Iowa League of Cities

Financial Report

June 30, 2005

McGladrey & Pullen

Certified Public Accountants

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Contents

Independent Auditor's Report on the Financial Statements	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5 - 8
Independent Auditor's Report on the Supplementary Information	9
Supplementary Information	
Executive Board and Staff	10

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Independent Auditor's Report on the Financial Statements

To the Executive Board
Iowa League of Cities
Des Moines, Iowa

We have audited the accompanying statements of financial position of Iowa League of Cities as of June 30, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the League'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 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 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 Iowa League of Cities as of June 30, 2005 and 2004, 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.

McGladrey & Pullen, LLP

Des Moines, Iowa
July 20, 2005

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Iowa League of Cities

Statements of Financial Position
June 30, 2005 and 2004

	2005	2004
ASSETS		
CURRENT ASSETS		
Cash	$ 171,317	$ 122,570
Certificates of deposit	747,419	798,631
Cash designated for grants (Note 4)	-	135,303
Receivables:		
Trade	12,201	9,181
Affiliate (Note 4)	25,134	-
Interest	7,068	5,799
Prepaid expenses	14,182	10,024
Total current assets	977,321	1,081,508
FURNITURE, FIXTURES AND EQUIPMENT, net (Note 2)	147,747	189,538
Total assets	$ 1,125,068	$ 1,271,046
LIABILITIES AND NET ASSETS (Note 4)		
CURRENT LIABILITIES		
Current maturities of capital lease obligation	$ -	$ 5,906
Accounts payable and accrued expenses	151,578	139,007
Deferred income	124,874	152,977
Deferred rent	32,093	19,967
Grants beneficiary payable (Note 4)	-	135,303
Total current liabilities	308,545	453,160
CAPITAL LEASE OBLIGATION, less current maturities above	-	12,794
NET ASSETS, unrestricted	816,523	805,092
Total liabilities and net assets	$ 1,125,068	$ 1,271,046

See Notes to Financial Statements.

Iowa League of Cities

Statements of Activities
Years Ended June 30, 2005 and 2004

	2005	2004
Revenue:		
Membership dues	$ 555,429	$ 554,966
Associate member dues	35,215	36,655
Advertising	50,964	58,385
Sponsorship	26,800	25,000
Subscriptions	43,051	18,827
Registrations	165,905	191,091
Fees and royalties (Note 4)	1,494,201	1,514,158
Interest	21,380	13,531
Other	5,381	4,131
	2,398,326	2,416,744
Expenses (Note 6):		
Salaries, payroll taxes and fringe benefits (Note 3)	1,369,699	1,351,989
Staff development	814	1,177
Rent and parking (Note 5)	194,939	189,573
Telephone	11,015	15,152
Travel	51,945	49,338
Professional fees	199,080	158,763
Dues and subscriptions	30,831	31,817
Registration	12,217	25,828
Insurance	46,056	45,582
Equipment and computer	70,575	35,676
Printing	89,546	92,435
Postage	37,392	53,278
Supplies	41,508	44,225
Meeting	130,470	151,319
Depreciation	69,635	63,454
Miscellaneous	31,173	28,195
	2,386,895	2,337,801
Increase in unrestricted net assets	11,431	78,943
Unrestricted net assets, beginning	805,092	726,149
Unrestricted net assets, ending	$ 816,523	$ 805,092

See Notes to Financial Statements.

Iowa League of Cities

Statements of Cash Flows
Years Ended June 30, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in unrestricted net assets	$ 11,431	$ 78,943
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation	69,635	63,454
Change in working capital components:		
Decrease in cash designated for grants	135,303	263,010
(Increase) in receivables	(4,289)	(32)
(Increase) decrease in prepaid expenses	(4,158)	2,683
Increase in accounts payable and accrued expenses	12,571	2,702
Increase (decrease) in deferred income	(28,103)	80,602
Increase in deferred rent	12,126	12,127
(Decrease) in grants beneficiary payable	(135,303)	(263,010)
Net cash provided by operating activities	69,213	240,479
CASH FLOWS FROM INVESTING ACTIVITIES		
Advances to affiliate receivable	(25,134)	-
Purchase of furniture and fixtures and equipment	(27,844)	(57,465)
Purchase of certificates of deposit	(700,000)	(513,086)
Proceeds from redemption of certificates of deposit	751,212	364,870
Net cash (used in) investing activities	(1,766)	(205,681)
CASH FLOWS FROM FINANCING ACTIVITIES, principal payments on capital lease obligation	(18,700)	(5,255)
Net increase in cash	48,747	29,543
CASH		
Beginning	122,570	93,027
Ending	$ 171,317	$ 122,570
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION, cash payments for interest	$ 3,604	$ 2,526

See Notes to Financial Statements.

Note 1. Nature of League and Significant Accounting Policies

Nature of organization: The League of Iowa Municipalities was founded in 1898, changed its name to the Iowa League of Cities (the League) in 1996 and is a grassroots organization controlled by its members. The purpose of the League is the improvement of municipal government and the administration thereof through cooperative effort and the promotion of the general welfare of the cities of Iowa. The members elect the League's officers and Executive Board (the Board of Directors or the Board) and determine, by direct vote, what the League's policies will be from year to year. The League is governed by a 17-member Board of Directors. A majority of the Board members must be elected officials, and representation on the Board must come from cities of all sizes. Officers are elected to a one-year term and Board members are elected to a two-year term at the League's annual meeting each fall.

Significant accounting policies:

Accounting estimates and assumptions: The preparation of the financial statements in conformity with 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.

Cash: Cash consists of unrestricted funds to be used for operations and excludes cash designated for grants.

Certificates of deposits: Investments in certificates of deposit are recorded at cost which approximates fair value.

Trade receivables: Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

Furniture, fixtures and equipment: Furniture, fixtures and equipment are stated at cost. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets. The amortization of assets acquired under the capital lease is included with depreciation expense on owned assets.

Revenue recognition: Membership dues are recorded in the applicable membership period. Fees and royalties are recorded based on the related contract period (Note 4). All other revenue is recognized when services are rendered. Restricted assets received in the same year as the restriction is satisfied are classified as unrestricted assets.

Deferred income: Deferred income represents annual dues which are being recognized in the applicable period to which the membership relates.

Deferred rent: The League accrues rent expense on lease agreements with escalating rents in an amount such that the total rent expense under the lease will be recognized ratably over the lease term.

Income taxes: The League is exempt from federal and state income taxes under Section 501(c)(4) of the Internal Revenue Code and a similar section of Iowa law. The League currently has an opinion that it is exempt from IRS requirements for filing any reports including 990 and 990T.

Unrestricted net assets: The League's net assets are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. The League's governing board may earmark portions of its unrestricted net assets as board-designated for various purposes.

Note 2. Furniture, Fixtures and Equipment

Detail of furniture, fixtures and equipment is as follows at June 30, 2005 and 2004:

	2005	2004
Furniture and fixtures	$ 112,253	$ 109,885
Computer equipment	133,029	126,183
Auto	40,451	40,451
Other equipment	61,224	42,594
	346,957	319,113
Accumulated depreciation	199,210	129,575
	$ 147,747	$ 189,538

Note 3. Retirement Benefits

The League has a noncontributory retirement plan covering all full-time employees who have completed 90 days of service. The League pays approximately 10% of gross salary into the plan in lieu of social security. Employer contributions totaled approximately $106,000 and $101,500 for the years ended June 30, 2005 and 2004, respectively. In 2004, the League began a contributory retirement plan covering all full-time employees. Employees may contribute a dollar amount or percent per pay period. The League matches fifty cents on the dollar up to two percent of gross salary. Employer contributions totaled approximately $16,500 and $9,000 for the years ended June 30, 2005 and 2004, respectively.

Note 4. Related-Party Transactions

The League has a cooperation agreement with the Iowa Communities Assurance Pool (ICAP) that provides for service fees to be paid to the League. Service fees received by the League totaled approximately $282,000 and $245,000 for the years ended June 30, 2005 and 2004, respectively. The agreement is subject to termination by either party annually upon 30 days' written notice. The League's executive director serves as a member of the Board of Directors of ICAP.

The League has a management agreement with the Iowa Municipalities Workers' Compensation Association (IMWCA), an affiliate, that provides for a management fee of approximately $69,000 per month at June 30, 2005. During the years ended June 30, 2005 and 2004, the League received approximately $827,000 and $777,000, respectively, in management fees. The agreement is subject to termination by either party upon six months' written notice. In addition, the League purchased fixed assets on behalf of IMWCA. At June 30, 2005 and 2004, the League had recorded a receivable related to these purchases of approximately $25,000 and none, respectively.

The League also has an agreement with IMWCA which provides the League a fee for institutional value equal to 1.5% of the annual net premium for the participating members of the workers' compensation program for as long as the agreement is in effect. The annual premium received was approximately $136,000 for the years ended June 30, 2005 and 2004. The IMWCA Board stipulated that money paid to the League for institutional value be used to promote the League and affiliated programs.

The League and Iowa Public Agency Investment Trust (IPAIT) have a license agreement which provides for royalty payments. Royalty payments received by the League totaled approximately $158,000 and $210,000 for the years ended June 30, 2005 and 2004, respectively. This agreement is subject to termination by either party upon 60 days' written notice. The League's executive director serves as an Ex-officio Board member for IPAIT.

The League has a contract with the Iowa City Management Association (IaCMA) to provide membership services. Service fees received by the League totaled approximately $3,600 and $3,000 for the years ended June 30, 2005 and 2004, respectively. The contract is subject to termination annually with 60 days' written notice. The League's executive director serves as the nonvoting secretary/treasurer of IaCMA.

The League has a contract with the Iowa Municipal Attorney's Association to provide membership services. Service fees received by the League totaled approximately $3,500 and $2,800 for the years ended June 30, 2005 and 2004, respectively. The contract is subject to termination annually with 60 days' written notice by either party.

The League received a grant from the Alfred P. Sloan Foundation (the Foundation) for approximately $1,200,000, payable over a three-year period ending May 2003. Provisions in the grant require the League to sub-contract with two state universities for most of the grant activity. The purpose of the grant is to conduct a pilot project for Citizen-Initiated Performance Assessment (CIPA) in multiple communities across the state. Any unused funds at the end of December 2004 are to be refunded back to the Foundation. Approximately $93,000 was refunded in March 2005. The League retains approximately 15% of the grant to cover administrative overhead and $20,000 for personnel services of the League's executive director. During each of the years ended June 30, 2005 and 2004, approximately none and $20,000, respectively, were remitted to the League for personnel services. The grant funds retained for administrative overhead were approximately none and $41,500 for the years ended June 30, 2005 and 2004, respectively.

The League is party to an agreement among three associations that establishes the Drug and Alcohol Testing Alliance (DATA) in order to provide drug and alcohol testing services to local government entities required to conduct such tests by federal regulation. The agreement provides that the League perform administrative oversight to the third party administrator on behalf of the associations. The League received approximately $31,000 and $30,000 of the administrative fees paid to DATA to cover administrative overhead for the years ended June 30, 2005 and 2004, respectively.

Note 5. Lease Commitments and Rent Expense

The League leases office space under a noncancelable operating lease agreement expiring November 2012 and requiring minimum monthly rentals of approximately $12,000 through November 2007 and $14,000 through November 2012. Additional monthly rent may be required for taxes, insurance and utilities if actual expenses exceed limits originally set forth in the agreement.

Approximate future minimum lease payments are as follows:

Year ending June 30:	
2006	$ 160,000
2007	160,000
2008	160,000
2009	160,000
2010	160,000
Thereafter	387,000
	$ 1,187,000

Related rent expense for the years ended June 30, 2005 and 2004 was approximately $170,000 and $172,000, respectively.

Note 6. Functional Expenses

Approximate expenses for program service and general and administrative for the years ended June 30, 2005 and 2004 are as follows:

	2005	2004
Program service	**$ 2,172,000**	$ 2,127,000
Supporting activities, general and administrative	**215,000**	211,000
	$ 2,387,000	$ 2,338,000

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report
on the Supplementary Information

To the Executive Board
Iowa League of Cities
Des Moines, Iowa

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

McGladrey & Pullen, LLP

Des Moines, Iowa
July 20, 2005

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Iowa League of Cities

Executive Board and Staff

Name	Title	Board Term Expires
	EXECUTIVE BOARD (Before September 2004 Election)	
M.E. Burton	President	Sept 2007
Paul Pate	President Elect	Sept 2008
Ted Tedesco	Immediate Past President	Sept 2006
LaMetta K. Wynn	Past President	Sept 2005
Christine Hensley	Past President	Sept 2004
Robert Blok	Director	Sept 2004
Nancy Carmichael	Director	Sept 2004
Carol Ann Diekema	Director	Sept 2005
Julie Egland	Director	Sept 2005
Mary Gross	Director	Sept 2004
Mark A. Jackson	Director	Sept 2004
John W. Mardis	Director	Sept 2004
Walter McIntosh	Director	Sept 2005
Dan Nicholson	Director	Sept 2005
Jeffrey Pomeranz	Director	Sept 2005
Jeffrey A. Schott	Director	Sept 2004
Dee Vanderhoef	Director	Sept 2005
Chris Ward	Director	Sept 2005
Peggy White	Director	Sept 2004
	(After September 2004 Election)	
Paul Pate	President	Sept 2008
John W. Mardis	President Elect	Sept 2009
M.E. Burton	Immediate Past President	Sept 2007
Ted Tedesco	Past President	Sept 2006
Lametta K. Wynn	Past President	Sept 2005
Lorie Bennett	Director	Sept 2006
Robert Blok	Director	Sept 2006
Nancy Carmichael	Director	Sept 2006
Carol Ann Diekema	Director	Sept 2005
Julie Egland	Director	Sept 2005
Mary Gross	Director	Sept 2006
Mark A. Jackson	Director	Sept 2006
A.J. Johnson	Director	Sept 2006
Walter McIntosh	Director	Sept 2005
Dan Nicholson	Director	Sept 2005
Jeffrey Pomeranz	Director	Sept 2005
Dee Vanderhoef	Director	Sept 2005
Chris Ward	Director	Sept 2005
Peggy White	Director	Sept 2006
	STAFF	
Thomas G. Bredeweg	Executive Director	Indefinite