

IOWA ASSOCIATION OF MUNICIPAL UTILITIES
INSURANCE TRUST

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 of
Iowa Association of Municipal Utilities Insurance Trust

We have audited the accompanying statements of financial position of the Iowa Association of Municipal Utilities Insurance Trust (the Trust) 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 Trust'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 Insurance Trust as of February 28, 2011 and 2010, and the changes in its net assets and its cash flows for the years 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 INSURANCE TRUST
STATEMENTS OF FINANCIAL POSITION
FEBRUARY, 28, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Cash - operating	\$ 20,479	\$ 67,956
Investments	2,012,696	2,466,855
Accounts receivable	31,766	2,526
Prepaid expense	65,000	-
Note receivable	179,059	-
TOTAL ASSETS	<u>\$ 2,309,000</u>	<u>\$ 2,537,337</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 4,073	\$ 4,343
Unexpired coupon liability	64,225	71,150
TOTAL LIABILITIES	<u>68,298</u>	<u>75,493</u>
Unrestricted - designated		
Safety group stabilization	300,000	300,000
Safety group dividend savings	-	278,762
Safety group incentive	64,225	71,150
Safety group risk management	232,086	216,429
Unrestricted - undesignated	1,644,391	1,595,503
Total net assets	<u>2,240,702</u>	<u>2,461,844</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,309,000</u>	<u>\$ 2,537,337</u>

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

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

	2011	2010
REVENUE		
Safety group		
Premium experience dividend	\$ 2,035,293	\$ 2,604,462
Participation fees	350	750
Interest	4,548	10,526
Health and life service fees	25,359	30,114
TOTAL REVENUES	2,065,550	2,645,852
 EXPENSES		
Program services - safety group program	1,913,286	2,336,396
Management and general	73,406	59,725
Unallocated payments to affiliate organization	300,000	14,000
TOTAL EXPENSES	2,286,692	2,410,121
 INCREASE (DECREASE) IN NET ASSETS	(221,142)	235,731
 NET ASSETS - beginning of year	2,461,844	2,226,113
 NET ASSETS - end of year	\$ 2,240,702	\$ 2,461,844

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

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

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2010</u>	<u>2009</u>
Increase (decrease) in net assets	\$ (221,142)	\$ 235,731
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Changes in:		
Accounts receivable	(29,240)	(2,526)
Prepaid expenses	(65,000)	-
Accounts payable and unexpired coupon liability	(7,195)	(6,433)
Net cash provided (used) by operating activities	<u>(322,577)</u>	<u>226,772</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and sales of investments	3,108,552	6,421,533
Purchases of investments	(2,654,393)	(6,469,865)
Advances on note receivable	(191,068)	-
Payments received on note receivable	12,009	-
Net cash provided (used) by investing activities	<u>275,100</u>	<u>(48,332)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in disbursements in excess of bank balance	<u>-</u>	<u>(110,484)</u>
 Net increase (decrease) in cash and cash equivalents	(47,477)	67,956
 CASH AND CASH EQUIVALENTS, beginning of year	<u>67,956</u>	<u>-</u>
 CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 20,479</u></u>	<u><u>\$ 67,956</u></u>

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

IOWA ASSOCIATION OF MUNICIPAL UTILITIES INSURANCE TRUST
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED FEBRUARY 28, 2011 AND 2010

	2011	
	Safety Group	Management and General
Incentive coupon redemption	34,600	\$ -
Member dividend payments	1,788,524	-
Support IAMU operations	40,000	-
Support IAMU job training and safety/member services	50,000	-
Operating expenses	-	65,150
Professional fees	-	7,950
Dividend operating expenses	162	306
	<u>\$ 1,913,286</u>	<u>\$ 73,406</u>
	<u>\$ 1,913,286</u>	<u>\$ 73,406</u>
	2010	
	Safety Group	Management and General
Incentive coupon redemption	\$ 42,225	\$ -
Member dividend payments	2,199,791	-
Support IAMU operations	40,000	-
Support IAMU job training and safety/member services	53,192	-
Operating expenses	-	55,725
Professional fees	-	4,000
Dividend operating expenses	1,188	-
	<u>\$ 2,336,396</u>	<u>\$ 59,725</u>
	<u>\$ 2,336,396</u>	<u>\$ 59,725</u>

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

IOWA ASSOCIATION OF MUNICIPAL UTILITIES INSURANCE TRUST
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION - The Iowa Association of Municipal Utilities Insurance Trust (the Trust) was established by the Iowa Association of Municipal Utilities (IAMU) to arrange and coordinate various insurance programs to benefit IAMU members participating in the Trust. An “Insurance Committee” has the responsibility of managing the Trust and administering any insurance plans put in place.

Currently, the Trust administers a Safety Group Program. All members of IAMU are eligible to become participating members in plans offered by the Trust, subject to underwriting practices of the insurance carriers. The Trust’s Safety Group Program was created to obtain standard workers’ compensation and special multi-peril insurance coverage for participating members. An insurance company administers this program, collects premiums directly from the participants and assumes all liabilities for member losses under the terms of the policy. Annually, the insurance company determines if a dividend will be issued based upon group experience and improved insurance management practice. Premium experience dividends received by the Trust may be distributed to participants based on participant contributions to total participating premiums. Any distributions of premium experience dividends are at the discretion of the Trust.

The premium experience dividends comprised 99% and 98% of total receipts for the years ended February 28, 2011 and 2010, respectively.

FINANCIAL STATEMENT PRESENTATION - The Trust reports information regarding 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.

- 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 Trust. The Trust has no temporarily restricted net assets.
- Permanently restricted net assets represent net assets subject to donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Trust to use part or all of the income derived from the donated assets for either specified or unspecified purposes. The Trust has no permanently restricted net assets.

ACCOUNTS RECEIVABLE – Accounts receivable consists of service fees and amounts advanced to IAMU. Management periodically reviews accounts receivable to determine if any amounts may be uncollectible, and establishes an allowance for doubtful accounts, if necessary. No allowance related to accounts receivable was considered necessary at February 28, 2011 and 2010.

PREPAID EXPENSE – Prepaid expense consists of administration fees paid to IAMU for the year ended February 29, 2012.

INCOME TAX STATUS - The Iowa Association of Municipal Utilities Insurance Trust is a common law trust whose income is not taxable pursuant to IRC Section 115.

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 Trust’s prior three year’s tax returns remain subject to examination by taxing authorities.

IOWA ASSOCIATION OF MUNICIPAL UTILITIES INSURANCE TRUST
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

BENEFIT OBLIGATIONS - The Trust retains no obligations under the Safety Group Program. Obligations under the Health and Life Program are limited to tail-end claims submitted for health issues incurred prior to September 1, 2002, which management estimates to be nominal for future periods.

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.

DESIGNATION OF NET ASSETS - Net assets are designated and set aside by management into separate accounts to support the Safety Group activities as follows:

- The Stabilization account's purpose is to insulate the safety group from significant fluctuations in umbrella insurance premiums.
- The Dividend Savings account's purpose is to separately hold dividends paid by the insurance company and to distribute related cost reduction payments to participants.
- The Incentive account's purpose is to provide funding for workshop coupons issued to the participants in the safety group program included in the cost reduction payment to participants.
- The Risk Management account's purpose is to pay for supplemental support for risk management, job training, and safety.

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

NOTE B - INVESTMENT WITH IPAIT

Investments consist of funds held and managed by the Iowa Public Agency Investment Trust (IPAIT). The entire investment balance is held in the IPAIT Diversified Portfolio and is not FDIC insured. The IPAIT Diversified Portfolio consists of cash and short-term investments valued at amortized cost, which approximates fair value, pursuant to Rule 2a-7 under the Investment Company Act of 1940. This involves valuing a portfolio security at its original cost on the date of purchase, and thereafter amortizing any premium or discount on the interest method.

Security transactions are accounted for on the trade date. Interest income, including the accretion of discount and amortization of premium, is recorded daily using the interest method.

IPAIT is authorized by investment policy and statute to invest public funds in obligations of the U.S. government, its agencies and instrumentalities; certificates of deposit and other evidences of deposit at federally insured Iowa depository institutions approved and secured pursuant to Chapter 12B of the Code of Iowa; and repurchase agreements, provided that the underlying collateral consists of obligations of the U.S. government, its agencies and instrumentalities and that IPAIT's custodian takes delivery of the collateral either directly or through an authorized custodian.

IOWA ASSOCIATION OF MUNICIPAL UTILITIES INSURANCE TRUST
NOTES TO FINANCIAL STATEMENTS

NOTE B - INVESTMENT WITH IPAIT - continued

In connection with transactions in repurchase agreements, it is IPAIT's policy that an authorized custodian take possession of the underlying collateral securities, the value of which exceeds the principal amount of the repurchase transaction, including accrued interest at all times. If the seller defaults and the value of the collateral declines, realization of the collateral by IPAIT may be delayed or limited.

Certificate of deposit and NOW (Negotiable Order of Withdrawal) amounts up to \$250,000 are insured by the FDIC. For public funds deposited in Iowa financial institutions in excess of the \$250,000 FDIC insurance, the local financial institution must comply with Iowa Code Section 12c.22 to insure appropriate collateralization. Public funds not covered by FDIC or collateralization are covered by the state sinking fund in accordance with Chapter 12C of the Code of Iowa, which provides for additional assessments against depositories to ensure there will be no loss of public funds.

CDARS, the Certificate of Deposit Account Registry Service, is a network of banks offering Certificates of Deposit below the standard FDIC insurance maximum so that both principal and interest are eligible for full FDIC insurance.

Professional standards establish a framework for measuring fair value. The framework provides a fair value hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to Level 1 measurements and the lowest priority to Level 3 measurements. These inputs are summarized into three broad levels as described below:

- Level 1 - quoted prices in active markets for identical assets or liabilities;
- Level 2 - quoted prices for similar securities, in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active, modeling with inputs that have observable inputs (i.e. interest rates observable at commonly quoted internals).
- Level 3 - valuation is generated from model-based techniques that use significant assumptions not observable in the market.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. All of the Trust's financial assets measured on a recurring basis, comprised of its investments with IPAIT, are valued using Level 2 inputs.

NOTE C - NOTE RECEIVABLE

The Trust has an unsecured note receivable with IAMU which requires monthly payments, including interest of \$3,391 through September 2015. The note bears interest at 2.5%. Future maturities of the note are as follows:

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

IOWA ASSOCIATION OF MUNICIPAL UTILITIES INSURANCE TRUST
NOTES TO FINANCIAL STATEMENTS

NOTE D – UNREDEEMED COUPON LIABILITY

Unredeemed coupon liability represents outstanding unexpired coupons at February 28, 2011 and 2010. The Trust issues coupons in lieu of cash as part of the premium experience dividend distributed to participating members. These coupons may be used to purchase safety and other risk management training from IAMU and expire on February 29, 2012. As coupons are remitted, IAMU bills the Trust for the value of the coupon.

Prior to March 1, 2009, the Trust's financial statements only disclosed the unexpired coupon liability. As of March 1, 2009, the Trust's financial statements include the accrual for the unexpired coupon liability. This change caused beginning net assets previously reported for fiscal year ended February 28, 2010 to be reduced by \$79,250 and net assets for the year ended February 28, 2010 to be increased by \$8,100.

NOTE E - RELATED PARTY TRANSACTIONS

The Trust is affiliated with Iowa Association of Municipal Utilities (IAMU) as a result of common membership and control. At February 28, 2011, IAMU owed the Trust \$30,000 and the Trust had a prepaid expense of \$65,000 to IAMU. During the years ended February 28, 2011 and 2010, amounts paid by the Trust to IAMU and reported in the following categories are:

	<u>2011</u>	<u>2010</u>
Workshop coupon reimbursements	\$ 41,525	\$ 50,325
IAMU management services	40,000	40,000
Support of IAMU	300,000	14,000
Job training and safety/member services support	50,000	53,192

NOTE F – SUBSEQUENT EVENTS

The date to which events occurring after February 28, 2011, the date of the most recent balance sheet, 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.