Certified Public Accountants

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

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NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

OFFICIALS

Name	Title	Term Expires
Gary Wegner	Trustee	July 1, 2004
Larry Throndson	Trustee	July 1, 2005
Shirley Engel	Trustee	July 1, 2006
Steve Dahl	Trustee	July 1, 2007
Wayne Moetsch	Trustee	July 1, 2008
Suellen Kolbet	Secretary/Treasurer	Indefinite
Brian Geschke	General Manager	Indefinite

Hagen & Kallevang PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
New Hampton Municipal Electric Light Plant:

We have audited the accompanying statements of Net Assets of the New Hampton Municipal Electric Light Plant, a component unit of the City of New Hampton, as of June 30, 2004 and 2003 and the related Statements of Revenue, Expenses and Changes in Net Assets, and Statements of Cash Flows for the years then ended. These financial statements are the responsibility of the Light Plant trustees. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audit contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements referred to above present fairly, in all material respects, the financial position of New Hampton Municipal Electric Light Plant as of June 30, 2004 and 2003, and changes in financial position and the cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 13 of the Notes to Financial Statements, for the year ended June 30, 2004, the New Hampton Municipal Electric Light Plant adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Difference; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated January 14, 2005 on our consideration of New Hampton Municipal Electric Light Plant's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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Management's Discussion and Analysis and budgetary comparison information in pages 4 through 7 and 19 through 20 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of supplementary information. We did not audit the information and express no opinion thereon.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hagen & Kallaway, P.C.

January 14, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

New Hampton Municipal Electric Light Plant (Light Plant) 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, 2004. We encourage readers to consider this information in conjunction with the Association's financial statements, which follow.

FINANCIAL HIGHLIGHTS

The Light Plant's total operating revenues of $2,811,313 for fiscal 2004 increased 3.9%, or $104,445, from fiscal 2003. All revenue sources saw slight increases.

The Light Plant's total operating expenses of $2,686,332 for fiscal 2004 were 1.4%, or $39,016, less than in fiscal 2003.

The Light Plant's net assets increased 2%, or $263,187, from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

The New Hampton Municipal Electric Light Plant is a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to New Hampton Municipal Electric Light Plant's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Light Plant's financial activities.

The Statement of Net Assets presents information on the Light Plant's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Light Plant is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the Light Plant's operating revenues and expenses, non-operating revenues and expenses and whether the Light Plant's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Light Plant's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Light Plant financed its activities and how it met its cash requirements.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the Light Plant's budget for the year. It also schedules the adjustments needed to arrive at the cash basis of accounting needed for budget purposes from the accrual basis accounting which the financial statements are prepared on.

FINANCIAL ANALYSIS OF THE ASSOCIATION

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Light Plant's financial position. The Light Plant's net assets for fiscal 2004 totaled $13,728,692. This compares to $13,465,505 for fiscal 2003. A summary of the Light Plant's net assets is presented below:

Net Assets

	2004	2003
Current assets	$ 2,951,111	$ 5,216,889
Noncurrent assets		
Restricted investments	1,980,524	-
Other assets	1,053,523	1,123,531
Capital assets at cost, less accumulated depreciation	8,144,442	7,541,135
Total noncurrent assets	11,178,489	8,664,666
Total assets	$ 14,129,600	$ 13,881,555
Current liabilities	$ 400,908	$ 416,050
Noncurrent liabilities	-	-
Total liabilities	400,908	416,050
Net assets		
Invested in capital assets, net of related debt	8,144,442	7,541,135
Restricted for debt service	1,980,524	-
Unrestricted		
Designated	1,339,726	3,728,829
Undesignated	2,264,000	2,195,541
Total net assets	13,728,692	13,465,505
Total liabilities and net assets	$ 14,129,600	$ 13,881,555

Net assets of business type activities increased from fiscal year 2003 by approximately $263,187, or 2.0%. The largest portion of the Utilities' net assets is the Invested in Capital Assets (e.g., land, infrastructure, buildings, and equipment). Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets-the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, is approximately $3,603,726 at the end of this year.

Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues are received for the sale of electricity to customers within the New Hampton Municipal Light Plant's service territory. Operating expenses are expenses paid to operate the utility. Non-operating revenues and expenses are for interest income and interest expense. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net assets is presented below:

CHANGES IN NET ASSETS
Years ended June 30,

	2004	2003
Operating revenues		
Sale of electricity	$ 2,686,032	$ 2,593,793
Other	125,281	113,075
Total operating revenues	2,811,313	2,706,868
Operating expenses		
Plant operation	1,518,673	1,525,255
Distribution	295,031	303,692
Administration	495,092	517,543
Payment in lieu of taxes	40,000	40,000
Depreciation	328,847	330,169
Amortization	8,689	8,689
Total operating expenses	2,686,332	2,725,348
Operating income (loss)	124,981	(18,480)
Nonoperating revenues (expenses)		
Interest income	153,945	167,683
Patronage dividend	-	2,229
Gain on sale of equipment	9,261	32,000
Interest expense	-	(53,372)
Total nonoperating revenues (expenses)	163,206	148,540
Income before transfers	288,187	130,060
Transfers		
Transfers City of New Hampton	(25,000)	(25,000)
Total transfers	(25,000)	(25,000)
Change in net assets	263,187	105,060
Total net assets beginning of year	13,465,505	13,360,445
Total net assets end of year	$ 13,728,692	$ 13,465,505

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in the net assets at the end of the fiscal year.

In fiscal 2004, operating revenues increased by $104,445, or 4%, primarily a result of a scheduled rate increase. Operating expenses decreased by $39,016, or 1%. The decrease was primarily a result of a decrease in the amount spent on fuel to operate the engines and a decrease in the amount of community contributions.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating capital and related financing and investing activities. Cash provided by operating activities includes sale of electricity and other reduced payments to employees and to suppliers. Cash used from capital and related financing activities includes the purchase and disposal of capital assets. Cash used by investing activities includes purchase and redemption of certificates of deposits and interest income.

CAPITAL ASSETS

At June 30, 2004, the Light Plant had $8,144,442 invested in capital assets, net of accumulated depreciation of $6,685,784. Depreciation charges totaled $328,847 for fiscal 2004. More information about the Light Plant's capital assets is presented in Notes 1 and 4 to the financial statements.

LONG-TERM DEBT

At June 30, 2004, the Light Plant had no debt outstanding. However, on July 14, 2004 the Light Plant sold $4,000,000 in revenue bonds to finance construction in process for additional generating capacity facilities.

BUDGETARY HIGHLIGHTS

The New Hampton Municipal Light Plant has entered into an agreement with MidAmerican Energy to purchase base load in the Council Bluffs 4 project. The project will cost approximately $6,000,000. $2,000,000 will come from reserves and $4,000,000 will be financed by the sale of revenue bonds in July, 2004. This will increase current assets to over $6,000,000, which will be spent down as requests for funds for the project are received.

ECONOMIC FACTORS

New Hampton Municipal Electric Light Plant continued to improve its financial position during the current fiscal year. However, the current condition of the economy in the state continues to be a concern for Light Plant officials. Some of the realities that may potentially become challenges for the Light Plant to meet are:

Facilities at the Light Plant require constant maintenance and upkeep.

Technology continues to expand and current technology becomes outdated presenting an on going challenge to maintain up to date technology at a reasonable cost.

The Light Plant anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Light Plant's ability to react to unknown issues.

CONTACTING THE ASSOCIATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Light Plant's finances and to show the Light Plant's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Clerk's Office in New Hampton, IA.

BASIC FINANCIAL STATEMENTS

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

STATEMENTS OF NET ASSETS

June 30, 2004 and 2003

	2004	2003
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 288,080	$ 124,552
Investments	2,109,476	4,540,000
Accounts receivable	247,357	250,681
Accrued interest receivable	4,106	7,145
Inventory	250,917	244,524
Prepaid expenses	51,175	49,987
Total current assets	2,951,111	5,216,889
NONCURRENT ASSETS		
Restricted investments	1,980,524	-
Investment in common transmission system		
Restricted cash - CTS capital improvement	923,473	984,792
Plant acquisition costs, net of accumulated amortization	72,115	80,804
Investment in cooperatives		
Membership	100	100
Deferred patronage dividend receivable		
Corn Belt Power Cooperative (Corn Belt)	57,835	57,835
Capital assets		
Property, plant and equipment	14,830,226	13,926,987
Less accumulated depreciation	(6,685,784)	(6,385,852)
Total capital assets	8,144,442	7,541,135
Total noncurrent assets	11,178,489	8,664,666
Total assets	$ 14,129,600	$ 13,881,555
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 304,957	$ 355,475
Bond payable advance	40,000	-
Accrued wages	3,746	13,923
Sales tax payable	11,826	9,905
Accrued property taxes	847	864
Compensated absences payable	33,714	30,924
Other payables	5,818	4,959
Total current liabilities	400,908	416,050
NET ASSETS		
Invested in capital assets, net of related debt	8,144,442	7,541,135
Restricted for debt service	1,980,524	-
Unresticted		
Designated	1,339,726	3,728,829
Undesignated	2,264,000	2,195,541
Total net assets	13,728,692	13,465,505
Total liabilities and net assets	$ 14,129,600	$ 13,881,555

See notes to financial statements.

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

Years ended June 30, 2004 and 2003

	2004	2003
OPERATING REVENUES		
Charges for service		
Sale of electricity	$ 2,686,032	$ 2,593,793
Miscellaneous		
Rental	85,881	103,009
Other	39,400	10,066
Total operating revenues	2,811,313	2,706,868
OPERATING EXPENSES		
Plant operation	1,518,673	1,525,255
Distribution	295,031	303,692
Administration	495,092	517,543
Payment in lieu of taxes	40,000	40,000
Depreciation	328,847	330,169
Amortization	8,689	8,689
Total operating expenses	2,686,332	2,725,348
Operating income (loss)	124,981	(18,480)
NONOPERATING REVENUES (EXPENSES)		
Interest expense	-	(53,372)
Patronage dividend	-	2,229
Gain on sale of equipment	9,261	32,000
Interest income	153,945	167,683
Total nonoperating revenues (expenses)	163,206	148,540
Income before transfers	288,187	130,060
TRANSFERS		
Transfers City of New Hampton	(25,000)	(25,000)
Total transfers	(25,000)	(25,000)
Change in net assets	263,187	105,060
Total net assets beginning of year	13,465,505	13,360,445
Total net assets end of year	$ 13,728,692	$ 13,465,505

See notes to financial statements.

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

STATEMENTS OF CASH FLOWS

Years ended June 30, 2004 and 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 2,689,356	$ 2,643,898
Payments to suppliers	(1,878,623)	(1,913,680)
Payments to employees	(492,896)	(457,437)
Payments in lieu of taxes	(40,000)	(40,000)
Receipts from other operating revenues	125,281	113,075
Net cash flows from operating activities	403,118	345,856
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payment to City of New Hampton	(25,000)	(25,000)
Net cash flows from noncapital financing activities	(25,000)	(25,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(945,791)	(333,005)
Proceeds on sale of capital assets	22,898	32,000
Advance received on upcoming bond issue	40,000	-
Principal payments of long-term debt	-	(1,121,701)
Interest payments on long-term debt	-	(53,372)
Net cash flows from capital and related financing activities	(882,893)	(1,476,078)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(4,490,000)	(500,000)
Proceeds from disposal of investments	5,001,319	1,375,000
Interest on investments	156,984	169,500
Patronage dividends received	-	6,656
Net cash flows from investing activities	668,303	1,051,156
Net increase (decrease) in cash	163,528	(104,066)
Cash and cash equivalents beginning of year	124,552	228,618
Cash and cash equivalents end of year	$ 288,080	$ 124,552
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	$ 124,981	$ (18,480)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	328,847	330,169
Amortization	8,689	8,689
(Increase) decrease in receivables	3,324	50,105
(Increase) decrease in inventory	(6,393)	4,893
(Increase) decrease in prepaid expenses	(1,188)	(4,711)
Increase (decrease) in accounts payable	(50,518)	(27,024)
Increase (decrease) in accrued wages	(10,177)	1,360
Increase (decrease) in sales tax payable	1,921	(2,326)
Increase (decrease) in accrued property taxes	(17)	98
Increase (decrease) in compensated absences	2,790	1,614
Increase (decrease) in other deductions payable	859	1,469
Net cash flows from operating activities	403,118	345,856
Noncash investing activities		
Patronage dividend declared	$ -	$ 2,229

See notes to financial statements.

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The New Hampton Municipal Electric Light Plant (Light Plant), located in Chickasaw County, Iowa was organized in 1963. The Light Plant, operating through a board of trustees, provides electrical power to commercial, governmental, industrial and residential customers in the City of New Hampton area.

A. Reporting Entity

For financial reporting purposes, New Hampton Municipal Electric Light Plant has included all funds, organizations, agencies, boards, commissions and authorities. The Light Plant 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 Light Plant are such that exclusion would cause the Light Plant 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 Light Plant 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 Light Plant. New Hampton Municipal Electric Light Plant has no component units which meet the Governmental Accounting Standards Board criteria.

Based on the above criteria the Light Plant is then considered a component unit of the City of New Hampton. Therefore the cash, investments, receipts, and disbursements are also included in the City's annual report filed under a separate report.

B. Fund Accounting

The accounts of the Light Plant are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, receipts and disbursements.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus. They are also prepared on the accrual basis in accordance with U.S. generally accepted accounting principles after making memorandum adjusting entries at year end to the financial records which are maintained on the cash basis. The records are maintained on the cash basis for budgeting purposes. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Light Plant applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus and Basis of Accounting (continued)

The Light Plant distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Light Plant's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Light Plant Trustees annually adopt a budget on the cash basis following required public notice and hearing for all funds. The budget is then submitted for inclusion in the City of New Hampton's total budget for filing purposes. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

The budgetary comparison and related disclosures are reported in the Required Supplementary Information section.

E. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Light Plant considers all highly liquid investments (including restricted assets when applicable) with a maturity of three months or less when purchased to be cash equivalents.

G. Investments

Investments are stated at cost which approximates market.

H. Accounts Receivable

Management uses the allowance for doubtful accounts method in determining the write off of bad accounts. Management estimates that all receivables are fully collectible. Therefore, no allowance for doubtful accounts was provided. If amounts become uncollectible, they will be charged to operations when that determination is made.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Inventory

Inventory is valued at cost, on a first-in, first-out basis.

J. Capital Assets

Capital assets are valued at cost or estimated cost if actual cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Major renewals and betterments are capitalized. Maintenance and repairs are expensed as incurred. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the Light Plant as assets with initial, individual costs in excess of a $500 threshold and estimated useful lives in excess of two years.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. The useful lives are as follows:

Buildings and systems	10 - 40 years
Machinery and equipment	5 - 10 years
Corn Belt - Common Transmission System	23 years
Vehicle and office equipment	5 - 10 years

Interest is capitalized on qualified assets acquired with certain tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. There were no qualifying assets acquired during the year ended June 30, 2004.

K. Amortization

Plant acquisition costs of the Corn Belt - Common Transmission System are being amortized on the straight-line basis over 23.3 years.

L. Compensated Absences

Employees' vacation accumulates for use in the year earned. Upon termination, retirement, or death, payment is made for the amount earned to that date in that year.

Light Plant employee's sick leave hours may accumulate for subsequent payment at one-sixth of their accumulated hours.

The liability is computed based on rates of pay in effect at June 30, 2004.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Revenue Recognition

Revenues are recognized based upon services rendered to customers during the year. This includes services which are not billed at year's end.

N. Income Taxes

The Light Plant is not liable for income taxes; therefore, no liability or provision for taxes is included in the financial statements.

NOTE 2 - CASH AND POOLED INVESTMENTS

The Light Plant's deposits at June 30, 2004 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the Light Plant or the Light Plant's agent in the Light Plant's name, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Light Plant 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 Board of Trustees and the Treasurer of the State of Iowa; 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 had no long-term investments at June 30, 2004 and 2003.

In addition, the Light Plant had cash in the Iowa Public Agency Investment Trust with a carrying and market value of $2,935 at June 30, 2004 that is not subject to risk categorization.

NOTE 3 – NONCURRENT ASSETS

Restricted investments represents funds the Light Plant has set aside early to be in compliant with various covenants related to a bond being issued July 14, 2004.

The Light Plant is a member of the North Iowa Municipal Electric Cooperative Association (NIMECA), a cooperative consisting of 11 municipalities located in Iowa. NIMECA was formed to consolidate the electric resources of its members and to serve as a joint power supply. NIMECA is also a member of Corn Belt Power Cooperative (Corn Belt). Through these two cooperatives the Light Plant purchases its power and sells any surplus.

NOTE 3 – NONCURRENT ASSETS (continued)

A. Common Transmission System (CTS)

On January 1, 1989, NIMECA, acting as agent for its members, entered into a CTS agreement to combine the transmission capacity of Corn Belt and the members of NIMECA. The agreement provides for an 18.6% undivided ownership interest in the transmission line capacity of Corn Belt of which the Light Plant has a 21.7% interest.

The Light Plant's original acquisition consisted of the following:

Property, plant, and equipment	$ 1,353,333
Less accumulated depreciation	(484,338)
	868,995
Plant acquisition costs	202,445
	$ 1,071,440

The agreement also requires the Light Plant to fund its share of capital improvements through monthly assessments. As of June 30, 2004 and 2003 the balance in the CTS Capital Improvement account is $923,473 and $984,792 respectively and monthly assessments are no longer required.

B. Deferred Patronage Dividend Receivable

The Boards of Directors of Corn Belt and NIMECA have allocated earnings to their members in the form of patronage dividends. The dividends are payable in the future at the discretion of the Boards. During 2004 and 2003 the Light Plant received none and $6,656 respectively in past declared dividends.

NOTE 4 - CAPITAL ASSETS

A summary of capital assets at June 30, 2003 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	$ 12,086	$ -	$ -	$ 12,086
Construction in progress	103,893	836,287	-	940,180
Total capital assets, not being depreciated	115,979	836,287	-	952,266
Capital assets, being depreciated				
Buildings and system	11,256,799	5,000	-	11,261,799
Machinery and equipment	160,004	-	-	160,004
Common transmission system (CTS)	2,124,497	100,823	8,477	2,216,843
Vehicles and office equipment	269,708	3,681	34,075	239,314
Total capital assets being depreciated	13,811,008	109,504	42,552	13,877,960
Less accumulated depreciation for				
Buildings and system	5,254,191	249,821	-	5,504,012
Machinery and equipment	68,276	14,789	-	83,065
Common transmission system (CTS)	936,172	42,984	8,477	970,679
Vehicles and office equipment	127,213	21,253	20,438	128,028
Total accumulated depreciation	6,385,852	328,847	28,915	6,685,784
Total capital assets, being depreciated, net	7,425,156	(219,343)	13,637	7,192,176
Capital assets, net	$ 7,541,135	$ 616,944	$ 13,637	8,144,442

NOTE 5 - BOND PAYABLE ADVANCE

The Light Plant is selling $4,000,000 in Electric Revenue Bonds on July 14, 2004 to partially fund construction costs in progress. Prior to the sale of bonds, the investment broker remitted to the Light Plant $40,000 in "good faith". The bonds will have interest rates from 2% to 5.4% with final payment due June 1, 2024.

NOTE 6 - PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual covered salary and the Light Plant is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Light Plant's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were $23,324, $20,079, and $18,533 respectively, equal to the required contributions for each year.

NOTE 7 - SELF FUNDING

The Light Plant has a partially self-funded group medical plan. The plan allows the Light Plant 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 Light Plant, the total would be estimated at $32,000. The Light Plant paid claims of $29,521 during 2004.

NOTE 8 - RISK MANAGEMENT

The Light Plant is exposed to various risks of loss related to torts; theft of, 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 Light Plant assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 9 - RELATED PARTY TRANSACTIONS

The Light Plant had business transactions between the Light Plant and Board of Trustees, totaling $8,052 during the year ended June 30, 2004.

NOTE 10 - COMMITMENTS

In April 1999, the Trustees committed to the local hospital's building project $150,000 of in-kind electrical service over a five-year period once their project was completed. The project was completed during the year ended June 30, 2002. The Trustees have decided for its obligation to issue payments of $30,000 instead of in-kind services of $30,000 each year.

In June 2003, the Trustees committed $150,000 to a community recreational facility project over a five year period.

Payments payable are as scheduled:

	Hospital Building	Recreational Facility	Total
Year ended June 30, 2005	$ 30,000	$ 30,000	$ 60,000
2006	30,000	30,000	60,000
2007	-	30,000	30,000
	$ 60,000	$ 90,000	$ 150,000

NOTE 11 - MAJOR SUPPLIERS

The Light Plant, being a member of the coop NIMECA, purchases all its power from it.

NOTE 12 - LEASE

The Light Plant executed a lease agreement for the use of a building as a video conferencing center. The lease was for five years at $400 per month. The lease commenced on May 1, 2002. During August, 2003 the lease agreement was assumed by a third party who also acquired the Light Plant's video conferencing center equipment.

Rent expense for the years ended June 30, 2004 and 2003 was $800 and $4,800 respectively.

NOTE 13 - ACCOUNTING CHANGE

For the year ended June 30, 2004, the Light Plant implemented Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

Certain amounts from 2003 have been reclassified to confirm to the 2004 presentation with no overall effect on the balance of net assets.

REQUIRED SUPPLEMENTARY INFORMATION

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS, AND CHANGES IN NET ASSETS
BUDGET AND ACTUAL (CASH BASIS)

REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2004

	Actual	Less Funds Not Required to be Budgeted	Net	Budgeted Amounts Original	Budgeted Amounts Final	Final to Net Variance
Receipts						
Use of money and property	$ 156,984	$ -	$ 156,984	$ 142,500	$ 142,500	$ 14,484
Charges for service	2,689,356	-	2,689,356	2,432,000	2,432,000	257,356
Miscellaneous	125,281	-	125,281	125,300	125,300	(19)
Total receipts	2,971,621	-	2,971,621	2,699,800	2,699,800	271,821
Disbursements						
Business-type activities	3,382,310	-	3,382,310	4,229,700	4,229,700	(847,390)
Total disbursements	3,382,310	-	3,382,310	4,229,700	4,229,700	(847,390)
Excess of receipts over (under) disbursements	(410,689)	-	(410,689)	(1,529,900)	(1,529,900)	1,119,211
Other financing sources, net	62,898	-	62,898	-	-	62,898
Excess of receipts and other financing sources over (under) disbursements and other financing uses	(347,791)	-	(347,791)	(1,529,900)	(1,529,900)	1,182,109
Balances beginning of year	5,649,344	-	5,649,344	5,649,344	5,649,344	-
Balances end of year	$ 5,301,553	$ -	$ 5,301,553	$ 4,119,444	$ 4,119,444	$ 1,182,109

See notes to financial statements.

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

BUDGET TO GAAP RECONCILIATION

REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2004

	Cash Basis (Budget)	Accrual Adjustments	Accrual Basis (GAAP)
Receipts			
Use of money and property	$ 156,984	$ (3,039)	$ 153,945
Charges for service	2,689,356	(3,324)	2,686,032
Miscellaneous	125,281	-	125,281
Total receipts	2,971,621	(6,363)	2,965,258
Disbursements			
Business-type activities	3,382,310	(670,978)	2,711,332
Total disbursements	3,382,310	(670,978)	2,711,332
Excess of receipts over (under) disbursements	(410,689)	664,615	253,926
Other financing sources, net	62,898	(53,637)	9,261
Excess of receipts and other financing sources over (under) disbursements and other financing uses	(347,791)	610,978	263,187
Balances beginning of year	5,649,344	7,816,161	13,465,505
Balances end of year	$ 5,301,553	$ 8,427,139	$ 13,728,692

See notes to financial statements.

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2004

The New Hampton Municipal Electric Light Plant prepares a budget on the cash basis of accounting and submits it to the City Council. 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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Light Plant's disbursements are budgeted in the business-type activities function.

The budgeted amounts represents only those of the Light Plant and there were no budget amendments related to the Light Plant for the year ended June 30, 2004.

During the year ended June 30, 2004, disbursements did not exceed the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

SCHEDULE OF OPERATING EXPENSES

Years ended June 30, 2004 and 2003

	2004				2003			
	Total	Plant Operation	Distribution	Administration	Total	Plant Operation	Distribution	Administration
Purchased power	$ 1,296,743	$ 1,296,743	$ -	$ -	$ 1,179,633	$ 1,179,633	$ -	$ -
Trustees' fees	3,000	-	-	3,000	3,000	-	-	3,000
Salaries	355,541	133,995	136,499	85,047	339,800	125,205	131,166	83,429
FICA	27,727	10,226	10,527	6,974	25,767	9,520	9,870	6,377
IPERS	23,324	8,131	7,965	7,228	20,709	7,155	7,419	6,135
Group insurance	78,917	-	-	78,917	74,135	-	-	74,135
Insurance	64,064	-	-	64,064	58,406	-	-	58,406
Natural gas	6,188	6,188	-	-	24,814	24,814	-	-
Utilities	46,465	46,465	-	-	131,847	131,847	-	-
Telephone	2,644	-	-	2,644	3,049	-	-	3,049
Supplies and repairs	140,472	11,159	128,011	1,302	168,368	17,979	148,810	1,579
Taxes	7,482	-	-	7,482	2,669	-	-	2,669
Laundry	511	511	-	-	498	498	-	-
Vehicle expense	5,894	-	5,894	-	4,637	-	4,637	-
Engineering fees	1,479	-	1,479	-	2,464	-	-	2,464
Professional fees	22,333	-	2,251	20,082	12,598	-	1,221	11,377
Accounting services	50,996	-	-	50,996	47,146	-	-	47,146
Advertising, promotion, and publications	1,376	-	-	1,376	1,241	-	-	1,241
Dues and assessments	10,057	-	-	10,057	10,104	-	-	10,104
Travel expense	6,448	-	-	6,448	3,674	-	-	3,674
Office expense	7,331	-	-	7,331	5,097	-	-	5,097
Economic development	133,970	-	-	133,970	190,011	-	-	190,011
Video conference expenses	3,709	3,709	-	-	26,946	26,946	-	-
Miscellaneous	12,125	1,546	2,405	8,174	9,877	1,658	569	7,650
	2,308,796	$ 1,518,673	$ 295,031	$ 495,092	2,346,490	$ 1,525,255	$ 303,692	$ 517,543
Payment in lieu of taxes	40,000				40,000			
Interest expense	-				53,372			
Depreciation	328,847				330,169			
Amortization	8,689				8,689			
	$ 2,686,332				$ 2,778,720			

See notes to financial statements.

Hagen & Kallevang PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Trustees of the
New Hampton Municipal Electric Light Plant:

We have audited the financial statements of New Hampton Municipal Electric Light Plant – a component unit of the City of New Hampton, as of and for the year ended June 30, 2004, and have issued our report thereon dated January 14, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether New Hampton Municipal Electric Light Plant's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about Light Plant's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Light Plant. 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. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered New Hampton Municipal Electric Light Plant's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect New Hampton Municipal Electric Light Plant's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above, we believe is a material weakness. Prior year reportable conditions have been resolved except for item II-A-04.

This report, a public record by law, is intended solely for the information and use of the officials and customers of the New Hampton Municipal Electric Light Plant and other parties to whom the Light Plant may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of New Hampton Municipal Electric Light Plant during the course of our audit.

Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Hagen + Kallevang, P.C.

January 14, 2005

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

SCHEDULE OF FINDINGS

Year ended June 30, 2004

Part I: Summary of the Independent Auditor's Results

a. An unqualified opinion was issued on the financial statements.

b. A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.

c. The audit did not disclose any noncompliance which is material to the financial statements.

d. Prior year findings have been resolved except for II-A-04.

Part II: Findings Related to the Financial Statements

II-A-04

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

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

Response - The Light Plant will do whatever it can to correct the problem when possible and economically feasible.

Conclusion - Response accepted.

Part III: Other Findings Related to Statutory Reporting

III-A-04

Official Depositories - A resolution naming official depositories has been adopted by the Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2003.

III-B-04

Certified Budget - The Light Plant's expenditures during the year ended June 30, 2003 did not exceed the amounts in the amended budget.

III-C-04

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

III-D-04

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

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

SCHEDULE OF FINDINGS

Year ended June 30, 2004

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

III-E-04

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

Name, Title, and Business Connection	Transaction Description	Amount
Larry Throndson, Trustee	Fuel and oil	$ 568
Owner of Throndson Conoco	Engine fuel (by bid)	7,484

In accordance with Chapter 362.5(10) of the Code of Iowa the transactions with the Trustees do not appear to represent conflicts of interest since total transactions were less than $1,500 during the fiscal year or was allowed by bid.

III-F-04

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

III-G-04

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

III-H-04

Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Light Plant's investment policy.