

NEW HAMPTON MUNICIPAL LIGHT PLANT

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

June 30, 2008

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>
Wayne Moetsch	Trustee	July 1, 2008
Grant Anderson	Trustee	July 1, 2009
Larry Thronson	Trustee	July 1, 2010
Janine Babcock	Trustee	July 1, 2011
Steve Dahl	Trustee	July 1, 2012
Suellen Kolbet	Secretary/Treasurer	Indefinite
Brian Geschke	General Manager	Indefinite

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, 2008 and 2007 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, 2008 and 2007, 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 10, 2009 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 20 through 22 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 + Kallevarng, P. C.,

March 10, 2009

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, 2008. 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 \$3,382,780 for fiscal 2008 decreased by 9%, or \$347,126, from fiscal 2007. 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 \$2,881,992 for fiscal 2008 were down 9%, or \$283,907 less than in fiscal 2007.

The Light Plant's net assets increased 3%, or \$370,582, from June 30, 2007 to June 30, 2008.

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 2008 totaled \$15,132,636. This compares to \$14,762,054 for fiscal 2007. A summary of the Light Plant's net assets for the last five years is presented below:

	<u>Net Assets</u>					
	2008	2007	2006	2005	2004	2003
Current assets	\$ 2,327,101	\$ 2,901,771	\$ 2,043,995	\$ 2,574,521	\$ 2,951,111	\$ 5,216,889
Noncurrent assets						
Restricted investments	1,557,820	1,440,000	3,940,000	5,240,000	1,980,524	-
Other assets	644,320	771,166	778,917	933,518	1,053,523	1,123,531
Capital assets at cost, less accumulated depreciation	14,199,909	14,277,415	11,606,459	9,526,071	8,144,442	7,541,135
Total noncurrent assets	16,402,049	16,488,581	16,325,376	15,699,589	11,178,489	8,664,666
Total assets	<u>\$ 18,729,150</u>	<u>\$ 19,390,352</u>	<u>\$ 18,369,371</u>	<u>\$ 18,274,110</u>	<u>\$ 14,129,600</u>	<u>\$ 13,881,555</u>
Current liabilities	\$ 321,514	\$ 1,198,298	\$ 580,984	\$ 648,395	\$ 400,908	\$ 416,050
Noncurrent liabilities	3,275,000	3,430,000	3,580,000	3,725,000	-	-
Total liabilities	<u>3,596,514</u>	<u>4,628,298</u>	<u>4,160,984</u>	<u>4,373,395</u>	<u>400,908</u>	<u>416,050</u>
Net assets						
Invested in capital assets, net of related debt	10,712,080	10,731,927	7,921,184	5,703,505	8,144,442	7,541,135
Restricted for debt service	1,892,943	1,876,929	1,846,029	1,918,809	1,980,524	-
Unrestricted						
Designated	363,648	123,474	2,447,855	4,302,751	1,339,726	3,728,829
Undesignated	2,163,965	2,029,724	1,993,319	1,975,650	2,264,000	2,195,541
Total net assets	<u>15,132,636</u>	<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>
Total liabilities and net assets	<u>\$ 18,729,150</u>	<u>\$ 19,390,352</u>	<u>\$ 18,369,371</u>	<u>\$ 18,274,110</u>	<u>\$ 14,129,600</u>	<u>\$ 13,881,555</u>

Net assets of the utility increased from fiscal year 2007 by approximately \$370,582 or 3%. 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 \$2,527,613 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					
	2008	2007	2006	2005	2004	2003
Operating revenues						
Charges for service						
Sale of electricity	\$ 3,337,645	\$ 3,609,026	\$ 3,689,941	\$ 3,135,052	\$ 2,686,032	\$ 2,593,793
Miscellaneous						
Rental	30,197	93,085	95,625	92,014	85,881	103,009
Other	14,938	27,795	12,374	8,611	39,400	10,066
Total operating revenues	<u>3,382,780</u>	<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	1,658,441	2,078,049	2,208,707	1,958,756	1,518,673	1,525,255
Distribution	313,048	346,929	383,310	344,002	367,307	363,703
Administration	411,186	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	40,000
Depreciation	447,628	342,792	330,416	321,823	328,847	330,169
Amortization	11,689	11,688	11,689	11,689	8,689	8,689
Total operating expenses	<u>2,881,992</u>	<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>500,788</u>	<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	(166,539)	(129,648)	(120,081)	-	-	(53,372)
Economic development	(41,500)	(94,650)	(187,676)	(86,701)	(61,694)	(130,000)
Patronage dividend	6,367	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	146,466	272,830	147,979	114,286	153,945	167,683
Total nonoperating revenues (expenses)	<u>(55,206)</u>	<u>64,660</u>	<u>(122,815)</u>	<u>31,916</u>	<u>101,512</u>	<u>18,540</u>
Income before transfers	<u>445,582</u>	<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)	(75,000)	(25,000)	(25,000)	(25,000)	(25,000)
Total transfers	<u>(75,000)</u>	<u>(75,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>
Change in net assets	370,582	553,667	307,672	172,023	263,187	105,060
Total net assets beginning of year	14,762,054	14,208,387	13,900,715	13,728,692	13,465,505	13,360,445
Total net assets end of year	<u>\$ 15,132,636</u>	<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 2008, operating revenues decreased by \$347,126 or 9%, primarily a result of lower purchased power costs, which are passed on to the users. Operating expenses decreased by \$283,907 or 9%. 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, 2008, the Light Plant had \$14,199,909 invested in capital assets, net of accumulated depreciation of \$7,950,107. Depreciation charges totaled \$447,628 for fiscal 2008. 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, 2008, the Light Plant had \$3,420,000 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 Walter Scott Jr. 4 previously known as 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.

BASIC FINANCIAL STATEMENTS

NEW HAMPTON MUNICIPAL LIGHT PLANT

STATEMENTS OF NET ASSETS

June 30, 2008 and 2007

ASSETS	2008	2007
CURRENT ASSETS		
Cash and cash equivalents	\$ 609,540	\$ 173,207
Investments	1,000,000	2,000,000
Accounts receivable	315,937	327,404
Accrued interest receivable	4,911	10,577
Inventory	316,007	299,202
Prepaid expenses	51,765	70,281
Current portion of other receivables	7,400	7,400
Current portion of deferred expenses	21,541	13,700
Total current assets	2,327,101	2,901,771
NONCURRENT ASSETS		
Restricted investments	1,557,820	1,440,000
Other receivables, net of current portion	38,017	45,417
Deferred expenses, net of current portion	71,517	86,556
Bond fees, net of amortization	48,000	51,000
Investment in Walter Scott Jr. Number 4		
Restricted cash - Capital improvement and operations	(14,322)	-
Investment in common transmission system		
Restricted cash - CTS capital improvement	394,200	478,988
Plant acquisition costs, net of accumulated amortization	37,361	46,050
Investment in cooperatives		
Membership	125	100
Deferred patronage dividend receivable		
Corn Belt Power Cooperative (Corn Belt)	69,422	63,055
Capital assets		
Property, plant and equipment	22,150,016	21,801,655
Less accumulated depreciation	(7,950,107)	(7,524,240)
Total capital assets	14,199,909	14,277,415
Total noncurrent assets	16,402,049	16,488,581
Total assets	\$ 18,729,150	\$ 19,390,352
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 74,261	\$ 954,175
Accrued wages	8,081	8,333
Sales tax payable	8,925	15,088
Accrued property taxes	19,509	9,557
Compensated absences payable	34,724	40,538
Accrued interest	13,506	16,488
Other payables	7,508	4,119
Current portion of bonds payable	155,000	150,000
Total current liabilities	321,514	1,198,298
NONCURRENT LIABILITIES		
Bonds payable	3,430,000	3,580,000
Less current portion	(155,000)	(150,000)
Total noncurrent liabilities	3,275,000	3,430,000
NET ASSETS		
Invested in capital assets, net of related debt	10,712,080	10,731,927
Restricted, debt service	1,892,943	1,876,929
Unrestricted		
Designated	363,648	123,474
Undesignated	2,163,965	2,029,724
Total net assets	15,132,636	14,762,054
Total liabilities and net assets	\$ 18,729,150	\$ 19,390,352

See notes to financial statements.

NEW HAMPTON MUNICIPAL LIGHT PLANT

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Charges for service		
Sale of electricity	\$ 3,337,645	\$ 3,609,026
Miscellaneous		
Rental	30,197	93,085
Other	14,938	27,795
Total operating revenues	<u>3,382,780</u>	<u>3,729,906</u>
OPERATING EXPENSES		
Plant operation	1,658,441	2,078,049
Distribution	313,048	346,929
Administration	411,186	346,441
Payment in lieu of taxes	40,000	40,000
Depreciation	447,628	342,792
Amortization	11,689	11,688
Total operating expenses	<u>2,881,992</u>	<u>3,165,899</u>
Operating income	500,788	564,007
NON-OPERATING REVENUES (EXPENSES)		
Interest expense	(166,539)	(129,648)
Economic development grants	(41,500)	(94,650)
Gain on sale of capital asset	-	7,000
Patronage dividend	6,367	9,128
Interest income	146,466	272,830
Total non-operating revenues (expenses)	<u>(55,206)</u>	<u>64,660</u>
Income before transfers	445,582	628,667
TRANSFERS		
Transfers City of New Hampton	(75,000)	(75,000)
Total transfers	<u>(75,000)</u>	<u>(75,000)</u>
Change in net assets	370,582	553,667
Total net assets, beginning of year	14,762,054	14,208,387
Total net assets, end of year	<u>\$ 15,132,636</u>	<u>\$ 14,762,054</u>

See notes to financial statements.

NEW HAMPTON MUNICIPAL LIGHT PLANT

STATEMENTS OF CASH FLOWS

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 3,348,994	\$ 3,554,491
Payments to suppliers	(1,851,748)	(2,477,288)
Payments to employees	(560,612)	(508,009)
Payments in lieu of taxes	(40,000)	(40,000)
Receipts from other operating revenues	45,135	120,880
Net cash flows from operating activities	<u>941,769</u>	<u>650,074</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Payments for economic development	(71,500)	(64,650)
Payment to City of New Hampton	(75,000)	(75,000)
Net cash flows from non-capital financing activities	<u>(146,500)</u>	<u>(139,650)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds on sale of capital asset	-	7,000
Purchases of capital assets	(1,180,388)	(2,306,101)
Principal payments of long-term debt	(150,000)	(145,000)
Interest payments on long-term debt prior to amounts capitalized	(166,945)	(169,082)
Net cash flows from capital and related financing activities	<u>(1,497,333)</u>	<u>(2,613,183)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(5,097,551)	(4,990,000)
Proceeds from disposal of investments	6,078,841	6,664,850
Investment in coop	(25)	-
Economic development loan made to customer	-	(50,000)
Payments received on economic development loan	5,000	4,583
Interest on investments	152,132	273,241
Patronage dividends received	-	4,714
Net cash flows from investing activities	<u>1,138,397</u>	<u>1,907,388</u>
Net increase (decrease) in cash	436,333	(195,371)
Cash and cash equivalents, beginning of year	<u>173,207</u>	<u>368,578</u>
Cash and cash equivalents, end of year	<u>\$ 609,540</u>	<u>\$ 173,207</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 500,788	\$ 564,007
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	447,628	342,792
Amortization	11,689	11,688
Expiration of deferred expenses	7,198	-
(Increase) decrease in receivables	13,867	(54,535)
(Increase) decrease in inventory	(16,805)	(10,409)
(Increase) decrease in prepaid expenses	18,516	(17,314)
(Increase) decrease in deferred expenses	-	(100,256)
Increase (decrease) in accounts payable	(54,111)	(96,291)
Increase (decrease) in accrued wages	(252)	1,584
Increase (decrease) in sales tax payable	(2,535)	4,017
Increase (decrease) in accrued property taxes	18,211	4,205
Increase (decrease) in compensated absences	(5,814)	381
Increase (decrease) in other deductions payable	3,389	205
Net cash flows from operating activities	<u>\$ 941,769</u>	<u>\$ 650,074</u>
Noncash investing activities		
Patronage dividend declared	<u>\$ 6,367</u>	<u>\$ 9,128</u>

See notes to financial statements.

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2008 and 2007

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, 2008 and 2007

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, 2008 and 2007

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 2013. Management has estimated \$21,541 to be used in the next year and has classified as the current portion.

K. Capital Assets and Depreciation

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
Walter Scott 4	36 - 55 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. No interest expense was capitalized in 2008.

L. Amortization

Fees related to issued bonds are being amortized over the life of the bond. The straight-line basis over 20 years is being used which approximates the effective interest method.

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

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2008 and 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Compensated Absences

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

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

The liability is computed based on rates of pay in effect at June 30, 2008.

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. Sales and Similar Taxes

Taxable sales are stated net of any taxes required of taxing authorities. The Light Plant collects the sales tax from customers and remits the entire amount to the State of Iowa.

Q. Income Taxes

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

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2008 and 2007

NOTE 2 - CASH AND POOLED INVESTMENTS

The Light Plant's deposits in banks at June 30, 2008 and 2007 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, 2008 except for an investment in the Iowa Public Agency Investment Trust which is valued at an amortized cost of \$3,365 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 represent funds the Light Plant has set aside early to be compliant with various covenants related to the bonds 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 party to a joint ownership agreement with 14 other government and non-government owned utilities. The agreement states the Light Plant has a .53 of one percent undivided interest in the construction and operation of an electric generation station known as Walter Scott, Jr. Energy Center Unit (WS4). The station was placed in service during the year. See Note 4 for total cost and related accumulated depreciation the Light Plant has invested. Operation costs and depreciation associated with this station are reflected in the Statements of Revenue, Expenses, and Changes in Net Assets.

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.

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2008 and 2007

NOTE 3 - NONCURRENT ASSETS (continued)

A. Common Transmission System (CTS)

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

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

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

See Note 4 for total cost and related accumulated depreciation to date the Light Plant has invested in the system.

The agreement also requires the Light Plant to fund its share of capital improvements through monthly assessments if needed. As of June 30, 2008 and 2007 the balance in the CTS Capital Improvement account is \$394,200 and \$478,988 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 2008 the Light Plant was allocated \$6,367 from current operations. The Boards this year elected not to pay out any past declared dividends.

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2008 and 2007

NOTE 4 - CAPITAL ASSETS

A summary of capital assets at June 30, 2008 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 12,086	\$ 55,642	\$ -	\$ 67,728
Construction in progress	6,768,341	179,582	6,780,788	167,135
Total capital assets, not being depreciated	6,780,427	235,224	6,780,788	234,863
Capital assets, being depreciated				
Buildings and system	11,969,502	53,688	-	12,023,190
Machinery and equipment	160,004	14,955	2,673	172,286
Common transmission system (CTS)	2,682,938	108,996	4,231	2,787,703
Generation and transmission system(WS4)	-	6,725,146	-	6,725,146
Vehicles and office equipment	208,784	15,638	17,594	206,828
Total capital assets being depreciated	15,021,228	6,918,423	24,498	21,915,153
Less accumulated depreciation for				
Buildings and system	6,228,507	261,965	-	6,490,472
Machinery and equipment	125,640	13,597	2,673	136,564
Common transmission system (CTS)	1,060,315	60,313	1,494	1,119,134
Generation and transmission system(WS4)	-	89,545	-	89,545
Vehicles and office equipment	109,778	22,208	17,594	114,392
Total accumulated depreciation	7,524,240	447,628	21,761	7,950,107
Total capital assets, being depreciated, net	7,496,988	6,470,795	2,737	13,965,046
Capital assets, net	\$ 14,277,415	\$ 6,706,019	\$ 6,783,525	14,199,909

The construction in progress represents two projects, one is expected to be completed in the year ended June 30, 2009 and the other by June 30, 2013.

NOTE 5 - BONDS PAYABLE

The Light Plant sold \$4,000,000 in Electric Revenue Bonds on July 14, 2004 to partially fund the Walter Scott Jr. 4 generation station and transmission project that was completed at the beginning of the year. 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, 2008 the unamortized balance was \$48,000.

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2008 and 2007

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
2009	155,000	162,070	3.50
2010	160,000	156,645	3.75
2011	165,000	150,645	4.00
2012	170,000	144,045	4.20
2013	170,000	136,905	4.30
2014-2018	1,020,000	557,868	4.40-4.85
2019-2023	1,285,000	285,519	5.00-5.30
2024	295,000	15,930	5.40
	<u>\$ 3,420,000</u>	<u>\$ 1,609,627</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.

Plan members are required to contribute 3.90% of their annual covered salary and the Light Plant is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by State statute. The Light Plant's contribution to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$23,849, \$23,016, and \$21,916 respectively, equal to the required contributions for each year.

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2008 and 2007

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 \$36,915.74 during 2008.

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 AND OTHER 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 2008 and 2007 the Light Plant's payments totaled \$41,500 and \$94,650 respectively.

The Trustees, also at their discretion, commit annually funds to the City of New Hampton, to assist with their economic development efforts. During 2008 and 2007 the Light Plant has transferred to the City \$75,000 each year.

NOTE 10 - MAJOR SUPPLIERS

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

NOTE 11 - COMMITMENTS

The Light Plant in December 2007 entered into a joint ownership agreement with other governmental and non-governmentally owned utilities to construct and operate a coal-fired power generating facility. The Light Plant will have an undivided .31 of one percent interest. The project is known as Sutherland Generating Station Unit 4. The Light Plants portion of construction costs is estimated at \$4,870,000 of which \$92,244 has been paid through June 30, 2008. Future commitments are contingent upon the State of Iowa issuing a permit for the facility that has yet to occur. In March of 2009 management of the largest investor in the agreement has withdrawn and the project is expected to cease.

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, 2008

	Actual	Less Funds Not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts						
Use of money and property	\$ 152,132	\$ -	\$ 152,132	\$ 71,000	\$ 71,000	\$ 81,132
Charges for service	3,348,994	-	3,348,994	3,390,800	3,390,800	(41,806)
Miscellaneous	45,135	-	45,135	119,500	119,500	(74,365)
Total receipts	3,546,261	-	3,546,261	3,581,300	3,581,300	(35,039)
Disbursements						
Business-type activities	4,096,218	-	4,096,218	4,322,600	6,172,600	(2,076,382)
Total disbursements	4,096,218	-	4,096,218	4,322,600	6,172,600	(2,076,382)
Excess of receipts over (under) disbursements	(549,957)	-	(549,957)	(741,300)	(2,591,300)	2,041,343
Other financing sources, net	5,000	-	5,000	-	-	5,000
Excess of receipts and other financing sources over (under) disbursements and other financing uses	(544,957)	-	(544,957)	(741,300)	(2,591,300)	2,046,343
Balances, beginning of year	4,092,195	-	4,092,195	3,538,628	3,538,628	553,567
Balances, end of year	\$ 3,547,238	\$ -	\$ 3,547,238	\$ 2,797,328	\$ 947,328	\$ 2,599,910

See accompanying independent auditor's report.

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

Year ended June 30, 2008

	Cash Basis (Budget)	Accrual Adjustments	Accrual Basis (GAAP)
Receipts			
Use of money and property	\$ 152,132	\$ 701	\$ 152,833
Charges for service	3,348,994	(11,349)	3,337,645
Miscellaneous	45,135	-	45,135
Total receipts	<u>3,546,261</u>	<u>(10,648)</u>	<u>3,535,613</u>
Disbursements			
Business-type activities	<u>4,096,218</u>	<u>(931,187)</u>	<u>3,165,031</u>
Total disbursements	<u>4,096,218</u>	<u>(931,187)</u>	<u>3,165,031</u>
Excess of receipts over (under) disbursements	(549,957)	920,539	370,582
Other financing sources, net	<u>5,000</u>	<u>(5,000)</u>	<u>-</u>
Excess of receipts and other financing sources over (under) disbursements and other financing uses	(544,957)	915,539	370,582
Balances, beginning of year	<u>4,092,195</u>	<u>10,669,859</u>	<u>14,762,054</u>
Balances, end of year	<u>\$ 3,547,238</u>	<u>\$ 11,585,398</u>	<u>\$ 15,132,636</u>

See accompanying independent auditor's report.

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2008

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 \$1,850,000 related to the Light Plant for the year ended June 30, 2008.

During the year ended June 30, 2008, disbursements did not exceed the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

NEW HAMPTON MUNICIPAL LIGHT PLANT
SCHEDULE OF OPERATING EXPENSES

Years ended June 30, 2008 and 2007

	2008			2007				
	Total	Plant Operation	Distribution	Administration	Total	Plant Operation	Distribution	Administration
Purchased power	\$ 1,443,186	\$ 1,443,186	\$ -	\$ -	\$ 1,768,494	\$ 1,768,494	\$ -	\$ -
Trustees' fees	3,000	-	-	3,000	3,000	-	-	3,000
Salaries	407,927	137,571	170,296	100,060	399,379	146,036	157,191	96,152
FICA	31,575	10,386	13,383	7,806	30,295	10,868	11,907	7,520
IPERS	23,849	8,300	9,308	6,241	23,016	8,257	9,046	5,713
Group insurance	94,584	-	-	94,584	57,284	-	-	57,284
Insurance	67,835	-	-	67,835	68,708	-	-	68,708
Natural gas	17,842	17,842	-	-	39,798	39,798	-	-
Utilities	21,074	21,074	-	-	86,412	86,412	-	-
Telephone	3,804	-	-	3,804	3,468	-	-	3,468
Supplies and repairs	126,701	17,823	107,542	1,336	84,571	14,519	67,526	2,526
Contracted services and materials	3,576	-	-	3,576	89,103	-	85,652	3,451
Taxes	24,925	-	-	24,925	2,984	-	-	2,984
Laundry	709	709	-	-	570	570	-	-
Vehicle expense	7,847	-	7,847	-	6,726	-	6,726	-
Engineering fees	3,785	-	-	3,785	2,739	-	-	2,739
Professional fees	11,540	-	1,798	9,742	13,770	-	3,447	10,323
Accounting services	55,312	-	-	55,312	54,212	-	-	54,212
Advertising, promotion, and publications	1,173	-	-	1,173	1,153	-	-	1,153
Dues and assessments	11,728	-	-	11,728	12,130	-	-	12,130
Travel expense	6,690	-	-	6,690	7,612	-	-	7,612
Office expense	7,061	-	-	7,061	4,458	-	-	4,458
Miscellaneous	6,952	1,550	2,874	2,528	11,537	3,095	5,434	3,008
	<u>2,382,675</u>	<u>\$ 1,658,441</u>	<u>\$ 313,048</u>	<u>\$ 411,186</u>	<u>2,771,419</u>	<u>\$ 2,078,049</u>	<u>\$ 346,929</u>	<u>\$ 346,441</u>
Payment in lieu of taxes	40,000				40,000			
Depreciation	447,628				342,792			
Amortization	11,689				11,688			
	<u>\$ 2,881,992</u>				<u>\$ 3,165,899</u>			

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of New Hampton Municipal Light Plant as of and for the year ended June 30, 2008 and 2007, and have issued our report thereon dated March 10, 2009. 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, 2008 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.

Hagen & Kallewang, P.C.

March 10, 2009

NEW HAMPTON MUNICIPAL LIGHT PLANT

SCHEDULE OF FINDINGS

Year ended June 30, 2008

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-08.

Part II: Findings Related to the Financial Statements

Significant Deficiencies

II-A-08 - 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-08 – 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 checklist, 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, 2008

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-08 – 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-08

Certified Budget - The Light Plant's expenditures during the year ended June 30, 2008 did not exceed the amounts in the amended budget.

III-B-08

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, 2008

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

III-C-08

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

III-D-08

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

III-E-08

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-08

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

III-G-08

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-08

Revenue Bonds/Notes

The Light Plant has complied with the revenue bond resolutions.