

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

**FINANCIAL REPORT**

**JUNE 30, 2012**

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NEW HAMPTON MUNICIPAL LIGHT PLANT

OFFICIALS

Name	Title	Term Expires
Larry Thronson	Trustee	July 1, 2015
Janine Babcock	Trustee	July 1, 2016
Steve Dahl	Trustee	July 1, 2012
Herman Meyer	Trustee	July 1, 2013
Grant Anderson	Trustee	July 1, 2014
Suellen Kolbet	Secretary/Treasurer	Indefinite
Leon Rodas	Temporary Manager	Indefinite

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, 2012 and 2011 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, 2012 and 2011 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 January 18, 2013, 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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 Municipal Light Plant's financial statements. The schedule of operating expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of operating expenses for 2012 and 2011 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 2012 and 2011 financial statements as a whole.

*Hacker, Nelson & Co., P.C.*

Decorah, Iowa  
January 18, 2013

## 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, 2012. Please read this in conjunction with the transmittal letter and the Light Plant's financial statements contained within this audit report.

#### 2012 FINANCIAL HIGHLIGHTS

- The Light Plant's total operating revenues of \$3,768,114 for fiscal 2012 decreased \$101,338, or 2.6% from fiscal year 2011.
- The Light Plant's total operating expenses of \$3,148,185 was an increase of \$255,999, or 8.9% more than in fiscal 2011.
- The Light Plant's total net assets are \$16,851,698, an increase of \$457,839 or 2.8% from June 30, 2011.

#### 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 financial statements and provides an analytical overview of the Light Plant's financial activities.
- Financial statements consist of statements of net assets, statements of revenues, expenses and changes in net assets, and statements 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 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 of accounting which the financial statements are prepared on.

#### REPORTING THE LIGHT PLANT'S FINANCIAL ACTIVITIES

##### STATEMENTS 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 2012 totaled \$16,851,698. This compares to \$16,393,859 for fiscal 2011. A summary of the Light Plant's net assets for the last five years is presented below:

STATEMENTS OF NET ASSETS (Continued)

	Net Assets (In Thousands)				
	2012	2011	2010	2009	2008
Current and other assets	\$ 3,551	\$ 3,432	\$ 2,869	\$ 2,214	\$ 2,327
Noncurrent assets					
Restricted investments	1,758	1,758	1,558	1,558	1,558
Other assets	747	718	786	663	644
Capital assets at cost, Less accumulated depreciation	14,103	13,717	13,811	14,240	14,200
Total noncurrent assets	16,608	16,193	16,155	16,461	16,402
Total assets	\$ 20,159	\$ 19,625	\$ 19,024	\$ 18,675	\$ 18,729
Current liabilities	\$ 707	\$ 451	\$ 534	\$ 378	\$ 321
Noncurrent liabilities	2,600	2,780	2,950	3,115	3,275
Total liabilities	3,307	3,231	3,484	3,493	3,596
Net assets					
Invested in capital assets, net of related debt	11,528	10,702	10,633	10,905	10,712
Restricted	2,555	2,292	1,896	1,896	1,893
Unrestricted					
Designated	-	524	275	275	364
Undesignated	2,769	2,876	2,736	2,106	2,164
Total net assets	16,852	16,394	15,540	15,182	15,133
Total liabilities and net assets	\$ 20,159	\$ 19,625	\$ 19,024	\$ 18,675	\$ 18,729

Net assets of the utility increased from fiscal year 2011 by approximately \$457,839 or 2.8%. 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 \$2,769,086 at June 30, 2012.

## STATEMENTS 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:

Statements of Revenues, Expenses and Changes in Net Assets					
(In Thousands)					
	2012	2011	2010	2009	2008
<b>Operating revenues:</b>					
Charges for services					
Sale of electricity	\$ 3,724	\$ 3,818	\$ 3,246	\$ 3,118	\$ 3,338
Miscellaneous					
Rental	21	9	24	5	30
Other	23	42	41	37	15
<b>Total operating revenues</b>	<b>3,768</b>	<b>3,869</b>	<b>3,311</b>	<b>3,160</b>	<b>3,383</b>
<b>Operating expenses:</b>					
Plant operation	1,830	1,670	1,567	1,587	1,658
Distribution	306	247	248	214	313
Administration	382	414	447	484	411
Payment in lieu of taxes	50	15	15	33	40
Depreciation	568	534	538	542	448
Amortization	12	12	12	12	12
<b>Total operating expenses</b>	<b>3,148</b>	<b>2,892</b>	<b>2,827</b>	<b>2,872</b>	<b>2,882</b>
<b>Operating income</b>	<b>620</b>	<b>977</b>	<b>484</b>	<b>288</b>	<b>501</b>
<b>Nonoperating revenues (expenses)</b>					
Interest expense	(143)	(150)	(156)	(162)	(166)
Economic development	(5)		(7)	(100)	(41)
Patronage dividend					6
Refunds			55		
Bad debt expense			(15)		
Interest income	26	30	47	88	146
<b>Total nonoperating revenues (expenses)</b>	<b>(122)</b>	<b>(120)</b>	<b>(76)</b>	<b>(174)</b>	<b>(55)</b>
<b>Income before transfers</b>	<b>498</b>	<b>857</b>	<b>408</b>	<b>114</b>	<b>446</b>
<b>Transfers City of New Hampton</b>	<b>(40)</b>	<b>(50)</b>	<b>(50)</b>	<b>(65)</b>	<b>(75)</b>
<b>Change in net assets</b>	<b>458</b>	<b>807</b>	<b>358</b>	<b>49</b>	<b>371</b>
<b>Total net assets, beginning of year, restated</b>	<b>16,394</b>	<b>15,587</b>	<b>15,182</b>	<b>15,133</b>	<b>14,762</b>
<b>Total net assets, end of year</b>	<b>\$ 16,852</b>	<b>\$ 16,394</b>	<b>\$ 15,540</b>	<b>\$ 15,182</b>	<b>\$ 15,133</b>

The statements of revenues, expenses and changes in net assets reflect a positive year with an increase in the net assets at the end of the fiscal year.

For the year ended June 30, 2012, operating revenues decreased \$101,338 or 2.6%. Operating expenses increased by \$255,999 or 8.9%.

## STATEMENTS OF CASH FLOWS

The statements 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, interest income, and patronage dividends.

### CAPITAL ASSETS

At June 30, 2012, the Light Plant had \$14,103,282 invested of capital assets, net of accumulated depreciation of \$10,022,738. Depreciation charges totaled \$567,729 for June 30, 2012. 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, 2012, the Light Plant had \$2,780,000 in outstanding debt. More information about the Light Plant's debt is presented in Note 5 to the financial statements.

### BUDGETARY HIGHLIGHTS

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.
- The Light Plant anticipates that the main area of concern regarding capital improvements in the next fiscal year will be working towards compliance with RICE rules. The Utility could see capital costs of up to \$1,000,000 to make the plant compliant.

### 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, 2012 and 2011

ASSETS

	2012	2011
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,718,738	\$ 1,584,783
Investments	1,003,413	1,003,413
Accounts receivable	443,119	445,021
Accrued interest receivable	540	820
Inventory	318,445	335,868
Prepaid expenses	58,542	54,156
Current portion of deferred expenses	7,628	8,173
	3,550,425	3,432,234
<b>NONCURRENT ASSETS</b>		
Restricted investments	1,757,820	1,757,820
Deferred expenses, net of current portion	54,490	61,982
Bond fees, net of amortization	36,000	39,000
Investment in common transmission system		
Restricted cash - CTS capital improvement	580,416	537,953
Plant acquisition costs, net of accumulated amortization	2,606	11,295
Investment in cooperatives		
Membership	176	155
Deferred patronage dividend receivable		
Corn Belt Power Cooperative (Corn Belt)	73,094	67,427
	2,504,602	2,475,632
<b>Capital assets</b>		
Capital assets, not being depreciated	67,728	262,151
Property, plant and equipment	24,058,292	22,939,639
Less accumulated depreciation	(10,022,738)	(9,484,449)
	14,103,282	13,717,341
<b>Total assets</b>	\$ 20,158,309	\$ 19,625,207

See Notes to Financial Statements.

## LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 408,391	\$ 120,451
Accrued wages	13,190	14,899
Sales tax payable	9,835	11,872
Accrued property taxes	30,022	28,539
Compensated absences payable	46,530	49,686
Accrued interest payable	11,409	12,004
Other payables	7,234	11,397
Due to affiliate		32,500
Current portion of bonds payable	<u>180,000</u>	<u>170,000</u>
<b>Total current liabilities</b>	<u>706,611</u>	<u>451,348</u>
<b>NONCURRENT LIABILITIES</b>		
Bonds payable	2,780,000	2,950,000
Less current portion	<u>(180,000)</u>	<u>(170,000)</u>
<b>Total noncurrent liabilities</b>	<u>2,600,000</u>	<u>2,780,000</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	11,527,873	10,702,093
Restricted, debt service	1,895,416	1,892,556
Restricted, base load	659,323	399,171
Unrestricted		
Designated		524,055
Undesignated	<u>2,769,086</u>	<u>2,875,984</u>
<b>Total net assets</b>	<u>16,851,698</u>	<u>16,393,859</u>
<b>Total liabilities and net assets</b>	<u>\$ 20,158,309</u>	<u>\$ 19,625,207</u>

NEW HAMPTON MUNICIPAL LIGHT PLANT  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 Years Ended June 30, 2012 and 2011

	2012	2011
<b>OPERATING REVENUES</b>		
Charges for services		
Sale of electricity	\$ 3,724,354	\$ 3,818,197
Miscellaneous		
Rental	21,161	8,785
Other	22,599	42,470
	<u>3,768,114</u>	<u>3,869,452</u>
<b>OPERATING EXPENSES</b>		
Plant operation	1,830,531	1,669,822
Distribution	306,597	246,945
Administration	381,639	414,363
Payment in lieu of taxes	50,000	15,000
Depreciation	567,729	534,368
Amortization	11,689	11,688
	<u>3,148,185</u>	<u>2,892,186</u>
Total operating expenses		
	<u>3,148,185</u>	<u>2,892,186</u>
Operating income	<u>619,929</u>	<u>977,266</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest expense	(143,450)	(150,095)
Economic development grants	(5,000)	
Interest income	26,360	29,848
	<u>(122,090)</u>	<u>(120,247)</u>
Total nonoperating revenues (expenses)		
	<u>(122,090)</u>	<u>(120,247)</u>
Income before transfers	497,839	857,019
<b>TRANSFERS</b>		
Transfers City of New Hampton	(40,000)	(50,000)
	<u>457,839</u>	<u>807,019</u>
Change in net assets		
	<u>457,839</u>	<u>807,019</u>
TOTAL NET ASSETS, beginning of year, restated	<u>16,393,859</u>	<u>15,586,840</u>
TOTAL NET ASSETS, end of year	<u>\$ 16,851,698</u>	<u>\$ 16,393,859</u>

See Notes to Financial Statements.

NEW HAMPTON MUNICIPAL LIGHT PLANT  
STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2012 and 2011

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 3,724,219	\$ 3,761,590
Payments to suppliers	(1,712,829)	(1,935,115)
Payments to employees	(536,970)	(509,339)
Payments in lieu of taxes	(50,000)	(15,000)
Receipts from other operating revenues	38,093	51,348
	<u>1,462,513</u>	<u>1,353,484</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Payments for economic development	(5,000)	
Payments to City of New Hampton	(40,000)	(50,000)
	<u>(45,000)</u>	<u>(50,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	(990,271)	(349,836)
Principal payments of long-term debt	(170,000)	(165,000)
Interest payments on long-term debt prior to amounts capitalized	(144,045)	(150,645)
	<u>(1,304,316)</u>	<u>(665,481)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(2,757,820)	(2,500,050)
Proceeds from disposal of investments	2,757,820	2,307,820
Investment in coop	(21)	
Payments received on economic development loan		200
Interest on investments	20,779	22,461
	<u>20,758</u>	<u>(169,569)</u>
Net increase in cash and cash equivalents	133,955	468,434
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,584,783</u>	<u>1,116,349</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,718,738</u>	<u>\$ 1,584,783</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 619,929	\$ 977,266
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	567,729	534,368
Amortization	11,689	11,688
Expiration of deferred expenses	8,037	8,651
Decrease (increase) in receivables	1,902	(59,707)
Decrease (increase) in inventory	17,423	(17,738)
Increase in prepaid expenses	(4,386)	(14,580)
(Increase) decrease in deferred patronage receivable	(5,667)	93
Increase (decrease) in accounts payable	255,440	(104,876)
(Decrease) increase in accrued wages	(1,709)	2,116
(Decrease) increase in sales tax payable	(2,037)	3,100
Increase (decrease) in accrued property taxes	1,483	(292)
(Decrease) increase in compensated absences	(3,156)	7,003
(Decrease) increase in other deductions payable	(4,164)	6,392
	<u>\$ 1,462,513</u>	<u>\$ 1,353,484</u>

See Notes to Financial Statements.

# NEW HAMPTON MUNICIPAL LIGHT PLANT

## NOTES TO FINANCIAL STATEMENTS

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### 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 statements 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. Inventories consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

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

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 \$7,628 to be used in the next year and has classified that amount as a current asset.

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 2012.

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, 2012.

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

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.
- 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, 2012 and 2011 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, 2012 except for an investment in the Iowa Public Agency Investment Trust which is valued at an amortized cost of \$3,413 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

2. Deposits and Investments (Continued)

*Interest Rate Risk*

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

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 is party to a joint ownership agreement with 14 other government and non-government owned utilities. The agreement states the Light Plant has a .56 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 13 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, 2012 and 2011 the balance in the CTS capital improvement account is \$580,416 and \$537,953 respectively and monthly assessments are not currently being required.

NOTES TO FINANCIAL STATEMENTS

3. Noncurrent Assets (Continued)

b. Deferred Patronage Dividend Receivable

The Board of Directors of Corn Belt and NIMECA has 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 2012 the Light Plant received no allocation from current operations. The Board this year elected not to pay out any past declared dividends.

4. Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
<b>Capital assets, not being depreciated</b>				
Land	\$ 67,728			\$ 67,728
Construction in progress	194,423		\$ 194,423	None
	262,151		194,423	67,728
<b>Capital assets being depreciated</b>				
Buildings and system	12,023,190			12,023,190
Machinery and equipment	268,814	\$ 237,375		506,189
Common Transmission System (CTS)	3,099,257	91,751	23,904	3,167,104
Generation and Transmission System (WS4)	6,725,146	600,028		7,325,174
Stolz park substation	596,870	213,403		810,273
Vehicles and office equipment	226,362			226,362
<b>Total capital assets being depreciated</b>	<b>22,939,639</b>	<b>1,142,557</b>	<b>23,904</b>	<b>24,058,292</b>
<b>Less accumulated depreciation</b>				
Buildings and system	7,257,213	243,380		7,500,593
Machinery and equipment	161,770	29,239		191,009
Common Transmission System (CTS)	1,225,166	67,865	29,440	1,263,591
Generation and Transmission System (WS4)	626,806	188,463		815,269
Stolz park substation	32,954	19,855		52,809
Vehicles and office equipment	180,540	18,927		199,467
<b>Total accumulated depreciation</b>	<b>9,484,449</b>	<b>567,729</b>	<b>29,440</b>	<b>10,022,738</b>
<b>Total capital assets being depreciated, net</b>	<b>13,455,190</b>	<b>574,828</b>	<b>(5,536)</b>	<b>14,035,554</b>
<b>Capital assets, net</b>	<b>\$ 13,717,341</b>	<b>\$ 574,828</b>	<b>\$ 188,887</b>	<b>\$ 14,103,282</b>

NOTES TO FINANCIAL STATEMENTS

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. 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, 2012 the unamortized balance was \$36,000.

A summary of the changes in debt, by type, for the year ended June 30, 2012 is as follows:

	Balance June 30, 2011	Borrowed	Paid	Balance June 30, 2012	Amounts Due Within One Year
Electric Revenues Bonds					
Series 2004	\$ 2,950,000	\$ None	\$ 170,000	\$ 2,780,000	\$ 180,000

An annual debt service requirement to maturity of the bond is as follows:

	Year ending June 30,	Principal	Interest	Interest Rate
2013	\$ 180,000	\$ 136,905	4.30%	
2014	185,000	129,165	4.40	
2015	195,000	121,025	4.50	
2016	205,000	112,250	4.60	
2017	215,000	102,820	4.75	
2018-2022	1,225,000	287,358	4.85-5.20	
2023-2024	575,000	46,700	5.30-5.40	
	\$ 2,780,000	\$ 936,223		

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 5.38%, 4.50%, and 4.30% of their annual covered salary and the Light Plant is required to contribute 8.07%, 6.95%, and 6.65% of annual covered payroll for the years ended June 30, 2012, 2011, and 2010 respectively. Contribution requirements are established by state statute. The Light Plant's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$37,005, \$31,146, and \$28,752, 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 \$17,286 during 2012.

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 2012 and 2011 the Light Plant's payments totaled \$5,000 and \$none respectively.

The Trustees, also at their discretion, commit annually funds to the City of New Hampton, to assist with their economic development efforts. During 2012 and 2011 the Light Plant has transferred to the City \$40,000 and \$50,000 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, 2012

	Actual	Budgeted Amounts		Final to Total Variance
		Original	Final	
<b>Receipts</b>				
Use of money and property	\$ 20,779	\$ 22,500	\$ 22,500	\$ (1,721)
Charges for services	3,724,219	3,730,450	3,730,450	(6,231)
Miscellaneous	38,093			38,093
<b>Total receipts</b>	<b>3,783,091</b>	<b>3,752,950</b>	<b>3,752,950</b>	<b>30,141</b>
<b>Disbursements</b>				
Business-type activities	3,631,429	3,366,800	3,705,400	73,971
<b>Excess of receipts over (under) disbursements</b>	<b>151,662</b>	<b>386,150</b>	<b>47,550</b>	<b>104,112</b>
<b>Other financing sources, net</b>				<b>-</b>
<b>Excess of receipts and other financing sources over (under) disbursements and other financing uses</b>	<b>151,662</b>	<b>386,150</b>	<b>47,550</b>	<b>104,112</b>
<b>Balances, beginning of year</b>	<b>4,908,725</b>	<b>1,315,426</b>	<b>1,315,426</b>	<b>3,593,299</b>
<b>Balances, end of year</b>	<b>\$ 5,060,387</b>	<b>\$ 1,701,576</b>	<b>\$ 1,362,976</b>	<b>\$ 3,697,411</b>

See Notes to Required Supplementary Information.

NEW HAMPTON MUNICIPAL LIGHT PLANT  
 BUDGET TO GAAP RECONCILIATION  
 REQUIRED SUPPLEMENTARY INFORMATION  
 Year Ended June 30, 2012

	Cash Basis (Budget)	Accrual Adjustments	Accrual Basis (GAAP)
<b>Receipts</b>			
Use of money and property	\$ 20,779	\$ 5,581	\$ 26,360
Charges for services	3,724,219	135	3,724,354
Miscellaneous	38,093	5,667	43,760
<b>Total receipts</b>	<b>3,783,091</b>	<b>11,383</b>	<b>3,794,474</b>
<b>Disbursements</b>			
Business-type activities	3,631,429	(294,794)	3,336,635
<b>Excess of receipts over (under) disbursements</b>	<b>151,662</b>	<b>306,177</b>	<b>457,839</b>
<b>Other financing sources, net</b>			<b>-</b>
<b>Excess of receipts and other financing sources   over (under) disbursements and other financing uses</b>	<b>151,662</b>	<b>306,177</b>	<b>457,839</b>
<b>Balances, beginning of year</b>	<b>4,908,725</b>	<b>11,485,134</b>	<b>16,393,859</b>
<b>Balances, end of year</b>	<b>\$ 5,060,387</b>	<b>\$ 11,791,311</b>	<b>\$ 16,851,698</b>

See Notes to Required Supplementary Information.

NEW HAMPTON MUNICIPAL LIGHT PLANT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2012

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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 made by the City of New Hampton which increased budgeted expenditures for the Light Plant by \$338,600 for the year ended June 30, 2012. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements did not exceed the amount budgeted.

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NEW HAMPTON MUNICIPAL LIGHT PLANT  
SCHEDULE OF OPERATING EXPENSES  
Years Ended June 30, 2012 and 2011

	2012			
	Total	Plant Operation	Distribution	Administration
Purchased power	\$ 1,500,510	\$ 1,500,510		
Trustees' fees	3,000			\$ 3,000
Salaries	456,087	177,902	\$ 171,787	106,398
FICA	34,849	13,186	12,990	8,673
IPERS	37,005	14,043	13,837	9,125
Group insurance	101,819	31,700	31,700	38,419
Insurance	78,384			78,384
Natural gas	25,537	25,537		
Utilities	57,438	57,438		
Telephone	2,953			2,953
Supplies and repairs	53,438	4,677	47,137	1,624
Contracted services and materials	144			144
Taxes	27,013			27,013
Laundry	1,109	1,109		
Vehicle expense	13,099		13,099	
Engineering fees	3,501	3,501		
Professional fees	17,360		2,049	15,311
Accounting services	59,816			59,816
Advertising, promotion, and publications	1,477			1,477
Dues and assessments	14,077			14,077
Travel expense	7,402			7,402
Office expense	5,827			5,827
Miscellaneous	16,922	928	13,998	1,996
	<u>2,518,767</u>	<u>\$ 1,830,531</u>	<u>\$ 306,597</u>	<u>\$ 381,639</u>
Payment in lieu of taxes	50,000			
Depreciation	567,729			
Amortization	11,689			
	<u>\$ 3,148,185</u>			

See Independent Auditor's Report.

SCHEDULE 1

2011				
Total	Plant Operation	Distribution	Administration	
\$ 1,285,725	\$ 1,285,725			
3,000			\$ 3,000	
459,655	174,680	\$ 174,352	110,623	
34,049	12,760	12,782	8,507	
31,146	11,711	11,728	7,707	
129,006	15,970	15,971	97,065	
61,255			61,255	
18,571	18,571			
15,222	15,222			
2,834			2,834	
149,429	129,442	17,958	2,029	
144			144	
20,386	550		19,836	
778	778			
8,135		8,135		
304	304			
17,046		2,359	14,687	
59,343			59,343	
3,215			3,215	
7,151			7,151	
8,986			8,986	
4,329			4,329	
11,421	4,109	3,660	3,652	
2,331,130	\$ 1,669,822	\$ 246,945	\$ 414,363	
15,000				
534,368				
11,688				
\$ 2,892,186				

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 New Hampton Municipal Light Plant as of and for the year ended June 30, 2012, which collectively comprise New Hampton Municipal Light Plant's financial statements, and have issued our report thereon dated January 18, 2013. 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

Management of New Hampton Municipal Light Plant is responsible for establishing and maintaining effective 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 the 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, 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.

Recommendation

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 also upgraded 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.

Recommendation

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 and continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances.

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 January 18, 2013.

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  
January 18, 2013

## MANAGEMENT LETTER

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

In planning and performing our audit of the financial statements of New Hampton Municipal Light Plant for the year ended June 30, 2012, 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 January 18, 2013, contains our report on significant deficiencies in the Light Plant's internal control. This letter does not affect our report dated January 18, 2013, on the 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, 2012 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, 2012.
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.

8. Sale of Scrap

Controls for the sale of scrap were not implemented by Light Plant employees.

Recommendation

The Light Plant should implement the policies and procedures recommended in the State Auditor's special investigation report.

Response

The Light Plant adopted new policies on October 15, 2012.

Conclusion

Response accepted.

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  
January 18, 2013