

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

June 30, 2005

HAGEN & KALLEVANG, P.C.
Certified Public Accountants

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

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NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Larry Thronson	Trustee	July 1, 2005
Shirley Engel	Trustee	July 1, 2006
Steve Dahl	Trustee	July 1, 2007
Wayne Moetsch	Trustee	July 1, 2008
Gary Wegner	Trustee	July 1, 2009 (Resigned 4-18-05)
Grant Anderson	Trustee	July 1, 2009 (Appointed 5-2-05)
Suellen Kolbet	Secretary/Treasurer	Indefinite
Brian Geschke	General Manager	Indefinite

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, 2005 and 2004 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 and the standards applicable to financial audit contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards 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, 2005 and 2004, and changes in financial position and the cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 13, 2006 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, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 7 and 19 through 21 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 & Kallwanz, P.C.

January 13, 2006

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, 2005. 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 \$3,235,677 for fiscal 2005 increased 15%, or \$424,364, from fiscal 2004. All revenue sources except interest income saw increases. Interest income decreased by 26% because of payments being made for the CB-4 project out of cash.

The Light Plant's total operating expenses of \$3,070,570 for fiscal 2005 were up 17%, or \$445,932, more than in fiscal 2004.

The Light Plant's net assets increased 1%, or \$172,023, from June 30, 2004 to June 30, 2005.

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 2005 totaled \$13,900,715. This compares to \$13,728,692 for fiscal 2004. A summary of the Light Plant's net assets for the last three years is presented below:

	<u>Net Assets</u>		
	2005	2004	2003
Current assets	\$ 2,574,521	\$ 2,951,111	\$ 5,216,889
Noncurrent assets			
Restricted investments	5,240,000	1,980,524	-
Other assets	933,518	1,053,523	1,123,531
Capital assets at cost, less accumulated depreciation	9,526,071	8,144,442	7,541,135
Total noncurrent assets	<u>15,699,589</u>	<u>11,178,489</u>	<u>8,664,666</u>
Total assets	<u>\$ 18,274,110</u>	<u>\$ 14,129,600</u>	<u>\$ 13,881,555</u>
Current liabilities	\$ 648,395	\$ 400,908	\$ 416,050
Noncurrent liabilities	3,725,000	-	-
Total liabilities	<u>4,373,395</u>	<u>400,908</u>	<u>416,050</u>
Net assets			
Invested in capital assets, net of related debt	5,703,505	8,144,442	7,541,135
Restricted for debt service	1,918,809	1,980,524	-
Unrestricted			
Designated	4,302,751	1,339,726	3,728,829
Undesignated	1,975,650	2,264,000	2,195,541
Total net assets	<u>13,900,715</u>	<u>13,728,692</u>	<u>13,465,505</u>
Total liabilities and net assets	<u>\$ 18,274,110</u>	<u>\$ 14,129,600</u>	<u>\$ 13,881,555</u>

Net assets of the utility increased from fiscal year 2004 by approximately \$172,023 or 1.0%. 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 \$2,859,644 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			
	2005	2004	2003
Operating revenues			
Charges for service			
Sale of electricity	\$ 3,135,052	\$ 2,686,032	\$ 2,593,793
Miscellaneous			
Rental	92,014	\$ 85,881	\$ 103,009
Other	8,611	39,400	10,066
Total operating revenues	<u>3,235,677</u>	<u>2,811,313</u>	<u>2,706,868</u>
Operating expenses			
Plant operation	1,958,756	1,518,673	1,525,255
Distribution	344,002	367,307	363,703
Administration	394,300	361,122	327,532
Payment in lieu of taxes	40,000	40,000	40,000
Depreciation	321,823	328,847	330,169
Amortization	11,689	8,689	8,689
Total operating expenses	<u>3,070,570</u>	<u>2,624,638</u>	<u>2,595,348</u>
Operating income	165,107	186,675	111,520
Nonoperating revenues (expenses)			
Interest expense	-	-	(53,372)
Economic development	(86,701)	(61,694)	(130,000)
Patronage dividend	4,331	-	2,229
Gain on sale of equipment	-	9,261	32,000
Interest income	114,286	153,945	167,683
Total nonoperating revenues (expenses)	<u>31,916</u>	<u>101,512</u>	<u>18,540</u>
Income before transfers	197,023	288,187	130,060
Transfers			
Transfers City of New Hampton	(25,000)	(25,000)	(25,000)
Total transfers	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>
Change in net assets	172,023	263,187	105,060
Total net assets beginning of year	13,728,692	13,465,505	13,360,445
Total net assets end of year	<u>\$ 13,900,715</u>	<u>\$ 13,728,692</u>	<u>\$ 13,465,505</u>

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 2005, operating revenues increased by \$424,364 or 15%, primarily a result of a scheduled rate increase and higher purchased power costs, which are passed on to the users. Operating expenses increased by \$445,932 or 17%. The increase was primarily a result of an increase in fuel and the cost of purchased power.

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 operating revenue and reduced by 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 and patronage dividends.

CAPITAL ASSETS

At June 30, 2005, the Light Plant had \$9,526,071 invested in capital assets, net of accumulated depreciation of \$6,994,947. Depreciation charges totaled \$321,823 for fiscal 2005. 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, 2005, the Light Plant had \$3,865,000 in outstanding debt. More information about the Light Plant's debt is presented in Note 5 to the financial statements.

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 Light Plant's interest in the project will cost approximately \$6,000,000. \$2,000,000 is coming from reserves and \$4,000,000 has been financed by the sale of revenue bonds in July, 2004. This will initially increase restricted investments until amounts are requested to fund project costs.

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 ongoing 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, 2005 and 2004

ASSETS	2005	2004
CURRENT ASSETS		
Cash and cash equivalents	\$ 581,643	\$ 288,080
Investments	1,350,000	2,109,476
Accounts receivable	300,845	247,357
Accrued interest receivable	7,468	4,106
Inventory	281,381	250,917
Prepaid expenses	50,984	51,175
Current portion of other receivables	2,200	-
Total current assets	2,574,521	2,951,111
NONCURRENT ASSETS		
Restricted investments	5,240,000	1,980,524
Other receivables, net of current portion	9,800	-
Bond fees, net of amortization	57,000	-
Investment in common transmission system		
Restricted cash - CTS capital improvement	746,689	923,473
Plant acquisition costs, net of accumulated amortization	63,426	72,115
Investment in cooperatives		
Membership	100	100
Deferred patronage dividend receivable		
Corn Belt Power Cooperative (Corn Belt)	56,503	57,835
Capital assets		
Property, plant and equipment	16,521,018	14,830,226
Less accumulated depreciation	(6,994,947)	(6,685,784)
Total capital assets	9,526,071	8,144,442
Total noncurrent assets	15,699,589	11,178,489
Total assets	\$ 18,274,110	\$ 14,129,600

LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 430,963	\$ 304,957
Bond payable advance	-	40,000
Accrued wages	5,358	3,746
Sales tax payable	15,236	11,826
Accrued property taxes	830	847
Compensated absences payable	35,653	33,714
Accrued interest	14,566	-
Other payables	5,789	5,818
Current portion of bond payable	140,000	-
Total current liabilities	648,395	400,908
NONCURRENT LIABILITIES		
Bond payable	3,865,000	-
Less current portion	(140,000)	-
Total noncurrent liabilities	3,725,000	-
NET ASSETS		
Invested in capital assets, net of related debt	5,703,505	8,144,442
Restricted, debt service	1,918,809	1,980,524
Unrestricted		
Designated	4,302,751	1,339,726
Undesignated	1,975,650	2,264,000
Total net assets	13,900,715	13,728,692
Total liabilities and net assets	\$ 18,274,110	\$ 14,129,600

See notes to financial statements.

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Charges for service		
Sale of electricity	\$ 3,135,052	\$ 2,686,032
Miscellaneous		
Rental	92,014	85,881
Other	8,611	39,400
Total operating revenues	<u>3,235,677</u>	<u>2,811,313</u>
OPERATING EXPENSES		
Plant operation	1,958,756	1,518,673
Distribution	344,002	367,307
Administration	394,300	361,122
Payment in lieu of taxes	40,000	40,000
Depreciation	321,823	328,847
Amortization	11,689	8,689
Total operating expenses	<u>3,070,570</u>	<u>2,624,638</u>
Operating income	165,107	186,675
NONOPERATING REVENUES (EXPENSES)		
Interest expense	-	-
Economic development	(86,701)	(61,694)
Patronage dividend	4,331	-
Gain on sale of equipment	-	9,261
Interest income	114,286	153,945
Total nonoperating revenues (expenses)	<u>31,916</u>	<u>101,512</u>
Income before transfers	197,023	288,187
TRANSFERS		
Transfers City of New Hampton	(25,000)	(25,000)
Total transfers	<u>(25,000)</u>	<u>(25,000)</u>
Change in net assets	172,023	263,187
Total net assets, beginning of year	13,728,692	13,465,505
Total net assets, end of year	<u>\$ 13,900,715</u>	<u>\$ 13,728,692</u>

See notes to financial statements.

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

STATEMENTS OF CASH FLOWS

Years ended June 30, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 3,069,564	\$ 2,689,356
Payments to suppliers	(2,069,703)	(1,816,929)
Payments to employees	(510,141)	(492,896)
Payments in lieu of taxes	(40,000)	(40,000)
Receipts from other operating revenues	100,625	125,281
Net cash flows from operating activities	<u>550,345</u>	<u>464,812</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments for economic development	(86,701)	(61,694)
Payment to City of New Hampton	(25,000)	(25,000)
Net cash flows from noncapital financing activities	<u>(111,701)</u>	<u>(86,694)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(1,603,735)	(945,791)
Proceeds on sale of capital assets	-	22,898
Advance received on upcoming bond issue	-	40,000
Proceeds on sale of bond	3,900,000	-
Principal payments of long-term debt	(135,000)	-
Interest payments on long-term debt that was capitalized	(99,717)	-
Net cash flows from capital and related financing activities	<u>2,061,548</u>	<u>(882,893)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(6,350,000)	(4,490,000)
Proceeds from disposal of investments	4,026,784	5,001,319
Interest on investments	110,924	156,984
Patronage dividends received	5,663	-
Net cash flows from investing activities	<u>(2,206,629)</u>	<u>668,303</u>
Net increase in cash	293,563	163,528
Cash and cash equivalents, beginning of year	288,080	124,552
Cash and cash equivalents, end of year	<u>\$ 581,643</u>	<u>\$ 288,080</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 165,107	\$ 186,675
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	321,823	328,847
Amortization	11,689	8,689
(Increase) decrease in receivables	(65,488)	3,324
(Increase) decrease in inventory	(30,464)	(6,393)
(Increase) decrease in prepaid expenses	191	(1,188)
Increase (decrease) in accounts payable	126,006	(50,518)
Increase (decrease) in accrued wages	1,612	(10,177)
Increase (decrease) in sales tax payable	3,410	1,921
Increase (decrease) in accrued property taxes	(17)	(17)
Increase (decrease) in compensated absences	1,939	2,790
Increase (decrease) in accrued interest	14,566	-
Increase (decrease) in other deductions payable	(29)	859
Net cash flows from operating activities	<u>550,345</u>	<u>464,812</u>
Noncash investing activities		
Patronage dividend declared	<u>\$ 4,331</u>	<u>\$ -</u>
Bond fees withheld from proceeds	<u>\$ 60,000</u>	<u>\$ -</u>

See notes to financial statements.

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2005 and 2004

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.

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2005 and 2004

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. Financial Statement Presentation

Certain amounts from 2004 have been reclassified to conform to the 2005 presentation with no overall effect on the balance of net assets.

E. 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.

F. 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.

G. 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.

H. Investments

Investments are stated at cost which approximates market.

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Accounts Receivable

Accounts receivable represents the balance of unpaid services billed and management's estimate of services used between the periodic scheduled billing dates and the year end.

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.

J. Inventory

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

K. 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 costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. During 2005, \$99,717 of interest expense was capitalized.

L. Amortization

Bond fees related to issued bonds are being amortized on the straight-line basis over 20 years.

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

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. 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, 2005.

N. Net Assets

The Statement of Net Assets presents the Light Plant's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

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

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets designated often have constraints on resources imposed by management, which can be removed or modified at their discretion.

O. 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.

P. Income Taxes

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

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2005 and 2004

NOTE 2 - CASH AND POOLED INVESTMENTS

The Light Plant's deposits in banks at June 30, 2005 and 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The 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; 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, 2005 except for an investment in the Iowa Public Agency Investment Trust which is valued at an amortized cost of \$2,980 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The Light Plant's investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

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 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.

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	<u>(484,338)</u>
	868,995
Plant acquisition costs	<u>202,445</u>
	<u>\$ 1,071,440</u>

The agreement also requires the Light Plant to fund its share of capital improvements through monthly assessments if needed. As of June 30, 2005 and 2004 the balance in the CTS Capital Improvement account is \$ 746,689 and \$923,473 respectively and monthly assessments are not currently being required.

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2005 and 2004

NOTE 3 - NONCURRENT ASSETS (continued)

B. Deferred Patronage Dividend Receivable

The Board 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 2005 the Light Plant was allocated \$4,331 from current operations and \$5,663 in past declared dividends.

NOTE 4 - CAPITAL ASSETS

A summary of capital assets at June 30, 2005 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 12,086	\$ -	\$ -	\$ 12,086
Construction in progress	940,180	1,441,463	-	2,381,643
Total capital assets, not being depreciated	952,266	1,441,463	-	2,393,729
Capital assets, being depreciated				
Buildings and system	11,261,799	59,649	-	11,321,448
Machinery and equipment	160,004	-	-	160,004
Common transmission system (CTS)	2,216,843	198,615	12,660	2,402,798
Vehicles and office equipment	239,314	3,725	-	243,039
Total capital assets being depreciated	13,877,960	261,989	12,660	14,127,289
Less accumulated depreciation for				
Buildings and system	5,504,012	245,381	-	5,749,393
Machinery and equipment	83,065	14,789	-	97,854
Common transmission system (CTS)	970,679	45,176	12,660	1,003,195
Vehicles and office equipment	128,028	16,477	-	144,505
Total accumulated depreciation	6,685,784	321,823	12,660	6,994,947
Total capital assets, being depreciated, net	7,192,176	(59,834)	-	7,132,342
Capital assets, net	\$ 8,144,442	\$ 1,381,629	\$ -	9,526,071

NOTE 5 - BONDS PAYABLE

The Light Plant sold \$4,000,000 in Electric Revenue Bonds on July 14, 2004 to partially fund construction costs in progress. Prior to the sale date of the bonds, the investment broker remitted to the Light Plant \$40,000 in "good faith" that was as of June 30, 2004 classified as bond payable advance. As part of the sale the Light Plant had loan discount fees of \$60,000 which is being amortized at \$3,000 per year. At June 30, 2005 the unamortized balance was \$57,000.

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2005 and 2004

NOTE 5 - BONDS PAYABLE (continued)

Annual debt service requirements to maturity of the bond is as follows:

Year Ending June 30,	Principal	Interest	Interest Rate
2006	\$ 140,000	\$ 174,795	2.50%
2007	145,000	171,295	3.00
2008	150,000	166,945	3.25
2009	155,000	162,070	3.50
2010	160,000	156,645	3.75
2011-2015	895,000	681,785	4.00-4.50
2016-2020	1,120,000	459,802	4.60-5.05
2021-2024	1,100,000	149,325	5.10-5.40
	<u>\$ 3,865,000</u>	<u>\$ 2,122,662</u>	

The resolutions providing for the issuance of the revenue notes include the following provisions.

- a. The notes will only be redeemed from the future earnings of the Light Plant activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a revenue note sinking account for the purpose of making the note principal and interest payments when due.
- c. Additional monthly transfers shall be made until specific minimum balances have been accumulated and kept at that level. The sole purpose of this account is to pay the principal and interest when insufficient funds are in the sinking account.
- d. All funds remaining in the Light Plant account after the payment of all maintenance and operating expenses and required transfers shall be placed in an improvement account until a minimum of \$1,500,000 is accumulated. The minimum of \$1,500,000 was achieved at June 30, 2005. This account is restricted for the purpose of paying for any improvements, extensions or repair to the system, or for note and interest payments which the other accounts might be unable to make.

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, 2005, 2004, and 2003 were \$21,116, \$23,324, and \$20,079 respectively, equal to the required contributions for each year.

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2005 and 2004

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 \$28,800. The Light Plant paid claims of \$18,212 during 2005.

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 \$25,697 during the year ended June 30, 2005.

NOTE 10 - ECONOMIC DEVELOPMENT COMMITMENTS

The Trustees, at their discretion, make one time and long-term commitments to various parties for economic development. During 2005 and 2004 the Light Plant's payments totaled \$86,701 and \$61,694 respectively. The long-term commitments are as follows:

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, 2006	\$ 30,000	\$ 30,000	\$ 60,000
2007	-	30,000	30,000
	<u>\$ 30,000</u>	<u>\$ 60,000</u>	<u>\$ 90,000</u>

The Trustees have verbally committed to 3 industrial customers a total of \$179,000 of economic development assistance in the form of forgivable loans. The amount each customer will receive is based on \$1,000 per job created. The Light Plant expects to expend the funds in the next fiscal year (2005/2006).

NOTE 11 - MAJOR SUPPLIERS

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

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, 2005

	Actual	Less Funds Not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
Receipts						
Use of money and property	\$ 116,587	\$ -	\$ 116,587	\$ 131,000	\$ 131,000	\$ (14,413)
Charges for service	3,069,564	-	3,069,564	2,457,000	2,457,000	612,564
Miscellaneous	100,625	-	100,625	96,500	96,500	4,125
Total receipts	<u>3,286,776</u>	<u>-</u>	<u>3,286,776</u>	<u>2,684,500</u>	<u>2,684,500</u>	<u>602,276</u>
Disbursements						
Business-type activities	4,569,997	-	4,569,997	4,705,200	5,002,904	(432,907)
Total disbursements	<u>4,569,997</u>	<u>-</u>	<u>4,569,997</u>	<u>4,705,200</u>	<u>5,002,904</u>	<u>(432,907)</u>
Excess of receipts over (under) disbursements	(1,283,221)	-	(1,283,221)	(2,020,700)	(2,318,404)	1,035,183
Other financing sources, net	<u>3,900,000</u>	<u>-</u>	<u>3,900,000</u>	<u>400,000</u>	<u>400,000</u>	<u>3,500,000</u>
Excess of receipts and other financing sources over (under) disbursements and other financing uses	2,616,779	-	2,616,779	(1,620,700)	(1,918,404)	4,535,183
Balances, beginning of year	<u>5,301,553</u>	<u>-</u>	<u>5,301,553</u>	<u>5,301,553</u>	<u>5,301,553</u>	<u>-</u>
Balances, end of year	<u>\$ 7,918,332</u>	<u>\$ -</u>	<u>\$ 7,918,332</u>	<u>\$ 3,680,853</u>	<u>\$ 3,383,149</u>	<u>\$ 4,535,183</u>

See notes to financial statements.

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

BUDGET TO GAAP RECONCILIATION

REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2005

	Cash Basis (Budget)	Accrual Adjustments	Accrual Basis (GAAP)
Receipts			
Use of money and property	\$ 116,587	\$ 2,030	\$ 118,617
Charges for service	3,069,564	65,488	3,135,052
Miscellaneous	100,625	-	100,625
Total receipts	<u>3,286,776</u>	<u>67,518</u>	<u>3,354,294</u>
Disbursements			
Business-type activities	4,569,997	(1,387,726)	3,182,271
Total disbursements	<u>4,569,997</u>	<u>(1,387,726)</u>	<u>3,182,271</u>
Excess of receipts over (under) disbursements	(1,283,221)	1,455,244	172,023
Other financing sources, net	<u>3,900,000</u>	<u>(3,900,000)</u>	<u>-</u>
Excess of receipts and other financing sources over (under) disbursements and other financing uses	2,616,779	(2,444,756)	172,023
Balances, beginning of year	<u>5,301,553</u>	<u>8,427,139</u>	<u>13,728,692</u>
Balances, end of year	<u>\$ 7,918,332</u>	<u>\$ 5,982,383</u>	<u>\$ 13,900,715</u>

See notes to financial statements.

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2005

The New Hampton Municipal Electric Light Plant as a component unit prepares a budget on the cash basis of accounting and submits it to the City Council for inclusion in the City wide budget. 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 or fund type. The Light Plant's disbursements are budgeted in the business-type activities function.

The budgeted amounts represent only those of the Light Plant as submitted to the City although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. There was one budget amendment of \$297,704 related to the Light Plant for the year ended June 30, 2005.

During the year ended June 30, 2005, disbursements did not exceed the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

SCHEDULE OF OPERATING EXPENSES

Years ended June 30, 2005 and 2004

	2005				2004			
	Total	Plant Operation	Distribution	Administration	Total	Plant Operation	Distribution	Administration
Purchased power	\$ 1,704,337	\$ 1,704,337	\$ -	\$ -	\$ 1,296,743	\$ 1,296,743	\$ -	\$ -
Trustees' fees	3,000	-	-	3,000	3,000	-	-	3,000
Salaries	367,774	137,235	140,740	89,799	355,541	133,995	136,499	85,047
FICA	27,558	10,202	10,487	6,869	27,727	10,226	10,527	6,974
IPERS	21,116	7,990	8,035	5,091	23,324	8,131	7,965	7,228
Group insurance	97,244	-	-	97,244	78,917	-	-	78,917
Insurance	66,785	-	-	66,785	64,064	-	-	64,064
Natural gas	27,018	27,018	-	-	6,188	6,188	-	-
Utilities	55,426	55,426	-	-	46,465	46,465	-	-
Telephone	3,366	-	-	3,366	2,644	-	-	2,644
Supplies and repairs	116,558	15,011	100,172	1,375	140,472	11,159	128,011	1,302
Contracted services and materials	74,058	-	74,058	-	72,276	-	72,276	-
Taxes	8,123	-	-	8,123	7,482	-	-	7,482
Laundry	663	663	-	-	511	511	-	-
Vehicle expense	5,272	-	5,272	-	5,894	-	5,894	-
Engineering fees	9,634	-	-	9,634	1,479	-	1,479	-
Professional fees	23,986	-	1,137	22,849	22,333	-	2,251	20,082
Accounting services	51,045	-	-	51,045	50,996	-	-	50,996
Advertising, promotion, and publications	890	-	-	890	1,376	-	-	1,376
Dues and assessments	12,115	-	-	12,115	10,057	-	-	10,057
Travel expense	7,085	-	-	7,085	6,448	-	-	6,448
Office expense	5,846	-	-	5,846	7,331	-	-	7,331
Video conference expenses	-	-	-	-	3,709	3,709	-	-
Miscellaneous	8,159	874	4,101	3,184	12,125	1,546	2,405	8,174
	<u>2,697,058</u>	<u>\$ 1,958,756</u>	<u>\$ 344,002</u>	<u>\$ 394,300</u>	<u>2,247,102</u>	<u>\$ 1,518,673</u>	<u>\$ 367,307</u>	<u>\$ 361,122</u>
Payment in lieu of taxes	40,000				40,000			
Interest expense	-				-			
Depreciation	321,823				328,847			
Amortization	11,689				8,689			
	<u>\$ 3,070,570</u>				<u>\$ 2,624,638</u>			

See accompanying independent auditor's report.

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

We have audited the accompanying 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, 2005, and have issued our report thereon dated January 13, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with U.S. generally accepted accounting principles. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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-05.

Compliance and Other Matters

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 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.

Comments involving statutory and other legal matters about Light Plant's operations for the year ended June 30, 2005 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.

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 + Kallivay, P.C.

January 13, 2006

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

SCHEDULE OF FINDINGS

Year ended June 30, 2005

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-05.

Part II: Findings Related to the Financial Statements

II-A-05

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-05

Official Depositories - A resolution naming official depositories has been adopted by the Trustees. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2005 when the bond proceeds were received.

Recommendation - The Light Plant in the future should increase the limits if anticipated receipts will cause balances to be exceeded.

Response - The Light Plant in the future will change the resolution when current limits are expected to be exceeded.

Conclusion - Response accepted.

III-B-05

Certified Budget - The Light Plant's expenditures during the year ended June 30, 2005 did not exceed the amounts in the amended budget.

NEW HAMPTON MUNICIPAL ELECTRIC LIGHT PLANT

SCHEDULE OF FINDINGS

Year ended June 30, 2005

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

III-C-05

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-05

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

III-E-05

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

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Larry Thronson, Trustee Owner of Thronson Conoco	Fuel and oil Engine fuel (by bid)	\$ 558 25,139

In accordance with Chapter 362.5(10) of the Code of Iowa the transactions with the Trustee does 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-05

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-05

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

III-H-05

Revenue Bonds/Notes

The Light Plant has complied with the revenue bond resolutions.

III-I-05

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.

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, 2005 and 2004 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 and the standards applicable to financial audit contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards 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, 2005 and 2004, and changes in financial position and the cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 13, 2006 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, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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, 2005 and 2004 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 and the standards applicable to financial audit contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards 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, 2005 and 2004, and changes in financial position and the cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 13, 2006 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, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Hagen & Kallevang PC
CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying 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, 2005, and have issued our report thereon dated January 13, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with U.S. generally accepted accounting principles. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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-05.

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

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New Hampton Municipal Electric Light Plant:

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