

NEW HAMPTON MUNICIPAL LIGHT PLANT

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

June 30, 2007

HAGEN & KALLEVANG, P.C.
Certified Public Accountants

NEW HAMPTON MUNICIPAL LIGHT PLANT

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NEW HAMPTON MUNICIPAL LIGHT PLANT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Dahl	Trustee	July 1, 2007
Wayne Moetsch	Trustee	July 1, 2008
Grant Anderson	Trustee	July 1, 2009
Larry Thronson	Trustee	July 1, 2010
Janine Babcock	Trustee	July 1, 2011
Suellen Kolbet	Secretary/Treasurer	Indefinite
Brian Geschke	General Manager	Indefinite

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, 2007. 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 \$3,729,906 for fiscal 2007 decreased by 1.8%, or \$68,034, from fiscal 2006. This was due to the decrease in the cost of purchased power, which is passed on to the customer.

The Light Plant's total operating expenses of \$3,165,899 for fiscal 2007 were down 5.3%, or \$176,554 less than in fiscal 2006.

The Light Plant's net assets increased 3.9%, or \$553,667, from June 30, 2006 to June 30, 2007.

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 2007 totaled \$14,762,054. This compares to \$14,208,387 for fiscal 2006. A summary of the Light Plant's net assets for the last four years is presented below:

	<u>Net Assets</u>				
	2007	2006	2005	2004	2003
Current assets	\$ 2,901,771	\$ 2,043,995	\$ 2,574,521	\$ 2,951,111	\$ 5,216,889
Noncurrent assets					
Restricted investments	1,440,000	3,940,000	5,240,000	1,980,524	-
Other assets	771,166	778,917	933,518	1,053,523	1,123,531
Capital assets at cost, less accumulated depreciation	14,277,415	11,606,459	9,526,071	8,144,442	7,541,135
Total noncurrent assets	16,488,581	16,325,376	15,699,589	11,178,489	8,664,666
Total assets	\$ 19,390,352	\$ 18,369,371	\$ 18,274,110	\$ 14,129,600	\$ 13,881,555
Current liabilities	\$ 1,198,298	\$ 580,984	\$ 648,395	\$ 400,908	\$ 416,050
Noncurrent liabilities	3,430,000	3,580,000	3,725,000	-	-
Total liabilities	4,628,298	4,160,984	4,373,395	400,908	416,050
Net assets					
Invested in capital assets, net of related debt	10,731,927	7,921,184	5,703,505	8,144,442	7,541,135
Restricted for debt service	1,876,929	1,846,029	1,918,809	1,980,524	-
Unrestricted					
Designated	123,474	2,447,855	4,302,751	1,339,726	3,728,829
Undesignated	2,029,724	1,993,319	1,975,650	2,264,000	2,195,541
Total net assets	14,762,054	14,208,387	13,900,715	13,728,692	13,465,505
Total liabilities and net assets	\$ 19,390,352	\$ 18,369,371	\$ 18,274,110	\$ 14,129,600	\$ 13,881,555

Net assets of the utility increased from fiscal year 2006 by approximately \$553,667 or 3.9%. 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 \$2,153,198 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				
	2007	2006	2005	2004	2003
Operating revenues					
Charges for service					
Sale of electricity	\$ 3,609,026	\$ 3,689,941	\$ 3,135,052	\$ 2,686,032	\$ 2,593,793
Miscellaneous					
Rental	93,085	95,625	92,014	\$ 85,881	\$ 103,009
Other	27,795	12,374	8,611	39,400	10,066
Total operating revenues	<u>3,729,906</u>	<u>3,797,940</u>	<u>3,235,677</u>	<u>2,811,313</u>	<u>2,706,868</u>
Operating expenses					
Plant operation	2,078,049	2,208,707	1,958,756	1,518,673	1,525,255
Distribution	346,929	383,310	344,002	367,307	363,703
Administration	346,441	368,331	394,300	361,122	327,532
Payment in lieu of taxes	40,000	40,000	40,000	40,000	40,000
Depreciation	342,792	330,416	321,823	328,847	330,169
Amortization	11,688	11,689	11,689	8,689	8,689
Total operating expenses	<u>3,165,899</u>	<u>3,342,453</u>	<u>3,070,570</u>	<u>2,624,638</u>	<u>2,595,348</u>
Operating income	<u>564,007</u>	<u>455,487</u>	<u>165,107</u>	<u>186,675</u>	<u>111,520</u>
Nonoperating revenues (expenses)					
Interest expense	(129,648)	(120,081)	-	-	(53,372)
Economic development	(94,650)	(187,676)	(86,701)	(61,694)	(130,000)
Patronage dividend	9,128	6,963	4,331	-	2,229
Economic development reimbursement	-	30,000	-	-	-
Gain on sale of equipment	7,000	-	-	9,261	32,000
Interest income	272,830	147,979	114,286	153,945	167,683
Total nonoperating revenues (expenses)	<u>64,660</u>	<u>(122,815)</u>	<u>31,916</u>	<u>101,512</u>	<u>18,540</u>
Income before transfers	<u>628,667</u>	<u>332,672</u>	<u>197,023</u>	<u>288,187</u>	<u>130,060</u>
Transfers					
Transfers City of New Hampton	(75,000)	(25,000)	(25,000)	(25,000)	(25,000)
Total transfers	<u>(75,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>
Change in net assets	553,667	307,672	172,023	263,187	105,060
Total net assets beginning of year	<u>14,208,387</u>	<u>13,900,715</u>	<u>13,728,692</u>	<u>13,465,505</u>	<u>13,360,445</u>
Total net assets end of year	<u>\$ 14,762,054</u>	<u>\$ 14,208,387</u>	<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 2007, operating revenues decreased by \$68,034 or 1.8%, primarily a result of lower purchased power costs, which are passed on to the users. Operating expenses decreased by \$176,554 or 5.3%. The decrease was primarily a result of a decrease in 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, 2007, the Light Plant had \$14,277,415 invested in capital assets, net of accumulated depreciation of \$7,524,240. Depreciation charges totaled \$342,792 for fiscal 2007. 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, 2007, the Light Plant had \$3,580,000 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 was approximately \$6,000,000. \$2,000,000 came from reserves and \$4,000,000 was financed by the sale of revenue bonds in July, 2004. The result of this investment has been to significantly decrease the cost of purchased power by eliminating the need to purchase power on the open market.

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 has entered into a joint ownership agreement for the purchase of two megawatts of the Sutherland Generating Facility Project, at an approximate cost of \$5,000,000, which will be financed by Revenue Bonds.

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.

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, 2007 and 2006 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, 2007 and 2006, and the changes in financial position and its 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 March 5, 2008 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.

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 required supplementary information. We did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the financial statements that collectively comprise New Hampton Municipal Light Plant's basic financial statements. 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 & Kallewang, P.C.

March 5, 2008

BASIC FINANCIAL STATEMENTS

NEW HAMPTON MUNICIPAL LIGHT PLANT

STATEMENTS OF NET ASSETS

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 173,207	\$ 368,578
Investments	2,000,000	1,050,000
Accounts receivable	327,404	270,469
Accrued interest receivable	10,577	10,988
Inventory	299,202	288,793
Prepaid expenses	70,281	52,967
Current portion of other receivables	7,400	2,200
Current portion of deferred expenses	13,700	-
Total current assets	<u>2,901,771</u>	<u>2,043,995</u>
NONCURRENT ASSETS		
Restricted investments	1,440,000	3,940,000
Other receivables, net of current portion	45,417	7,600
Deferred expenses, net of current portion	86,556	-
Bond fees, net of amortization	51,000	54,000
Investment in common transmission system		
Restricted cash - CTS capital improvement	478,988	603,838
Plant acquisition costs, net of accumulated amortization	46,050	54,738
Investment in cooperatives		
Membership	100	100
Deferred patronage dividend receivable		
Corn Belt Power Cooperative (Corn Belt)	63,055	58,641
Capital assets		
Property, plant and equipment	21,801,655	18,851,934
Less accumulated depreciation	(7,524,240)	(7,245,475)
Total capital assets	<u>14,277,415</u>	<u>11,606,459</u>
Total noncurrent assets	<u>16,488,581</u>	<u>16,325,376</u>
Total assets	<u>\$ 19,390,352</u>	<u>\$ 18,369,371</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 954,175	\$ 354,466
Accrued wages	8,333	6,749
Sales tax payable	15,088	11,071
Accrued property taxes	9,557	5,352
Compensated absences payable	40,538	40,157
Accrued interest	16,488	14,275
Other payables	4,119	3,914
Current portion of bond payable	150,000	145,000
Total current liabilities	<u>1,198,298</u>	<u>580,984</u>
NONCURRENT LIABILITIES		
Bond payable	3,560,000	3,725,000
Less current portion	(150,000)	(145,000)
Total noncurrent liabilities	<u>3,430,000</u>	<u>3,580,000</u>
NET ASSETS		
Invested in capital assets, net of related debt	10,731,927	7,921,184
Restricted, debt service	1,876,929	1,846,029
Unrestricted		
Designated	123,474	2,447,855
Undesignated	2,029,724	1,993,319
Total net assets	<u>14,762,054</u>	<u>14,208,387</u>
Total liabilities and net assets	<u>\$ 19,390,352</u>	<u>\$ 18,369,371</u>

See notes to financial statements.

NEW HAMPTON MUNICIPAL LIGHT PLANT
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

Years ended June 30, 2007 and 2006

	2007	2006
OPERATING REVENUES		
Charges for service		
Sale of electricity	\$ 3,609,026	\$ 3,689,941
Miscellaneous		
Rental	93,085	95,625
Other	27,795	12,374
Total operating revenues	3,729,906	3,797,940
OPERATING EXPENSES		
Plant operation	2,078,049	2,208,707
Distribution	346,929	383,310
Administration	346,441	368,331
Payment in lieu of taxes	40,000	40,000
Depreciation	342,792	330,416
Amortization	11,688	11,689
Total operating expenses	3,165,899	3,342,453
Operating income	564,007	455,487
NON-OPERATING REVENUES (EXPENSES)		
Interest expense	(129,648)	(120,081)
Economic development grants	(94,650)	(187,676)
Gain on sale of capital asset	7,000	-
Patronage dividend	9,128	6,963
Economic development reimbursement	-	30,000
Interest income	272,830	147,979
Total non-operating revenues (expenses)	64,660	(122,815)
Income before transfers	628,667	332,672
TRANSFERS		
Transfers City of New Hampton	(75,000)	(25,000)
Total transfers	(75,000)	(25,000)
Change in net assets	553,667	307,672
Total net assets, beginning of year	14,208,387	13,900,715
Total net assets, end of year	\$ 14,762,054	\$ 14,208,387

See notes to financial statements.

NEW HAMPTON MUNICIPAL LIGHT PLANT

STATEMENTS OF CASH FLOWS

Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 3,554,491	\$ 3,722,517
Payments to suppliers	(2,477,288)	(2,533,685)
Payments to employees	(508,009)	(508,178)
Payments in lieu of taxes	(40,000)	(40,000)
Receipts from other operating revenues	120,880	107,999
Net cash flows from operating activities	<u>650,074</u>	<u>748,653</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Reimbursement for economic development	-	30,000
Payments for economic development	(64,650)	(187,676)
Payment to City of New Hampton	(75,000)	(25,000)
Net cash flows from non-capital financing activities	<u>(139,650)</u>	<u>(182,676)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds on sale of capital asset	7,000	-
Purchases of capital assets	(2,306,101)	(2,351,868)
Principal payments of long-term debt	(145,000)	(140,000)
Interest payments on long-term debt prior to amounts capitalized	(169,082)	(179,309)
Net cash flows from capital and related financing activities	<u>(2,613,183)</u>	<u>(2,671,177)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(4,990,000)	(3,390,000)
Proceeds from disposal of investments	6,664,850	5,132,851
Economic development loan made to customer	(50,000)	-
Payments received on economic development loan	4,583	-
Interest on investments	273,241	144,459
Patronage dividends received	4,714	4,825
Net cash flows from investing activities	<u>1,907,388</u>	<u>1,892,135</u>
Net decrease in cash	<u>(195,371)</u>	<u>(213,065)</u>
Cash and cash equivalents, beginning of year	368,578	581,643
Cash and cash equivalents, end of year	<u>\$ 173,207</u>	<u>\$ 368,578</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 564,007	\$ 455,487
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	342,792	330,416
Amortization	11,688	11,689
(Increase) decrease in receivables	(54,535)	32,576
(Increase) decrease in inventory	(10,409)	(7,412)
(Increase) decrease in prepaid expenses	(17,314)	(1,983)
(Increase) decrease in deferred expenses	(100,256)	-
Increase (decrease) in accounts payable	(96,291)	(76,497)
Increase (decrease) in accrued wages	1,584	1,391
Increase (decrease) in sales tax payable	4,017	(4,165)
Increase (decrease) in accrued property taxes	4,205	4,522
Increase (decrease) in compensated absences	381	4,504
Increase (decrease) in other deductions payable	205	(1,875)
Net cash flows from operating activities	<u>\$ 650,074</u>	<u>\$ 748,653</u>
Noncash investing activities		
Patronage dividend declared	<u>\$ 9,128</u>	<u>\$ 6,963</u>

See notes to financial statements.

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2007 and 2006

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.

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2007 and 2006

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.

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Inventory

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

J. Deferred Expenses

Deferred expenses is the cost of acquiring rights related to the emission of environmental gases from its joint interest in a facility. The rights are available for the period July 1, 2007 through the year 2015. Management has estimated \$13,700 to be used in the next year and has classified as the current portion.

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 2007, \$41,285 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.

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.

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2007.

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 yet formally billed at year's end due to the timing of billing cycles to the customers.

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.

NOTE 2 - CASH AND POOLED INVESTMENTS

The Light Plant's deposits in banks at June 30, 2007 and 2006 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.

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2007 and 2006

NOTE 2 - CASH AND POOLED INVESTMENTS (continued)

The Light Plant had no long-term investments at June 30, 2007 except for an investment in the Iowa Public Agency Investment Trust which is valued at an amortized cost of \$3,239 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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 as part of its economic development plan loaned \$50,000 to a customer interest free. The loan is being repaid with monthly installments of \$417. The loan is secured by a mortgage on the property and is scheduled to mature in 2011.

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)
	<hr/>
	868,995
Plant acquisition costs	202,445
	<hr/>
	\$ 1,071,440
	<hr/> <hr/>

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2007 and 2006

The agreement also requires the Light Plant to fund its share of capital improvements through monthly assessments if needed. As of June 30, 2007 and 2006 the balance in the CTS Capital Improvement account is \$ 603,838 and \$603,838 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 2007 the Light Plant was allocated \$9,128 from current operations and received \$4,714 in past declared dividends.

NOTE 4 - CAPITAL ASSETS

A summary of capital assets at June 30, 2007 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 12,086	\$ -	\$ -	\$ 12,086
Construction in progress	4,539,411	2,228,930	-	6,768,341
Total capital assets, not being depreciated	4,551,497	2,228,930	-	6,780,427
Capital assets, being depreciated				
Buildings and system	11,379,402	613,500	23,400	11,969,502
Machinery and equipment	160,004	-	-	160,004
Common transmission system (CTS)	2,542,463	158,889	18,414	2,682,938
Vehicles and office equipment	218,568	13,559	23,343	208,784
Total capital assets being depreciated	14,300,437	785,948	65,157	15,021,228
Less accumulated depreciation for				
Buildings and system	5,996,910	254,997	23,400	6,228,507
Machinery and equipment	112,046	13,594	-	125,640
Common transmission system (CTS)	1,024,375	53,224	17,284	1,060,315
Vehicles and office equipment	112,144	20,977	23,343	109,778
Total accumulated depreciation	7,245,475	342,792	64,027	7,524,240
Total capital assets, being depreciated, net	7,054,962	443,156	1,130	7,496,988
Capital assets, net	\$ 11,606,459	\$ 2,672,086	\$ 1,130	14,277,415

The construction in progress project is expected to be completed in the beginning of the year ended June 30, 2008.

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2007 and 2006

NOTE 5 - BONDS PAYABLE

The Light Plant sold \$4,000,000 in Electric Revenue Bonds on July 14, 2004 to partially fund the 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, 2007 the unamortized balance was \$51,000.

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

Year Ending June 30,	Principal	Interest	Interest Rate
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	170,000	144,045	4.2
2013-2017	980,000	602,165	4.20-4.60
2018-2022	1,225,000	347,357	4.75-5.10
2023-2024	575,000	46,700	5.20-5.40
	<u>\$ 3,580,000</u>	<u>\$ 1,776,572</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. 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.

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2007 and 2006

NOTE 6 - PENSION AND RETIREMENT BENEFITS (continued)

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, 2007, 2006, and 2005 were \$23,016, \$21,916 and \$21,116 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 \$15,223 during 2007.

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 - ECONOMIC DEVELOPMENT COMMITMENTS

The Trustees, at their discretion, make one time and long-term commitments in the form of grants to various parties for economic development. During 2007 and 2006 the Light Plant's payments totaled \$64,650 and \$187,676 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 occurred this year.

NOTE 10 - MAJOR SUPPLIERS

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

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, 2007

	Actual	Less Funds Not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts						
Use of money and property	\$ 277,955	-	\$ 277,955	\$ 91,000	\$ 91,000	\$ 186,955
Charges for service	3,554,491	-	3,554,491	3,400,000	3,400,000	154,491
Miscellaneous	125,463	85,652	39,811	103,300	103,300	(63,489)
Total receipts	3,957,909	85,652	3,872,257	3,594,300	3,594,300	277,957
Disbursements						
Business-type activities	5,835,130	254,864	5,580,266	5,414,200	5,764,200	(183,934)
Total disbursements	5,835,130	254,864	5,580,266	5,414,200	5,764,200	(183,934)
Excess of receipts over (under) disbursements	(1,877,221)	(169,212)	(1,708,009)	(1,819,900)	(2,169,900)	461,891
Other financing sources, net	7,000	-	7,000			7,000
Excess of receipts and other financing sources over (under) disbursements and other financing uses	(1,870,221)	(169,212)	(1,701,009)	(1,819,900)	(2,169,900)	468,891
Balances, beginning of year	5,962,416	-	5,962,416	452,154	452,154	5,510,262
Balances, end of year	\$ 4,092,195	\$ (169,212)	\$ 4,261,407	\$ (1,367,746)	\$ (1,717,746)	\$ 5,979,153

See accompanying independent auditor's report.

REQUIRED SUPPLEMENTARY INFORMATION

NEW HAMPTON MUNICIPAL LIGHT PLANT
 BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2007

	Cash Basis (Budget)	Accrual Adjustments	Accrual Basis (GAAP)
Receipts			
Use of money and property	\$ 277,955	\$ 4,003	\$ 281,958
Charges for service	3,554,491	54,535	3,609,026
Miscellaneous	125,463	(4,583)	120,880
Total receipts	<u>3,957,909</u>	<u>53,955</u>	<u>4,011,864</u>
Disbursements			
Business-type activities	5,835,130	(2,369,933)	3,465,197
Total disbursements	<u>5,835,130</u>	<u>(2,369,933)</u>	<u>3,465,197</u>
Excess of receipts over (under) disbursements	(1,877,221)	2,423,888	546,667
Other financing sources, net	<u>7,000</u>	-	<u>7,000</u>
Excess of receipts and other financing sources over (under) disbursements and other financing uses	(1,870,221)	2,423,888	553,667
Balances, beginning of year	<u>5,962,416</u>	<u>8,245,971</u>	<u>14,208,387</u>
Balances, end of year	<u>\$ 4,092,195</u>	<u>\$ 10,669,859</u>	<u>\$ 14,762,054</u>

See accompanying independent auditor's report.

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -- BUDGETARY REPORTING

June 30, 2007

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 \$350,000 related to the Light Plant for the year ended June 30, 2007.

During the year ended June 30, 2007, disbursements did not exceed the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

NEW HAMPTON MUNICIPAL LIGHT PLANT

SCHEDULE OF OPERATING EXPENSES

Years ended June 30, 2007 and 2006

	2007			2006				
	Total	Plant Operation	Distribution	Administration	Total	Plant Operation	Distribution	Administration
Purchased power	\$ 1,768,494	\$ 1,768,494	\$ -	\$ -	\$ 1,976,911	\$ 1,976,911	\$ -	\$ -
Trustees' fees	3,000	-	-	3,000	3,000	-	-	3,000
Salaries	399,379	146,036	157,191	96,152	384,032	136,657	152,440	94,935
FICA	30,295	10,868	11,907	7,520	28,779	10,208	11,356	7,215
IPERS	23,016	8,257	9,046	5,713	21,916	7,771	8,851	5,494
Group insurance	57,264	-	-	57,264	79,346	-	-	79,346
Insurance	68,708	-	-	68,708	66,555	-	-	66,555
Natural gas	39,798	39,798	-	-	23,965	23,965	-	-
Utilities	86,412	86,412	-	-	35,769	35,769	-	-
Telephone	3,468	-	-	3,468	3,784	-	-	3,784
Supplies and repairs	84,571	14,519	67,526	2,526	135,323	15,440	118,739	1,144
Contracted services and materials	89,103	-	85,652	3,451	79,045	-	79,045	-
Taxes	2,984	-	-	2,984	7,079	-	-	7,079
Laundry	570	570	-	-	553	553	-	-
Vehicle expense	6,726	-	6,726	-	6,963	-	6,963	-
Engineering fees	2,739	-	-	2,739	4,002	-	-	4,002
Professional fees	13,770	-	3,447	10,323	20,196	-	3,012	17,184
Accounting services	54,212	-	-	54,212	53,488	-	-	53,488
Advertising, promotion, and publications	1,153	-	-	1,153	1,191	-	-	1,191
Dues and assessments	12,130	-	-	12,130	10,312	-	-	10,312
Travel expense	7,612	-	-	7,612	4,797	-	-	4,797
Office expense	4,458	-	-	4,458	4,651	-	-	4,651
Miscellaneous	11,537	3,095	5,434	3,008	8,691	1,433	3,104	4,154
	<u>2,771,419</u>	<u>\$ 2,076,049</u>	<u>\$ 346,929</u>	<u>\$ 346,441</u>	<u>2,960,348</u>	<u>\$ 2,208,707</u>	<u>\$ 383,310</u>	<u>\$ 368,331</u>
Payment in lieu of taxes	40,000	-	-	-	40,000	-	-	-
Depreciation	342,792	-	-	-	330,416	-	-	-
Amortization	11,688	-	-	-	11,689	-	-	-
	<u>\$ 3,165,899</u>				<u>\$ 3,342,453</u>			

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 financial statements of New Hampton Municipal Light Plant as of and for the year ended June 30, 2007 and 2006, and have issued our report thereon dated March 5, 2008. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Light Plant's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Light Plant's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over financial reporting described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Light Plant's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above we believe items in Part II are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Hampton Municipal Light Plant financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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, 2007 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.

New Hampton Municipal Light Plant responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we expressed our conclusions on the Light Plant's responses, we did not audit the Light Plant's responses and, accordingly, we express no opinion on them.

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.

Hager & Kallivay, P.C.

March 5, 2008

NEW HAMPTON MUNICIPAL LIGHT PLANT

SCHEDULE OF FINDINGS

Year ended June 30, 2007

Part I: Summary of the Independent Auditor's Results

- a. An unqualified opinion was issued on the financial statements.
- b. Significant deficiencies 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 non-compliance which is material to the financial statements.
- d. Prior year findings have been resolved except for II-A-07.

Part II: Findings Related to the Financial Statements

Significant Deficiencies

II-A-07 Segregation of Duties

The Light Plant is not large enough to permit an adequate segregation of duties for an effective system of internal accounting control. The concentration of closely related duties and responsibilities such as the recording and processing of cash receipts, preparing and signing checks, preparing journals and general financial information for ledger posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the financial statements. While we do recognize that the Light Plant is not large enough to permit a segregation of duties for an effective internal control structure, we believe that it is important that the Board be aware that this condition does exist. Also, as a result, there is a higher risk that errors or irregularities could occur and not be detected within a timely period.

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

Response and Corrective Action Planned - We will make changes and improvements whenever possible and economically feasible.

Conclusion - Response accepted

II-B-07 – Preparation of Financial Statements

The Board of Trustees and management share the ultimate responsibility for the Light Plant's financial statements including the footnote disclosures and supplementary information even though Hagen and Kallevang, P.C. is engaged to assist with the preparation of them. While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced. Also Hagen and Kallevang, P.C. as the independent auditor cannot be considered part of the Light Plant's internal control system. The Light Plant has implemented procedures to prepare the financial statements and disclosures but has not initialized review aids, such as a disclosure checklists, and may not have monitored recent accounting developments to the extent necessary to provide a high level of assurance that financial statement omissions or other errors would be identified and corrected.

NEW HAMPTON MUNICIPAL LIGHT PLANT

SCHEDULE OF FINDINGS

Year ended June 30, 2007

Recommendation – We recommend that sufficient financial statement and disclosure review procedures be performed by an individual possessing a thorough understanding of applicable generally accepted accounting principles and knowledge of the Light Plant's activities and operations. The individual can become knowledgeable through reading relevant accounting literature and attending professional education courses.

Response and Corrective Action Planned - We will discuss the issue with the Board of Trustees to determine if they can find an individual possessing a thorough understanding of the Light Plant's accounting principles-possibly an accountant that is employed independent of the audit process.

Conclusion - Response accepted

II-C-07 – Audit Adjustments

The Light Plant should have adequate procedures to provide for the accuracy and reliability of the trial balance given to the auditor. During the course of the audit, adjustments that had a material effect on the Light Plant's financial statements were discovered. Adjusting journal entries were then made by management to correct the trial balance so proper amounts would be presented in the financial statements and disclosures. And although adjustments are not uncommon during the audit process, I must reiterate that the independent auditors cannot be considered part of the Light Plant's internal control system.

Recommendation - We recommend that management establish internal procedures to identify potential material adjustments and make them if needed prior to providing the independent auditor the trial balance for the period being audited.

Response and Corrective Action Planned - We will discuss the issue with the Board of Trustees to determine if they can find an individual possessing a thorough understanding of the Light Plant's accounting principles-possibly an accountant that is employed independent of the audit process, at least for adjusting entries related to the year-end accrual process.

Conclusion - Response accepted

Instances of Non-compliance

No matters were noted

Part III: Other Findings Related to Statutory Reporting

III-A-07

Certified Budget - The Light Plant's expenditures during the year ended June 30, 2007 did not exceed the amounts in the amended budget.

III-B-07

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.

NEW HAMPTON MUNICIPAL LIGHT PLANT

SCHEDULE OF FINDINGS

Year ended June 30, 2007

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

III-C-07

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

III-D-07

Business Transactions - No business transactions between the Light Plant and Light Plant officials or employees were noted.

III-E-07

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-07

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

III-G-07

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-07

Revenue Bonds/Notes

The Light Plant has complied with the revenue bond resolutions.