

**NORTH IOWA MUNICIPAL ELECTRIC
COOPERATIVE ASSOCIATION**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

YEARS ENDED DECEMBER 31, 2010 AND 2009

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**North Iowa Municipal Electric
Cooperative Association**

List of Principal Officials

December 31, 2010 and 2009

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Brian Geschke	President	New Hampton Municipal Light
Brad Honold	First Vice President	Coon Rapids Municipal Utilities
Ronald Deiber	Second Vice President	Alta Municipal Utilities
Jeff Carson	Secretary	Grundy Center Municipal Utilities
Chad Cleveland	Treasurer	Laurens Municipal Light & Power
Ron Chapman	Ex Officio	Alta Municipal Utilities
John Blisten	Director	Algona Municipal Utilities
Brian Hatten	Director	Bancroft Municipal Utilities
Scott Tonderum	Director	Graettinger Municipal Light Plant
Eric Stoll	Director	Milford Municipal Utilities
Steve Pick	Director	Spencer Municipal Utilities
Alan Junkers	Director	Sumner Municipal Light Plant
Ken Wetzler	Director	City of Webster City
Jordan Petersen	Director	West Bend Municipal Utilities

Independent Auditor's Report

To the Board of Directors of North Iowa
Municipal Electric Cooperative Association:

We have audited the balance sheet of the North Iowa Municipal Electric Cooperative Association (the Association) (a cooperative association incorporated in Iowa) as of December 31, 2010, and the related statements of revenues and expenses, members' equities, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the North Iowa Municipal Electric Cooperative Association as of December 31, 2009, were audited by other auditors whose report dated April 12, 2010, expressed an unqualified opinion on those statements.

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 that our audit report provides a reasonable basis for our opinion.

In our opinion, 2010 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, 2010, and the results of its operations and its cash flows for the year then ended with conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated April 28, 2011 on our consideration of the North Iowa Municipal Electric Cooperative Association'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 internal control over financial reporting or 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.

Management's Discussion and Analysis and the Schedule of Funding Progress for the Retiree Health Plan on pages 4-7 and page 27 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

April 28, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The North Iowa Municipal Electric Cooperative Association (NIMECA) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended December 31, 2010. We encourage readers to consider this information in conjunction with the Association's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- ◆ The Association's operating revenues increased 23%, or \$2,457,879, from fiscal year 2009 to fiscal year 2010.
- ◆ The Association's operating expenses were 22%, or \$2,383,920, more in fiscal year 2010 than in fiscal year 2009.
- ◆ The Association's members' equities increased 8.68%, or \$231,328, from December 31, 2009 to December 31, 2010.

USING THIS ANNUAL REPORT

NIMECA is a cooperative association organized under Chapter 28E and Chapter 499 of the Iowa Code. NIMECA presents its financial statements using the accrual basis of accounting, which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to NIMECA's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Association's financial activities.

The Balance Sheets present information on the Association's assets, liabilities and members' equities. Over time, increases or decreases in members' equities may serve as a useful indicator of whether the financial position of the Association is improving or deteriorating.

The Statements of Revenues and Expenses is the basic statement of activities for proprietary funds. This statement presents information on the Association's operating revenues and expenses, non-operating revenues and expenses and whether the Association's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Association's cash and cash equivalents during the year. This information can assist readers of the report in determining how the Association financed its activities and how it met its cash requirements.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS OF THE ASSOCIATION

Balance Sheets

As noted earlier, members' equities may serve over time as a useful indicator of the Association's financial position. The Association's members' equities at the end of fiscal year 2010 totaled \$2,893,769. This compares to approximately \$2,662,411 at the end of fiscal year 2009. A summary of the Association's members' equities is presented below.

Assets	<u>2010</u>	<u>2009</u>
Property, plant, and equipment	\$ 226,511	211,982
Less accumulated depreciation	<u>(96,647)</u>	<u>(76,517)</u>
Net property, plant and equipment	129,864	135,465
Other assets	7,648,008	9,965,459
Current assets	<u>1,686,667</u>	<u>1,406,078</u>
Total assets	<u>9,464,539</u>	<u>11,507,002</u>
Members' Equities and Liabilities		
Current liabilities	1,153,417	1,010,101
Long-term liabilities	<u>5,417,353</u>	<u>7,834,460</u>
Total liabilities	6,570,770	8,844,561
Total members' equities	<u>2,893,769</u>	<u>2,662,441</u>
Total members' equities and liabilities	\$ <u>9,464,539</u>	<u>11,507,002</u>

Statement of Revenues and Expenses

Operating revenues are received for sales of electric power and related services along with a dues and service charge. Operating expenses are expenses related to the purchase of power and the operation of the NIMECA office. Non-operating revenues are for interest income and patronage dividends assigned by Corn Belt Power Cooperative. A summary of revenues, expenses for the years ended December 31, 2010 and 2009 is presented below.

Members' Equities and Liabilities	<u>2010</u>	<u>2009</u>
Operating revenues:	\$ 12,740,862	10,277,937
Sales	261,429	274,275
Member dues	<u>163,800</u>	<u>156,000</u>
Total operating revenues	<u>13,166,091</u>	<u>10,708,212</u>
Operating expenses:		
Power purchased	12,740,862	10,277,937
Salaries and benefits	241,698	228,465
Administrative and general	104,172	194,921
Depreciation	23,677	20,125
Gain on sale of property, plant, and equipment	<u>---</u>	<u>(65)</u>
Total operating expenses	<u>13,110,409</u>	<u>10,721,383</u>
Operating income (deficit)	<u>55,682</u>	<u>(13,171)</u>
Other income:		
Corn Belt Cooperative patronage dividend assigned	259,074	308,722
Interest and dividend income, net	<u>889</u>	<u>4,185</u>
Total other income	<u>259,963</u>	<u>312,907</u>
Net margin	<u>\$ 315,645</u>	<u>299,736</u>

The Statements of Revenues and Expenses reflect a positive year for NIMECA. The Balance Sheets show an increase in members' equities at the end of the fiscal year.

In fiscal year 2010, operating revenues increased \$2,457,879, or 23%. This was due to an increase in revenues from sale of power to member utilities. Revenues from member dues and service charges decreased \$5,046 from the previous year. Operating expenses increased \$2,383,920, or 22% due to increased power purchases. The cost of salaries, benefits, administrative and general for operation of the NIMECA office decreased by \$82,622 from the previous year. The Association's members' equities increased 8.68%, or \$231,328, during the fiscal year.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes power sales and member dues and service charges reduced by payments to employees and to suppliers. Cash used by investing activities includes the purchase of certificates of deposit and interest income.

CAPITAL ASSETS

At December 31, 2010, the Association had approximately \$129,864 invested in capital assets, net of accumulated depreciation of approximately \$96,647. Depreciation expense totaled \$23,677 for fiscal year 2010.

LONG-TERM DEBT

On December 31, 2010 NIMECA had no long-term debt.

ECONOMIC FACTORS

NIMECA continued to improve its financial position during the current fiscal year. However, the current condition of the economy and the uncertainty of environmental regulations are a concern for NIMECA officials. Some of the realities which may potentially become challenges for NIMECA to meet are:

- ◆ The slow economy impacts electricity sales by our member utilities. Many businesses have closed or have reduced their production which results in smaller energy purchases by our members. The slow economy has also reduced prices in the energy market which impacts revenues from the sale of surplus energy.
- ◆ There are many environmental issues facing NIMECA and its members. Renewable energy mandates, carbon taxes or carbon allowances, RICE regulations, mercury regulations, among others are items that could impact our members and their customers. Compliance with new regulations will increase the cost of energy.

NIMECA anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain our ability to react to unknown issues.

CONTACTING THE ASSOCIATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our members, customers and creditors with a general overview of NIMECA's finances and to show NIMECA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact NIMECA, 1011 12th Avenue North; P.O. Box 445; Humboldt, IA 50548.

Financial Statements

**North Iowa Municipal Electric
Cooperative Association**

Balance sheets

December 31, 2010 and 2009

Assets	2010	2009
Property, plant, and equipment	\$ 226,511	211,982
Less accumulated depreciation	(96,647)	(76,517)
Net property, plant and equipment	129,864	135,465
Other assets:		
Restricted cash and short-term investments	5,290,597	7,751,505
Deferred patronage dividends receivable:		
Corn Belt Power Cooperative	2,357,111	2,213,654
Memberships	300	300
Total other assets	7,648,008	9,965,459
Current assets:		
Cash and cash equivalents	399,191	279,996
Accounts receivable:		
Members	901,168	862,723
Basin	376,649	255,977
Other	6,660	5,417
Prepaid expenses	2,999	1,965
Total current assets	1,686,667	1,406,078
Total assets	\$ 9,464,539	11,507,002

**North Iowa Municipal Electric
Cooperative Association**

Balance Sheets

December 31, 2010 and 2009

Members' Equities and Liabilities	2010	2009
	<hr/>	<hr/>
Members' equities:		
Memberships	\$ 1,300	1,200
North Iowa Municipal Electric Cooperative Association:		
Unallocated margin	63,249	35,254
Surplus	1,000	1,000
Reserve	470,849	411,073
Deferred patronage dividends:		
Corn Belt Power Cooperative	2,357,111	2,213,654
Iowa Association of Electric Cooperatives	260	260
	<hr/>	<hr/>
Total members' equities	2,893,769	2,662,441
	<hr/>	<hr/>
Long-term liabilities:		
Member advances	5,412,247	7,834,460
Net OPEB Liability	5,106	-
	<hr/>	<hr/>
Total long-term liabilities	5,417,353	7,834,460
	<hr/>	<hr/>
Current liabilities:		
Accounts payable:		
Corn Belt Power Cooperative	910,450	759,260
Members	169,670	194,424
General	53,667	31,285
Others	8,577	14,722
Accrued payroll taxes	8,288	6,588
Accrued vacation	2,765	3,822
	<hr/>	<hr/>
Total current liabilities	1,153,417	1,010,101
	<hr/>	<hr/>
Total members' equities and liabilities	<u>\$ 9,464,539</u>	<u>11,507,002</u>

See accompanying notes to financial statements. 9

**North Iowa Municipal Electric
Cooperative Association**

Statements of Revenues and Expenses

Years ended December 31, 2010 and 2009

Members' Equities and Liabilities	<u>2010</u>	<u>2009</u>
Operating revenues:		
Sales	\$ 12,740,862	10,277,937
Service charges to members	261,429	274,275
Member dues	163,800	156,000
	<u>13,166,091</u>	<u>10,708,212</u>
Operating expenses:		
Power purchased	12,740,862	10,277,937
Salaries and benefits	241,698	228,465
Administrative and general	104,172	194,921
Depreciation	23,677	20,125
Gain on sale of property, plant, and equipment	-	(65)
	<u>13,110,409</u>	<u>10,721,383</u>
Operating income (deficit)	<u>55,682</u>	<u>(13,171)</u>
Other income:		
Corn Belt Cooperative patronage dividend assigned	259,074	308,722
Interest and dividend income, net	889	4,185
	<u>259,963</u>	<u>312,907</u>
Net margin	<u><u>\$ 315,645</u></u>	<u><u>299,736</u></u>

See accompanying notes to financial statements.

**North Iowa Municipal Electric
Cooperative Association**

Statements of Members' Equities

Years ended December 31, 2010 and 2009

	North Iowa Municipal Electric Cooperative Association						Deferred patronage dividends	
	Total	Memberships	Unallocated			Corn Belt Power Cooperative	Iowa Association of Electric Cooperatives	
			Margin	Surplus	Reserve			
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	-	-	
Contributions by members	62,733	-	-	-	62,733	-	-	
Balance, December 31, 2009	2,662,441	1,200	35,254	1,000	411,073	2,213,654	260	
2010 net margin	315,645	-	27,995	-	28,576	259,074	-	
Payment of Corn Belt Power Cooperative deferred patronage dividend	(115,617)	-	-	-	-	(115,617)	-	
Contribution by members	31,300	100	-	-	31,200	-	-	
Balance, December 31, 2010	<u>\$ 2,893,769</u>	<u>1,300</u>	<u>63,249</u>	<u>1,000</u>	<u>470,849</u>	<u>2,357,111</u>	<u>260</u>	

See accompanying notes to financial statements.

**North Iowa Municipal Electric
Cooperative Association**

Statements of Cash Flows

December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from customers	\$ 13,005,731	10,998,269
Cash paid to suppliers for goods and services	(12,696,589)	(10,812,200)
Cash paid to employees for services	(242,755)	(227,740)
Net cash provided by operating activities	66,387	(41,671)
Cash flows from investing activities:		
Additions to property, plant and equipment	(18,076)	(64,259)
Proceeds for sale of property, plant, and equipment	-	65
Corn Belt Power Cooperative patronage dividends received	115,617	-
Transfer from restricted	2,460,908	-
Transfer to restricted	-	(923,331)
Purchased of investments	-	-
Interest received	889	4,185
Memberships paid	-	(100)
Net cash provided by (used in) investing activities	2,559,338	(983,440)
Cash flows from financing activities:		
Deferred patronage dividends paid	(115,617)	-
Member advance deposits	-	911,681
Member advance payments	(2,422,213)	-
Contributions from members	31,300	62,733
Net cash provided by (used in) financing activities	(2,506,530)	974,414
Net increase (decrease) in cash	119,195	(50,697)
Cash and cash equivalents, beginning of year	279,996	330,693
Cash and cash equivalents, end of year	\$ 399,191	279,996

(continued)

**North Iowa Municipal Electric
Cooperative Association**

Statements of Cash Flows

December 31, 2010 and 2009

Reconciliation of operating income to net cash provided by operating activities:

Net margin	\$ 315,645	299,736
Adjustments to reconcile net margin to net cash provided by (used in) operating activities:		
Depreciation	23,677	20,125
Gain on sale of property, plant, and equipment	-	(65)
Corn Belt Power Cooperative patronage dividends assigned	(259,074)	(308,722)
Changes in assets and liabilities:		
Accounts receivable	(160,360)	290,057
Prepaid expenses	(1,034)	(96)
Accounts payable	142,673	(339,462)
Accrued payroll taxes	1,700	216
Accrued vacation	(1,057)	725
OPEB liability	5,106	-
Interest transferred to restricted funds	(889)	(4,185)
Net cash provided by (used in) operating activities	<u>\$ 66,387</u>	<u>(41,671)</u>

See accompanying notes to financial statements.

**North Iowa Municipal Electric
Cooperative Association**

Notes to Financial Statements

December 31, 2010

(1) Summary of Significant Accounting Policies

The North Iowa Municipal Electric Cooperative Association (NIMECA or the Association) was formed in 1965 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of NIMECA is to consolidate the electric resources of its member municipalities (members) and serve as a joint power supply for its members. NIMECA consists of 13 member municipalities. NIMECA is the registered office and the Chief Executive Officer, Greg Fritz, is the registered agent for 2010 and 2009.

Beginning February 1, 2009 NIMECA entered into a contractual relationship with Algona Municipal Utilities (Algona). The agreements treat Algona as if they were a member of NIMECA and includes Algona in the resource sharing between the NIMECA members. Due to a change in Iowa law, the NIMECA Board of Directors accepted Algona as a member of NIMECA, subject to all benefits, rules and regulations of membership effective July 13, 2010.

The financial statements of the North Iowa Municipal Electric Cooperative Association have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, NIMECA has included all funds, organizations, agencies, boards, commissions and authorities. NIMECA has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with NIMECA are such that exclusion would cause NIMECA's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of NIMECA to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on NIMECA. NIMECA has no component units which meet the Governmental Accounting Standards Board criteria.

**North Iowa Municipal Electric
Cooperative Association**

Notes to Financial Statements

December 31, 2010

B. Basis of Presentation

The accounts of NIMECA are organized 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 the costs (expenses, including depreciation) of providing goods or services to the general public 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

C. Measurement Focus

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

NIMECA applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

NIMECA 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 NIMECA's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

**North Iowa Municipal Electric
Cooperative Association**

Notes to Financial Statements

December 31, 2010

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.

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.

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.

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).

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 the purposes of the statements of cash flows.

**North Iowa Municipal Electric
Cooperative Association**

Notes to Financial Statements

December 31, 2010

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

	<u>2010</u>	<u>2009</u>
Funds held by federally insured financial institutions		
Primarily demand deposit or money market accounts	\$ 259,268	32,726
Funds held in trust invested with Iowa Public Agency		
Investment Trust	<u>139,923</u>	<u>247,270</u>
Total cash and cash equivalents	\$ <u>399,191</u>	<u>279,996</u>

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 of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being recognized. 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.

Subsequent Events – Subsequent events have been evaluated through April 28, 2011 which is the date the financial statements were available to be issued.

(2) Cash and Pooled Investments

NIMECA's deposits in banks at December 31, 2010 and 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

**North Iowa Municipal Electric
Cooperative Association**

Notes to Financial Statements

December 31, 2010

NIMECA 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 the City Council; 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.

In addition, NIMECA had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$5,430,521 and 7,998,775 for 2010 and 2009, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Credit risk – NIMECA’s investment in the Iowa Public Agency Investment Trust is unrated

(3) Property, Plant, and Equipment

A summary of property, plant and equipment at December 31, 2010 is as follows:

	Balance Beginning of Year	<u>Increases</u>	<u>Decreases</u>	Balance End of Year
Buildings	\$ 116,542	14,233	---	130,775
Office equipment	65,575	3,843	(3,547)	65,871
Transportation	<u>29,865</u>	<u>---</u>	<u>---</u>	<u>29,865</u>
Total capital assets	<u>211,982</u>	<u>18,076</u>	<u>(3,547)</u>	<u>226,511</u>
Less accumulated depreciation for:				
Buildings	6,030	6,741	---	12,771
Office equipment	50,577	6,981	(3,547)	54,011
Transportation	<u>19,910</u>	<u>9,955</u>	<u>---</u>	<u>29,865</u>
Total accumulated depreciation	<u>76,517</u>	<u>23,677</u>	<u>(3,547)</u>	<u>96,647</u>
Property, plant and equipment, net	\$ <u>135,465</u>	<u>(5,601)</u>	<u>---</u>	<u>129,864</u>

**North Iowa Municipal Electric
Cooperative Association**

Notes to Financial Statements

December 31, 2010

A summary of property, plant and equipment at December 31, 2009 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Buildings	\$ 64,374	52,168	---	116,542
Office equipment	61,932	12,090	(8,447)	65,575
Transportation	<u>29,865</u>	---	---	<u>29,865</u>
Total capital assets	<u>156,171</u>	<u>64,258</u>	<u>(8,447)</u>	<u>211,982</u>
Less accumulated depreciation for:				
Buildings	---	6,030	---	6,030
Office equipment	54,885	4,169	(8,447)	50,607
Transportation	<u>9,955</u>	<u>9,955</u>	---	<u>19,910</u>
Total accumulated depreciation	<u>64,840</u>	<u>20,154</u>	<u>(8,447)</u>	<u>76,547</u>
Property, plant and equipment, net	\$ <u>91,331</u>	<u>44,104</u>	<u>---</u>	<u>135,435</u>

(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 to coordinate power supply operations. The agreement requires NIMECA to provide its own power supply sources 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 agreement with Corn Belt for 35.29% (3.96 MWs) of the capacity and energy purchased by Corn Belt from FLP 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

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Notes to Financial Statements

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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 \$660,000 and \$582,293 in 2010 and 2009, 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 member's 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 cost 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 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 2010 and 2009, NIMECA sold Renewable Energy Credits (RECs) from the Hancock County Wind Project. NIMECA set up an Emissions Allowance Investment Fund that would be restricted to the use of payment for future emissions purchases. Sales of RECs for 2010 and 2009 were \$4,587 and \$4,983, respectively, net of commission fees.

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

	CTS <u>Fund</u>	Grundy Center <u>Fund</u>	West Bend <u>Fund</u>	Emission <u>Allowance</u>	Spencer Wisdom #2 <u>Wisdom #2</u>	<u>Total</u>
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	<u>60,162</u>	<u>26,355</u>	<u>971</u>	<u>937</u>	<u>9,725</u>	<u>98,150</u>
Balance, December 31, 2009	3,088,585	1,231,673	276,181	527,495	2,627,571	7,751,505
Received from members, net	601,572	26,675	23,214	12,433	---	663,894
Transfers	150,000	---	---	(150,000)	---	---
Patronage dividends	15,459	---	1,002	---	---	16,461
Payments to Corn Belt	(423,036)	---	---	---	(2,629,571)	(3,052,607)
Miscellaneous payments	(7,973)	---	---	---	---	(7,973)
Purchases	---	---	---	(143,127)	---	(143,127)
Interest	<u>46,204</u>	<u>13,735</u>	<u>242</u>	<u>263</u>	<u>2,000</u>	<u>62,444</u>
Balance, December 31, 2010	<u>\$ 3,470,811</u>	<u>1,272,083</u>	<u>300,639</u>	<u>247,064</u>	<u>---</u>	<u>5,290,597</u>

(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, 2010 and 2009, NIMECA's members owed amounts to NIMECA totaling \$731,498 and \$668,299, 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.

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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 2010, NIMECA received a payment of \$115,618 from Corn Belt for a portion of 1995 and 1996 deferred patronage. Corn Belt allocated \$259,074 of deferred patronage to NIMECA for 2010. During 2009, NIMECA did not receive a payment from Corn Belt for deferred patronage. Corn Belt allocated \$308,722 of deferred patronage to NIMECA for 2009.

(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 adequate reserve for future needs. During 2010 and 2009, \$31,200 and \$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 \$6,678 and \$61,740 of costs for 2010 and 2009, respectively, was paid from the members' reserve and are recorded as administrative and general expenses in the statement of revenues and expenses.

During 2010 and 2009, respectively, NIMECA had a margin of \$68,355 and \$35,254 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.

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(9) Pension and Retirement Benefits

NIMECA contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

During 2010, the plan members were required to contribute 4.3% for January through June and 4.5% for July through December of their annual covered salary and NIMECA is required to contribute 6.65% for January through June and 6.95% for July through December of annual covered payroll. NIMECA's contributions to IPERS for the years ended December 31, 2010 and 2009 were \$11,995 and \$8,246, respectively, equal to the required contributions for each year.

(10) Other Post-Employment Benefits (OPEB)

NIMECA implemented GASB Statement No. 45 Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions during the year ended December 31, 2010.

Plan description – NIMECA operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 2 active and 0 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy – The contribution requirements of plan members are established and may be amended by NIMECA. NIMECA currently finances the retiree benefit plan on a pay-as-you-go basis. NIMECA currently finances the benefit plan on a pay-as-you-go basis.

**North Iowa Municipal Electric
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Annual OPEB Cost and Net OPEB Obligation – NIMECA’s annual OPEB cost is calculated based on the annual required contribution (ARC) of NIMECA, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of NIMECA’s annual OPEB cost for the year ended December 31, 2010, the amount actually contributed to the plan and changes in the NIMECA’s net OPEB obligation:

Annual required contribution	\$ 5,106
Interest on net OPEB obligation	---
Adjustment to annual required contribution	<u>---</u>
Annual OPEB cost	5,106
Contributions made	<u>---</u>
Increase in net OPEB obligation	5,106
Net OPEB obligation beginning of year	<u>---</u>
Net OPEB obligation end of year	\$ <u>5,106</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as January 1, 2010. The end of year net OPEB obligation was calculated using the alternative measurement method by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended December 31, 2010.

For the year ended December 31, 2010, NIMECA contributed \$35,394 to the medical plan. Plan members eligible for benefits contributed \$2,470, or 6.97% of the premium costs.

NIMECA’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation as of December 31, 2010 are summarized as follows:

Year <u>Ended</u>	Annual <u>OPEB Cost</u>	Percentage of Annual OPEB <u>Cost Contributed</u>	Net OPEB <u>Obligation</u>
December 31, 2010	\$ 5,106	0 %	\$ 5,106

**North Iowa Municipal Electric
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Funded Status and Funding Progress – As of January 1, 2010, the most recent actuarial valuation date for the period January 1, 2010 through December 31, 2010, the actuarial accrued liability was \$26,820, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$26,820. The covered payroll (annual payroll of active employees covered by the plan was approximately \$176,400 and the ratio of the UAAL to covered payroll was 15.20%. As of December 31, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the December 31, 2010 actuarial valuation date, the Frozen Entry Age Actuarial Cost Method was used. A method, under which the excess of the Actuarial Present Value of Projected Benefits of the group included in an Actuarial Valuation, over the sum of the Actuarial Value of Assets plus the Unfunded Frozen Actuarial Accrued Liability, is allocated on a level basis over the earnings or service of the group between the valuation date and the assumed exit. This allocation is performed for the group as a whole, not a sum of individual allocations. The Frozen Actuarial Accrued Liability is determined using the Entry Age Actuarial Cost Method. The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost. Pay-as-you-go is the method of financing.

**North Iowa Municipal Electric
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Notes to Financial Statements

December 31, 2010

There is no vesting of OPEB benefits before retirement and only after retirement if plan benefits are elected and continued. Actuarial Gains/ (Losses) will reduce (increase) Normal costs and the Unfunded Actuarial Liability. This is a Closed Group Method that uses the Level Dollar Cost Method (benefits are not related to salary). The actuarial assumptions include a 2.5% discount rate based NIMECA's funding policy. The health cost trend rate is 6% per year.

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000 (2/3 Female, 1/3 Male). Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report and applying the termination factors used in the IPERS Actuarial Report.

Projected claim costs of the medical plan are \$0 per month for retirees less than age 65 and \$0 per month for retirees who have attained age 65. The UAAL is being amortized on a 30 year level dollar funding of the Actuarial Unfunded Liabilities. The actual plan funding method is pay-as-you-go which amortizes last year's loss into next year's normal cost.

(11) Compensated Absences

NIMECA employees accumulate a limited amount of earned but unused vacation and sick hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by NIMECA until used or paid. NIMECA's approximate liability for earned compensated absences payable to employees at December 31, 2010, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ <u>2,765</u>

This liability has been computed based on rates of pay in effect at December 31, 2010.

(12) Risk Management

NIMECA is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. NIMECA assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Required Supplementary Information

**North Iowa Municipal Electric
Cooperative Association
Schedule of Funding Progress for the
Retiree Health Plan
Required Supplementary Information**

Year Ended <u>December 31,</u>	Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) <u>(b)</u>	Unfunded AAL (UAAL) <u>(b - a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>(b-a/c)</u>
2010	January 1, 2010	-	\$ 26,820	\$ 26,820	0%	\$176,400	15%

See note 10 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards

To the Board of Directors of North Iowa
Municipal Electric Cooperative Association:

We have audited the accompanying financial statements of the North Iowa Municipal Electric Cooperative Association for the year ended December 31, 2010 and have issued our report thereon dated April 28, 2011. 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 the North Iowa Municipal Electric Cooperative Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the North Iowa Municipal Electric Cooperative Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Electric Cooperative Association's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and, therefore, there can be no assurance all deficiencies significant deficiencies or material weakness have been identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and a deficiency that we consider to be a significant deficiency.

A deficiency in internal control 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 material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the North Iowa Municipal Electric Cooperative Association's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-10 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-B-10 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Iowa Municipal Electric Cooperative Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards. However, we noted a certain immaterial instance of noncompliance which is described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Association's operations for the year ended December 31, 2010 are based exclusively on knowledge obtained from procedures performed during our audit on the financial statements of the Association. 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.

The North Iowa Municipal Electric Cooperative Association's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Association's responses, we did not audit the North Iowa Municipal Electric Cooperative Association'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 the officials, employees and citizens of the North Iowa Municipal Electric Cooperative Association's and other parties to whom the North Iowa Municipal Electric Cooperative Association may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the North Iowa Municipal Electric Cooperative Association during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

April 28, 2011

**North Iowa Municipal Electric
Cooperative Association**

Schedule of Findings

Year ended December 31, 2010

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of employees. However, the Association should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We continually review our procedures and have implemented a review and approval process by the Chief Executive Officer of all revenue posting journals and all disbursements.

Conclusion - Response accepted.

I-B-10 Preparation of Financial Statements – Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP). NIMECA does not have an internal control system designed to provide for the preparation of the financial statements, including accompanying footnotes and statements of cash flows, as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in and Audit*, requires us to communicate this matter to those charged with governance.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

**North Iowa Municipal Electric
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Schedule of Findings

Year ended December 31, 2010

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with generally accepted accounting principles can be considered costly and ineffective. However, it is the responsibility of the NIMECA’s management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – Management feels that committing the time necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

Part II: Other Findings Related to Statutory Reporting:

- II-A-10 Questionable Disbursements – No expenses we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- II-B-10 Travel Expense – No expenditures of Association money for travel expenses of spouses of Association officials or employees were noted.
- II-C-10 Association Minutes – No transactions were found that we believe should have been approved in the Association minutes but were not.

**North Iowa Municipal Electric
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Schedule of Findings

Year ended December 31, 2010

II-D-10 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted. However, NIMECA's Depository Resolution has not been updated to reflect the current depository institutions being used or for the maximum amount authorized and the maximum amount authorized was exceeded.

Recommendation – The Association should adopt a new depository resolution to include the current depository institutions and increase the maximum amount which may be deposited to a sufficient amount.

Response – We will review and revise our depository resolution.

Conclusion – Response accepted.