

**NORTH IOWA MUNICIPAL ELECTRIC
COOPERATIVE ASSOCIATION**

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

YEARS ENDED DECEMBER 31, 2012 AND 2011

Table of Contents

	<u>Page</u>
List of Principal Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-8
Basic Financial Statements:	
Balance Sheets	9-10
Statements of Revenues and Expenses	11
Statements of Members' Equities	12
Statements of Cash Flows	13-14
Notes to Financial Statements	15-27
Required Supplementary Information:	
Schedule of Funding Progress for the Retiree Health Plan	28
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 <u>Government Auditing Standards</u>	29-30
Schedule of Findings	31-32

**North Iowa Municipal Electric
Cooperative Association**

List of Principal Officials

December 31, 2012

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

Cornwell, Frideres, Maher & Associates, P.L.C.

Certified Public Accountants

714 14th Avenue North
Fort Dodge, IA 50501-7098
Phone 515.955.4805 • Fax 515.955.4673

Lowell W. Cornwell, C.P.A.
lwcornwell@frontiernet.net

Christine R. Frideres, C.P.A.
crfrideres@frontiernet.net

Jerilyn J. Maher, C.P.A.
jjmaher@frontiernet.net

Independent Auditor's Report

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

We have audited the accompanying financial statements of North Iowa Municipal Electric Cooperative Association (the Association) (a cooperative association incorporated in Iowa) which comprise the Balance Sheets as of December 31, 2012 and 2011, and the related statements of revenues and expenses, members' equities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Association's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended with conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our reports dated April 5, 2013 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.

Accounting principles generally accepted in the United States of America, require Management's Discussion and Analysis and the Schedule of Funding Progress for the Retiree Health Plan on pages 4-8 and page 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Cornwell, Frideres, Maher & Associates, P.L.C.

Cornwell, Frideres, Maher & Associates, P.L.C.

Certified Public Accountants

Fort Dodge, Iowa

April 5, 2013

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, 2012. We encourage readers to consider this information in conjunction with the Association's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- ◆ The Association's operating revenues decreased 2.7%, or \$326,414, from fiscal year 2011 to fiscal year 2012.
- ◆ The Association's operating expenses were 3.6%, or \$439,208, less in fiscal year 2012 than in fiscal year 2011.
- ◆ The Association's net assets (members' equities) increased 16.6%, or \$560,812, from December 31, 2011 to December 31, 2012.

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 Statement of Net Assets presents information on the Association's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Association is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets 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

Statement of Net Assets

As noted earlier, net assets (members' equities) may serve over time as a useful indicator of the Association's financial position. The Association's net assets at the end of fiscal year 2012 totaled \$3,947,400. This compares to approximately \$3,386,588 at the end of fiscal year 2011. A summary of the Association's net assets is presented below.

Assets	2012	2011
Property, plant, and equipment	\$ 221,729	\$ 220,410
Less accumulated depreciation	(87,027)	(103,625)
Net property, plant and equipment	<u>134,702</u>	<u>116,785</u>
Other assets	8,182,835	7,339,098
Current assets	<u>2,098,807</u>	<u>1,706,592</u>
Total assets	<u>\$10,416,344</u>	<u>\$ 9,162,475</u>
Liabilities and Net Assets		
Current liabilities	1,238,532	1,008,972
Long-term liabilities	<u>5,230,412</u>	<u>4,766,915</u>
Total Liabilities	6,468,944	5,775,887
Total Members' Equities	<u>3,947,400</u>	<u>3,386,588</u>
Total Liabilities and Net Assets	<u>10,416,344</u>	<u>9,162,475</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, 2012 and 2011 is presented below.

Revenues and Expenses	2012	2011
Operating revenues:		
Sales	\$9,829,280	\$11,740,904
Sales of Whelan #2	1,631,317	-
Service charges to members	230,215	260,722
Member dues	148,200	163,800
	<hr/>	<hr/>
Total operating revenues	11,839,012	12,165,426
Operating expenses:		
Power purchased	9,829,280	11,740,904
Purchased power - Whelan #2	1,536,009	-
Salaries and benefits	202,306	213,948
Administrative and general	71,262	123,401
Depreciation	13,267	13,079
	<hr/>	<hr/>
Total operating expenses	11,652,124	12,091,332
Operating income (deficit)	186,888	74,094
Other income:		
Corn Belt Cooperative patronage dividend assigned	522,388	538,413
Interest and dividend income, net	1,641	2,185
Gain on sale of assets	7,800	-
	<hr/>	<hr/>
Total other income	531,829	540,598
Net margin	\$718,717	\$614,692

The Statement of Revenues and Expenses reflects a positive year for NIMECA. Net Assets shows an increase in members' equities at the end of the fiscal year.

In fiscal year 2012, operating revenues decreased \$326,414, or 2.7%. \$280,307 of this was due to a decrease in revenues from sales of power to member utilities. The remaining revenue decrease was due to levies for member dues and service charges being lowered in 2012 resulting in a decrease of \$46,107 from the previous year. Operating expenses decreased \$439,208, or 3.6%. \$375,615 of this decrease was due to a lower purchased power costs. The cost of salaries, benefits, administrative and general for operation of the NIMECA office decreased by \$63,781 from the previous year primarily due to the elimination of a staff position.

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

On December 31, 2012, the Association had approximately \$134,702 invested in capital assets, net of accumulated depreciation of approximately \$87,027. Depreciation expense totaled \$13,267 for fiscal year 2012.

LONG-TERM DEBT

On December 31, 2012 NIMECA had no long-term debt.

ECONOMIC AND OTHER FACTORS

NIMECA continued to improve its financial position during the current fiscal year. However, the current condition of the economy, the uncertainty of environmental regulations, the variability of the weather, and energy market changes are all items watched closely by NIMECA officials. Some of the realities which may potentially become challenges for NIMECA and its members to meet are:

- ◆ The slow economy impacts electricity sales by our member utilities. 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.

- ◆ Weather variability plays a big role in sales to member utilities. The winter months of 2012 were warm and the last several months of 2012 were abnormally dry and warm. This led to decreased electricity sales for home heating and grain drying.
- ◆ NIMECA and its members operate in the Western Area Power Administration (WAPA) Control Area. WAPA and its partners, Basin Electric Power Cooperative and Heartland Consumers Power District, are considering entry into a Regional Transmission Organization (RTO). Entry into an RTO will lead to changes in operations including how we purchase and sell energy, operate generation facilities, and make transmission investments.

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, 2012 and 2011

Assets	2012	2011
	<u> </u>	<u> </u>
Property, plant, and equipment	\$ 221,729	\$ 220,410
Less accumulated depreciation	(87,027)	(103,625)
Net property, plant and equipment	<u>134,702</u>	<u>116,785</u>
 Other assets:		
Restricted cash and short-term investments	5,044,401	4,565,147
Deferred patronage dividends receivable:		
Corn Belt Power Cooperative	3,138,134	2,773,651
Memberships	300	300
Total other assets	<u>8,182,835</u>	<u>7,339,098</u>
 Current assets:		
Cash and cash equivalents	1,016,091	669,351
Accounts receivable:		
Members	923,217	950,979
Basin	152,269	79,092
Other	5,417	5,417
Prepaid expenses	<u>1,813</u>	<u>1,753</u>
Total current assets	<u>2,098,807</u>	<u>1,706,592</u>
Total assets	<u><u>\$ 10,416,344</u></u>	<u><u>\$ 9,162,475</u></u>

(continued)

**North Iowa Municipal Electric
Cooperative Association**

Balance Sheets

December 31, 2012 and 2011

Members' Equities and Liabilities	2012	2011
	<u> </u>	<u> </u>
Members' equities:		
Memberships	\$ 1,300	\$ 1,300
North Iowa Municipal Electric Cooperative Association:		
Unallocated margin	196,330	109,779
Surplus	1,000	1,000
Reserve	610,376	500,598
Deferred patronage dividends:		
Corn Belt Power Cooperative	3,138,134	2,773,651
Iowa Association of Electric Cooperatives	260	260
	<u>3,947,400</u>	<u>3,386,588</u>
Long-term liabilities:		
Member advances	5,214,044	4,756,575
Net OPEB Liability	16,368	10,340
Total long-term liabilities	<u>5,230,412</u>	<u>4,766,915</u>
Current liabilities:		
Accounts payable:		
Corn Belt Power Cooperative	971,954	816,478
Members	124,306	113,813
General	127,394	65,194
Others	5,900	6,485
Accrued payroll taxes	6,740	5,319
Accrued vacation	2,238	1,683
	<u>1,238,532</u>	<u>1,008,972</u>
Total current liabilities	<u>1,238,532</u>	<u>1,008,972</u>
Total members' equities and liabilities	<u><u>\$ 10,416,344</u></u>	<u><u>\$ 9,162,475</u></u>

See accompanying notes to financial statements. 10

**North Iowa Municipal Electric
Cooperative Association**

Statements of Revenues and Expenses

Years ended December 31, 2012 and 2011

	2012	2011
Operating revenues:		
Sales	\$ 9,829,280	\$ 11,740,904
Sale of Whelan #2	1,631,317	-
Service charges to members	230,215	260,722
Member dues	148,200	163,800
Total operating revenues	11,839,012	12,165,426
Operating expenses:		
Power purchased	9,829,280	11,740,904
Purchased power - Whelan #2	1,536,009	-
Salaries and benefits	202,306	213,948
Administrative and general	71,262	123,401
Depreciation	13,267	13,079
Total operating expenses	11,652,124	12,091,332
Operating income (deficit)	186,888	74,094
Other income:		
Corn Belt Cooperative patronage dividend assigned	522,388	538,413
Interest and dividend income, net	1,641	2,185
Gain on sale of assets	7,800	-
Total other income	531,829	540,598
Net margin	\$ 718,717	\$ 614,692

See accompanying notes to financial statements.

**North Iowa Municipal Electric
Cooperative Association**

Statements of Members' Equities

Years ended December 31, 2012 and 2011

	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, 2010	\$ 2,893,769	1,300	63,249	1,000	470,849	2,357,111	260	
2011 net margin	614,692	-	46,530	-	29,749	538,413	-	
Payment of Corn Belt Power Cooperative deferred patronage dividend	(121,873)	-	-	-	-	(121,873)	-	
Balance, December 31, 2011	<u>3,386,588</u>	<u>1,300</u>	<u>109,779</u>	<u>1,000</u>	<u>500,598</u>	<u>2,773,651</u>	<u>260</u>	
2012 net margin	718,717	-	86,551	-	109,778	522,388	-	
Payment of Corn Belt Power Cooperative deferred patronage dividend	(157,905)	-	-	-	-	(157,905)	-	
Balance, December 31, 2012	<u><u>\$ 3,947,400</u></u>	<u><u>1,300</u></u>	<u><u>196,330</u></u>	<u><u>1,000</u></u>	<u><u>610,376</u></u>	<u><u>3,138,134</u></u>	<u><u>260</u></u>	

See accompanying notes to financial statements.

**North Iowa Municipal Electric
Cooperative Association**

Statements of Cash Flows

December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from customers	\$ 11,793,597	\$ 12,414,415
Cash paid to suppliers for goods and services	(11,207,606)	(12,006,422)
Cash paid to employees for services	(195,723)	(209,796)
Net cash provided by operating activities	390,268	198,197
Cash flows from investing activities:		
Additions to property, plant and equipment	(31,184)	-
Corn Belt Power Cooperative patronage dividends received	157,905	121,873
Transfer (to)/from restricted	(479,254)	725,450
Gain on sale of equipment	7,800	-
Interest received	1,641	2,185
Net cash provided by (used in) investing activities	(343,092)	849,508
Cash flows from financing activities:		
Deferred patronage dividends paid	(157,905)	(121,873)
Member advance/(payments)	457,469	(655,672)
Net cash provided by (used in) financing activities	299,564	(777,545)
Net increase (decrease) in cash	346,740	270,160
Cash and cash equivalents, beginning of year	669,351	399,191
Cash and cash equivalents, end of year	<u>\$ 1,016,091</u>	<u>\$ 669,351</u>

(continued)

**North Iowa Municipal Electric
Cooperative Association**

Statements of Cash Flows

December 31, 2012 and 2011

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

Net margin	\$ 718,717	\$ 614,692
Adjustments to reconcile net margin to net cash provided by (used in) operating activities:		
Depreciation	13,267	13,079
Corn Belt Power Cooperative patronage dividends assigned	(522,388)	(538,413)
Gain on sale of assets	(7,800)	-
Changes in assets and liabilities:		
Accounts receivable	(45,415)	248,989
Prepaid expenses	(60)	1,246
Accounts payable	227,584	(140,394)
Accrued payroll taxes	1,421	(2,969)
Accrued vacation	555	(1,082)
OPEB liability	6,028	5,234
Interest transferred to restricted funds	(1,641)	(2,185)
Net cash provided by (used in) operating activities	<u>\$ 390,268</u>	<u>\$ 198,197</u>

See accompanying notes to financial statements.

**North Iowa Municipal Electric
Cooperative Association**

Notes to Financial Statements

December 31, 2012

(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 2012 and 2011.

The financial statements of the North Iowa Municipal Electric Cooperative Association have been prepared in conformity with accounting principles generally accepted in the United States of America (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, 2012

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, 2012

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted 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 5, 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, 2012

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.

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.

Subsequent Events – Subsequent events have been evaluated through April 5, 2013 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, 2012 and 2011 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.

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 Board of Directors; 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.

**North Iowa Municipal Electric
Cooperative Association**

Notes to Financial Statements

December 31, 2012

(3) Property, Plant, and Equipment

A summary of property, plant and equipment at December 31, 2012 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Buildings	\$ 130,775	-	-	130,775
Office equipment	59,770	-	-	59,770
Transportation	29,865	31,184	(29,865)	31,184
Total capital assets	<u>220,410</u>	<u>31,184</u>	<u>(29,865)</u>	<u>221,729</u>
Less accumulated depreciation for:				
Buildings	19,512	6,741	-	26,253
Office equipment	54,248	4,793	-	59,041
Transportation	29,865	1,733	(29,865)	1,733
Total accumulated depreciation	<u>103,625</u>	<u>13,267</u>	<u>(29,865)</u>	<u>87,027</u>
Property, plant and equipment, net	<u>\$ 116,785</u>	<u>17,917</u>	<u>-</u>	<u>134,702</u>

A summary of property, plant and equipment at December 31, 2011 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Buildings	\$ 130,775	-	-	130,775
Office equipment	65,871	-	(6,101)	59,770
Transportation	29,865	-	-	29,865
Total capital assets	<u>226,511</u>	<u>-</u>	<u>(6,101)</u>	<u>220,410</u>
Less accumulated depreciation for:				
Buildings	12,771	6,741	-	19,512
Office equipment	54,011	6,338	(6,101)	54,248
Transportation	29,865	-	-	29,865
Total accumulated depreciation	<u>96,647</u>	<u>13,079</u>	<u>(6,101)</u>	<u>103,625</u>
Property, plant and equipment, net	<u>\$ 129,864</u>	<u>(13,079)</u>	<u>-</u>	<u>116,785</u>

**North Iowa Municipal Electric
Cooperative Association**

Notes to Financial Statements

December 31, 2012

(4) Power Supply and Sale Agreements

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. This agreement was amended on August 31, 2011 to establish and define the terms and conditions of the operational relationship among Corn Belt, NIMECA, and Basic Electric relating to NIMECA generation resource and loads. Effective November 1, 2011, the amended agreement dated August 31, 2011 was amended to reflect an increased ownership of NIMECA's interest in Walter Scott Unit 4.

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 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 \$757,714 and \$720,538 in 2012 and 2011, respectively.

On December 15, 2010 NIMECA entered into a power purchase agreement with Heartland Consumers Power District (Heartland), a South Dakota public corporation. Heartland is a member of the Public Power Generation Agency (PPA), owner of the Whelan Unit 2 generating facility located near Hastings, Nebraska. Whelan Unit 2 is interconnected to the Southwest Power Pool transmission network. Under the agreement, NIMECA can purchase between 3 MW and 20 MW of Whelan Unit 2 capacity and energy. On January 31, 2011, NIMECA entered into a power brokerage agreement with Heartland in which Heartland will act as NIMECA's exclusive broker of NIMECA's purchased power under the PPA. The term of the agreement commenced on the Commercial Operation Date, May 1, 2011 and expired on January 1, 2012 at which time NIMECA took delivery of the Whelan capacity and energy.

**North Iowa Municipal Electric
Cooperative Association**

Notes to Financial Statements

December 31, 2012

(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 2012 and 2011, 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 allowance purchases. Sales of RECs for 2012 and 2011 were \$6,367 and \$2,074, respectively, net of commission fees.

In 2011, the Whelan 2 Reserve Fund was established per the purchase power agreement with Heartland Consumers Power District (Heartland). The purpose of this fund is to accumulate an amount approximately equal to NIMECA's obligations under the agreement for a three month period.

**North Iowa Municipal Electric
Cooperative Association**

Notes to Financial Statements

December 31, 2012

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

	CTS Fund	Grundy Center Fund	West Bend Fund	Emission Allowance	Whelan #2	Total
Balance, December 31, 2010	\$ 3,470,811	1,272,083	300,639	247,064	-	5,290,597
Received from members, net	542,088	53,418	25,324	3,413	338,620	962,863
Transfers	-		(21,167)	(87,300)	108,467	-
Patronage dividends	12,523	-	1,105	-	-	13,628
Payments to Corn Belt	(960,478)	-	-	-	-	(960,478)
Miscellaneous payments	(293,500)	(353,803)	-	-	-	(647,303)
Purchases	-	-	(140,000)	-	-	(140,000)
Interest	33,866	10,174	493	401	906	45,840
Balance, December 31, 2011	2,805,310	981,872	166,394	163,578	447,993	4,565,147
Received from members, net	554,295	50,918	25,324	8,579	227,788	866,904
Transfers	-		(8,877)	-	8,877	-
Patronage dividends	15,073	-	1,392	-	-	16,465
Payments to Corn Belt	(417,135)	-	-	-	-	(417,135)
Miscellaneous payments	(13,095)	-	-	-	-	(13,095)
Purchases	-	-	-	-	-	-
Interest	20,325	2,996	514	504	1,776	26,115
Balance, December 31, 2012	<u>\$ 2,964,773</u>	<u>1,035,786</u>	<u>184,747</u>	<u>172,661</u>	<u>686,434</u>	<u>5,044,401</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, 2012 and 2011, NIMECA's members owed amounts to NIMECA totaling \$798,911 and \$837,166, respectively, net of amounts due to members.

**North Iowa Municipal Electric
Cooperative Association**

Notes to Financial Statements

December 31, 2012

(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 2012, NIMECA received a payment of \$157,905 from Corn Belt for a portion of 1997 and 1998 deferred patronage. Corn Belt allocated \$522,388 of deferred patronage to NIMECA for 2012. During 2011, NIMECA received a payment of \$121,873 from Corn Belt for a portion of 1996 and 1997 deferred patronage. Corn Belt allocated \$538,413 of deferred patronage to NIMECA for 2011.

(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 2011, the board of directors determined the legal reserve had reached a sufficient balance and voted to eliminate the \$200 dues surcharge.

During 2012 and 2011, respectively, NIMECA had a margin of \$196,330 and \$109,779 remaining in unallocated margin due to current operations. During 2011, \$109,779 of unallocated margin was transferred to reserve.

**North Iowa Municipal Electric
Cooperative Association**

Notes to Financial Statements

December 31, 2012

(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 2011, the plan members were required to contribute 5.38% for January through June and 6.95% for July through December of their annual covered salary and NIMECA is required to contribute 8.07% for January through June and 8.67% for July through December of annual covered payroll. NIMECA's contributions to IPERS for the years ended December 31, 2012 and 2011 were \$11,988 and \$10,567, 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
Cooperative Association**

Notes to Financial Statements

December 31, 2012

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, 2012, the amount actually contributed to the plan and changes in the NIMECA’s net OPEB obligation:

Annual required contribution	\$ 6,326
Interest on net OPEB obligation	259
Adjustment to annual required contribution	<u>(557)</u>
Annual OPEB cost	6,028
Contributions made	<u>---</u>
Increase in net OPEB obligation	6,028
Net OPEB obligation beginning of year	<u>10,340</u>
Net OPEB obligation end of year	\$ <u>16,368</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, 2012.

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

Year Ended <u>December 31,</u>	Annual <u>OPEB Cost</u>	Percentage of Annual OPEB <u>Cost Contributed</u>	Net OPEB <u>Obligation</u>
2010	\$ 5,106	0.00%	\$ 5,106
2011	5,234	0.00%	10,340
2012	6,028	0.00%	16,368

**North Iowa Municipal Electric
Cooperative Association**

Notes to Financial Statements

December 31, 2012

Funded Status and Funding Progress – As of January 1, 2010, the most recent actuarial valuation date for the period January 1, 2012 through December 31, 2012, the actuarial accrued liability was \$38,778, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$38,778. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$143,222 and the ratio of the UAAL to covered payroll was 18.73%. As of December 31, 2012, 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
Cooperative Association**

Notes to Financial Statements

December 31, 2012

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, 2012, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ <u>2,238</u>

This liability has been computed based on rates of pay in effect at December 31, 2012.

(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	-	\$ 12,604	\$ 12,604	-	\$ 176,400	7.15%
2011	January 1, 2010	-	26,820	26,820	-	139,050	19.29%
2012	January 1, 2010	-	38,778	38,778	-	143,222	27.08%

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.

Cornwell, Frideres, Maher & Associates, P.L.C.

Certified Public Accountants

714 14th Avenue North
Fort Dodge, IA 50501-7098
Phone 515.955.4805 • Fax 515.955.4673

Lowell W. Cornwell, C.P.A.
lwcornwell@frontiernet.net

Christine R. Frideres, C.P.A.
crfrideres@frontiernet.net

Jerilyn J. Maher, C.P.A.
jjmaher@frontiernet.net

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, 2012 and have issued our report thereon dated April 5, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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

The management of North Iowa Municipal Electric Cooperative Association is responsible for establishing and maintaining effective 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-12 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-12 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.

Comments involving statutory and other legal matters about the Association's operations for the year ended December 31, 2012 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.
Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants
Fort Dodge, Iowa

April 5, 2013

**North Iowa Municipal Electric
Cooperative Association**

Schedule of Findings

Year ended December 31, 2012

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-12 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-12 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 accounting principles generally accepted in the United States of America (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
Cooperative Association**

Schedule of Findings

Year ended December 31, 2012

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-12 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-12 Travel Expense – No expenditures of Association money for travel expenses of spouses of Association officials or employees were noted.
- II-C-12 Association Minutes – No transactions were found that we believe should have been approved in the Association minutes but were not.
- II-D-12 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.