

IOWA ASSOCIATION OF MUNICIPAL UTILITIES

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

FEBRUARY 28, 2011 AND 2010

Draft

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Iowa Association of Municipal Utilities

We have audited the accompanying statements of financial position of the Iowa Association of Municipal Utilities as of February 28, 2011 and 2010, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Iowa Association of Municipal Utilities as of February 28, 2011 and 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

West Des Moines, Iowa
February 28, 2011

IOWA ASSOCIATION OF MUNICIPAL UTILITIES
STATEMENTS OF FINANCIAL POSITION
FEBRUARY 28, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 444,661	\$ 618,566
Accounts receivable	293,181	159,228
Grants receivable	68,791	25,611
Other receivables:		
Due from IAMU Insurance Trust	-	1,450
Due from Iowa Public Power Agency	14	10
Due from IAMWIND	222	14,491
Total other receivables	<u>236</u>	<u>15,951</u>
Prepaid expenses	13,875	28,441
Property and equipment, net of accumulated depreciation	<u>2,568,135</u>	<u>2,553,347</u>
TOTAL ASSETS	<u><u>\$ 3,388,879</u></u>	<u><u>\$ 3,401,144</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 128,253	\$ 117,467
Deferred revenues	263,443	200,348
Due to IAMU Insurance Trust	30,000	-
Due to agencies:		
Northern Municipal Distributors Group	41,892	8,361
MAPP joint membership	3,456	1,540
Total due to agencies	<u>45,348</u>	<u>9,901</u>
Accrued expenses	148,783	126,658
Notes payable	<u>363,054</u>	<u>661,204</u>
Total liabilities	978,881	1,115,578

NET ASSETS

Unrestricted - undesignated	2,314,391	2,194,340
Unrestricted - board designated	31,141	43,310
Temporarily restricted	<u>64,466</u>	<u>47,916</u>
Total net assets	<u><u>2,409,998</u></u>	<u><u>2,285,566</u></u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,388,879</u></u>	<u><u>\$ 3,401,144</u></u>
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The accompanying notes are an integral part of these financial statements.

IOWA ASSOCIATION OF MUNICIPAL UTILITIES
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED FEBRUARY 28, 2011 AND 2010

	2011	2010
UNRESTRICTED NET ASSETS		
REVENUES		
Workshop registration	\$ 324,072	\$ 302,020
Apprenticeships	43,430	65,904
Publications	351,849	252,138
Safety cluster	619,602	613,622
Consulting	40,287	88,426
Fees	359,599	361,481
Grants	264,907	137,606
Rental	1,725	2,176
Dues	946,363	1,066,640
Advertising	300	750
Investment income	960	1,782
Support provided by Iowa Association of Municipal Utilities Trust	380,000	115,356
Administration fees	110,027	99,971
Contract revenue	23,199	23,581
Miscellaneous	45,094	47,144
Net assets released from restrictions	7,650	88
TOTAL REVENUES	3,519,064	3,178,685
EXPENSES		
Salaries and benefits	1,814,887	1,772,782
Workshops and training	169,543	152,842
Travel and staff development	94,965	92,954
Public relations	17,581	18,857
Consulting	389,498	613,777
Rents and utilities	48,161	52,884
Supplies, printing and postage	97,545	83,105
Dues and subscriptions	31,018	26,402
Computer hardware	2,049	2,061
Computer software	11,587	-
Equipment rental and repair	66,517	65,289
Building maintenance and repairs	45,328	38,566
Property taxes	58,142	58,048
Depreciation	137,404	134,403
Insurance	38,758	40,829
Professional fees	37,132	27,653
Risk management	19,362	19,699
Material resale	35,731	36,487
Grant expenses	238,038	36,457
Interest	29,268	38,668
Loss on sale of assets	11,085	4,398
Miscellaneous	17,583	11,119
TOTAL EXPENSES	3,411,182	3,327,280
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	107,882	(148,595)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	24,200	13,266
Net assets released from restrictions	(7,650)	(88)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	16,550	13,178
INCREASE (DECREASE) IN NET ASSETS	124,432	(135,417)
NET ASSETS, beginning of year	2,285,566	2,420,983
NET ASSETS, end of year	\$ 2,409,998	\$ 2,285,566

The accompanying notes are an integral part of these financial statements.

IOWA ASSOCIATION OF MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
YEARS ENDED FEBRUARY 28, 2011 AND 2010

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2011</u>	<u>2010</u>
Increase (decrease) in net assets	\$ 124,432	\$ (135,417)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	137,404	134,403
Loss on sale of fixed assets	11,085	4,398
Donated equipment included in contributions	-	(19,000)
Changes in:		
Accounts receivable	(133,953)	58,762
Grants receivable	(43,180)	(10,663)
Other receivables	15,715	38,470
Prepaid expenses	14,566	115,876
Accounts payable and accrued expenses	10,786	22,635
Other payables	30,000	-
Due to affiliates/agency funds payables	35,447	(54,261)
Deferred revenues	63,095	20,636
Other liabilities	22,125	(8,917)
Net cash provided by operating activities	<u>287,522</u>	<u>166,922</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(163,277)	(80,313)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(673,213)	(36,577)
Proceeds from note payable	191,068	-
Proceeds from line of credit	183,995	-
Decrease in disbursements in excess of bank balance	-	(12,336)
Net cash used by financing activities	<u>(298,150)</u>	<u>(48,913)</u>
Net increase (decrease) in cash and cash equivalents	(173,905)	37,696
CASH AND CASH EQUIVALENTS, beginning of year	<u>618,566</u>	<u>580,870</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 444,661</u>	<u>\$ 618,566</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	<u>\$ 28,323</u>	<u>\$ 38,668</u>

The accompanying notes are an integral part of these financial statements.

IOWA ASSOCIATION OF MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION - The Iowa Association of Municipal Utilities (the Association) is a nonprofit organization that assists its member cities in solving problems relating to the construction, operation and maintenance, administration and management, and improvement of municipally owned utilities. The Association exists under the laws of the State of Iowa and conducts activities generally in only Iowa. A description of the Association's activities by program is as follows:

Legislative and Regulatory - The Association represents the interests of Iowa's municipal utilities to the Iowa legislature, to the Iowa congressional delegation, and to various state and federal administrative agencies.

Member Communications - Member communications are made through a monthly newsletter, a website, an annual general membership meeting, and through various other meetings and workshops. These communications are used to keep members informed of industry trends, legislative developments, compliance issues, member services and municipal job openings.

Job Training and Electric/Safety Member Services Programs - Association staff and member committees provide training and technical services for electric, gas, water, telecommunication, and storm water utilities. IAMU Safety Clusters have been established throughout the state to bring current, effective job safety training and OSHA compliance services to local communities.

Other Member Services - Information, consultation, engineering, and regulatory compliance services are provided for electric, gas, water, telecommunication, wastewater, and storm water utilities. For gas utilities, these services include design and construction services. For electric utilities, these services include assistance with power supply and transmission, customer service and energy efficiency.

Insurance - The Association sponsors insurance programs to benefit its members, which is operated as the Insurance Trust, an affiliated organization.

Political Action Committee - The Association has organized a political action committee. The Political Action Committee can only accept contributions from individuals.

FINANCIAL STATEMENT PRESENTATION - The Association reports its financial position and activities through three classes of net assets: unrestricted net assets, including assets designated by the board, temporarily restricted net assets, and permanently restricted net assets. The Association has no permanently restricted net assets.

- Unrestricted net assets are net assets not subject to donor restrictions.
- Temporarily restricted net assets represent net assets subject to donor-imposed restrictions. The restrictions are satisfied either by the passage of time or by actions of the Association.
- Permanently restricted net assets represent net assets subject to donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Association to use part or all of the income derived from the donated assets for either specified or unspecified purposes.

IOWA ASSOCIATION OF MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

SUPPORT AND REVENUE - The Association receives its dues based on the size of a member city's utilities. A member service charge offsets some fixed costs such as newsletters, directories, and other general mailings. The balance of the electric and gas dues is based on how much energy is sold by the municipal utility and how many customers are served. The balance of water utility dues is based on population. Electric, water, gas and telecommunication utilities dues include an assessment for legal and research activities. Most Association services, other than legislative and regulatory services, are provided on a fee for service basis.

The Association recognizes revenues on dues over the membership period and program revenues when services are provided to participants. Revenues from purchase-of-services grants are recognized when earned.

CASH AND CASH EQUIVALENTS - For purposes of the statement of cash flows, cash and cash equivalents consist of cash and funds in operating bank accounts and invested in money market accounts.

The Association maintains deposits in Western Asset Government Money Market Fund accounts that are not insured by the FDIC. The deposit balances in six separate accounts totaled \$383,085 at February 28, 2011.

ACCOUNTS RECEIVABLE - Accounts receivable arise out of sales of services to members and business associates. The Association evaluates accounts receivable and establishes an allowance for doubtful accounts when deemed necessary. The Association's policy is to write-off uncollectible accounts only after all collection efforts are exhausted. At February 28, 2011 and 2010, management determined that no allowance for doubtful accounts was necessary.

Due to contract terms with certain utilities participating in the smart thermostat program, some amounts included in accounts receivable have not yet been billed to those utilities. Amounts included in accounts receivable, but not yet billed are primarily due to payments being made over the term of the program and totaled \$90,882 at February 28, 2011. There were no unbilled amounts at February 28, 2010.

GRANTS RECEIVABLE - Grants receivable includes amounts to be reimbursed by the granting agencies for monies spent during the current fiscal year.

PROPERTY AND EQUIPMENT - Property and equipment are recorded at cost, and depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from five to forty years. Major acquisitions and improvements are capitalized. Expenditures for maintenance, repairs, and acquisitions of minor items are charged to earnings as incurred. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reported in operations for the period.

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions for property and equipment are recorded as unrestricted support. Contributions during the fiscal year ended February 28, 2010 include a donated Federal Pacific Switch Gear and an Overhead Distribution Switch with a total estimated fair value of \$19,000. There were no such contributions during the fiscal year ended February 28, 2011.

IOWA ASSOCIATION OF MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

PROPERTY AND EQUIPMENT (continued) - Certain government agencies provide funding for the purchase and use of equipment. These costs are included in grant expenses on the statements of activities and changes in net assets. At February 28, 2011, the Association has purchased government-owned equipment with a cost of approximately \$105,000 to be used by participating utilities as part of a smart-thermostat program.

DEFERRED REVENUE – Deferred revenue consists of advance payments for seminar registration fees, membership dues and prepaid administration fees totaling \$65,000 received from Iowa Association of Municipal Utilities Trust. The deferred amounts will be included in income when the service is performed.

ACCRUED EXPENSES - Accrued expenses primarily consist of deferred compensation, payroll tax, property tax liabilities and compensated absences. Compensated absences consist of vacation earned, but not used, and is calculated at current rates of pay. Accrued expenses also include insurance reserves for the Association’s self-insured health and dental plans providing benefits to employees and their covered dependents.

INCOME TAXES - The Association is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code. The Association is subject to income tax on unrelated business income. The Association had no significant taxable unrelated business income during the fiscal years ended February 28, 2011 and 2010.

Management is unaware of any uncertain tax positions at February 28, 2011 and 2010. Interest and penalties associated with income tax matters would be presented as components of income tax expense. There were no interest or penalty charges during 2011 and 2010. The Association’s prior three years’ tax returns remain subject to examination by taxing authorities.

ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

RECLASSIFICATIONS – Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE B - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2011</u>	<u>2010</u>
Land	\$ 637,481	\$ 637,481
Building	2,244,057	2,237,527
Office furniture and equipment	715,879	710,811
	<u>3,597,417</u>	<u>3,585,819</u>
Less accumulated depreciation	(1,029,282)	(1,032,472)
Property and equipment, net	<u>\$ 2,568,135</u>	<u>\$ 2,553,347</u>

IOWA ASSOCIATION OF MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS

NOTE C - DUE TO/DUE FROM AGENCIES

The Association holds in its name the assets of two agencies and maintains records for the activity of the agencies. Following are the descriptions of the purposes of each agency as well as the related financial activity. The net assets (deficit) of each agency are reported as due from (to) on the Association's statement of financial position.

- Northern Municipal Distributors Group Fund (NMDG) - Membership in the Northern Municipal Distributors Group is available to the Association's gas utility members who elect to pay membership dues. The funds received are used to lobby and represent members on joint regulatory issues. Any additional costs incurred in excess of membership dues are funded by additional assessments to the members.
- MAPP Joint Membership Fund (MAPP) - The MAPP Joint Membership Fund is available to the Association's electric utility members who elect to pay membership dues. The funds received are used to pay membership dues to the Mid-Continent Area Power Pool (MAPP) on behalf of the joint members.

Agency activity for the years ended February 28, 2011 and February 28, 2010, is as follows:

	<u>NMDG</u>	<u>MAPP</u>
Due to (from) agencies at February 28, 2009	\$ 27,987	\$ 3,720
Resource additions (reductions)		
Dues	9,000	86,409
Consulting	-	(7,500)
Patronage dividends	-	26,062
Interest	25	4
Legal expenditures	(27,865)	-
MAPP membership dues	-	(76,743)
Dividend payments	-	(26,062)
Other expenditures	(786)	(4,350)
Due to (from) agencies at February 28, 2010	<u>8,361</u>	<u>1,540</u>
Resource additions (reductions)		
Dues	-	18,193
Special assessment fees	100,000	
Interest	19	2
Other income	-	2,183
Legal expenditures	(51,324)	-
MAPP membership dues	-	(17,099)
Consulting expenditures	(13,449)	(100)
Other expenditures	(1,715)	(1,263)
Due to (from) agencies at February 28, 2011	<u>\$ 41,892</u>	<u>\$ 3,456</u>

NOTE D - NOTES PAYABLE

The Association has a bank line of credit with a maximum credit limit of \$184,000 to fund operating costs. Borrowings under the line of credit accrue interest at the greater of 4.00% or the Wall Street Journal prime rate (3.25% at February 28, 2011). The line of credit agreement is secured by a commercial security agreement which includes all of Association's assets. The line of credit had an outstanding balance of \$183,995 and \$0- on February 28, 2011 and 2010, respectively, and matures on September 1, 2012.

IOWA ASSOCIATION OF MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS

NOTE D - NOTES PAYABLE – Continued

During the year ended February 28, 2011, the Association paid off an existing bank note and entered into a new note agreement with the Iowa Association of Municipal Utilities Insurance Trust (the Trust). The unsecured note agreement with the Trust requires monthly payments of \$3,391, including interest at 2.5%, through September 2015.

Future maturities of the mortgage note payable are as follows:

2012	\$	39,727
2013		37,638
2014		38,589
2015		39,565
2016		23,540
	\$	<u>179,059</u>

NOTE E - RELATED PARTY TRANSACTIONS

The Association serves as administrator of the Iowa Association of Municipal Utilities Insurance Trust (the Trust). During the years ended February 28, 2011 and February 28, 2010, the Association received the following amounts from the Trust:

	<u>2011</u>	<u>2010</u>
Direct insurance trust support		
Support to insurance programs	\$ 40,000	\$ 40,000
Other support		
Support of job training and safety programs and member services programs	50,000	53,192
Support for building	300,000	14,000
Support for coupon reimbursement	41,525	50,325
Total other support	<u>391,525</u>	<u>117,517</u>
Total support	<u>\$ 431,525</u>	<u>\$ 157,517</u>

NOTE F - DEFERRED COMPENSATION AND PENSION PLANS

The Association sponsors a 457 deferred compensation plan. The deferred compensation plan is offered to all eligible employees and is funded through employee elected salary reduction contributions. The Association makes no contributions to the deferred compensation plan.

The Association also sponsors a defined contribution pension plan offered to all employees eighteen years of age and older who have met minimum service requirements. Contributions to this plan totaled \$87,671 and \$87,235 in fiscal years 2011 and 2010, respectively, and are at the discretion of the Board of Directors.

IOWA ASSOCIATION OF MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS

NOTE G – SELF-INSURED EMPLOYEE HEALTH BENEFITS

As of July 1, 2010, the Association began sponsoring a self-insured health plan. Under this plan, the Association pays the medical claims of each employee participating in the plan up to an annual limit of \$2,500 for single coverage and \$5,000 for family coverage. The claims exceeding these limits are paid by the insurance carrier.

A claims liability, which includes claims authorized for payment by the plan administrator prior to the fiscal year end, plus a provision for claims incurred but not reported, of \$9,652 is included in accrued expenses in the statement of financial position at February 28, 2011.

NOTE H - NET ASSETS

As of February 28, 2011 and 2010, the Association had net assets designated by the Board of Directors for legal and consulting fees of \$31,141 and \$43,310, respectively.

As of February 28, 2011 and 2010, the Association had temporarily restricted net assets restricted by donors for the Safe City and Training Field projects totaling \$61,515 and \$44,352, respectively. In addition, \$2,951 and \$3,564 was temporarily restricted for MuniPAC at February 28, 2011 and 2010.

NOTE I - LEASE COMMITMENTS

The Association leases two vehicles and certain other equipment under operating lease agreements which expire at various times through February 2016. Following are estimated annual future minimum lease payments:

<u>Year Ending February 28,</u>	
2012	55,201
2013	55,201
2014	28,253
2015	15,545
2016	15,545
Total future minimum lease payments	<u>\$ 169,745</u>

Lease expense totaled \$48,235 and \$50,666 during the years ended February 28, 2011 and 2010, respectively.

NOTE J – GRANTS

The Association received revenues from various grant agreements during the years ended February 28, 2011 and 2010. The grants fund various energy efficiency initiatives and on-site technical assistance and training for participating utilities. One grant agreement with the Department of Energy includes a cost sharing component in which the Association agrees to be liable for a percentage of the total allowable project costs, even if the project is terminated early or is not funded to its completion. The total expected cost sharing component is estimated to be approximately \$7.5 million over the term of the grant agreement from April 1, 2010 through March 31, 2015. The Association anticipates collecting this cost sharing component from participating utilities.

IOWA ASSOCIATION OF MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS

NOTE K – FUNCTIONAL EXPENSES

Allocations of certain expenses have been made by direct assignment of costs to functional categories where a direct relationship existed. Other common expenses have been allocated among functional categories based on reasonable use estimates.

The Association incurred functional expenses for the years ended February 28, 2011 and 2010 as follows:

	<u>2011</u>	<u>2010</u>
Program expenses		
Legislative and regulatory	\$ 287,099	\$ 356,534
Member communications	123,218	112,815
Job training and safety programs	836,933	813,515
Other member services	1,802,190	1,524,455
General and administrative expenses	618,575	519,961
Total	<u>\$ 3,668,015</u>	<u>\$ 3,327,280</u>

NOTE L - SUBSEQUENT EVENTS

The date to which events occurring after February 28, 2011, the date of the most recent statement of activities, have been evaluated for possible adjustment to the financial statements or disclosure is February 28, 2011, which is the date the financial statements were available to be issued.