

**IOWA STORED ENERGY PLANT AGENCY
ANKENY, IOWA**

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
FEBRUARY 28, 2007 AND 2006**

IOWA STORED ENERGY PLANT AGENCY

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IOWA STORED ENERGY PLANT AGENCY

OFFICIALS

Administrative Board -

Dennis Fannin	President	Osage Municipal Utilities
John Bilsten	Vice-President	Algona Municipal Utilities
Scott Tonderum	Secretary	Graettinger Municipal Light Plant
Sheila Boeckman	Treasurer	Waverly Light & Power
Neil Ruddy	Trustee	Carlisle Municipal Utilities

Others -

Bob Haug	Executive Director	Iowa Association of Municipal Utilities
Kris Stubbs	Business Manager	Iowa Association of Municipal Utilities
Kent Holst	ISEP Development Director	Iowa Stored Energy Plant Agency

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INDEPENDENT AUDITORS' REPORT

Iowa Stored Energy Plant Agency
Ankeny, Iowa

We have audited the accompanying statements of net assets of Iowa Stored Energy Plant Agency and the related statements of revenues, expenses and changes in net assets and cash flows as of and for the years ended February 28, 2007 and 2006. These financial statements are the responsibility of Iowa Stored Energy Plant Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 our audit provides 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 Stored Energy Plant Agency as of February 28, 2007 and 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2007, on our consideration of Iowa Stored Energy Plant Agency's internal control over financial reporting and 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 the 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.

Iowa Stored Energy Plant Agency has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

O'DONNELL, FICENEC, WILLS & FERDIG, LLP

By  _____
Certified Public Accountant

August 7, 2007

IOWA STORED ENERGY PLANT AGENCY

STATEMENTS OF NET ASSETS
FEBRUARY 28, 2007 AND 2006

ASSETS	2007	2006
Cash and Invested Funds -		
Operations	\$ 485	\$ 95
IPAIT Accounts -	226,245	77,049
Total Cash and Invested Funds	226,730	77,144
Accounts Receivable	92,740	170,920
Unbilled Revenue	-	37,000
Total Assets	<u>\$ 319,470</u>	<u>\$ 285,064</u>
LIABILITIES AND NET ASSETS		
Accounts Payable - Trade	\$ 247,029	\$ 141,561
Due to Iowa Association of Municipal Utilities	33,100	91,211
Payroll Tax Liabilities	1,819	861
Total Liabilities	<u>281,948</u>	<u>233,633</u>
Net Assets -		
Unrestricted	37,522	51,431
Total Liabilities and Net Assets	<u>\$ 319,470</u>	<u>\$ 285,064</u>

See Independent Auditors' Report and Notes to Financial Statements.

IOWA STORED ENERGY PLANT AGENCY

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED FEBRUARY 28, 2007 AND 2006**

	2007	2006
OPERATING REVENUE:		
Contract Revenue	\$ 1,068,755	\$ 622,805
Grant Revenue	-	26,980
Member Contributions	185,000	97,500
Green City Energy Contributions	-	228
Total Operating Revenue	1,253,755	747,513
OPERATING EXPENSES:		
Salary Expense	44,500	3,000
Payroll Taxes	3,404	229
Insurance Expense	2,550	800
Legal Expense	121,798	11,098
Office Expense	2,277	1,003
Consulting Expense	1,016,695	674,974
Meeting Expense	17,709	11,586
Advertising Expense	42,489	25,888
Accounting Expense	12,808	5,819
Rent Expense	8,000	-
Reimbursements	-	32,422
Total Operating Expenses	1,272,230	766,819
Operating Income (Loss)	(18,475)	(19,306)
NON-OPERATING REVENUE:		
Interest Income	4,566	2,624
Change in Net Assets	(13,909)	(16,682)
Net Assets, Beginning of Year	51,431	68,113
Net Assets, End of Year	\$ 37,522	\$ 51,431

See Independent Auditors' Report and Notes to Financial Statements.

IOWA STORED ENERGY PLANT AGENCY

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 28, 2007 AND 2006**

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Receipts from Operations	\$ 1,368,935	\$ 618,593
Cash Payments for Operations	<u>(1,223,915)</u>	<u>(683,349)</u>
Net Cash from Operating Activities	145,020	(64,756)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Received on Investment Earnings	<u>4,566</u>	<u>2,624</u>
Decrease in Cash and Invested Funds	149,586	(62,132)
Cash and Invested Funds, Beginning of Year	77,144	139,276
Cash and Invested Funds, End of Year	<u>\$ 226,730</u>	<u>\$ 77,144</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ (18,475)	\$ (19,306)
Changes in Operating Assets and Liabilities -		
Accounts Receivables (Increase) Decrease	78,180	(91,920)
Unbilled Revenue (Increase) Decrease	37,000	(37,000)
Accounts Payable Increase (Decrease)	105,468	141,561
Payroll Tax Liabilities Increase (Decrease)	958	861
Due to Iowa Association of Municipal Association Increase (Decrease)	(58,111)	(58,952)
Net Cash (Used in) Provided by Operating Activities	<u>\$ 145,020</u>	<u>\$ (64,756)</u>

See Independent Auditors' Report and Notes to Financial Statements.

IOWA STORED ENERGY PLANT AGENCY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. **Organization -**

Iowa Stored Energy Plant Agency (ISEPA) was organized on August 2, 2005, pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of ISEPA is to provide joint and coordinated action regarding the acquisition, financing and administration of its member interest in an electric plant or plants using natural gas or other gases, wind, biomass, air or other similar or related energy sources as a source for the generation of electric power. The organization has retained legal and consulting experts to assist in identifying project financing strategies and structures to be used in meeting the goals associated with their objectives.

ISEPA members are either public or private agencies who are bound by the terms of the 28E agreement filed with the Iowa Secretary of State.

Management has designated four departments which each share in ISEPA's entire costs. Once operations begin, the four departments may each operate independently, incurring expenses and generating revenues from the other departments, as well as from other entities. The departments are as follows:

1. Compressed Air Energy Storage (CAES) - This department will be the electric generating facility which will consist of a generating plant and the related operations.
2. Transmission (TRNS) – This department will own electrical transmission lines for both incoming and outgoing electricity.
3. Wind Turbines (WIND) – This department will consist of wind turbines which will be erected to produce electricity.
4. Underground (UNDG) – This department will consist of several billion cubic feet of storage capacity for compressed air. This storage will consist of leases for underground storage rights with several property owners, numerous wells costing approximately \$500,000 each, and extensive underground piping to manifold the wells together.

B. **Reporting Entity -**

The Governmental Accounting Standard Board (GASB) requires ISEPA to consider if it has oversight or control over any other legal entities and has set forth criteria to consider such in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of an organization to impose its will on another organization or (2) the financial burdens on the organization. ISEPA has no such oversight or control and therefore has no component units which meet the Governmental Accounting Standards Board criteria.

See Independent Auditors' Report.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. *Basis of Presentation -*

As a 28E organization, the accounts of ISEPA are organized as a governmental entity with its activities reported as an Enterprise Fund. Enterprise Funds are used to account for operations: (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services on a continuing basis be financed or recovered primarily through user charges or, (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

D. *Measurement Focus and Basis of Accounting -*

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

ISEPA applies all applicable GASB pronouncements, as well as following pronouncements issued by the Financial Accounting Standards Board (FASB) on or before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements.

E. *Revenue Recognition -*

ISEPA distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with its principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

F. *Budget -*

Iowa Stored Energy Plant Agency is not required to and does not publish or approve a public budget. Accordingly, the organization is unable to comply with the requirement to present budgetary information in these financial statements. ISEPA does, however, prepare an internal-use-only budget as required by Chapter 28E of the Code of Iowa.

G. *Use of 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 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.

H. *Cash and Invested Funds -*

Cash and invested funds (cash equivalents) for the purpose of reporting cash flows, consists of cash and funds in operating bank accounts, including Iowa Public Agency Investment Trust (IPAIT).

I. *Contributions -*

The members of ISEPA will receive ownership interests in any plant construction or joint venture resulting from this development stage period.

See Independent Auditors' Report.

NOTE 2 - CASH AND INVESTMENTS

ISEPA 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 ISEPA; 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 or improvement certificates of a drainage district.

All monies deposited with Iowa Public Agency Investment Trust (IPAIT) are held in the IPAIT Diversified Portfolio. The balances totaling \$226,245 and \$77,049 for 2007 and 2006, respectively, are not FDIC insured as IPAIT is not considered a financial institution. Instead, IPAIT is a common law trust established under Iowa law which authorizes Iowa public agencies to jointly invest moneys pursuant to a joint investment agreement. IPAIT is registered under the Investment Company Act of 1940. Investments in IPAIT are not classified as to custodial credit risk.

NOTE 3 - RELATED PARTY TRANSACTIONS

Iowa Stored Energy Plant Agency pays Iowa Association of Municipal Utilities (IAMU) administrative fees for services performed. Total fees to IAMU for the years ended February 28, 2007 and 2006, were \$12,657 and \$5,819, respectively.

NOTE 4 - COMMITMENTS

Iowa Stored Energy Plant Agency is in the research phase of the stated objectives of the entity. The total estimated costs of project management services, which is the main contract associated with the phase, are \$465,840, of which \$231,420 is to be paid during the next fiscal year.

NOTE 5 - RESTATEMENTS

Certain amounts for 2006 may be restated or terminology changed to be comparative to the 2007 financial statement presentation or terminology. There is, however, no change in net assets or overall receipts and disbursement activities.

See Independent Auditors' Report.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AUDITS OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCES WITH GOVERNMENT AUDITING STANDARDS

Iowa Stored Energy Plant Agency
Ankeny, Iowa

We have audited the financial statements of the Iowa Stored Energy Plant Agency (ISEPA) as of and for the years ended February 28, 2007 and 2006, and have issued our report thereon dated August 7, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered ISEPA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of ISEPA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ISEPA's internal control over financial reporting.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects ISEPA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of ISEPA's that is more than inconsequential will not be prevented or detected by ISEPA's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by ISEPA's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ISEPA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance 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 non-compliance required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about ISEPA's operations for the years ended February 28, 2007 and 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of ISEPA. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

ISEPA's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Organization's responses, we did not audit ISEPA's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of management, the members and customers of ISEPA, and other parties to whom it may report and is not intended to be and should not be used by anyone other than these specified parties.

Ankeny, Iowa

O'DONNELL, FICENEC, WILLS & FERDIG, LLP

August 7, 2007

By  _____
Certified Public Accountant

IOWA STORED ENERGY PLANT AGENCY
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED FEBRUARY 28, 2007

Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No Matters were noted.

REPORTABLE CONDITIONS:

No matters were noted.

Other Findings Related to Required Statutory Reporting

- (1) Questionable Expenses - No expenses that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.
- (2) Travel Expense - No expenditures of money for travel expenses of spouses of Iowa Stored Energy Plant Agency officials or employees were noted.
- (3) Board Minutes - No transactions were found that we believe should have been approved in the Administrative Board minutes but were not.
- (5) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted.