KPMG

NORTH IOWA MUNICIPAL ELECTRIC COOPERATIVE ASSOCIATION

Financial Statements

December 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

KPMG LLP
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Independent Auditors' Report

The Board of Directors
North Iowa Municipal Electric
Cooperative Association:

We have audited the accompanying balance sheets of the North Iowa Municipal Electric Cooperative Association (the Association) (a cooperative association incorporated in Iowa) as of December 31, 2008 and 2007, and the related statements of revenues and expenses, members' equities, 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 North Iowa Municipal Electric Cooperative Association as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Omaha, Nebraska
March 17, 2009

NORTH IOWA MUNICIPAL ELECTRIC
COOPERATIVE ASSOCIATION

Balance Sheets

December 31, 2008 and 2007

Assets		**2008**	**2007**
Property, plant, and equipment	$	156,171	75,313
Less accumulated depreciation		(64,840)	(58,997)
Net property, plant, and equipment		91,331	16,316
Other assets:			
Restricted cash and short-term investments		6,828,174	6,636,745
Deferred patronage dividends receivable:			
Corn Belt Power Cooperative		1,904,932	1,751,125
Memberships		200	200
Total other assets		8,733,306	8,388,070
Current assets:			
Cash and cash equivalents		330,693	428,468
Accounts receivable:			
Members		1,408,757	1,366,288
Other		5,417	5,417
Prepaid expenses		1,869	2,585
Total current assets		1,746,736	1,802,758
Total assets	$	10,571,373	10,207,144

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NORTH IOWA MUNICIPAL ELECTRIC COOPERATIVE ASSOCIATION

Balance Sheets

December 31, 2008 and 2007

Members' Equities and Liabilities		**2008**	**2007**
Members' equities:			
Memberships	$	1,200	1,200
North Iowa Municipal Electric Cooperative Association:			
Unallocated margin		8,015	16,027
Surplus		1,000	1,000
Reserve		384,565	402,349
Deferred patronage dividends:			
Corn Belt Power Cooperative		1,904,932	1,751,125
Iowa Association of Electric Cooperatives		260	260
Total members' equities		2,299,972	2,171,961
Long-term liabilities:			
Member advances		6,922,779	6,726,809
Current liabilities:			
Accounts payable:			
Corn Belt Power Cooperative		1,301,498	1,259,332
Members		18,746	17,715
Others		18,909	21,978
Accrued payroll taxes		6,372	6,259
Accrued vacation		3,097	3,090
Total current liabilities		1,348,622	1,308,374
Total members' equities and liabilities	$	10,571,373	10,207,144

See accompanying notes to financial statements.

NORTH IOWA MUNICIPAL ELECTRIC COOPERATIVE ASSOCIATION

Statements of Revenues and Expenses

Years ended December 31, 2008 and 2007

		2008	2007
Operating revenues:			
Sales	$	10,480,340	14,062,121
Service charges to members		265,371	224,056
Member dues		145,000	123,984
Total operating revenues		10,890,711	14,410,161
Operating expenses:			
Power purchased		10,480,340	14,062,121
Salaries and benefits		278,077	212,062
Administrative and general		153,656	132,191
Depreciation		19,761	13,571
Gain on sale of property, plant, and equipment		(11,655)	—
Total operating expenses		10,920,179	14,419,945
Operating deficit		(29,468)	(9,784)
Other income:			
Corn Belt Power Cooperative patronage dividend assigned		153,807	209,383
Interest and dividend income, net		18,499	30,532
Total other income		172,306	239,915
Net margin	$	142,838	230,131

See accompanying notes to financial statements.

NORTH IOWA MUNICIPAL ELECTRIC COOPERATIVE ASSOCIATION

Statements of Members' Equities

Years ended December 31, 2008 and 2007

			North Iowa Municipal Electric Cooperative Association			Deferred patronage dividends	
	Total	Memberships	Unallocated margin	Surplus	Reserve	Corn Belt Power Cooperative	Iowa Association of Electric Cooperatives
Balance, December 31, 2006	$ 2,038,963	1,200	40,990	1,000	342,238	1,653,275	260
2007 net margin	230,131	—	31,027	—	(10,279)	209,383	—
Payment of Corn Belt Power Cooperative deferred patronage dividend	(111,533)	—	—	—	—	(111,533)	—
Contribution by members	14,400	—	—	—	14,400	—	—
Transfers	—	—	(55,990)	—	55,990	—	—
Balance, December 31, 2007	2,171,961	1,200	16,027	1,000	402,349	1,751,125	260
2008 net margin	142,838	—	8,015	—	(18,984)	153,807	—
Dividends paid	(16,027)	—	(16,027)	—	—	—	—
Contribution by members	1,200	—	—	—	1,200	—	—
Balance, December 31, 2008	$ 2,299,972	1,200	8,015	1,000	384,565	1,904,932	260

See accompanying notes to financial statements.

NORTH IOWA MUNICIPAL ELECTRIC COOPERATIVE ASSOCIATION

Statements of Cash Flows

Years ended December 31, 2008 and 2007

		2008	2007
Cash flows from operating activities:			
Net margin	$	142,838	230,131
Adjustments to reconcile net margin to net cash provided by (used in) operating activities:			
Depreciation		19,761	13,571
Gain on sale of property, plant, and equipment		(11,655)	—
Corn Belt Power Cooperative patronage dividends assigned		(153,807)	(209,383)
Changes in assets and liabilities:			
Accounts receivable		(42,469)	30,635
Advances to Corn Belt – electric production fuel		—	118,119
Prepaid expenses		716	(968)
Accounts payable		40,128	(18,123)
Accrued payroll taxes		113	401
Accrued vacation		7	947
Working funds advanced by members net of amounts paid		4,541	(113,802)
Net cash provided by operating activities		173	51,528
Cash flows from investing activities:			
Additions to property, plant, and equipment		(98,864)	(7,013)
Proceeds for sale of property, plant, and equipment		15,743	—
Corn Belt Power Cooperative patronage dividends received		—	111,533
Net cash provided by (used in) investing activities		(83,121)	104,520
Cash flows from financing activities:			
Deferred patronage dividends paid		—	(111,533)
Dividends paid		(16,027)	—
Contribution from members		1,200	14,400
Net cash used in financing activities		(14,827)	(97,133)
Net increase (decrease) in cash		(97,775)	58,915
Cash and cash equivalents, beginning of year		428,468	369,553
Cash and cash equivalents, end of year	$	330,693	428,468

See accompanying notes to financial statements.

(1) Organization

North Iowa Municipal Electric Cooperative Association (NIMECA or the Association) consists of 12 member municipalities located in Iowa. NIMECA was formed in November 1965 to consolidate the electric resources of its member municipalities (members) and serve as a joint power supply for its members. NIMECA is the registered office and the Executive Vice President, James D. Milam, was the registered agent for 2008 as required under Iowa law for cooperative associations. As of January 1, 2009, the Chief Executive Officer and registered agent is Greg Fritz.

(2) Accounting Policies

(a) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management of the Association to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

(b) Revenue Recognition

NIMECA members are billed for their allocated portion of power used based upon actual usage during each month. Service charges to members and member dues are recognized monthly as services are provided. Accounts receivable are recovered at the invoiced amount.

(c) Property, Building, and Equipment

Property, building, and equipment consist of an office building, office equipment, and an automobile, recorded at cost. The provision for depreciation is computed using the straight-line method based on useful lives of three years for the office equipment and automobile. The building will be depreciated using the straight-line method based on useful lives of 20 years beginning in 2009.

(d) Restricted Cash and Short-Term Investments

Restricted cash and short-term investments consist of certificates of deposits and money market accounts restricted for NIMECA to meet certain obligations (see note 5).

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(e) Statements of Cash Flows

Because NIMECA is acting as an agent for its members in various transactions, as discussed in note 4, restricted cash and short-term investments are not considered cash for purposes of the statements of cash flows. The following are included in cash and cash equivalents on the accompanying balance sheets:

		2008	2007
Funds held by federally insured financial institutions, primarily demand deposit or money market accounts	$	103,380	189,402
Funds held in trust invested with Iowa Public Agency Investment Fund		227,313	239,066
Total cash and cash equivalents	$	330,693	428,468

(f) Income Taxes

NIMECA is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code as a cooperative association.

(g) New Accounting Pronouncement

On January 1, 2008, NIMECA adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements* (SFAS 157), for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 also establishes a framework for measuring fair value and expands disclosure about fair value measurements. FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2) delays the effective date of SFAS 157 until fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. In accordance with FSP 157-2, NIMECA will delay application of SFAS 157 for nonfinancial assets and nonfinancial liabilities until January 1, 2009.

(h) Reclassifications

Certain reclassifications have been made to 2007 amounts in order to conform to current year presentation.

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(3) Property, Building, and Equipment

Property, building, and equipment at December 31, 2008 and 2007 consist of the following:

		2008	2007
Building	$	64,374	—
Office equipment		61,932	58,548
Transportation		29,865	16,765
		156,171	75,313
Less accumulated depreciation		64,840	58,997
	$	91,331	16,316

(4) Power Supply and Sale Agreements

NIMECA has a power supply agreement with Corn Belt Power Cooperative (Corn Belt), which provides for the two entities to coordinate the use of their respective generation capabilities to provide the most economical source of power to their members.

Until June 1, 2007, NIMECA had a power supply lease agreement with Corn Belt to purchase the output of 7.5 megawatts (MWs) of capacity at Neal Generating Station Unit No. 4 (Neal No. 4). NIMECA was obligated to pay Corn Belt an amount equal to the interest, depreciation, and taxes on its percentage of capacity at Neal No. 4 during the periods of the agreement, whether or not Neal No. 4 operates as a generating unit. In addition, NIMECA was obligated to pay to Corn Belt an amount equal to all fuel, insurance, operations, and maintenance costs of the 7.5 MWs during the period of the agreement. Total costs incurred by NIMECA under this agreement were $0 and $556,987 in 2008 and 2007, respectively.

NIMECA has wholesale power sale agreements with four of its members for the sale of the output of the 7.5 MWs of Neal No. 4 described above. Each member is obligated to pay its proportionate entitlement share of all costs incurred by NIMECA relating to the Corn Belt/NIMECA power supply agreement.

On June 1, 2007, NIMECA and Corn Belt agreed to terminate the power supply lease agreement for the output of 7.5 MWs of capacity at Neal No. 4. In accordance with the agreement, all advanced and prepaid funds were returned to the participating NIMECA members.

NIMECA entered into a power supply lease agreement with Corn Belt for 35.29% (3.96 MWs) of the capacity and energy purchased by Corn Belt from FPL Energy Hancock County Wind, LLC (Hancock County Wind Project). NIMECA pays Corn Belt an amount equal to all payments for operations, maintenance, fixed costs, transmission, and all other economic burdens and responsibilities associated with the percentage of the Hancock County Wind Project as provided in the Corn Belt/FPL agreement. Total costs incurred by NIMECA under this agreement were $266,102 and $284,361 in 2008 and 2007, respectively.

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NIMECA also has entered into a power supply lease agreement with Corn Belt in December 2006 for 20% (4.20 MWs) of the capacity and energy purchased by Corn Belt from Green Prairie Energy LLC (Crosswinds Generators). NIMECA pays Corn Belt an amount equal to all payments for operations, maintenance, fixed costs, transmissions, and all other economic burdens and responsibilities associated with the percentage of the Crosswinds Generators as provided in the Corn Belt/Green Prairie Energy agreement. Total costs incurred by NIMECA under this agreement were $275,180 and $143,933 in 2008 and 2007, respectively.

NIMECA entered into a letter agreement with Corn Belt on February 28, 2007, which allows Corn Belt to act as NIMECA's agent with MidAmerican Energy Company in a Transmission Service Agreement (TSA) for the delivery of the participating NIMECA members output share of the Walter Scott No. 4.

NIMECA has an agreement with five (5) of its members for the TSA described above. Each participating member is obligated to pay its proportionate entitlement share of all costs incurred by NIMECA relating to the Corn Belt/NIMECA TSA Agreement.

(5) Members' Advances and Restricted Cash

Members participating in the wholesale power sale agreements for the output of Neal No. 4, described in note 4, advance funds to NIMECA based on their entitlement share of the Corn Belt/NIMECA power supply agreement. These advances are retained by NIMECA until the termination of the wholesale power sale agreements. These funds have been restricted by NIMECA to meet obligations related to the Corn Belt/NIMECA power supply agreement. NIMECA has made prepayments to Corn Belt for the purchase of electric production fuel under the power supply lease agreement using the advanced funds for the members' proportionate share of these costs. All advanced and prepaid funds were returned to the participating NIMECA members (see note 4).

In January 1989, in conjunction with the power supply agreement, NIMECA entered into a common transmission system (CTS) agreement to combine the transmission capacity of Corn Belt and the members of NIMECA. The agreement gave these members an undivided ownership interest in the existing transmission line capacity of Corn Belt. Contributions made in prior years to the transmission reserve fund were used to fund the initial capacity purchase. The board of directors established a CTS capital improvement fund (CTS Fund) to accumulate NIMECA's members' payments based on their percentage share of the capital improvements. The CTS Fund is then used to pay for capital improvements to the CTS.

In 1992, the Grundy Center production improvement fund (Grundy Center Fund) was established to pay for improvements to Grundy Center's generation facilities and withdrew $0 in 2008 for improvements.

In 1993, the West Bend production improvement fund (West Bend Fund) was established to pay for future improvements to West Bend's generation facilities and withdrew $0 in 2008 for improvements.

In 2008, NIMECA sold Renewable Energy Credits (RECs) from the Hancock County Wind Project. NIMECA set up an Emission Allowance Investment Fund that would be restricted to the use of payment for future emission purchases.

Corn Belt Cooperative, NIMECA, and Spencer Municipal Utilities (SMU) entered into a Generation Use Agreement for 12.5% (5.00 MWs) of Wisdom #2 Combustion Turbine Generating Station. SMU advanced funds to NIMECA based on their entitlement share of the Generation Use Agreement in the amount of $2,414,109. These advanced funds are retained by NIMECA until such time as the Generation Use Agreement is approved by Rural Utilities Service (RUS) and Basin Electric Cooperative. This fund has been restricted by NIMECA to meet the obligations related to the Generation Use Agreement, dated September 13, 2006.

The following table sets forth the activity and balances by restricted item within the restricted cash and short-term investments:

	Neal #4 lease	CTS Fund	Grundy Center Fund	West Bend Fund	Emission Allowances	Spencer Wisdom #2	Total
Balance, December 31, 2006	$ 244,237	2,668,768	895,427	274,644	—	2,435,180	6,518,256
Received from members, net	844,420	838,034	20,437	26,072	—	—	1,728,963
Transfers	(419,213)	—	152,468	(85,681)	—	—	(352,426)
Payments to Corn Belt	(677,237)	(940,404)	—	—	—	—	(1,617,641)
Interest	7,793	161,638	51,808	10,825	—	127,529	359,593
Balance, December 31, 2007	—	2,728,036	1,120,140	225,860	—	2,562,709	6,636,745
Received from members, net	—	518,071	19,702	26,050	38,426	—	602,249
Payments to Corn Belt	—	(612,367)	—	—	—	—	(612,367)
Interest	—	95,542	45,531	5,075	262	55,137	201,547
Balance, December 31, 2008	$ —	2,729,282	1,185,373	256,985	38,688	2,617,846	6,828,174

Restricted cash and short-term investments are held primarily in certificates of deposit. The remaining short-term investments are held by the Iowa Public Agency Investment Trust (the Trust). The Trust invests primarily in obligations of the U.S. government and its agencies.

(6) Fair Value Measurements

NIMECA adopted SFAS 157 on January 1, 2008 for fair value measurement of financial assets and financial liabilities and for fair value measurement of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that NIMECA has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

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.

The following table presents assets and liabilities that are measured at fair value on a recurring basis (including items that are required to be measured at fair value and items for which the fair value option has been elected) at December 31, 2008:

		Fair value measurements at December 31, 2008 using		
	December 31, 2008	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets:				
Cash and cash equivalents	$ 330,693	330,693	—	—
Restricted cash and short-term investments	6,828,174	6,828,174	—	—
Total	$ 7,158,867	7,158,867	—	—

(7) Accounts Receivable/Payable – Members

Several of NIMECA's members own or have ownership interests in electric generating facilities. When a member's generation exceeds its energy used during the month, the member receives a credit on its monthly billing.

As of December 31, 2008 and 2007, NIMECA's members owed amounts to NIMECA totaling $1,239,098 and $1,348,573, respectively, net of amounts due to members.

(8) Corn Belt Patronage Dividend

As a member of Corn Belt, NIMECA receives its proportionate share of any margin allocated to the Corn Belt members by the Corn Belt board of directors. These patronage dividends are payable in the future at the discretion of the Corn Belt board of directors. NIMECA is obligated to pay Corn Belt an amount equal to the patronage dividend allocated to NIMECA related to the lease of 7.5 MWs of capacity at Neal No. 4, the lease of 2 MWs of Neal No. 4 for Grundy Center, the lease of 3.96 MWs of capacity of the Hancock County Wind Project, the lease of 4.2 MWs of capacity of the Green Prairie Energy LLC (Crosswinds Generators), the Generation Use Agreement of 5.0 MWs of capacity of Wisdom #2 Combustion Turbine Generation Station, and the agreement for the delivery of the output of Walter Scott No. 4 for the participating NIMECA members (see notes 4 and 5). This payable is netted against the deferred patronage dividends receivable on the accompanying balance sheets. During 2008, NIMECA did not receive a payment from Corn Belt for deferred patronage. Corn Belt allocated $153,807 of deferred patronage to NIMECA for 2008. During 2007, NIMECA received a payment of $111,533 from Corn Belt for a portion of 1994 and 1995 deferred patronage. Corn Belt allocated $209,383 of deferred patronage to NIMECA for 2007.

(9) Allocation of Margin

Member contributions were received in 2008 and 2007 to finance the transition and employment of an additional person throughout their training period. The contributions ended as of January 2008. Twelve (12) members agreed to pay an additional $100 per month for a total of $1,200 and $14,400, in 2008 and 2007, respectively. These funds were allocated to the members' reserve to be utilized to fund these future transition and training costs. In 2008, $18,984 of related costs was paid from the members' reserve. The board also approved dividend payments totaling $16,027 from unallocated margin to the members, which was received in funds at their discretion. Additionally, in 2008, NIMECA had a margin of $8,016.

(10) Employee Benefits

NIMECA provides retirement benefits for its employees through the Iowa Public Employees Retirement System (IPERS), a state of Iowa multi-employer retirement plan. Contribution requirements are established by state statute. Plan members were required to contribute 3.90% for January through June and 4.10% for July through December of their annual covered salary and NIMECA was required to contribute 6.05% from January through June and 6.35% from July through December of annual covered payroll. The pension contributions expensed and paid by NIMECA for the years ended December 31, 2008 and 2007 totaled $12,782 and $9,324, respectively, and the contribution paid by employees totaled $8,246 and $6,006, respectively, equal to the required contributions for each year.

Monthly retirement benefits for NIMECA employees are computed based upon age, years of service, and earnings history.