

**NEW HAMPTON MUNICIPAL
LIGHT PLANT
NEW HAMPTON, IOWA**

FINANCIAL REPORT

JUNE 30, 2010

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NEW HAMPTON MUNICIPAL LIGHT PLANT

OFFICIALS

Name	Title	Term Expires
Larry Thronson	Trustee	July 1, 2010
Janine Babcock	Trustee	July 1, 2011
Steve Dahl	Trustee	July 1, 2012
Herman Meyer	Trustee	July 1, 2013
Grant Anderson	Trustee	July 1, 2014
Suellen Kolbet	Secretary/Treasurer	Indefinite
Brian Geschke	General Manager	Indefinite

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**INDEPENDENT AUDITOR'S REPORT ON THE
FINANCIAL STATEMENTS**

**To the Board of Trustees
New Hampton Municipal Light Plant
New Hampton, Iowa**

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, 2010 and 2009 and the related statements of revenues, 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 opinions 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 audit 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Hampton Municipal Light Plant as of June 30, 2010 and 2009 and the respective 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 December 29, 2010, on our consideration of New Hampton Municipal Light Plant's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis and budgetary comparison information on page 4 and pages 16 through 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the New Hampton Light Plant's basic financial statements. The schedule of operating expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of operating expenses for 2010 and 2009 is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the 2010 and 2009 basic financial statements as a whole.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
December 29, 2010

NEW HAMPTON MUNICIPAL LIGHT PLANT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the New Hampton Municipal Light Plant's financial performance provides an overview of the Light Plant's financial activities for the fiscal year ending June 30, 2010. Please read this in conjunction with the transmittal letter and the Light Plant's financial statements contained within this audit report.

2010 FINANCIAL HIGHLIGHTS

- The Light Plant's total operating revenues of \$3,311,496 for fiscal 2010 increased \$151,360, or 4.8% from fiscal year 2009.
- The Light Plant's total operating expenses of \$2,826,791 was a decrease of \$44,956, or 1.6% less than in fiscal 2009.
- The Light Plant's total net assets are \$15,540,361 an increase of \$358,116 or 2.4% from June 30, 2009.

USING THIS ANNUAL REPORT

This 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.
- Basic financial statements consist of a statement of net assets and a statement of revenues, expenses and changes in net assets, and a statement of cash flows. These provide information about the activities of the Light Plant as a whole and provide an overall view of the Light Plant's finances.
- Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- The 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.

REPORTING THE LIGHT PLANT'S FINANCIAL ACTIVITIES

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 year 2010 totaled \$15,540,361. This compares to \$15,182,245 for fiscal 2009. A summary of the Light Plant's net assets for the last five years is presented below:

STATEMENT OF NET ASSETS (Continued)

	Net Assets				
	(In Thousands)				
	2010	2009	2008	2007	2006
Current and other assets	\$ 2,869	\$ 2,214	\$ 2,327	\$ 2,902	\$ 2,044
Noncurrent assets					
Restricted investments	1,558	1,558	1,558	1,440	3,940
Other assets	786	663	644	771	779
Capital assets at cost, Less accumulated depreciation	13,811	14,240	14,200	14,277	11,606
Total noncurrent assets	16,155	16,461	16,402	16,488	16,325
Total assets	\$ 19,024	\$ 18,675	\$ 18,729	\$ 19,390	\$ 18,369
Current liabilities	\$ 534	\$ 378	\$ 321	\$ 1,198	\$ 581
Noncurrent liabilities	2,950	3,115	3,275	3,430	3,580
Total liabilities	3,484	3,493	3,596	4,628	4,161
Net assets					
Invested in capital assets, net of related debt	10,633	10,905	10,712	10,732	7,921
Restricted	1,896	1,896	1,893	1,877	1,846
Unrestricted					
Designated	275	275	364	123	2,448
Undesignated	2,736	2,106	2,164	2,030	1,993
Total net assets	15,540	15,182	15,133	14,762	14,208
Total liabilities and net assets	\$ 19,024	\$ 18,675	\$ 18,729	\$ 19,390	\$ 18,369

Net assets of the utility increased from fiscal year 2009 by approximately \$358,116 or 2.4%. The largest portion of the utilities' net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment). Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, is approximately \$3,011,010 at June 30, 2010.

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. Nonoperating 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:

	Statement of Revenues, Expenses and Changes in Net Assets (In Thousands)				
	2010	2009	2008	2007	2006
Operating revenues:					
Charges for services					
Sale of electricity	\$ 3,246	\$ 3,118	\$ 3,338	\$ 3,609	\$ 3,690
Miscellaneous					
Rental	24	5	30	93	96
Other	41	37	15	28	12
Total operating revenues	3,311	3,160	3,383	3,730	3,798
Operating expenses:					
Plant operation	1,567	1,587	1,658	2,078	2,209
Distribution	248	214	313	347	383
Administration	447	484	411	346	368
Payment in lieu of taxes	15	33	40	40	40
Depreciation	538	542	448	343	331
Amortization	12	12	12	12	12
Total operating expenses	2,827	2,872	2,882	3,166	3,343
Operating income	484	288	501	564	455
Nonoperating revenues (expenses)					
Interest expense	(156)	(162)	(166)	(130)	(120)
Economic development	(7)	(100)	(41)	(94)	(188)
Patronage dividend			6	9	7
Economic development reimbursement			-	-	30
Refunds	55				
Bad debt expense	(15)				
Gain on sale of equipment			-	7	-
Interest income	47	88	146	273	148
Total nonoperating revenues (expenses)	(76)	(174)	(55)	65	(123)
Income before transfers	408	114	446	629	332
Transfers City of New Hampton	(50)	(65)	(75)	(75)	(25)
Change in net assets	358	49	371	554	307
Total net assets, beginning of year	15,182	15,133	14,762	14,208	13,901
Total net assets, end of year	\$ 15,540	\$ 15,182	\$ 15,133	\$ 14,762	\$ 14,208

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.

For the year ended June 30, 2010, operating revenues increased \$151,360 or 4.8%. Operating expenses decreased by \$44,956 or 1.6%. The decrease was primarily a result of a decrease in the purchased power and engineering fees.

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, 2010, the Light Plant had \$13,811,343 invested of capital assets, net of accumulated depreciation of \$8,965,564. Depreciation charges totaled \$537,533 for June 30, 2010. 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, 2010, the Light Plant had \$3,115,000 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 entered into a joint ownership agreement with other governmental and non-governmentally owned utilities to construct and operate a coal-fired power generating facility, of which the Light Plant would have had .31 of one percent interest. In March of 2009 management of the largest investor in the agreement withdrew and the project ceased. The Light Plant Board continues to explore other options for purchase of base load, and to that end, has instituted a customer meter charge of \$10 per month for residential customers, \$15 per month for commercial customers and \$25 per month for industrial customers. Revenue from this charge is placed in a separate fund as a reserve for future base load purchase.

ECONOMIC FACTORS

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

- Facilities at the Light Plant require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated presenting an ongoing challenge to maintain up to date technology at a reasonable cost.
- The Light Plant anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Light Plant's ability to react to unknown issues.

CONTACTING THE LIGHT PLANT'S FINANCIAL MANAGEMENT

This management's discussion and analysis letter along with the financial report have been designed to present our current and prospective citizens, taxpayers, customers, investors and creditors with a general overview of the Light Plant's finances and operating activities. It is our hope that such information will assist in assessing the Light Plant's achievements and challenges. If you have any questions or desire any additional information about this report, please contact Suellen Kolbet, City Clerk, at (641) 394-5906 or visit the City Hall Offices at 112 East Spring Street in New Hampton.

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NEW HAMPTON MUNICIPAL LIGHT PLANT
STATEMENTS OF NET ASSETS
June 30, 2010 and 2009

ASSETS

	2010	2009
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,116,349	\$ 511,428
Investments	1,000,000	1,000,000
Accounts receivable	385,314	317,171
Accrued interest receivable	820	1,285
Inventory	318,130	315,704
Prepaid expenses	39,576	50,073
Current portion of other receivables	200	7,400
Current portion of deferred expenses	8,173	11,004
Total current assets	2,868,562	2,214,065
NONCURRENT ASSETS		
Restricted investments	1,557,820	1,557,820
Other receivables, net of current portion	-	30,617
Deferred expenses, net of current portion	70,633	74,651
Bond fees, net of amortization	42,000	45,000
Investment in Walter Scott Jr. Number 4		
Restricted cash - capital improvement and operations	11,183	12,016
Investment in common transmission system		
Restricted cash - CTS capital improvement	574,616	401,540
Plant acquisition costs, net of accumulated amortization	19,984	28,672
Investment in cooperatives		
Membership	155	155
Deferred patronage dividend receivable		
Corn Belt Power Cooperative (Corn Belt)	67,520	70,629
Total noncurrent assets	2,343,911	2,221,100
Capital assets		
Capital assets, not being depreciated	67,728	159,972
Property, plant and equipment	22,709,179	22,523,738
Less accumulated depreciation	(8,965,564)	(8,443,461)
Total capital assets	13,811,343	14,240,249
Total assets	\$ 19,023,816	\$ 18,675,414

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
CURRENT LIABILITIES		
Accounts payable	\$ 225,327	\$ 83,977
Accrued wages	12,783	10,908
Sales tax payable	8,772	7,367
Accrued property taxes	28,831	28,091
Compensated absences payable	42,683	37,534
Accrued interest payable	12,554	13,054
Other payables	5,005	4,738
Due to affiliate	32,500	32,500
Current portion of bonds payable	<u>165,000</u>	<u>160,000</u>
Total current liabilities	<u>533,455</u>	<u>378,169</u>
NONCURRENT LIABILITIES		
Bonds payable	3,115,000	3,275,000
Less current portion	<u>(165,000)</u>	<u>(160,000)</u>
Total noncurrent liabilities	<u>2,950,000</u>	<u>3,115,000</u>
NET ASSETS		
Invested in capital assets, net of related debt	10,633,545	10,904,951
Restricted, debt service	1,895,806	1,895,806
Unrestricted		
Designated	275,272	275,272
Undesignated	<u>2,735,738</u>	<u>2,106,216</u>
Total net assets	<u>15,540,361</u>	<u>15,182,245</u>
Total liabilities and net assets	<u>\$ 19,023,816</u>	<u>\$ 18,675,414</u>

NEW HAMPTON MUNICIPAL LIGHT PLANT
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Years Ended June 30, 2010 and 2009

	2010	2009
OPERATING REVENUES		
Charges for services		
Sale of electricity	\$ 3,246,565	\$ 3,117,894
Miscellaneous		
Rental	23,909	4,764
Other	41,022	37,478
Total operating revenues	3,311,496	3,160,136
OPERATING EXPENSES		
Plant operation	1,567,150	1,586,707
Distribution	248,228	214,549
Administration	447,192	483,991
Payment in lieu of taxes	15,000	32,500
Depreciation	537,533	542,311
Amortization	11,688	11,689
Total operating expenses	2,826,791	2,871,747
Operating income	484,705	288,389
NONOPERATING REVENUES (EXPENSES)		
Interest expense	(156,147)	(161,618)
Economic development grants	(7,500)	(99,937)
Refunds	55,017	
Bad debt expense	(15,417)	
Interest income	47,458	87,775
Total nonoperating revenues (expenses)	(76,589)	(173,780)
Income before transfers	408,116	114,609
TRANSFERS		
Transfers City of New Hampton	(50,000)	(65,000)
Change in net assets	358,116	49,609
TOTAL NET ASSETS, beginning of year	15,182,245	15,132,636
TOTAL NET ASSETS, end of year	\$ 15,540,361	\$ 15,182,245

See Notes to Financial Statements.

NEW HAMPTON MUNICIPAL LIGHT PLANT
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 3,179,827	\$ 3,115,102
Payments to suppliers	(1,600,770)	(1,780,042)
Payments to employees	(497,499)	(474,642)
Payments in lieu of taxes	(15,000)	(32,500)
Receipts from other operating revenues	68,040	41,035
	<u>1,134,598</u>	<u>868,953</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments for economic development	(7,500)	(21,937)
Payments to City of New Hampton	(50,000)	(32,500)
	<u>(57,500)</u>	<u>(54,437)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(34,043)	(478,571)
Principal payments of long-term debt	(160,000)	(155,000)
Interest payments on long-term debt prior to amounts capitalized	(156,647)	(162,070)
	<u>(350,690)</u>	<u>(795,641)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(2,796,987)	(4,261,978)
Proceeds from disposal of investments	2,612,837	4,135,640
Investment in coop	-	(30)
Economic development loan made to customer	-	(78,000)
Payments received on economic development loan	22,400	7,400
Interest on investments	40,263	79,981
	<u>(121,487)</u>	<u>(116,987)</u>
Net increase (decrease) in cash and cash equivalents	604,921	(98,112)
CASH AND CASH EQUIVALENTS, beginning of year	<u>511,428</u>	<u>609,540</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,116,349</u>	<u>\$ 511,428</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 484,705	\$ 288,389
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	537,533	542,311
Amortization	11,688	11,689
Expiration of deferred expenses	6,849	7,403
Increase in receivables	(68,143)	(1,234)
(Increase) decrease in inventory	(2,426)	303
Decrease in prepaid expenses	10,497	1,692
Decrease (increase) in deferred patronage receivable	3,109	(1,207)
Increase in accounts payable	141,350	9,716
Increase in accrued wages	1,875	2,827
Increase (decrease) in sales tax payable	1,405	(1,558)
Increase in accrued property taxes	740	8,582
Increase in compensated absences	5,149	2,810
Increase (decrease) in other deductions payable	267	(2,770)
	<u>\$ 1,134,598</u>	<u>\$ 868,953</u>

See Notes to Financial Statements.

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

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.

b. Significant Accounting Policies

Scope of Reporting Entity

For financial reporting purposes, New Hampton Municipal Light Plant has included all funds, organizations, account groups, 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's 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. The 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 financial statements filed under a separate report.

c. 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.

d. 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. 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.

1. Nature of Operations and Significant Accounting Policies (Continued)

d. Measurement Focus and Basis of Accounting (Continued)

The Light Plant distinguishes operating revenues and expenses from nonoperating 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 nonoperating revenues and expenses.

e. Budgets and Budgetary Accounting

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

The budgetary comparison and related disclosures are reported in the required supplementary information section.

f. Estimates

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

g. Cash and Cash Equivalents

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

h. Investments

All of the investments carried in the financial statement, which consist of certificate of deposits, are stated at cost which approximates market.

i. Accounts Receivable

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

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

j. Inventory

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

k. Deferred Expenses

Deferred expenses are 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 \$8,173 to be used in the next year and has classified that amount as a current asset.

1. Nature of Operations and Significant Accounting Policies (Continued)

l. 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
Machinery and equipment	5-10
Corn Belt – Common Transmission System	23
Walter Scott 4	36-55
Vehicle and office equipment	5-10

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 2010.

m. 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.

n. Compensated Absences

Employees' vacation accumulates for use in the year earned. Upon termination, retirement, or death, payment is made for the amount earned to the 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, 2010.

o. Net Assets

The statements of net assets present 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 the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

1. Nature of Operations and Significant Accounting Policies (Continued)

o. Net Assets (Continued)

- Restricted net assets consists of net assets with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets represent the difference between assets and liabilities that are not restricted and can be used for future obligations of the Light Plant.

p. 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.

q. Sales and Similar Taxes

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

r. Income Taxes

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

2. Deposits and Investments

The Light Plant's deposits in banks at June 30, 2010 and 2009 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 and improvement certificates of a drainage district.

The Light Plant had no long-term investments at June 30, 2010 except for an investment in the Iowa Public Agency Investment Trust which is valued at an amortized cost of \$3,412 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.

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. During 2010, the Light Plant accepted a settlement on this loan for a payment of \$20,000 with the remaining balance being forgiven.

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 in 2008. 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 revenues, 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.

a. Common Transmission System (CTS)

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

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

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

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, 2010 and 2009 the balance in the CTS capital improvement account is \$574,616 and \$401,540 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 both Boards. During 2010 the Light Plant received no allocation from current operations. The Board this year elected not to pay out any past declared dividends.

NOTES TO FINANCIAL STATEMENTS

4. Capital Assets

Capital assets activity for the year ended June 30, 2010 was as follows:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Capital assets, not being depreciated				
Land	\$ 67,728			\$ 67,728
Construction in progress	92,244		\$ 92,244	None
	159,972	\$ None	92,244	67,728
Capital assets being depreciated				
Buildings and system	12,023,190			12,023,190
Machinery and equipment	229,497	23,438		252,935
Common Transmission System (CTS)	2,845,056	67,865	8,711	2,904,210
Generation and Transmission System (WS4)	6,725,146			6,725,146
Stolz park substation	494,021	102,849		596,870
Vehicles and office equipment	206,828			206,828
	22,523,738	194,152	8,711	22,709,179
Less accumulated depreciation				
Buildings and system	6,748,657	254,189		7,002,846
Machinery and equipment	150,166	8,164		158,330
Common Transmission System (CTS)	1,132,756	61,439	15,430	1,178,765
Generation and Transmission System (WS4)	268,632	179,087		447,719
Stolz park substation	5,661	12,454		18,115
Vehicles and office equipment	137,589	22,200		159,789
	8,443,461	537,533	15,430	8,965,564
Total capital assets being depreciated, net	14,080,277	(343,381)	(6,719)	13,743,615
Capital assets, net	\$ 14,240,249	\$ (343,381)	\$ 85,525	\$ 13,811,343

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, 2010 the unamortized balance was \$42,000.

NOTES TO FINANCIAL STATEMENTS

5. **Bonds Payable (Continued)**

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

Year ending June 30,	Principal	Interest	Interest Rate
2011	\$ 165,000	\$ 150,645	4.00%
2012	170,000	144,045	4.20
2013	180,000	136,905	4.30
2014	185,000	129,165	4.40
2015	195,000	121,025	4.50
2016-2020	1,120,000	399,803	4.60-5.05
2021-2024	1,100,000	149,325	5.10-5.40
	\$ 3,115,000	\$ 1,230,913	

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.

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.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the Light Plant is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by state statute. The Light Plant's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$28,752, \$25,940, and \$23,849, respectively, equal to the required contributions for each year.

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 \$144,000. The Light Plant paid claims of \$26,261 during 2010.

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.

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 2010 and 2009 the Light Plant's payments totaled \$7,500 and \$99,937 respectively.

The Trustees, also at their discretion, commit annually funds to the City of New Hampton, to assist with their economic development efforts. During 2010 and 2009 the Light Plant has transferred to the City \$50,000 and \$65,000 respectively.

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, 2010

	Actual	Budgeted Amounts		Final to Total Variance
		Original	Final	
Receipts				
Use of money and property	\$ 40,263	\$ 76,600	\$ 76,600	\$ (36,337)
Charges for services	3,179,827	3,485,000	3,485,000	(305,173)
Miscellaneous	68,040	-	-	68,040
Total receipts	3,288,130	3,561,600	3,561,600	(273,470)
Disbursements				
Business-type activities	2,533,366	2,697,600	2,697,600	164,234
Excess of receipts over (under) disbursements	754,764	864,000	864,000	(109,236)
Other financing sources, net	22,400	-	-	22,400
Excess of receipts and other financing sources over (under) disbursements and other financing uses	777,164	864,000	864,000	(86,836)
Balances, beginning of year	3,482,804	251,288	251,288	3,231,516
Balances, end of year	\$ 4,259,968	\$ 1,115,288	\$ 1,115,288	\$ 3,144,680

See Notes to Required Supplementary Information.

NEW HAMPTON MUNICIPAL LIGHT PLANT
 BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 Year Ended June 30, 2010

	Cash Basis (Budget)	Accrual Adjustments	Accrual Basis (GAAP)
Receipts			
Use of money and property	\$ 40,263	\$ 7,195	\$ 47,458
Charges for services	3,179,827	66,738	3,246,565
Miscellaneous	68,040	51,908	119,948
Total receipts	3,288,130	125,841	3,413,971
Disbursements			
Business-type activities	2,533,366	522,489	3,055,855
Excess of receipts over (under) disbursements	754,764	(396,648)	358,116
Other financing sources, net	22,400	(22,400)	-
Excess of receipts and other financing sources over (under) disbursements and other financing uses	777,164	(419,048)	358,116
Balances, beginning of year	3,482,804	11,699,441	15,182,245
Balances, end of year	\$ 4,259,968	\$ 11,280,393	\$ 15,540,361

See Notes to Required Supplementary Information.

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2010

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 were two budget amendments made by the City of New Hampton which were not related to the Light Plant for the year ended June 30, 2010.

During the year ended June 30, 2010, disbursements did not exceed the amount budgeted.

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NEW HAMPTON MUNICIPAL LIGHT PLANT
SCHEDULE OF OPERATING EXPENSES
Years Ended June 30, 2010 and 2009

	2010			
	Total	Plant Operation	Distribution	Administration
Purchased power	\$ 1,109,562	\$ 1,109,562		
Trustees' fees	3,000			\$ 3,000
Salaries	441,684	161,910	\$ 170,161	109,613
FICA	32,969	12,132	12,492	8,345
IPERS	28,752	10,611	10,928	7,213
Group insurance	95,818			95,818
Insurance	81,953			81,953
Natural gas	23,726	23,726		
Utilities	70,228	70,228		
Telephone	3,163			3,163
Supplies and repairs	221,262	177,492	41,827	1,943
Contracted services and materials	4,259			4,259
Taxes	31,032			31,032
Laundry	757	757		
Vehicle expense	6,339		6,339	
Engineering fees	905	110		795
Professional fees	13,976		3,224	10,752
Accounting services	59,035			59,035
Advertising, promotion, and publications	1,215			1,215
Dues and assessments	15,604			15,604
Travel expense	5,807			5,807
Office expense	6,365			6,365
Miscellaneous	5,159	622	3,257	1,280
	<u>2,262,570</u>	<u>\$ 1,567,150</u>	<u>\$ 248,228</u>	<u>\$ 447,192</u>
Payment in lieu of taxes	15,000			
Depreciation	537,533			
Amortization	11,688			
	<u>\$ 2,826,791</u>			

See Independent Auditor's Report.

SCHEDULE 1

2009				
Total	Plant Operation	Distribution	Administration	
\$ 1,301,237	\$ 1,301,237			
3,000			\$ 3,000	
416,484	150,030	\$ 160,674	105,780	
31,255	11,068	12,077	8,110	
25,940	9,214	10,058	6,668	
94,305			94,305	
68,299			68,299	
49,173	49,173			
39,587	39,587			
3,724			3,724	
42,950	20,069	21,599	1,282	
7,362			7,362	
46,359			46,359	
616	616			
5,241		5,241		
44,934	4,820		40,114	
14,357		849	13,508	
56,427			56,427	
1,248			1,248	
12,441			12,441	
5,475			5,475	
7,103			7,103	
7,730	893	4,051	2,786	
2,285,247	\$ 1,586,707	\$ 214,549	\$ 483,991	
32,500				
542,311				
11,689				
<u>\$ 2,871,747</u>				

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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
New Hampton Municipal Light Plant
New Hampton, Iowa

We have audited the financial statements of the New Hampton Municipal Light Plant as of and for the year ended June 30, 2010, and have issued our report thereon dated December 29, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered New Hampton Municipal Light Plant's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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 Light Plant's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, as discussed below that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

1. Financial Report Preparation

Reporting financial data reliably in accordance with generally accepted accounting principles requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Obtaining additional generally accepted accounting principles knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in their ability to prepare and take responsibility for reliable generally accepted accounting principles financial statements.

Response

The City Clerk and staff have attended some workshops that help improve on the ability to prepare financial statements. They are also in the process of upgrading the financial, payroll, and utility billing software to a much more sophisticated system to help them prepare more reliable financial statements.

Conclusion

Response accepted.

2. Overlapping Duties

The Light Plant's offices are not large enough to permit an adequate segregation of duties for effective internal controls. The concentration of closely related duties and responsibilities such as the recording and processing of cash receipts, preparing grant expenditure reports, preparing financial information for 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 accounting records. While we do recognize that the Light Plant is not large enough to permit a segregation of duties for effective internal controls, we believe it is important the Board be aware that this condition does exist.

Response

We will make changes and improvements whenever possible and economically feasible.

Conclusion

Response accepted.

Compliance and Other Matters

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

We noted certain matters that we reported to management of New Hampton Municipal Light Plant in a separate letter dated December 29, 2010.

New Hampton Municipal Light Plant's responses to the findings identified in our audit are described above. We did not audit New Hampton Municipal Light Plant's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Trustees, management, others within the Light Plant, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
December 29, 2010

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MANAGEMENT LETTER

To the Board of Trustees
New Hampton Municipal Light Plant
New Hampton, Iowa

In planning and performing our audit of the basic financial statements of New Hampton Municipal Light Plant for the year ended June 30, 2010, we considered the Light Plant's internal control to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on internal control.

In accordance with Chapter 11 of the Code of Iowa, we are required to report on the Light Plant's compliance with certain sections of the Iowa Code, Attorney General's Opinions and other matters. Items 1 through 7 below are compliance comments required by the Iowa Auditor of State. A separate report dated December 29, 2010, contains our report on significant deficiencies in the Light Plant's internal control. This letter does not affect our report dated December 29, 2010 on the basic financial statements of the Light Plant. These comments are not intended to and do not constitute legal opinions. We did not audit the Light Plant's responses and, accordingly, we express no opinion on them.

1. Certified Budget
The Light Plant's expenditures during the year ended June 30, 2010 did not exceed the amounts in the amended budget.
2. Questionable Expenditures
We noted no expenditures that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense
No expenditures of Light Plant's money for travel expenses of spouses of Light Plant officials and/or employees were noted.
4. Business Transactions
We noted no business transactions between the Light Plant and Light Plant officials and/or employees for the year ended June 30, 2010.
5. Board Minutes
No transactions were found that we believe should have been approved in the Board minutes but were not. The minutes were published as required by Chapter 349.18 of the Code of Iowa and Attorney General's Opinions dated December 10, 1985, December 31, 1986 and May 2, 1989.

6. 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.

7. Revenue Bonds/Notes

The Light Plant has complied with the revenue bond resolutions.

This report is intended solely for the information and use of the Trustees, management, others within the Light Plant, and federal awarding agencies and pass-through entities and 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 the personnel of the Light Plant during the course of our examination.

Should you have any questions concerning these or other matters, we shall be pleased to discuss them with you at your convenience.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
December 29, 2010