

NORTH IOWA AREA COUNCIL OF GOVERNMENTS

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

- Prepared By -

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North Iowa Area Council of Governments
Mason City, IA 50401

I have audited the accompanying general purpose financial statements, listed as exhibits in the table of contents of this report, of the North Iowa Area Council of Governments (NIACOG) as of and for the year ended June 30, 2004. These general purpose financial statements are the responsibility of NIACOG's management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general purpose financial statements present fairly, in all material respects, the financial position of NIACOG at June 30, 2004 and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my reports dated January 24, 2005 on my consideration of NIACOG's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

My audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental information included in Schedules 1 and 2, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in my audit of the aforementioned financial statements and, in my opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

January 24, 2005

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
BALANCE SHEET
JUNE 30, 2004

	<u>NIACOG</u>	<u>NCRERC</u>	<u>Total</u>
ASSETS:			
Current assets:			
Cash and investments	\$ 175,202	\$ 124,516	\$ 299,718
Accounts receivable	214,061	5,965	220,026
Prepaid expenses	11,561	-	11,561
Notes receivable	17,395	-	17,395
Total current assets	<u>\$ 418,219</u>	<u>\$ 130,481</u>	<u>\$ 548,700</u>
Non-current assets:			
Notes receivable	\$ 138,754	\$ -	\$ 138,754
Fixed assets:			
Land	\$ 195,154	\$ -	\$ 195,154
Building	92,578	-	92,578
Construction in progress	109,373	-	109,373
Equipment	101,716	39,183	140,899
Vehicles - unrestricted	636,789	55,898	692,687
Vehicles - restricted	2,212,658	-	2,212,658
Improvements other than building	2,707	-	2,707
Total	<u>\$3,350,975</u>	<u>\$ 95,081</u>	<u>\$3,446,056</u>
Less accumulated depreciation	<u>(2,292,704)</u>	<u>(89,592)</u>	<u>(2,382,296)</u>
Net fixed assets	<u>\$1,058,271</u>	<u>\$ 5,489</u>	<u>\$1,063,760</u>
Total assets	<u>\$1,615,244</u>	<u>\$ 135,970</u>	<u>\$1,751,214</u>
LIABILITIES AND FUND EQUITY:			
Current liabilities:			
Trade accounts payable	\$ 82,334	\$ 10,000	\$ 92,334
Accrued payroll taxes	945	-	945
Accrued benefits payable	24,235	-	24,235
Note payable (Note 8)	25,000	-	25,000
Unearned revenue	3,350	-	3,350
Total current liabilities	<u>\$ 135,864</u>	<u>\$ 10,000</u>	<u>\$ 145,864</u>
Fund equity:			
Retained earnings:			
Reserved (Note 2)	\$ 490,305	\$ -	\$ 490,305
Unreserved	989,075	125,970	1,115,045
Total retained earnings	<u>\$1,479,380</u>	<u>\$ 125,970</u>	<u>\$1,605,350</u>
Total liabilities and fund equity	<u>\$1,615,244</u>	<u>\$ 135,970</u>	<u>\$1,751,214</u>

See Notes to Financial Statements.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
 COMBINED STATEMENT OF RECEIPTS, EXPENDITURES, AND
 CHANGES IN RETAINED EARNINGS
 YEAR ENDED JUNE 30, 2004

	<u>NIACOG</u>	<u>NCRERC</u>	<u>Total</u>
RECEIPTS:			
Federal grant receipts	\$ 847,378	\$ 10,878	\$ 858,256
State grant receipts	335,990	-	335,990
Program reimbursements	900,938	92,996	993,934
Interest income	3,412	1,108	4,520
Total	<u>\$2,087,718</u>	<u>\$ 104,982</u>	<u>\$2,192,700</u>
EXPENDITURES:			
Salaries	\$ 223,041	\$ -	\$ 223,041
Employee benefits	61,627	-	61,627
Contracted services	63,852	47,267	111,119
Telephone	4,270	-	4,270
Printing	11,701	-	11,701
Supplies	7,830	-	7,830
Travel	10,553	-	10,553
Postage	3,767	-	3,767
Conferences	5,271	3,207	8,478
Dues and memberships	6,092	-	6,092
Professional fees	11,239	-	11,239
Miscellaneous	8,084	8,984	17,068
Bad debt expense	14,350	-	14,350
Insurance	19,421	5,380	24,801
Repairs and maintenance	2,603	-	2,603
Utilities	34,224	-	34,224
Equipment	-	15,831	15,831
Depreciation	208,865	1,568	210,433
Transit provider payments	1,064,456	-	1,064,456
Training	-	12,710	12,710
Apparatus maintenance	-	1,592	1,592
Total	<u>\$1,761,246</u>	<u>\$ 96,539</u>	<u>\$1,857,785</u>
Net transactions before other financing sources	\$ 326,472	\$ 8,443	\$ 334,915
Other financing sources:			
Gain on sale of fixed assets	<u>14,000</u>	<u>-</u>	<u>14,000</u>
Net transactions	\$ 340,472	\$ 8,443	\$ 348,915
Retained earnings beginning of year	<u>1,138,908</u>	<u>117,527</u>	<u>1,256,435</u>
Retained earnings end of year	<u>\$1,479,380</u>	<u>\$ 125,970</u>	<u>\$1,605,350</u>

See Notes to Financial Statements.

**NORTH IOWA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2004**

	<u>NIACOG</u>	<u>NCRERC</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from federal operating grants	\$ 460,671	\$ 11,054	\$ 471,725
Cash received from state operating grants	335,990	-	335,990
Cash received from program reimbursements	896,958	92,996	989,954
Cash paid to employees for services	(284,009)	-	(284,009)
Cash paid for other suppliers of goods and services	(1,268,063)	(89,970)	(1,358,033)
Net cash provided by operating activities	<u>\$ 141,547</u>	<u>\$ 14,080</u>	<u>\$ 155,627</u>
Cash flows from capital and related financing activities:			
Net acquisition of fixed assets	\$ (547,332)	\$ -	\$ (547,332)
Cash received from asset sales	14,000	-	14,000
Cash received from federal capital grants	298,320	-	298,320
Cash received from the issuance of short term debt	25,000	-	25,000
Net cash used for capital and related financing activities	<u>\$ (210,012)</u>	<u>\$ -</u>	<u>\$ (210,012)</u>
Cash flows from investing activities:			
Interest received	<u>\$ 3,442</u>	<u>\$ 1,093</u>	<u>\$ 4,535</u>
Net increase (decrease) in cash	\$ (65,023)	\$ 15,173	\$ (49,850)
Cash at beginning of year	<u>240,225</u>	<u>109,343</u>	<u>349,568</u>
Cash at end of year	<u>\$ 175,202</u>	<u>\$ 124,516</u>	<u>\$ 299,718</u>
Reconciliation of net transactions to net cash provided (used) by operating activities:			
Net transactions	\$ 340,473	\$ 8,442	\$ 348,915
Adjustments for long-term non-cash items:			
Depreciation	208,865	1,568	210,433
Gain on disposal of assets	(14,000)	-	(14,000)
Receipts and expenditures not classified as operating	(301,762)	(1,093)	(302,855)
Adjustments for current non-cash items:			
Decrease in prepaid insurance	13,895	-	13,895
(Increase) decrease in accounts receivable	(107,733)	163	(107,570)
Decrease in notes receivable	15,851	-	15,851
(Decrease) in accounts payable	(14,701)	5,000	(9,701)
Increase in payroll taxes	156	-	156
Increase in accrued benefits payable	503	-	503
Net cash provided (used) by operating activities	<u>\$ 141,547</u>	<u>\$ 14,080</u>	<u>\$ 155,627</u>

See Notes to Financial Statements.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) Organization

The North Iowa Area Council of Governments (NIACOG) is an Inter-Governmental Council, established in accordance with provisions of Chapter 28E of the State Code of Iowa (Inter-Governmental Cooperation Agreement). The area of jurisdiction is Region 2 which includes Cerro Gordo, Floyd, Hancock, Worth, Kossuth, Mitchell, Franklin, and Winnebago counties. NIACOG's powers and duties are those authorized by Chapter 28H of the State of Iowa (Councils of Governments). NIACOG provides professional and technical services on a regional basis to maintain area-wide certification for state and federal grant and aid projects. It also provides planning advisory services and assistance in preparing special planning documents and applications to its members. NIACOG also provides transportation services to the elderly, disabled and rural areas through the Region Two Transit System. In performing its duties, NIACOG may contract with and expend funds from federal, state, and local agencies, public or semi-public agencies and private individuals and Corporations.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles.

(b) Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash and Cash Equivalents - The cash balances are invested. For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Investments - Investments are stated at cost which approximates market.

Property and Equipment - Fixed assets are accounted for at original cost. Depreciation has been provided over the estimated useful lives using the straight-line method.

Accrued Benefits Payable - Accrued benefits payable are earned vacation leave and compensatory time and have been accrued as liabilities on the balance sheet. These current liabilities have been computed based on rates of pay in effect at June 30, 2004.

Unearned Revenue - Unearned revenue represents dues received from members for the next year and various grant advanced funding.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(2) **Summary of Significant Accounting Policies** - continued

Reserved Retained Earnings - Reserved retained earnings represents the portion of federal participation in the purchase of transit vehicles and related equipment. Subsequent disposition of assets purchased with federal funds are subject to certain restrictions.

(3) **Cash and Investments**

NIACOG's deposits in banks at June 30, 2004 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.

NIACOG 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 and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies, certain joint investment trusts; and warrants or improvement certificates of a drainage district.

NIACOG had investments in the Iowa Public Agency Investment Trust with a carrying and market value of \$99,135 at June 30, 2004 that are not subject to risk categorization.

NCRERC had investments in the Iowa Public Agency Investment Trust with a carrying and market value of \$72,046 at June 30, 2004 that are not subject to risk categorization.

(4) **Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual salary and NIACOG is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. NIACOG's contribution to IPERS for the year ended June 30, 2004 was \$12,755 which was equal to the required contribution for the year.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004

(5) **Fixed Assets**

A summary of changes in property and equipment comprising NIACOG's fixed assets is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Land	\$ 25,364	\$169,790	\$ -	\$ 195,154
Building	92,578	-	-	92,578
Construction in progress	-	109,373	-	109,373
Equipment	96,812	4,904	-	101,716
Vehicles	2,623,892	263,265	37,710	2,849,447
Improvements other than building	2,707	-	-	2,707
Total	<u>\$2,841,353</u>	<u>\$547,332</u>	<u>\$ 37,710</u>	<u>\$3,350,975</u>

A summary of changes in property and equipment comprising NCRERC's fixed assets is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Equipment	\$ 39,183	\$ -	\$ -	\$ 39,183
Vehicles	55,898	-	-	55,898
Total	<u>\$ 95,081</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 95,081</u>

(6) **Revolving Loan**

The Agency received a Revolving Loan from the Iowa Department of Transportation to fund a portion of the joint transit facility. The maximum amount to be loaned to the Agency is \$208,834. The loan bears no interest and will be paid back equally over 4 years beginning October 1, 2006. As of June 30, 2004 the Agency had requested \$22,964.

(7) **Risk Management**

NIACOG 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. Settled claims from these risks did not exceed commercial insurance coverage during the past fiscal year.

(8) **Short-Term Notes Payable - Line of Credit**

The Agency has an unsecured line of credit agreement with a bank which provides it may borrow up to \$200,000 at a variable rate of interest. At June 30, 2004, the outstanding balance under this agreement was \$25,000.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(9) Subsequent Events

On July 14, 2004, NIACOG awarded bids for the construction of a Joint Use Transit Facility, which totaled \$2,221,553. NIACOG also entered into two 28E agreements on July 27, 2004 with the City of Mason City to share in construction costs as well as subsequent use of the facility. NIACOG and the City of Mason City have committed 20% local matching funds for the construction of the facility, with the remaining 80% to be provided as Federal Transit Administration grant funds.

On July 21, 2004 the Hazmat board approved the purchase of a new vehicle for \$55,600.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
 STATEMENT OF SELECTED PROJECT COSTS AND COMPUTATION OF SELECTED PROJECT GRANTS
 YEAR ENDED JUNE 30, 2004

	STA Operating Assistance 020-03	FTA Elderly & Disabled 16-0028 020-04	FTA Job Access Reverse Commute 37-X006- 020-01
Operating Expenditures:			
Personal Services	\$ -	\$ -	\$ -
Contractual Services	312,663	529,557	30,662
Commodities	-	-	-
Capital Outlay	-	-	-
Prior Year	-	-	139,774
Project Cost	\$312,663	\$ 529,557	\$170,436
Grant Participation in Project Cost	100%	80%	50%
Percentage Participation	<u>\$312,663</u>	<u>\$ 423,646</u>	<u>\$ 85,218</u>
Contract Amount	<u>\$312,663</u>	<u>\$ 320,020</u>	<u>\$106,299</u>
Permissible Grant (Lesser of Contract Amount or Percentage Participation)	\$312,663	\$ 320,020	\$ 85,218
Less: Grant Payments received in current year	(312,663)	(320,020)	(14,955)
Less: Grant Payments received in prior year	-	-	(65,633)
Grant Receivable/(Payable) at June 30, 2004	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,630</u>

(continued)

FTA Job Access Reverse Commute	Section 3 Capital	Section 3 Capital	Section 3 Capital	Section 3 Capital	Section 3 Capital
37-X0008- 020-02	03-0092- 020-01	03-0095- 020-02	03-0098- 020-03	03-0102- 020-03	03-RPA-02
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
54,120	93,507	7,322	210,612	156,934	-
-	15,320	318,028	-	-	56,845
\$ 54,120	\$108,827	\$ 325,350	\$210,612	\$156,934	\$ 56,845
50%	80%	80/83%	83%	80%	80%
<u>\$ 27,060</u>	<u>\$ 87,062</u>	<u>\$ 270,656</u>	<u>\$174,808</u>	<u>\$125,547</u>	<u>\$ 45,476</u>
<u>\$ 28,000</u>	<u>\$156,976</u>	<u>\$ 288,480</u>	<u>\$163,500</u>	<u>\$896,235</u>	<u>\$ 45,475</u>
\$ 27,060	\$ 87,062	\$ 270,656	\$163,500	\$125,547	\$ 45,475
(27,060)	(12,256)	(5,858)	(163,500)	(116,706)	(822)
-	-	(264,798)	-	-	(44,653)
<u>\$ -</u>	<u>\$ 74,806</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,841</u>	<u>\$ -</u>

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF SELECTED PROJECT COSTS AND COMPUTATION OF SELECTED PROJECT GRANTS
YEAR ENDED JUNE 30, 2004

	00-RPA-02	90-17- R02-004	AL-04-031	Training Fellowships TF
Operating Expenditures:				
Personal Services	\$ -	\$ -	\$ -	\$ -
Contractual Services	60,326	5,000	-	874
Commodities	-	-	-	-
Capital Outlay	-	-	259,490	-
Prior Year	-	-	-	2,812
Project Cost	<u>\$ 60,326</u>	<u>\$ 5,000</u>	<u>\$259,490</u>	<u>\$ 3,686</u>
Grant Participation in Project Cost	80%	100%	9%	50%
Percentage Participation	<u>\$ 48,261</u>	<u>\$ 5,000</u>	<u>\$ 22,964</u>	<u>\$ 1,843</u>
Contract Amount	<u>\$ 48,261</u>	<u>\$ 5,000</u>	<u>\$208,834</u>	<u>\$ 1,843</u>
Permissible Grant (Lesser of Contract Amount or Percentage Participation)	\$ 48,261	\$ 5,000	\$ 22,964	\$ 1,843
Less: Grant Payments received in current	(40,944)	(5,000)	-	(918)
Less: Grant Payments received in prior year	-	-	-	(925)
Grant Receivable/(Payable) at June 30, 2004	<u>\$ 7,317</u>	<u>\$ -</u>	<u>\$ 22,964</u>	<u>\$ -</u>

See Accompanying Independent Auditor's Report.

SCHEDULE 1
(continued)

Cog Assistance 00-COG-01	2001-F540-09	EDA 05-83-06417	HAZMAT HMEP	HAZMAT HMEP	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9,375	-	68,098	-	10,848	1,027,433
-	-	-	-	-	-
-	-	-	-	-	781,985
-	400	-	18,303	-	551,482
\$ 9,375	\$ 400	\$ 68,098	\$ 18,303	\$ 10,878	<u>\$2,360,900</u>
100%	100%	75%	100%	100%	
<u>\$ 9,375</u>	<u>\$ 400</u>	<u>\$ 51,074</u>	<u>\$ 18,303</u>	<u>\$ 10,878</u>	<u>\$1,720,233</u>
<u>\$ 9,375</u>	<u>\$ 7,500</u>	<u>\$ 51,000</u>	<u>\$ 18,313</u>	<u>\$ 10,878</u>	<u>\$2,678,652</u>
\$ 9,375	\$ 400	\$ 51,000	\$ 18,303	\$ 10,878	\$1,605,225
(9,375)	(3,750)	(51,000)	(6,104)	(4,950)	(1,092,131)
-	-	-	(12,199)	-	(391,958)
<u>\$ -</u>	<u>\$ (3,350)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,928</u>	<u>\$ 121,136</u>

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2004

<u>GRANTOR/PROGRAM</u>	<u>CFDA NUMBER</u>	<u>AGENCY PASS-THROUGH NUMBER</u>	<u>PROGRAM EXPENDITURES</u>
Direct:			
Department of Commerce Economic Development Administration: District Planning	11.302	05-83-06417	\$ <u>51,000</u>
Indirect:			
Department of Transportation: Iowa Department of Transportation: Elderly and Disabled Transit Assistance Section 16	20.513	16-0028-020-04	\$ <u>320,020</u>
Capital Investment Assitance Project Section 3	20.500	03-0092-020-01	\$ 74,806
	20.500	03-0095-020-02	5,858
	20.500	03-0098-020-03	163,500
	20.500	03-0102-020-03	<u>125,547</u>
			\$ <u>369,711</u>
Job Access/Reverse Commute	20.516	37-X006-020-01	\$ 15,331
	20.516	37-X008-020-02	<u>27,060</u>
			\$ <u>42,391</u>
Studies Grants Regional Transit Development Plan	20.515	04-RPA-02	\$ 48,261
	20.515	90-17-R02-004	<u>5,000</u>
			\$ <u>53,261</u>
Department of Public Defense: Iowa Emergency Management Division: Hazardous Materials Emergency Preparedness Training and Planning Grants	20.703	HMEP	\$ <u>10,878</u>
Total			<u>\$847,261</u>

See Accompanying Independent Auditor's Report.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Board of Directors
North Iowa Area Council of Governments:

I have audited the general purpose financial statements of the North Iowa Area Council of Governments (NIACOG) as of and for the year ended June 30, 2004, and have issued my report thereon dated January 24, 2005. My report expressed an unqualified opinion on the financial statements. I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether NIACOG's general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about NIACOG's operations for the year ended June 30, 2004, are based exclusively on knowledge obtained from procedures performed during my audit of the general purpose financial statements of NIACOG. Since my 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered NIACOG's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted one matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect NIACOG's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe the reportable condition described above, item II-A-04, which is the same reportable condition as last year, is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and members of the North Iowa Area Council of Governments and other parties to whom NIACOG may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of NIACOG during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

January 24, 2005

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

To the Board of Directors
North Iowa Area Council of Governments:

Compliance

I have audited the compliance of North Iowa Area Council of Governments (NIACOG), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2004. NIACOG's major federal programs are identified in Part I of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of NIACOG's management. My responsibility is to express an opinion on NIACOG's compliance based on my audit.

I conducted my audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NIACOG's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on NIACOG's compliance with those requirements.

In my opinion, NIACOG complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of NIACOG is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered NIACOG's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

I noted a matter involving the internal control over compliance and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect NIACOG's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in Part III of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. I believe the reportable condition described above, item III-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and members of NIACOG and other parties to whom NIACOG may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

January 24, 2005

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
Schedule of Findings
Year Ended June 30, 2004

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, which was a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major programs was disclosed by the audit of the financial statements, which was a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA Number 20.500 Capital Investment Assistance Project and CFDA Number 20.513 Elderly and Disabled Transit Assistance.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) NIACOG did not qualify as a low-risk auditee.

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

II-A-04 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 bank reconciliations are all done by the same individual.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, NIACOG should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
Schedule of Findings
Year Ended June 30, 2004

Part II: Findings Related to the General Purpose Financial Statements: - continued

Response - We will review procedures and make changes to improve internal control where possible.

Conclusion - Response acknowledged. NIACOG could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

CFDA Number 20.500: Capital Investment Assistance Project
Federal Award Year: 2004
U.S. Department of Transportation
Passed through the Iowa Department of Transportation

CFDA Number 20.513: Elderly and Disabled Transit Assistance
Federal Award Year: 2004
U.S. Department of Transportation
Passed through the Iowa Department of Transportation

III-A-04 The Agency did not properly segregate custody, recordkeeping and reconciling functions for revenues and expenditures, including those related to Federal Programs. See audit finding II-A-04.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-04 Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

IV-B-04 Questionable Disbursements - No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-04 Travel Expense - No disbursements of NIACOG money for travel expenses of spouses of NIACOG officials or employees were noted.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
Schedule of Findings
Year Ended June 30, 2004

Part IV: Other Findings Related to Statutory Reporting: - continued

- IV-D-04 Business Transactions - No business transactions between NIACOG and NIACOG officials or employees were noted.
- IV-E-04 Bond Coverage - Surety bond coverage of NIACOG officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-04 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the NIACOG's investment policy were noted.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
Summary Schedule of Prior Federal Audit Findings
Year Ended June 30, 2004

<u>Comment Title</u>	<u>Status</u>	<u>If not corrected, provide planned corrective action or other explanation</u>
Segregation of duties over federal revenues and expenditures	Not corrected	Plan to segregate duties for custody, recordkeeping and reconciling among the staff.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
Corrective Action Plan for Federal Audit Findings
Year Ended June 30, 2004

<u>Comment Number</u>	<u>Comment Title</u>	<u>Corrective Action Plan</u>	<u>Contact Person Title, Phone Number</u>	<u>Anticipated Date of Completion</u>
III-A-04	Segregation of Duties over Federal Revenues and Expenditures	The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings.	Joe Myhre Executive Director (641) 423-0491	Unknown

February 15, 2005

Office of Auditor of State
State of Iowa
State Capitol Building
Des Moines, IA 50319

RE: Audit of the North Iowa Area Council of Governments for the year ended June
30, 2004

Gentlemen:

I have enclosed a copy of the news release, a copy of my bill to NIACOG and two
copies of the Audit Report. I will appreciate your comments and suggestions.

Sincerely yours,

Larry Pump, CPA

jlp
Enclosures

Globe Gazette
Mason City, Iowa

N E W S R E L E A S E

FOR RELEASE February 15, 2005

Larry Pump, CPA, Charles City, Iowa, today released an audit report on the North Iowa Area Council of Governments, Mason City, Iowa, for the year ended June 30, 2004.

NIACOG's revenues totaled \$2,192,700 and included \$1,194,246 in federal and state funds; \$993,934 in program reimbursements and \$4,520 of interest income.

Expenses for the year totaled \$1,857,785 and included \$284,668 for salaries and benefits and \$1,064,456 for transit transportation costs.

A copy of the audit report is available for review in the Office of Auditor of State, the NIACOG office, or in each courthouse in the NIACOG region.

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February 15, 2005

Federal Audit Clearinghouse
U. S. Bureau of the Census
1201 East 10th Street
Jeffersonville, IN 47132

Gentlemen:

I have enclosed the following audit report in accordance with Office of Management and Budget Circular A-133:

North Iowa Area Council of Governments, Mason City, Iowa:
Audit Period: Year ended June 30, 2004

The reporting package can be located starting on page 18 of the audit report.

Please call if you have any questions.

Sincerely,

Larry Pump, CPA

jlp
Enclosures

February 15, 2005

Iowa Department of Economic Development
200 East Grand Avenue
Des Moines, IA 50309

RE: North Iowa Area Council of Governments,
Mason City, Iowa

Gentlemen:

As requested, I am submitting two copies of the audited financial statements of the above-referenced governmental unit for the year ended June 30, 2004.

I have determined that the Department of Transportation is the general oversight or cognizant agency for Single Audit Act purposes.

If I may be of further service to you, please contact us.

Sincerely yours,

Larry Pump, CPA

jlp
Enclosures

February 15, 2005

Iowa Department of Transportation
Public Transit Division
State Capitol
Des Moines, IA 50319

RE: North Iowa Area Council of Governments,
Mason City, Iowa

Gentlemen:

In accordance with the requirements of Office of Management and Budget Circular A-133, Audits of State and Local Governments, I am submitting two copies of the audited financial statements of the above-referenced governmental unit for the year ended June 30, 2004.

I have determined that the Department of Transportation is the general oversight or cognizant agency for Single Audit Act purposes.

If I may be of further service to you, please contact us.

Sincerely yours,

Larry Pump, CPA

jlp
Enclosures

February 15, 2005

Mr. Charles W. Lee
Federal Economic Development Administration
Denver Regional Office
1224 Speer Boulevard, Room 670
Denver, CO 80204

RE: North Iowa Area Council of Governments,
Mason City, Iowa

Dear Mr. Lee:

In accordance with the requirements of Office of Management and Budget Circular A-133, Audits of State and Local Governments, I am submitting one copy of the audited financial statements of the above-referenced governmental unit for the year ended June 30, 2004.

I have determined that the Department of Transportation is the general oversight or cognizant agency for Single Audit Act purposes.

If I may be of further service to you, please contact us.

Sincerely yours,

Larry Pump, CPA

jlp
Enclosures