

Iowa League of Cities

Financial Report
June 30, 2016

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Independent Auditor's Report

RSM US LLP

To the Executive Board
Iowa League of Cities
Des Moines, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the Iowa League of Cities which comprise the statements of financial position as of June 30, 2016 and 2015, the related statements of activities and cash flows for the years then ended and the related notes to the financial statements (collectively, financial statements).

Management's Responsibility for the Financial Statements

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Iowa League of Cities as of June 30, 2016 and 2015, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to underlying accounting and other records used to prepare the financial statements. This information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

RSM US LLP

Des Moines, Iowa
October 26, 2016

Iowa League of Cities

Statements of Financial Position
June 30, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash	\$ 880,567	\$ 489,616
Restricted cash	68,647	63,657
Certificates of deposit	1,071,140	1,067,192
Receivables:		
Trade	100,955	84,351
Affiliate	18,435	16,863
Interest	2,706	1,402
Prepaid expenses	140,287	82,968
Total current assets	2,282,737	1,806,049
Furniture, fixtures and equipment, net	311,887	398,235
Total assets	\$ 2,594,624	\$ 2,204,284
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 319,187	\$ 365,064
Deferred income	467,075	243,181
Deferred rent	158,886	139,431
Total current liabilities	945,148	747,676
Net assets, unrestricted	1,649,476	1,456,608
Total liabilities and net assets	\$ 2,594,624	\$ 2,204,284

See notes to financial statements.

Iowa League of Cities

**Statements of Activities
Years Ended June 30, 2016 and 2015**

	2016	2015
Revenue:		
Membership dues	\$ 896,141	\$ 856,845
Partner dues	57,500	29,167
Associate member dues	61,150	59,688
Advertising	82,400	76,720
Sponsorship	28,386	35,025
Subscriptions	14,307	9,795
Registrations	295,210	236,890
Fees and royalties	2,159,235	2,014,604
Grants	204,525	51,087
Interest	17,327	14,625
Gain on disposal of furniture, fixtures and equipment	2,169	951
Other	28,845	17,426
	3,847,195	3,402,823
Expenses:		
Salaries, payroll taxes and fringe benefits	2,545,248	2,517,997
Rent	202,437	209,740
Telephone	47,211	45,541
Travel	35,867	36,614
Legal and accounting fees	15,125	13,625
Consulting fees	240,294	129,731
Dues and subscriptions	68,421	41,942
Insurance	55,529	59,406
Equipment and computer	2,318	2,469
Printing	53,368	42,884
Postage	31,652	22,209
Supplies	32,562	28,996
Meeting	190,164	157,266
Training	10,191	5,265
Online registrations	9,051	6,432
Depreciation	112,594	76,516
Miscellaneous	2,295	3,428
	3,654,327	3,400,061
Change in unrestricted net assets	192,868	2,762
Unrestricted net assets, beginning	1,456,608	1,453,846
Unrestricted net assets, ending	\$ 1,649,476	\$ 1,456,608

See notes to financial statements.

Iowa League of Cities

**Statements of Cash Flows
Years Ended June 30, 2016 and 2015**

	2016	2015
Cash flows from operating activities:		
Change in unrestricted net assets	\$ 192,868	\$ 2,762
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	112,594	76,516
Gain on disposal of furniture, fixtures and equipment	(2,169)	(951)
Change in working capital components:		
Receivables	(17,908)	(58,403)
Prepaid expenses	(57,319)	(892)
Accounts payable and accrued expenses	(45,877)	58,597
Deferred income	223,894	57,968
Deferred rent	19,455	62,536
Net cash provided by operating activities	425,538	198,133
Cash flows from investing activities:		
Change in restricted cash	(4,990)	3,072
Change in advances on affiliate receivables	(1,572)	1,409
Purchase of furniture, fixtures and equipment	(29,948)	(248,878)
Proceeds from sale of furniture, fixtures and equipment	5,871	5,000
Purchase of certificates of deposit	(200,000)	(1,120,151)
Proceeds from redemption of certificates of deposit	196,052	1,058,364
Net cash used in investing activities	(34,587)	(301,184)
Net increase (decrease) in unrestricted cash	390,951	(103,051)
Unrestricted cash:		
Beginning	489,616	592,667
Ending	\$ 880,567	\$ 489,616
Supplemental disclosures of noncash investing and financing activity:		
Purchase of furniture, fixtures and equipment included in accounts payable or accruals	\$ -	\$ 45,897

See notes to financial statements.

Iowa League of Cities

Notes to Financial Statements

Note 1. Nature of League and Significant Accounting Policies

Nature of organization: The League of Iowa Municipalities was founded in 1898, changed its name to the Iowa League of Cities (the League) in 1996 and is a grassroots organization controlled by its members. The purpose of the League is the improvement of municipal government and the administration thereof through cooperative effort and the promotion of the general welfare of the cities of Iowa. The members elect the League's officers and Executive Board (the Board of Directors or the Board) and determine, by direct vote, what the League's policies will be from year to year. The League is governed by a 19-member Board of Directors. A majority of the Board members must be elected officials, and representation on the Board must come from cities of all sizes. Officers are elected to a one-year term and Board members are elected to a two-year term at the League's annual meeting each fall.

Significant accounting policies:

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

Cash: Cash consists of unrestricted funds to be used for operations.

Certificates of deposit: Investments in certificates of deposit are recorded at cost which approximates fair value.

Restricted cash: Restricted cash consists of amounts received by the League that are for the benefit of other agencies. The League will collect registration fees for conferences held by other agencies and these fees are held by the League in accrued expenses until the conclusion of the conference.

Concentration of credit risk: The League had cash at a financial institution in excess of FDIC-insured limits at various times throughout the year ended June 30, 2016. The League has not experienced any losses in such account.

Trade receivables: Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

Furniture, fixtures and equipment: Furniture, fixtures and equipment are stated at cost. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets.

Revenue recognition: Membership dues are recorded in the applicable membership period. Fees and royalties are recorded based on the related contract period (see Note 4). Expense-driven grants are recognized as revenue when the qualifying expenses have been incurred and all other grant requirements have been met. All other revenue is recognized when services are rendered. Restricted assets received in the same year that the restriction is satisfied are classified as unrestricted assets.

Deferred income: Deferred income represents annual dues which are being recognized in the applicable period to which the membership relates and conference registration and conference sponsorship payments which are being recognized in the period in which the conference occurs.

Iowa League of Cities

Notes to Financial Statements

Note 1. Nature of League and Significant Accounting Policies (Continued)

Deferred rent: The League accrues rent expense on lease agreements with escalating rents in an amount such that the total rent expense under the lease will be recognized ratably over the lease term.

Income taxes: The League is exempt from federal and state income taxes under Section 501(c)(4) and is not subject to Federal Income Tax under the provisions of Section 115(1) of the Internal Revenue Code and a similar section of Iowa law. The League currently has an opinion that it is exempt from IRS requirements for filing any reports, including 990 and 990T. Therefore there is no income tax filing requirements of the League.

Unrestricted net assets: The League's net assets are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. The League's governing Board may earmark portions of its unrestricted net assets as Board-designated for various purposes.

Recent accounting pronouncements: In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which changes presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, investment return, expenses, liquidity and availability of resources and presentation of operating cash flows. The standard is effective for not-for-profit organizations for periods beginning after December 15, 2017. Early application of the amendment is permitted. Management is currently evaluating the potential impact that the adoption of this update will have on its financial reporting.

Subsequent events: Subsequent events have been evaluated through October 26, 2016, which is the date financial statements were available for issuance. Through that date, there were no events requiring disclosure.

Note 2. Furniture, Fixtures and Equipment

Detail of furniture, fixtures and equipment is as follows at June 30, 2016 and 2015:

	2016	2015
Furniture and fixtures	\$ 125,874	\$ 143,658
Computer equipment	493,775	473,111
Autos	109,240	108,743
Other equipment	57,112	62,556
Software in progress	33,587	51,984
	<u>819,588</u>	<u>840,052</u>
Accumulated depreciation	507,701	441,817
	<u>\$ 311,887</u>	<u>\$ 398,235</u>

Iowa League of Cities

Notes to Financial Statements

Note 3. Retirement Benefits

The League has a noncontributory retirement plan covering all full-time employees who have completed 90 days of service. The League pays approximately 10 percent of gross salary into the plan in lieu of social security. Employer contributions totaled approximately \$202,000 and \$200,000 for the years ended June 30, 2016 and 2015, respectively. The League also has a contributory retirement plan covering all full-time employees. Employees may contribute a dollar amount or percent per pay period. The League matches fifty cents on the dollar up to 2 percent of gross salary. Employer contributions totaled approximately \$38,000 for each of the years ended June 30, 2016 and 2015.

Note 4. Related-Party Transactions

Approximate revenues for the years ended June 30, 2016 and 2015, include fees and royalties from the following related parties, together with the approximate receivables due from these affiliates are as follows:

	Fees and Royalties		Receivables	
	2016	2015	2016	2015
Iowa Communities Assurance Pool royalty fee	\$ 275,000	\$ 258,000	\$ 8,000	\$ 8,000
Iowa Municipalities Workers' Compensation Association management fee	1,553,000	1,461,000	4,000	3,000
Iowa Municipalities Workers' Compensation Association royalty fee	152,000	152,000	-	-
Iowa Public Agency Investment Trust royalty fee	92,000	67,000	6,000	6,000
Iowa City Management Association service fee	10,000	8,000	-	-
Iowa Municipal Attorneys Association service fee	8,000	6,000	-	-
DATA, LLC investment income	1,000	1,000	-	-

The League has a cooperation agreement with the Iowa Communities Assurance Pool (ICAP) that provides for royalty fees to be paid to the League. The agreement is subject to termination by either party annually upon 90 days written notice. The League's executive director serves as a non-voting member of the Board of Directors of ICAP.

The League has a management agreement with the Iowa Municipalities Workers' Compensation Association (IMWCA), an affiliate that provides for a management fee of approximately \$129,000 per month at June 30, 2016. The agreement is subject to termination by either party upon six months written notice. In addition, the League at times will purchase vehicles on behalf of IMWCA.

The League also has an agreement with IMWCA which provides the League a fee for institutional value equal to a percentage of the annual net premium for the participating member cities of the workers' compensation program for as long as the agreement is in effect. The IMWCA Board stipulated that money paid to the League for institutional value be used to promote the League and affiliated programs.

The League and Iowa Public Agency Investment Trust (IPAIT) have a license agreement which provides for royalty payments. This agreement is subject to termination by either party upon 60 days written notice. The League's executive director serves as a non-voting board member for IPAIT.

The League has a contract with the Iowa City Management Association (IaCMA) to provide membership services. The contract is subject to termination annually with 60 days written notice. The League's executive director serves as the non-voting secretary/treasurer of IaCMA.

Iowa League of Cities

Notes to Financial Statements

Note 4. Related-Party Transactions (Continued)

The League has a contract with the Iowa Municipal Attorneys Association (IMAA) to provide membership services. The contract is subject to termination annually with 60 days written notice. The League's executive director serves as the non-voting treasurer of IMAA.

The League has an equity method investment in DATA, LLC with no equity value as of June 30, 2016 and 2015. Under the equity method, the League's share of the net income (loss) of the investee is recognized as income (loss) in the League's statements of activities and added to (deducted from) the investment account, and dividends received from the investee are treated as a reduction of the investment account. DATA, LLC filed a statement of dissolution effective in July 2016.

Note 5. Lease Commitment and Rent Expense

The League leases office space under a ten year noncancelable operating lease that expires in October 2023. The lease requires monthly base rental payments of \$3,590 and escalating to \$11,368 throughout the lease term with the first four months rent waived. Additional monthly rent is required for property taxes, insurance, utilities, maintenance, and repairs.

Approximate future minimum lease payments are as follows:

Years ending June 30:	
2017	\$ 108,000
2018	108,000
2019	127,000
2020	136,000
2021	136,000
Thereafter, through 2023	318,000
	<u>\$ 933,000</u>

Related rent expense for the years ended June 30, 2016 and 2015, totaled approximately \$202,000 and \$210,000, respectively.

Note 6. Functional Expenses

Approximate expenses for program service and general and administrative supporting activities for the years ended June 30, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
Program service	\$ 2,845,000	\$ 2,696,000
Supporting activities, general and administrative	809,000	704,000
	<u>\$ 3,654,000</u>	<u>\$ 3,400,000</u>

Iowa League of Cities

Executive Board and Staff

Name	Title	Board Term Expires
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EXECUTIVE BOARD

Matt Walsh	President	September 2016
Jim Erb	President-elect	September 2016
Reynold Peterson	Immediate Past President	September 2016
Kris Gulick	Past President	September 2016
Ruth Randleman	Past President	September 2016
Patty Anderson	Director	September 2017
Kay Cmelik	Director	September 2017
Frank Darrah	Director	September 2017
Kim Downs	Director	September 2016
John Drury	Director	September 2017
Linda Gaul	Director	September 2017
Suellen Kolbet	Director	September 2017
John Lundell	Director	September 2017
Greg Mandsager	Director	September 2016
Scott Naumann	Director	September 2016
Scott Peterson	Director	September 2017
Kimberly Sacker	Director	September 2016
Scott Sanders	Director	September 2017
Hans Trousil	Director	September 2016

STAFF

Alan Kemp	Executive Director	Indefinite
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