



**NORTH IOWA MUNICIPAL ELECTRIC
COOPERATIVE ASSOCIATION**

Financial Statements

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 1000
1000 Walnut Street
Kansas City, MO 64106-2162

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, 2009 and 2008, 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, 2009 and 2008, 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

April 12, 2010

**NORTH IOWA MUNICIPAL ELECTRIC
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Balance Sheets

December 31, 2009 and 2008

Assets	2009	2008
Property, plant, and equipment	\$ 211,982	156,171
Less accumulated depreciation	(76,517)	(64,840)
Net property, plant, and equipment	<u>135,465</u>	<u>91,331</u>
Other assets:		
Restricted cash and short-term investments	7,751,505	6,828,174
Deferred patronage dividends receivable:		
Corn Belt Power Cooperative	2,213,654	1,904,932
Memberships	300	200
Total other assets	<u>9,965,459</u>	<u>8,733,306</u>
Current assets:		
Cash and cash equivalents	279,996	330,693
Accounts receivable:		
Members	862,723	1,408,757
Basin	255,977	—
Other	5,417	5,417
Prepaid expenses	1,965	1,869
Total current assets	<u>1,406,078</u>	<u>1,746,736</u>
Total assets	<u>\$ 11,507,002</u>	<u>10,571,373</u>

**NORTH IOWA MUNICIPAL ELECTRIC
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Balance Sheets

December 31, 2009 and 2008

Members' Equities and Liabilities	2009	2008
	<u> </u>	<u> </u>
Members' equities:		
Memberships	\$ 1,200	1,200
North Iowa Municipal Electric Cooperative Association:		
Unallocated margin	35,254	8,015
Surplus	1,000	1,000
Reserve	411,073	384,565
Deferred patronage dividends:		
Corn Belt Power Cooperative	2,213,654	1,904,932
Iowa Association of Electric Cooperatives	260	260
Total members' equities	<u>2,662,441</u>	<u>2,299,972</u>
Long-term liabilities:		
Member advances	7,834,460	6,922,779
Current liabilities:		
Accounts payable:		
Corn Belt Power Cooperative	759,260	1,301,498
Members	194,424	18,746
General	31,285	—
Others	14,722	18,909
Accrued payroll taxes	6,588	6,372
Accrued vacation	3,822	3,097
Total current liabilities	<u>1,010,101</u>	<u>1,348,622</u>
Total members' equities and liabilities	<u>\$ 11,507,002</u>	<u>10,571,373</u>

See accompanying notes to financial statements.

**NORTH IOWA MUNICIPAL ELECTRIC
COOPERATIVE ASSOCIATION**

Statements of Revenues and Expenses

Years ended December 31, 2009 and 2008

	2009	2008
Operating revenues:		
Sales	\$ 10,277,937	10,480,340
Service charges to members	274,275	265,371
Member dues	156,000	145,000
Total operating revenues	10,708,212	10,890,711
Operating expenses:		
Power purchased	10,277,937	10,480,340
Salaries and benefits	228,465	278,077
Administrative and general	194,921	153,656
Depreciation	20,125	19,761
Gain on sale of property, plant, and equipment	(65)	(11,655)
Total operating expenses	10,721,383	10,920,179
Operating deficit	(13,171)	(29,468)
Other income:		
Corn Belt Power Cooperative patronage dividend assigned	308,722	153,807
Interest and dividend income, net	4,185	18,499
Total other income	312,907	172,306
Net margin	\$ 299,736	142,838

See accompanying notes to financial statements.

**NORTH IOWA MUNICIPAL ELECTRIC
COOPERATIVE ASSOCIATION**

Statements of Members' Equities

Years ended December 31, 2009 and 2008

	Total	Memberships	North Iowa Municipal Electric Cooperative Association			Deferred patronage dividends	
			Unallocated margin	Surplus	Reserve	Corn Belt Power Cooperative	Iowa Association of Electric Cooperatives
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
2009 net margin	299,736	—	35,254	—	(44,240)	308,722	—
Additional margin allocated to reserve	—	—	(8,015)	—	8,015	—	—
Contribution by members	62,733	—	—	—	62,733	—	—
Balance, December 31, 2009	\$ <u>2,662,441</u>	<u>1,200</u>	<u>35,254</u>	<u>1,000</u>	<u>411,073</u>	<u>2,213,654</u>	<u>260</u>

See accompanying notes to financial statements.

**NORTH IOWA MUNICIPAL ELECTRIC
COOPERATIVE ASSOCIATION**

Statements of Cash Flows

Years ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Net margin	\$ 299,736	142,838
Adjustments to reconcile net margin to net cash provided by (used in) operating activities:		
Depreciation	20,125	19,761
Gain on sale of property, plant, and equipment	(65)	(11,655)
Corn Belt Power Cooperative patronage dividends assigned	(308,722)	(153,807)
Changes in assets and liabilities:		
Accounts receivable	290,057	(42,469)
Prepaid expenses	(96)	716
Accounts payable	(339,462)	40,128
Accrued payroll taxes	216	113
Accrued vacation	725	7
Working funds advanced by members net of amounts paid from restricted cash and short-term investments	(11,650)	4,541
Net cash provided by (used in) operating activities	(49,136)	173
Cash flows from investing activities:		
Additions to property, plant, and equipment	(64,259)	(98,864)
Proceeds for sale of property, plant, and equipment	65	15,743
Memberships paid	(100)	—
Net cash used in investing activities	(64,294)	(83,121)
Cash flows from financing activities:		
Dividends paid	—	(16,027)
Contribution from members	62,733	1,200
Net cash provided by (used in) financing activities	62,733	(14,827)
Net decrease in cash	(50,697)	(97,775)
Cash and cash equivalents, beginning of year	330,693	428,468
Cash and cash equivalents, end of year	\$ 279,996	330,693

See accompanying notes to financial statements.

**NORTH IOWA MUNICIPAL ELECTRIC
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Notes to Financial Statements

December 31, 2009 and 2008

(1) Organization

North Iowa Municipal Electric Cooperative Association (NIMECA or the Association) consists of 12 member municipalities and 1 contracted municipality 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.

Beginning February 1, 2009 NIMECA entered into a contractual relationship with Algona Municipal Utilities (Algona). The agreement treats Algona as if they were a member of NIMECA and includes Algona in the resources sharing between the NIMECA members.

(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, Plant, and Equipment

Property, plant, 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 and twenty years for the office building.

(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).

(e) Statements of Cash Flows

Cash and cash equivalents include highly liquid instruments with original maturities of three months or less when purchased. 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.

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Notes to Financial Statements

December 31, 2009 and 2008

The following are included in cash and cash equivalents on the accompanying balance sheets:

	2009	2008
Funds held by federally insured financial institutions, primarily demand deposit or money market accounts	\$ 32,726	103,380
Funds held in trust invested with Iowa Public Agency Investment Trust	247,270	227,313
Total cash and cash equivalents	\$ 279,996	330,693

(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.

Beginning with the adoption of new guidance included in FASB Accounting Standards Codification (ASC) Subtopic 740-10 - *Income Taxes - Overall* (formerly, FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*), as of January 1, 2009, NIMECA recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The adoption of this guidance had no impact on the financial statements.

(g) Fair Value Measurements

On January 1, 2008, NIMECA adopted the provisions of ASC Topic 820, *Fair Value Measurements and Disclosures* (formerly, FASB Statement No. 157, *Fair Value Measurements*), 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. ASC Topic 820 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. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements. On January 1, 2009, NIMECA adopted the provisions of ASC Topic 820 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

ASC Topic 820 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). As December 31, 2009 and 2008, respectively, NIMECA had cash and cash equivalents and restricted cash and short-term investments that are measured at fair value on a recurring basis, of \$8,031,501 and \$7,158,867, that are measured using level 1 inputs.

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December 31, 2009 and 2008

(3) Property, Plant, and Equipment

Property, plant, and equipment at December 31, 2009 and 2008 consist of the following:

	2009	2008
Building	\$ 116,542	64,374
Office equipment	65,575	61,932
Transportation	29,865	29,865
	211,982	156,171
Less accumulated depreciation	76,517	64,840
	\$ 135,465	91,331

(4) Power Supply and Sale Agreements

Through August 31, 2009, NIMECA had a power supply agreement with Corn Belt Power Cooperative (Corn Belt), which provided for the two entities to coordinate the use of their respective generation capabilities to provide the most economical source of power to their members. Beginning September 1, 2009 NIMECA entered into an agreement with Basin Electric Power Cooperative (Basin) and Corn Belt for to coordinate power supply operations. The agreement requires NIMECA to provide its own power supply resources and Basin to schedule and dispatch these resources and coordinate purchases and sales of generation capacity and energy through Corn Belt.

On behalf of its members, NIMECA entered into a power supply lease agreements 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) and 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, transmission, and all other economic burdens and responsibilities associated with the percentage of these respective projects. Total costs incurred by NIMECA under these agreements were \$582,293 and \$541,282 in 2009 and 2008, 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 of its members for the TSA. Each participating member is obligated to pay its proportionate entitlement share of all costs incurred by NIMECA relating to the TSA Agreement.

(5) Member Advances and Restricted Cash

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

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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.

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

In 2008 and 2009, 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. Sales of RECs for 2009 and 2008 were \$4,983 and \$44,249, respectively, net of commission fees.

Corn Belt, 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:

	<u>CTS Fund</u>	<u>Grundy Center Fund</u>	<u>West Bend Fund</u>	<u>Emission Allowance</u>	<u>Spencer Wisdom #2</u>	<u>Total</u>
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
Received from members, net	458,487	19,945	18,225	487,870	—	984,527
Payments to Corn Belt	(159,346)	—	—	—	—	(159,346)
Interest	60,162	26,355	971	937	9,725	98,150
Balance, December 31, 2009	<u>\$ 3,088,585</u>	<u>1,231,673</u>	<u>276,181</u>	<u>527,495</u>	<u>2,627,571</u>	<u>7,751,505</u>

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.

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December 31, 2009 and 2008

(6) 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, 2009 and 2008, NIMECA's members owed amounts to NIMECA totaling \$668,299 and \$1,390,011, respectively, net of amounts due to members.

(7) 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 2009 and 2008, respectively, NIMECA did not receive a payment from Corn Belt for deferred patronage and Corn Belt allocated \$308,722 and \$153,807 of deferred patronage to NIMECA.

(8) Allocation of Margin

In June 2009, the NIMECA board of directors authorized the implementation of a \$200 per month dues surcharge for each member to be deposited into the NIMECA legal reserve. The dues surcharge was implemented due to out-of-the-ordinary legal costs associated with the negotiation for the agreement with Basin and Corn Belt. The board of directors also authorized a portion of the proceeds from the surplus capacity sale to be deposited into the reserve account to develop an adequate reserve for future needs. During 2009, \$62,733 was collected due to this surcharge and capacity sale, and is recorded as contribution by members in the statement of members' equities and \$61,740 of costs was paid from the members' reserve and are recorded as administrative and general expenses in the statement of revenue and expenses.

During 2009 and 2008, respectively, NIMECA had a margin of \$35,254 and \$8,015 remaining in unallocated margin due to current operations. During 2009, \$8,015 of unallocated margin was transferred to reserve and \$17,500 of 2009 net margin was allocated to reserve. During 2008, the board also approved dividend payments totaling \$16,027 from unallocated margin to the members, which was received in funds at their discretion.

(9) 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. During 2009, plan members were required to contribute 4.10% for January through

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December 31, 2009 and 2008

June and 4.30% for July through December of their annual covered salary and NIMECA was required to contribute 6.35% from January through June and 6.65% from July through December of annual covered payroll. The pension contributions expensed and paid by NIMECA for the years ended December 31, 2009 and 2008 totaled \$10,691 and \$12,782, respectively, and the contribution paid by employees totaled \$6,908 and \$8,246, 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.

(10) Subsequent Events

NIMECA has evaluated subsequent events from the balance sheet date through April 12, 2010, the date at which the financial statements were available to be issued. Based on NIMECA's evaluation, no material events have occurred requiring disclosure.