

**NORTH IOWA MUNICIPAL ELECTRIC  
COOPERATIVE ASSOCIATION**

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

**YEARS ENDED DECEMBER 31, 2015 AND 2014**

## Table of Contents

	<u>Page</u>
List of Principal Officials	1
Independent Auditor's Report	2-4
Management's Discussion and Analysis	5-9
Basic Financial Statements:	
Statements of Net Position	10-11
Statements of Revenues and Expenses	12
Statements of Members' Equities	13
Statements of Cash Flows	14-15
Notes to Financial Statements	16-35
Required Supplementary Information:	
Schedule of the Association's Proportionate Share of the Net Pension Liability	36
Schedule of the Association's Contributions	37
Notes to Required Supplementary Information - Pension Liability	38-39
Schedule of Funding Progress for the Retiree Health Plan	40
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>	41-42
Schedule of Findings	43-44

**North Iowa Municipal Electric  
Cooperative Association**

**List of Principal Officials**

**December 31, 2015**

<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
Eric Stoll	Secretary	Milford Municipal Utilities
Brian Hatten	Treasurer	Bancroft Municipal Utilities
John Bilsten	Director	Algona Municipal Utilities
Chad Cleveland	Director	Laurens Municipal Light & Power
Craig Olson	Director	West Bend Municipal Utilities
Alan Junkers	Director	Sumner Municipal Light Plant
Adam Dickinson	Director	City of Webster City
Jeff Carson	Director	Grundy Center Municipal Utilities
Brian Quirk	Director	New Hampton Municipal Light
Vacant	Director	Graettinger Municipal Light Plant
Randy Tilk	Ex-officio	Alta Municipal Utilities

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

## Certified Public Accountants

714 14<sup>th</sup> 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:

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of North Iowa Municipal Electric Cooperative Association (the Association) (a cooperative association incorporated as of and for the years ended December 31, 2015 and 2014, 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 U.S. generally accepted accounting principles. 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 audits. We conducted our audits 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 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 Association'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 Association'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, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

### **Emphasis of a Matter**

As discussed in Note 13, the Association adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pension – an Amendment of GASB Statement No. 27. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

U.S. generally accepted accounting principles, require Management's Discussion and Analysis, the Schedule of the Association's Proportionate Share of the Net Pension Liability, the Schedule of the Association's Contributions, and the Schedule of Funding Progress for the Retiree Health Plan on pages 36 through 40 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 U.S. generally accepted auditing standards, 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.

## Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 7, 2016 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 in considering the Association's internal control over financial reporting and compliance.

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

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

July 7, 2016

---

## **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, 2015. 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 0.23%, or \$28,836, from fiscal year 2014 to fiscal year 2015.
- ◆ The Association's operating expenses were 2.04%, or \$255,442, less in fiscal year 2014 than in fiscal year 2015.
- ◆ The Association's net assets (members' equities) increased 8.18%, or \$355,730, from December 31, 2014 to December 31, 2015.

### **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 Position 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 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

### *Statement of Net Position*

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 2015 totaled \$4,704,757. This compares to approximately \$4,349,029 at the end of fiscal year 2014. A summary of the Association's net assets is presented below.

<b>Assets</b>	<b>2015</b>	<b>2014</b>
Property, plant, and equipment	\$ 214,253	\$ 210,360
Less accumulated depreciation	<u>(124,305)</u>	<u>(107,671)</u>
Net property, plant and equipment	89,948	102,689
Other assets	7,601,683	8,109,835
Current assets	2,617,595	2,164,946
Pension related deferred outflows	<u>27,692</u>	-
Total assets	<u>\$10,336,918</u>	<u>\$10,377,470</u>
<b>Liabilities and Net Assets</b>		
Current liabilities	1,424,218	1,441,037
Long-term liabilities	<u>4,182,204</u>	<u>4,587,404</u>
Total Liabilities	5,606,422	6,028,441
Pension related deferred inflows	25,739	-
Total Members' Equities	<u>4,704,757</u>	<u>4,349,029</u>
Total Liabilities and Net Assets	<u>10,336,918</u>	<u>10,377,470</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, 2015 and 2014 is presented below.

<b>Revenues and Expenses</b>	<b>2015</b>	<b>2014</b>
Operating revenues:		
Sales	\$ 8,000,079	\$ 8,958,997
Sales of Whelan #2	\$ 4,185,182	\$ 3,198,811
Service charges to members	233,831	234,788
Member dues	152,880	150,540
	<hr/>	<hr/>
Total operating revenues	12,571,972	12,543,136
	<hr/>	<hr/>
Operating expenses:		
Power purchased	7,989,247	8,958,997
Purchased Power - Whelan #2	3,908,665	3,252,554
Salaries and benefits	195,366	205,378
Administrative and general	151,964	81,752
Depreciation	16,634	18,637
	<hr/>	<hr/>
Total operating expenses	12,261,876	12,517,318
	<hr/>	<hr/>
Operating income	310,096	25,818
	<hr/>	<hr/>
Other income:		
Corn Belt Cooperative patronage dividend assigned	328,645	344,382
Interest and dividend income, net	1,164	1,242
Additional charges from members	300,000	-
Fees related to new power pool	(300,000)	-
	<hr/>	<hr/>
Total other income	329,809	345,624
	<hr/>	<hr/>
Net margin	<u>\$ 639,905</u>	<u>\$ 371,442</u>

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 2015, operating revenues increased \$28,836, or 0.23%. The decrease in operating revenue was due to a decrease in sales to member utilities that was mostly offset by an increase in sales from Whelan #2. Operating expenses decreased \$255,442, or 2.04%. The decrease in operating expenses was due to a decrease in purchased power expense that was partially offset by an increase in purchased power expense from Whelan #2.

#### *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, 2015, the Association had approximately \$89,948 invested in capital assets, net of accumulated depreciation of approximately \$124,305. Depreciation expense totaled \$16,634 for fiscal year 2015.

### **LONG-TERM DEBT**

On December 31, 2015 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 economy impacts electricity sales by our member utilities. Business closings or production changes result in smaller energy purchases by our members. Economic conditions have 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. The proposed EPA Clean Power Plan, renewable energy mandates, 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 large role in sales to member utilities. The winter months of 2015 were warmer leading to decreased electricity sales for heat.
- ◆ NIMECA and its members operate began operating in the Southwest Power Pool (SPP) as of October 1, 2015. This resulted in operational changes including how we purchase and sell energy, operate generation facilities, and make transmission investments. The SPP energy market has been soft which resulted in less surplus power sales to the market.

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 12<sup>th</sup> Avenue North; P.O. Box 445; Humboldt, IA 50548.

## **Financial Statements**

**North Iowa Municipal Electric  
Cooperative Association**

**Statements of Net Position**

**December 31, 2015 and 2014**

Assets	<u>2015</u>	(Not restated) <u>2014</u>
Property, plant, and equipment	\$ 214,253	\$ 210,360
Less accumulated depreciation	<u>(124,305)</u>	<u>(107,671)</u>
Net property, plant and equipment	<u>89,948</u>	<u>102,689</u>
Other assets:		
Restricted cash and short-term investments	3,875,911	4,544,436
Deferred patronage dividends receivable:		
Corn Belt Power Cooperative	3,720,472	3,560,099
Memberships	<u>5,300</u>	<u>5,300</u>
Total other assets	<u>7,601,683</u>	<u>8,109,835</u>
Current assets:		
Cash and cash equivalents	1,142,900	813,733
Accounts receivable:		
Members	1,412,489	1,046,733
Basin	-	296,900
Other	10,000	5,417
Prepaid expenses	<u>52,206</u>	<u>2,163</u>
Total current assets	<u>2,617,595</u>	<u>2,164,946</u>
Deferred outflows of resources:		
Pension related deferred outflows	<u>27,692</u>	<u>-</u>
Total assets and deferred outflows of resources	<u><u>\$ 10,336,918</u></u>	<u><u>\$ 10,377,470</u></u>

(continued)

**North Iowa Municipal Electric  
Cooperative Association**

**Statements of Net Position**

**December 31, 2015 and 2014**

<b>Members' Equities and Liabilities</b>	<b>2015</b>	(Not restated) <b>2014</b>
Members' equities:		
Memberships	\$ 1,300	\$ 1,300
North Iowa Municipal Electric Cooperative Association:		
Unallocated margin	372,233	27,060
Surplus	1,000	1,000
Reserve	609,492	759,310
Deferred patronage dividends:		
Corn Belt Power Cooperative	3,720,472	3,560,099
Iowa Association of Electric Cooperatives	260	260
Total members' equities	4,704,757	4,349,029
Long-term liabilities:		
Member advances	4,044,876	4,564,520
Net OPEB Liability	26,789	22,884
Net pension liability	110,539	-
Total long-term liabilities	4,182,204	4,587,404
Current liabilities:		
Accounts payable:		
Corn Belt Power Cooperative	996,127	1,141,372
Members	273,985	161,371
General	137,101	121,730
Others	7,613	7,000
Accrued payroll taxes	7,189	7,295
Accrued vacation	2,203	2,269
Total current liabilities	1,424,218	1,441,037
Total liabilities	5,606,422	6,028,441
Deferred inflows of resources:		
Pension related deferred inflows	25,739	-
Total members' equities, liabilities and deferred inflows of resources	\$ 10,336,918	\$ 10,377,470

See accompanying notes to financial statements. 11

**North Iowa Municipal Electric  
Cooperative Association**

**Statements of Revenues and Expenses**

**Years ended December 31, 2015 and 2014**

	<u>2015</u>	(Not restated) <u>2014</u>
Operating revenues:		
Sales	\$ 8,000,079	\$ 8,958,997
Sale of Whelan #2	4,185,182	3,198,811
Service charges to members	233,831	234,788
Member dues	<u>152,880</u>	<u>150,540</u>
Total operating revenues	<u>12,571,972</u>	<u>12,543,136</u>
Operating expenses:		
Power purchased	7,989,247	8,958,997
Purchased power - Whelan #2	3,908,665	3,252,554
Salaries and benefits	195,366	205,378
Administrative and general	151,964	81,752
Depreciation	<u>16,634</u>	<u>18,637</u>
Total operating expenses	<u>12,261,876</u>	<u>12,517,318</u>
Operating income	<u>310,096</u>	<u>25,818</u>
Other income expense:		
Corn Belt Cooperative patronage dividend assigned	328,645	344,382
Interest and dividend income, net	1,164	1,242
Additional charges from members	300,000	-
Fees related to new power pool	<u>(300,000)</u>	<u>-</u>
Total other income	<u>329,809</u>	<u>345,624</u>
Net margin	<u>\$ 639,905</u>	<u>\$ 371,442</u>

See accompanying notes to financial statements.

**North Iowa Municipal Electric  
Cooperative Association**

**Statements of Members' Equities**

**Years ended December 31, 2015 and 2014**

	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, 2013	4,146,422	1,300	3,115	1,000	756,195	3,384,552	260	
2014 net margin	371,442	-	27,060	-	-	344,382	-	
Transfer of prior year margin			(3,115)		3,115			
Payment of Corn Belt Power Cooperative deferred patronage dividend	(168,835)	-	-	-	-	(168,835)	-	
Balance, December 31, 2014	4,349,029	1,300	27,060	1,000	759,310	3,560,099	260	
Restatement of beginning balance	(115,905)	-	(115,905)	-	-	-	-	
2015 net margin	639,905	-	372,233	-	(60,973)	328,645	-	
Transfer of prior year margin	-		(27,060)		27,060			
Payment of Corn Belt Power Cooperative deferred patronage dividend	(168,272)	-	-	-	-	(168,272)	-	
Balance, December 31, 2015	<u>\$ 4,704,757</u>	<u>1,300</u>	<u>256,328</u>	<u>1,000</u>	<u>725,397</u>	<u>3,720,472</u>	<u>260</u>	

See accompanying notes to financial statements.

**North Iowa Municipal Electric  
Cooperative Association**

**Statements of Cash Flows**

**December 31, 2015 and 2014**

	<u>2015</u>	(Not restated) <u>2014</u>
Cash flows from operating activities:		
Cash received from customers	\$12,798,533	\$ 12,702,710
Cash paid to suppliers for goods and services	(12,416,566)	(12,403,417)
Cash paid to employees for services	(198,952)	(201,547)
Net cash provided by operating activities	<u>183,015</u>	<u>97,746</u>
Cash flows from investing activities:		
Additions to property, plant and equipment	(3,893)	(1,841)
Corn Belt Power Cooperative patronage dividends received	168,272	168,835
Transfer (to)/from restricted	668,525	(139,517)
Interest received	1,164	1,242
Net cash provided by (used in) investing activities	<u>834,068</u>	<u>28,719</u>
Cash flows from financing activities:		
Deferred patronage dividends paid	(168,272)	(168,835)
Member advance/(payments)	(519,644)	12,656
Net cash provided by (used in) financing activities	(687,916)	(156,179)
Net increase (decrease) in cash	329,167	(29,714)
Cash and cash equivalents, beginning of year	<u>813,733</u>	<u>843,447</u>
Cash and cash equivalents, end of year	<u>\$ 1,142,900</u>	<u>\$ 813,733</u>

(continued)

**North Iowa Municipal Electric  
Cooperative Association**

**Statements of Cash Flows**

**December 31, 2015 and 2014**

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

Net margin	\$ 639,905	\$ 371,442
Adjustments to reconcile net margin to net cash provided by (used in) operating activities:		
Depreciation	16,634	18,637
Corn Belt Power Cooperative patronage dividends assigned	(328,645)	(344,382)
Changes in assets and liabilities:		
Accounts receivable	(73,439)	159,574
Prepaid expenses	(50,043)	(238)
Memberships	-	(5,000)
Deferred outflows of resources	(15,665)	-
Accounts payable	(16,647)	(105,529)
Accrued payroll taxes	(106)	383
Accrued vacation	(66)	339
OPEB liability	3,905	3,492
Net pension liability	17,927	-
Deferred inflows of resources	(9,581)	-
Interest transferred to restricted funds	(1,164)	(1,242)
Net cash provided by (used in) operating activities	<u>\$ 183,015</u>	<u>\$ 97,476</u>

See accompanying notes to financial statements.

**North Iowa Municipal Electric  
Cooperative Association**

**Notes to Financial Statements**

**December 31, 2015 and 2014**

**(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 2015 and 2014.

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, 2015 and 2014**

**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 and Basis of Accounting**

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

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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Members' Equity**

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

**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.

**North Iowa Municipal Electric  
Cooperative Association**

**Notes to Financial Statements**

**December 31, 2015 and 2014**

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 to five 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).

Cash, Cash Equivalents and Pooled Investments

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. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position which applies to a future year(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the Association after the measurement date but before the end of the Association's reporting period.

**North Iowa Municipal Electric  
Cooperative Association**

**Notes to Financial Statements**

**December 31, 2015 and 2014**

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

Deferred inflows of resources represents an acquisition of net position which applies to a future year(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

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 July 7, 2016 which is the date the financial statements were available to be issued.

**North Iowa Municipal Electric  
Cooperative Association**

**Notes to Financial Statements**

**December 31, 2015 and 2014**

**(2) Cash, Cash Equivalents and Pooled Investments**

NIMECA's deposits in banks at December 31, 2015 and 2014 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 Association.

The Association had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$5,000 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The Association's investment in the Iowa Public Agency Investment Trust is unrated.

**North Iowa Municipal Electric  
Cooperative Association**

**Notes to Financial Statements**

**December 31, 2015 and 2014**

**(3) Property, Plant, and Equipment**

A summary of property, plant and equipment at December 31, 2015 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Buildings	\$ 130,775	-	-	130,775
Office equipment	48,400	3,893	-	52,293
Transportation	31,185	-	-	31,185
Total capital assets	<u>210,360</u>	<u>3,893</u>	<u>-</u>	<u>214,253</u>
Less accumulated depreciation for:				
Buildings	39,736	6,471	-	46,207
Office equipment	45,412	1,501	-	46,913
Transportation	<u>22,523</u>	<u>8,662</u>	<u>-</u>	<u>31,185</u>
Total accumulated depreciation	<u>107,671</u>	<u>16,634</u>	<u>-</u>	<u>124,305</u>
Property, plant and equipment, net	<u>\$ 102,689</u>	<u>(12,741)</u>	<u>-</u>	<u>89,948</u>

A summary of property, plant and equipment at December 31, 2014 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Buildings	\$ 130,775	-	-	130,775
Office equipment	62,430	1,841	15,871	48,400
Transportation	31,184	-	-	31,184
Total capital assets	<u>224,390</u>	<u>1,841</u>	<u>15,871</u>	<u>210,360</u>
Less accumulated depreciation for:				
Buildings	32,994	6,742	-	39,736
Office equipment	59,783	1,500	15,871	45,412
Transportation	<u>12,128</u>	<u>10,395</u>	<u>-</u>	<u>22,523</u>
Total accumulated depreciation	<u>104,905</u>	<u>18,637</u>	<u>15,871</u>	<u>107,671</u>
Property, plant and equipment, net	<u>\$ 119,485</u>	<u>(16,796)</u>	<u>-</u>	<u>102,689</u>

**North Iowa Municipal Electric  
Cooperative Association**

**Notes to Financial Statements**

**December 31, 2015 and 2014**

**(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 Basin 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. This agreement was amended effective October 1, 2015 to enable Basin to coordinate these resources within the SPP balancing area. Basin electric will annually purchase excess generation from NIMECA at an amount equal to \$3/kW-month. NIMECA shall pay compensation to Basin Electric for all of the services provided under this agreement with one lump-sum payment of \$300,000 and a service charge of \$0.398/MWh times 100% of NIMECA's metered load.

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 \$743,430 and \$783,008 in 2015 and 2014, respectively.

On December 15, 2010 NIMECA entered into a power purchase agreement with Heartland Consumers Power Association (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, 2015 and 2014**

**(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.

The 2013 and 2014 Renewable Energy Credits (RECs) were sold in March of 2015 and the members received credits in May of 2016. The members had the option of depositing their credits into their Emission fund, CTS fund, Whelan fund or receiving a payment direct to the utility.

In 2011, the Whelan 2 Reserve Fund was established per the purchase power agreement with Heartland Consumers Power Association (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, 2015 and 2014**

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, 2013	\$ 3,170,220	28,902	120,310	172,949	912,538	4,404,919
Received from members, net	674,500	53,418	(58,847)	-	172,066	841,137
Transfers	10,000	-	(10,000)	-	-	-
Patronage dividends	12,980	4,137	1,447	-	-	18,564
Payments to Corn Belt	(565,511)	-	-	-	-	(565,511)
Miscellaneous payments	(183,685)	-	-	-	(2,500)	(186,185)
Miscellaneous deposits	-	-	-	8,373	13,118	21,491
Interest	7,374	117	207	348	1,975	10,021
Balance, December 31, 2014	3,125,878	86,574	53,117	181,670	1,097,197	4,544,436
Received from members, net	1,034,000	33,418	25,325	-	310,510	1,403,253
Transfers	-	-	-	-	-	-
Patronage dividends	21,785	-	1,180	-	-	22,965
Payments to Corn Belt	(1,974,365)	-	-	-	-	(1,974,365)
Miscellaneous payments	(146,223)	-	-	-	-	(146,223)
Miscellaneous deposits	10,379	-	584	1,236	5,795	17,994
Interest	4,612	214	135	364	2,526	7,851
Balance, December 31, 2015	<u>\$ 2,076,066</u>	<u>120,206</u>	<u>80,341</u>	<u>183,270</u>	<u>1,416,028</u>	<u>3,875,911</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, 2015 and 2014, NIMECA's members owed amounts to NIMECA totaling \$1,138,504 and \$885,362, respectively, net of amounts due to members.

**North Iowa Municipal Electric  
Cooperative Association**

**Notes to Financial Statements**

**December 31, 2015 and 2014**

**(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 2015, NIMECA received a payment of \$168,272 from Corn Belt for a portion of 2000 and 2001 deferred patronage. Corn Belt allocated \$328,645 of deferred patronage to NIMECA for 2015. During 2014, NIMECA received a payment of \$168,835 from Corn Belt for a portion of 1999 and 2000 deferred patronage. Corn Belt allocated \$344,382 of deferred patronage to NIMECA for 2014.

**(8) Allocation of Margin**

The board of directors 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 2015 and 2014, respectively, NIMECA had a margin of \$372,233 and \$27,060 remaining in unallocated margin due to current operations. The board authorized payment of \$60,973 of consulting fees from the reserve set up. During 2015, \$27,060 of unallocated prior year margin was transferred to reserve.

**(9) Pension Plan**

December 31, 2015

Plan Description – IPERS membership is mandatory for employees of the Association, except for those covered by another retirement system. Employees of the Association are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a

**North Iowa Municipal Electric  
Cooperative Association**

**Notes to Financial Statements**

**December 31, 2015 and 2014**

stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa, 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50 percent for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

**North Iowa Municipal Electric  
Cooperative Association**

**Notes to Financial Statements**

**December 31, 2015 and 2014**

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member’s beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member’s accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS’ Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the “entry age normal” actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of covered payroll and the Association contributed 8.93 percent for a total rate of 14.88 percent.

The Association’s contributions to IPERS for the year ended December 31, 2015 were \$13,190.

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At December 31, 2015, the Association reported a liability of \$110,539 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Association’s proportion of IPERS was based on the Association’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the Association’s proportion was 0.0022374 percent, which was a decrease of 0.000098 from its proportion measured as of June 30, 2014.

**North Iowa Municipal Electric  
Cooperative Association**

**Notes to Financial Statements**

**December 31, 2015 and 2014**

For the year ended December 31, 2015, the Association recognized pension expense of \$5,871. At December 31, 2015, the Association reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,670	\$ -
Changes of assumptions	3,043	-
Net difference between projected and actual earnings on pension plan investments	16,539	25,739
Changes in proportion and differences between Association contributions and its proportionate share of contributions	-	-
Association contributions subsequent to the measurement date	6,440	-
Total	\$ 27,629	\$ 25,739

\$6,440 reported as deferred outflows of resources related to pensions resulting from the Association's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	
June 30,	
2016	\$ (3,072)
2017	(3,072)
2018	(3,072)
2019	(4,674)
2020	55
Total	\$ (4,487)

There were no non-employer contributing entities to IPERS.

**North Iowa Municipal Electric  
Cooperative Association**

**Notes to Financial Statements**

**December 31, 2015 and 2014**

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocations</u>	<u>Long-Term Expected Real Rate Return</u>
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	<u>100%</u>	

**North Iowa Municipal Electric  
Cooperative Association**

**Notes to Financial Statements**

**December 31, 2015 and 2014**

Discount Rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Association will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS’ fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Association’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Association’s proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Association’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percent lower (6.5 percent) or 1 percent higher (8.5 percent) than the current rate.

	1% Decrease <u>(6.5%)</u>	Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
Association’s proportionate share of the net pension liability	\$ 193,534	\$ 110,539	\$ 40,485

IPERS’ Fiduciary Net Position – Detailed information about IPERS’ fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS’ website at [www.ipers.org](http://www.ipers.org).

Payables to IPERS – At December 31, 2015, the Association reported payables to IPERS of \$1,071 for legally required Association contributions and \$714 for legally required Association contributions which had been withheld from employee wages but not yet remitted to IPERS.

December 31, 2014 – The Associations contributes to the Iowa Public Employees’ Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administrated by the State of Iowa. IPERS provides retirement and death benefits established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report which includes financial statements and required supplementary information. The report may be obtained by writing IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

**North Iowa Municipal Electric  
Cooperative Association**

**Notes to Financial Statements**

**December 31, 2015 and 2014**

Plan members were required to contribute 5.95% of their annual covered salary. The Association was required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Association's contributions to IPERS for the year ended December 31, 2014 was \$13,865 equal to the required contribution for the year.

**(10) Other Post-Employment Benefits (OPEB)**

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.

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, 2015, the amount actually contributed to the plan and changes in the NIMECA's net OPEB obligation:

Annual required contribution	\$ 4,287
Interest on net OPEB obligation	572
Adjustment to annual required contribution	<u>(954)</u>
Annual OPEB cost	3,905
Contributions made	<u>---</u>
Increase in net OPEB obligation	3,905
Net OPEB obligation beginning of year	<u>22,884</u>
Net OPEB obligation end of year	\$ <u>26,789</u>

**North Iowa Municipal Electric  
Cooperative Association**

**Notes to Financial Statements**

**December 31, 2015 and 2014**

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, 2015.

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 OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 3,024	0.00%	\$ 19,392
2014	3,492	0.00%	22,884
2015	3,905	0.00%	26,789

Funded Status and Funding Progress – As of January 1, 2013, the most recent actuarial valuation date for the period January 1, 2015 through December 31, 2015, the actuarial accrued liability was \$31,656, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$31,656. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$147,768 and the ratio of the UAAL to covered payroll was 21.42%. As of December 31, 2015, 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.

**North Iowa Municipal Electric  
Cooperative Association**

**Notes to Financial Statements**

**December 31, 2015 and 2014**

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 January 1, 2013 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.

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.

**North Iowa Municipal Electric  
Cooperative Association**

**Notes to Financial Statements**

**December 31, 2015 and 2014**

**(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, 2015, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ <u>2,203</u>

This liability has been computed based on rates of pay in effect at December 31, 2015.

**(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.

**(13) Accounting Change/Restatement**

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB Statement No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. Beginning members' equity was restated to retroactively report the beginning net pension liability, deferred outflows of resources and deferred inflow of resources, as follows:

**North Iowa Municipal Electric  
Cooperative Association**

**Notes to Financial Statements**

**December 31, 2015 and 2014**

	<u>Members' Equities</u>
Members' equities December 31, 2014, as previously reported	\$ 4,349,029
Net pension liability at December 31, 2014	(92,612)
Deferred inflows of resources:	
Related to the net difference between projected and actual investment earnings	(35,320)
Deferred outflows of resources:	
Related to difference between expected and actual experience	1,007
Related to the change in assumptions	4,087
Related to prior year contributions made after the June 30, 2014 measurement date	<u>6,933</u>
Members' equities January 1, 2015, as restated	<u>\$ 4,233,124</u>

## **Required Supplementary Information**

**North Iowa Municipal Electric  
Cooperative Association**

**Schedule of Association's Proportionate Share of Net Pension Liability  
Iowa Public Employees' Retirement System  
Last Fiscal Year \*  
(In Thousands)**

**December 31, 2015 and 2014**

**Required Supplementary Information**

	2015
Association's proportion of the net pension liability	0.0022374%
Association's proportionate share of the net pension liability	\$ 110
Association's covered-employee payroll	\$ 153
Association's proportionate share of the net pension liability as a percentage of its covered-employee payroll	71.90%
Plan fiduciary net position as a percentage of the total pension liability	85.19%

\* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Association will present information for those years for which information is available.

**North Iowa Municipal Electric  
Cooperative Association**

**Schedule of Association Contributions**

**Iowa Public Employees' Retirement System  
Last 4 Fiscal Years  
(In Thousands)**

**Required Supplementary Information**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 13	14	13	12
Contributions in relation to the statutorily required contribution	<u>(13)</u>	<u>(14)</u>	<u>(13)</u>	<u>(12)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Association's covered-employee payroll	\$ 147	155	150	143
Contributions as a percentage of covered-employee payroll	8.84%	9.03%	8.67%	8.39%

See accompanying independent auditor's report.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Association will present information for those years for which information is available.

**North Iowa Municipal Electric  
Cooperative Association**

**Notes to Required Supplementary Information – Pension Liability**

**Year ended December 31, 2015**

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.0%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

**North Iowa Municipal Electric  
Cooperative Association**

**Notes to Required Supplementary Information – Pension Liability**

**Year ended December 31, 2015**

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25% to 4.00.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

**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%
2013	January 1, 2013	-	16,254	16,254	-	150,351	10.81%
2014	January 1, 2013	-	23,712	23,712	-	155,263	15.27%
2015	January 1, 2013	-	31,656	31,656	-	147,768	21.42%

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 14<sup>th</sup> 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 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, the financial statements of the North Iowa Municipal Electric Cooperative Association (Association) for the years ended December 31, 2015 and 2014, and the related Notes to Financial Statements and have issued our report thereon dated July 7, 2016.

### Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered North Iowa Municipal Electric Cooperative Association's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control 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 and correct 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-15 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-15 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, and other matters, 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 audits 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, 2015 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.

#### North Iowa Municipal Electric Cooperative Association's Responses to Findings

The North Iowa Municipal Electric Cooperative Association's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The North Iowa Municipal Electric Cooperative Association's responses were not subjected to the auditing procedures applies in the audit of the financial statements and, accordingly, we express no opinion on them.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Association's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

July 7, 2016

North Iowa Municipal Electric  
Cooperative Association

Schedule of Findings

Year ended December 31, 2015

**Part I: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

I-A-15 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 will review our procedures and see if a director or the Chief Executive Officer can review and approve certain reports.

Conclusion - Response accepted.

I-B-15 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, 2015**

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-15 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-15 Travel Expense – No expenditures of Association money for travel expenses of spouses of Association officials or employees were noted.
- II-C-15 Association Minutes – No transactions were found that we believe should have been approved in the Association minutes but were not.
- II-D-15 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.