NEW HAMPTON MUNICIPAL LIGHT PLANT

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

June 30, 2006

NEW HAMPTON MUNICIPAL LIGHT PLANT

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NEW HAMPTON MUNICIPAL LIGHT PLANT

OFFICIALS

Name	Title	Term Expires
Shirley Engel	Trustee	July 1, 2006
Steve Dahl	Trustee	July 1, 2007
Wayne Moetsch	Trustee	July 1, 2008
Grant Anderson	Trustee	July 1, 2009
Larry Throndson	Trustee	July 1, 2010
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 Light Plant:

We have audited the accompanying statements of Net Assets of the New Hampton Municipal Light Plant, a component unit of the City of New Hampton, as of June 30, 2006 and 2005 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 New Hampton Municipal Light Plant's management. 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 audits 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 Light Plant as of June 30, 2006 and 2005, 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 12, 2007 on our consideration of New Hampton Municipal 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 audits.

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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 & Kallevang, P.C.

January 12, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

New Hampton Municipal 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, 2006. 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 $3,797,940 for fiscal 2006 increased 17%, or $562,263, from fiscal 2005. All revenue sources saw increases. Interest income increased by 29% because of a dramatic rise in interest rates.

The Light Plant's total operating expenses of $3,342,453 for fiscal 2006 were up 9%, or $271,883, more than in fiscal 2005.

The Light Plant's net assets increased 2%, or $307,672, from June 30, 2005 to June 30, 2006.

USING THIS ANNUAL REPORT

The New Hampton Municipal 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 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

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 2006 totaled $14,208,387. This compares to $13,900,715 for fiscal 2005. A summary of the Light Plant's net assets for the last three years is presented below:

Net Assets

	2006	2005	2004	2003
Current assets	$ 2,043,995	$ 2,574,521	$ 2,951,111	$ 5,216,889
Noncurrent assets				
Restricted investments	3,940,000	5,240,000	1,980,524	-
Other assets	778,917	933,518	1,053,523	1,123,531
Capital assets at cost, less accumulated depreciation	11,606,459	9,526,071	8,144,442	7,541,135
Total noncurrent assets	16,325,376	15,699,589	11,178,489	8,664,666
Total assets	$ 18,369,371	$ 18,274,110	$ 14,129,600	$ 13,881,555
Current liabilities	$ 580,984	$ 648,395	$ 400,908	$ 416,050
Noncurrent liabilities	3,580,000	3,725,000	-	-
Total liabilities	4,160,984	4,373,395	400,908	416,050
Net assets				
Invested in capital assets, net of related debt	7,921,184	5,703,505	8,144,442	7,541,135
Restricted for debt service	1,846,029	1,918,809	1,980,524	-
Unresticted				
Designated	2,447,855	4,302,751	1,339,726	3,728,829
Undesignated	1,993,319	1,975,650	2,264,000	2,195,541
Total net assets	14,208,387	13,900,715	13,728,692	13,465,505
Total liabilities and net assets	$ 18,369,371	$ 18,274,110	$ 14,129,600	$ 13,881,555

Net assets of the Light Plant increased from fiscal year 2005 by approximately $307,672 or 2%. The largest portion of the Light Plant's 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 $4,441,174 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 Light Plant. 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

	2006	2005	2004	2003
Operating revenues				
Charges for service				
Sale of electricity	$ 3,689,941	$ 3,135,052	$ 2,686,032	$ 2,593,793
Miscellaneous				
Rental	95,625	92,014	$ 85,881	$ 103,009
Other	12,374	8,611	39,400	10,066
Total operating revenues	3,797,940	3,235,677	2,811,313	2,706,868
Operating expenses				
Plant operation	2,208,707	1,958,756	1,518,673	1,525,255
Distribution	383,310	344,002	367,307	363,703
Administration	368,331	394,300	361,122	327,532
Payment in lieu of taxes	40,000	40,000	40,000	40,000
Depreciation	330,416	321,823	328,847	330,169
Amortization	11,689	11,689	8,689	8,689
Total operating expenses	3,342,453	3,070,570	2,624,638	2,595,348
Operating income	455,487	165,107	186,675	111,520
Nonoperating revenues (expenses)				
Interest expense	(120,081)	-	-	(53,372)
Economic development	(187,676)	(86,701)	(61,694)	(130,000)
Patronage dividend	6,963	4,331	-	2,229
Economic development reimbursement	30,000	-	-	-
Gain on sale of equipment	-	-	9,261	32,000
Interest income	147,979	114,286	153,945	167,683
Total nonoperating revenues (expenses)	(122,815)	31,916	101,512	18,540
Income before transfers	332,672	197,023	288,187	130,060
Transfers				
Transfers City of New Hampton	(25,000)	(25,000)	(25,000)	(25,000)
Total transfers	(25,000)	(25,000)	(25,000)	(25,000)
Change in net assets	307,672	172,023	263,187	105,060
Total net assets beginning of year	13,900,715	13,728,692	13,465,505	13,360,445
Total net assets end of year	$ 14,208,387	$ 13,900,715	$ 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 2006, operating revenues increased by $562,263 or 17%, primarily a result of a scheduled rate increase and higher purchased power costs, which are passed on to the users. Operating expenses increased by $271,883 or 9%. 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, 2006, the Light Plant had $11,606,459 invested in capital assets, net of accumulated depreciation of $7,245,475. Depreciation charges totaled $330,416 for fiscal 2006. 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, 2006, the Light Plant had $3,725,000 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 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 LIGHT PLANT'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 LIGHT PLANT

STATEMENTS OF NET ASSETS

June 30, 2006 and 2005

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 368,578	$ 581,643
Investments	1,050,000	1,350,000
Accounts receivable	270,469	300,845
Accrued interest receivable	10,988	7,468
Inventory	288,793	281,381
Prepaid expenses	52,967	50,984
Current portion of other receivables	2,200	2,200
Total current assets	2,043,995	2,574,521
NONCURRENT ASSETS		
Restricted investments	3,940,000	5,240,000
Other receivables, net of current portion	7,600	9,800
Bond fees, net of amortization	54,000	57,000
Investment in common transmission system		
Restricted cash - CTS capital improvement	603,838	746,689
Plant acquisition costs, net of accumulated amortization	54,738	63,426
Investment in cooperatives		
Membership	100	100
Deferred patronage dividend receivable		
Corn Belt Power Cooperative (Corn Belt)	58,641	56,503
Capital assets		
Property, plant and equipment	18,851,934	16,521,018
Less accumulated depreciation	(7,245,475)	(6,994,947)
Total capital assets	11,606,459	9,526,071
Total noncurrent assets	16,325,376	15,699,589
Total assets	$ 18,369,371	$ 18,274,110
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 354,466	$ 430,963
Accrued wages	6,749	5,358
Sales tax payable	11,071	15,236
Accrued property taxes	5,352	830
Compensated absences payable	40,157	35,653
Accrued interest	14,275	14,566
Other payables	3,914	5,789
Current portion of bond payable	145,000	140,000
Total current liabilities	580,984	648,395
NONCURRENT LIABILITIES		
Bond payable	3,725,000	3,865,000
Less current portion	(145,000)	(140,000)
Total noncurrent liabilities	3,580,000	3,725,000
NET ASSETS		
Invested in capital assets, net of related debt	7,921,184	5,703,505
Restricted, debt service	1,846,029	1,918,809
Unresticted		
Designated	2,447,855	4,302,751
Undesignated	1,993,319	1,975,650
Total net assets	14,208,387	13,900,715
Total liabilities and net assets	$ 18,369,371	$ 18,274,110

See notes to financial statements.

NEW HAMPTON MUNICIPAL LIGHT PLANT

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

Years ended June 30, 2006 and 2005

	2006	2005
OPERATING REVENUES		
Charges for service		
Sale of electricity	$ 3,689,941	$ 3,135,052
Miscellaneous		
Rental	95,625	92,014
Other	12,374	8,611
Total operating revenues	3,797,940	3,235,677
OPERATING EXPENSES		
Plant operation	2,208,707	1,958,756
Distribution	383,310	344,002
Administration	368,331	394,300
Payment in lieu of taxes	40,000	40,000
Depreciation	330,416	321,823
Amortization	11,689	11,689
Total operating expenses	3,342,453	3,070,570
Operating income	455,487	165,107
NONOPERATING REVENUES (EXPENSES)		
Interest expense	(120,081)	-
Economic development	(187,676)	(86,701)
Patronage dividend	6,963	4,331
Economic development reimbursement	30,000	-
Interest income	147,979	114,286
Total nonoperating revenues (expenses)	(122,815)	31,916
Income before transfers	332,672	197,023
TRANSFERS		
Transfers City of New Hampton	(25,000)	(25,000)
Total transfers	(25,000)	(25,000)
Change in net assets	307,672	172,023
Total net assets, beginning of year	13,900,715	13,728,692
Total net assets, end of year	$ 14,208,387	$ 13,900,715

See notes to financial statements.

NEW HAMPTON MUNICIPAL LIGHT PLANT

STATEMENTS OF CASH FLOWS

Years ended June 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 3,722,517	$ 3,069,564
Payments to suppliers	(2,533,976)	(2,069,703)
Payments to employees	(508,178)	(510,141)
Payments in lieu of taxes	(40,000)	(40,000)
Receipts from other operating revenues	107,999	100,625
Net cash flows from operating activities	748,362	550,345
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Reimbursement for economic development	30,000	-
Payments for economic development	(187,676)	(86,701)
Payment to City of New Hampton	(25,000)	(25,000)
Net cash flows from noncapital financing activities	(182,676)	(111,701)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(2,351,577)	(1,603,735)
Proceeds on sale of bond	-	3,900,000
Principal payments of long-term debt	(140,000)	(135,000)
Interest payments on long-term debt that was capitalized	(179,309)	(99,717)
Net cash flows from capital and related financing activities	(2,670,886)	2,061,548
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(3,390,000)	(6,350,000)
Proceeds from disposal of investments	5,132,851	4,026,784
Interest on investments	144,459	110,924
Patronage dividends received	4,825	5,663
Net cash flows from investing activities	1,892,135	(2,206,629)
Net increase (decrease) in cash	(213,065)	293,563
Cash and cash equivalents, beginning of year	581,643	288,080
Cash and cash equivalents, end of year	$ 368,578	$ 581,643
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 455,487	$ 165,107
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	330,416	321,823
Amortization	11,689	11,689
(Increase) decrease in receivables	32,576	(65,488)
(Increase) decrease in inventory	(7,412)	(30,464)
(Increase) decrease in prepaid expenses	(1,983)	191
Increase (decrease) in accounts payable	(76,497)	126,006
Increase (decrease) in accrued wages	1,391	1,612
Increase (decrease) in sales tax payable	(4,165)	3,410
Increase (decrease) in accrued property taxes	4,522	(17)
Increase (decrease) in compensated absences	4,504	1,939
Increase (decrease) in accrued interest	(291)	14,566
Increase (decrease) in other deductions payable	(1,875)	(29)
Net cash flows from operating activities	$ 748,362	$ 550,345
Noncash investing activities		
Patronage dividend declared	$ 6,963	$ 4,331
Bond fees withheld from proceeds	$ -	$ 60,000

See notes to financial statements.

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2006 and 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The New Hampton Municipal 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 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 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

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.

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 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 2006, $59,229 of interest expense was capitalized.

K. 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.

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, 2006.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. 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.

N. 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.

O. 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 in banks at June 30, 2006 and 2005 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, 2006 except for an investment in the Iowa Public Agency Investment Trust which is valued at an amortized cost of $3,087 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

NOTE 2 - CASH AND POOLED INVESTMENTS (continued)

Interest rate risk – The Light Plant's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipts in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Light Plant.

Credit risk – The Light Plant's investment in the Iowa Public Agency Investment Trust is unrated.

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	(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 if needed. As of June 30, 2006 and 2005 the balance in the CTS Capital Improvement account is $ 603,838 and $746,689 respectively and monthly assessments are not currently being required.

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 2006 the Light Plant was allocated $6,963 from current operations and received $4,825 in past declared dividends.

NOTE 4 - CAPITAL ASSETS

A summary of capital assets at June 30, 2006 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	$ 12,086	$ -	$ -	$ 12,086
Construction in progress	2,381,643	2,157,768	-	4,539,411
Total capital assets, not being depreciated	2,393,729	2,157,768	-	4,551,497
Capital assets, being depreciated				
Buildings and system	11,321,448	57,954	-	11,379,402
Machinery and equipment	160,004	-	-	160,004
Common transmission system (CTS)	2,402,798	166,234	26,569	2,542,463
Vehicles and office equipment	243,039	26,387	50,858	218,568
Total capital assets being depreciated	14,127,289	250,575	77,427	14,300,437
Less accumulated depreciation for				
Buildings and system	5,749,393	247,517	-	5,996,910
Machinery and equipment	97,854	14,192	-	112,046
Common transmission system (CTS)	1,003,195	50,210	29,030	1,024,375
Vehicles and office equipment	144,505	18,497	50,858	112,144
Total accumulated depreciation	6,994,947	330,416	79,888	7,245,475
Total capital assets, being depreciated, net	7,132,342	(79,841)	(2,461)	7,054,962
Capital assets, net	$ 9,526,071	$ 2,077,927	$ (2,461)	11,606,459

NOTE 5 - BONDS PAYABLE

The Light Plant sold $4,000,000 in Electric Revenue Bonds on July 14, 2004 to partially fund construction in progress costs. 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, 2006 the unamortized balance was $54,000.

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
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	165,000	150,645	4.0
2012-2016	935,000	643,390	4.20-4.60
2017-2021	1,170,000	405,367	4.75-5.10
2022-2024	845,000	91,510	5.20-5.40
	$ 3,725,000	$ 1,947,867	

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. 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, 2006, 2005, and 2004 were $21,916, $21,116, and $23,324 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 $53,550. The Light Plant paid claims of $29,613 during 2006.

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 $13,370 during the year ended June 30, 2006.

NOTE 10 - ECONOMIC DEVELOPMENT COMMITMENTS

The Trustees, at their discretion, make one time and long-term commitments to various parties for economic development. During 2006 and 2005 the Light Plant's payments totaled $187,676 and $86,701 respectively. The long-term commitments are as follows:

> In June 2003, the Trustees committed $150,000 to a community recreational facility project over a five year period. The final payment of $30,000 will be paid next year.

The Trustees have verbally committed to a customer a total of $25,000 of economic development assistance in the form of a forgivable loan. The amount the customer will receive is based on $1,000 per job created. The Light Plant expects to expend the funds in the next fiscal year (2006/2007).

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 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, 2006

	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	$ 149,284	$ -	$ 149,284	$ 151,000	$ 151,000	$ (1,716)
Charges for service	3,722,517	-	3,722,517	2,913,000	2,913,000	809,517
Miscellaneous	137,999	-	137,999	103,000	103,000	34,999
Total receipts	4,009,800	-	4,009,800	3,167,000	3,167,000	842,800
Disbursements						
Business-type activities	5,965,716	-	5,965,716	5,047,995	6,097,995	(132,279)
Total disbursements	5,965,716	-	5,965,716	5,047,995	6,097,995	(132,279)
Excess of receipts over (under) disbursements	(1,955,916)	-	(1,955,916)	(1,880,995)	(2,930,995)	975,079
Other financing sources, net	-	-	-	-	-	-
Excess of receipts and other financing sources over (under) disbursements and other financing uses	(1,955,916)	-	(1,955,916)	(1,880,995)	(2,930,995)	975,079
Balances, beginning of year	7,918,332	-	7,918,332	3,383,149	3,383,149	4,535,183
Balances, end of year	$ 5,962,416	$ -	$ 5,962,416	$ 1,502,154	$ 452,154	$ 5,510,262

See accompanying independent auditor's report.

NEW HAMPTON MUNICIPAL LIGHT PLANT

BUDGET TO GAAP RECONCILIATION

REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2006

	Cash Basis (Budget)	Accrual Adjustments	Accrual Basis (GAAP)
Receipts			
Use of money and property	$ 149,284	$ 35,658	$ 184,942
Charges for service	3,722,517	(32,576)	3,689,941
Miscellaneous	137,999	(30,000)	107,999
Total receipts	4,009,800	(26,918)	3,982,882
Disbursements			
Business-type activities	5,965,716	(2,290,506)	3,675,210
Total disbursements	5,965,716	(2,290,506)	3,675,210
Excess of receipts over (under) disbursements	(1,955,916)	2,263,588	307,672
Other financing sources, net	-	-	-
Excess of receipts and other financing sources over (under) disbursements and other financing uses	(1,955,916)	2,263,588	307,672
Balances, beginning of year	7,918,332	5,982,383	13,900,715
Balances, end of year	$ 5,962,416	$ 8,245,971	$ 14,208,387

See accompanying independent auditor's report.

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2006

The New Hampton Municipal 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 $1,050,000 related to the Light Plant for the year ended June 30, 2006.

During the year ended June 30, 2006, disbursements did not exceed the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

NEW HAMPTON MUNICIPAL LIGHT PLANT

SCHEDULE OF OPERATING EXPENSES

Years ended June 30, 2006 and 2005

	2006				2005			
	Total	Plant Operation	Distribution	Administration	Total	Plant Operation	Distribution	Administration
Purchased power	$ 1,976,911	$ 1,976,911	$ -	$ -	$ 1,704,337	$ 1,704,337	$ -	$ -
Trustees' fees	3,000	-	-	3,000	3,000	-	-	3,000
Salaries	384,032	136,657	152,440	94,935	367,774	137,235	140,740	89,799
FICA	28,779	10,208	11,356	7,215	27,558	10,202	10,487	6,869
IPERS	21,916	7,771	8,651	5,494	21,116	7,990	8,035	5,091
Group insurance	79,346	-	-	79,346	97,244	-	-	97,244
Insurance	66,555	-	-	66,555	66,785	-	-	66,785
Natural gas	23,965	23,965	-	-	27,018	27,018	-	-
Utilities	35,769	35,769	-	-	55,426	55,426	-	-
Telephone	3,784	-	-	3,784	3,366	-	-	3,366
Supplies and repairs	135,323	15,440	118,739	1,144	116,558	15,011	100,172	1,375
Contracted services and materials	79,045	-	79,045	-	74,058	-	74,058	-
Taxes	7,079	-	-	7,079	8,123	-	-	8,123
Laundry	553	553	-	-	663	663	-	-
Vehicle expense	6,963	-	6,963	-	5,272	-	5,272	-
Engineering fees	4,002	-	-	4,002	9,634	-	-	9,634
Professional fees	20,196	-	3,012	17,184	23,986	-	1,137	22,849
Accounting services	53,488	-	-	53,488	51,045	-	-	51,045
Advertising, promotion, and publications	1,191	-	-	1,191	890	-	-	890
Dues and assessments	10,312	-	-	10,312	12,115	-	-	12,115
Travel expense	4,797	-	-	4,797	7,085	-	-	7,085
Office expense	4,651	-	-	4,651	5,846	-	-	5,846
Miscellaneous	8,691	1,433	3,104	4,154	8,159	874	4,101	3,184
	2,960,348	$ 2,208,707	$ 383,310	$ 368,331	2,697,058	$ 1,958,756	$ 344,002	$ 394,300
Payment in lieu of taxes	40,000				40,000			
Depreciation	330,416				321,823			
Amortization	11,689				11,689			
	$ 3,342,453				$ 3,070,570			

See accompanying independent auditor's report.

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 Light Plant:

We have audited the accompanying financial statements of New Hampton Municipal Light Plant – a component unit of the City of New Hampton, as of and for the year ended June 30, 2006, and have issued our report thereon dated January 12, 2007. 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 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 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-06.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Hampton Municipal 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 the Light Plant's operations for the year ended June 30, 2006 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 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 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 12, 2007

NEW HAMPTON MUNICIPAL LIGHT PLANT

SCHEDULE OF FINDINGS

Year ended June 30, 2006

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-06.

Part II: Findings Related to the Financial Statements

II-A-06

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-06

Certified Budget - The Light Plant's expenditures during the year ended June 30, 2006 did not exceed the amounts in the amended budget.

III-B-06

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-C-06

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

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

III-D-06

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	$ 734
Owner of Throndson Conoco	Engine fuel (by bid)	12,636

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-E-06

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-F-06

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

III-G-06

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.

III-H-06

Revenue Bonds/Notes

The Light Plant has complied with the revenue bond resolutions.