EAST CENTRAL IOWA
COUNCIL OF GOVERNMENTS

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

YEARS ENDED JUNE 30, 2005, 2004 and 2003

- Prepared By -

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TABLE OF CONTENTS

		Page
OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT		2-3
MANAGEMENT DISCUSSION AND ANALYSIS		4-6
FINANCIAL STATEMENTS:		
	Exhibit	
Statement of Net Assets	A	7
Statements of Revenues, Expenses, and Changes in Net Assets	B	8
Statements of Cash Flows	C	9
Notes to Financial Statements		10-14
SUPPLEMENTARY INFORMATION:		
	Schedule	
Schedule of Expenditures of Federal Awards	1	15
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		16-17
SCHEDULE OF FINDINGS		18-19

EAST CENTRAL IOWA COUNCIL OF GOVERNMENTS

OFFICIALS

Name	Title	County	Term Expires
David Vermedahl	Vice-Chairperson	Benton	12-31-07
Bill Daily	Member	Benton	12-31-07
Don Magdefrau	Member	Benton	12-31-06
Ric Gerard	Member	Iowa	12-31-06
Charles Montross	Member	Iowa	12-31-05
Gary Edwards	Secretary/Treasurer	Iowa	12-31-07
Henry Herwig	Member	Johnson	12-31-05
Ross Wilburn	Member	Johnson	12-31-07
Larry Wilson	Member	Johnson	12-31-07
Pat Harney	Member	Johnson	12-31-06
Leo Cook	Member	Jones	12-31-05
Dennis Hansen	Member	Jones	12-31-07
Jennifer Fischer	Member	Jones	12-31-06
Lu Barron	Chairperson	Linn	12-31-05
Linda Langston	Member	Linn	12-31-06
Ann Hearn	Member	Linn	12-31-07
Wade Wagner	Member	Linn	12-31-07
Don Gray	Member	Linn	12-31-05
Randy Payne	Member	Washington	12-31-05
Ed Brown	Member	Washington	12-31-07
Ed Raber	Member	Washington	12-31-06

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
East Central Iowa Council of Governments
Cedar Rapids, IA 52401

I have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the East Central Iowa Council of Governments (ECICOG) as of and for the years ended June 30, 2005, 2004 and 2003. These financial statements are the responsibility of ECICOG's management. My responsibility is to express opinions on these financial statements based on my audit.

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

In my opinion, the financial statements present fairly, in all material respects, the financial position of ECICOG at June 30, 2005, 2004 and 2003 and the respective changes in financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 11, during the year ended June 30, 2005, ECICOG adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments;* Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus;* and Statement No. 38, *Certain Financial Statement Note Disclosures.*

In accordance with Government Auditing Standards, I have also issued my reports dated October 27, 2005 on my consideration of ECICOG's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis on pages 3 through 6 is not required parts of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. I have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion thereon.

My audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. Other supplementary information included in Schedule 1, the accompanying Schedule of Expenditures of Federal Awards 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.

Larry Pump

October 27, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

East Central Iowa Council of Governments 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 June 30, 2005. We encourage readers to consider this information in conjunction with ECICOG's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- ECICOG's support and revenues decreased 2%, or $33,480, from fiscal 2004 to fiscal 2005. Federal and State grants and program reimbursements increased, while local funds decreased.
- ECICOG's operation expenses were 13%, or $180,200 more in fiscal 2005 than in fiscal 2004, due in great part to increased transit provider payments, increased activity in the FHLB programs, and increased personnel costs.
- ECICOG's net assets decreased 13%, or $106,861, from June 30, 2004 to June 30, 2005.

USING THIS ANNUAL REPORT

The East Central Iowa Council of Governments is a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and 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 ECICOG'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 ECICOG's financial activities.

The Statement of Net Assets presents information on ECICOG's assets and liabilities, with the difference between the two reported as net assets. The majority of the agency's assets are transit vehicles and equipment. Over time, increases or decreases in net assets may serve as a useful indicator of how operation of the transit system affects the financial position of ECICOG.

The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on operating revenues and expenses, non-operating revenues and expenses and whether ECICOG's financial position has changed as a result of the year's activities. ECICOG's financial position tends to be somewhat dynamic as the agency's programs can change from year to year, e.g., the number of vehicles purchased or the number of grants administered.

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

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

FINANCIAL ANALYSIS OF THE AGENCY

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of ECICOG's financial position. ECICOG's net assets for fiscal 2005 totaled approximately $702,583. This compares to approximately $809,444 for fiscal 2004. A summary of ECICOG's net assets is presented below.

Net Assets

	June 30, 2005	June 30, 2004
Current assets	$ 211,016	$ 204,687
Non-current assets	563	89,056
Capital assets at cost, less accumulated depreciation	515,210	578,681
Total assets	$ 726,789	$ 872,424
Current liabilities	$ 24,206	$ 62,980
Net assets:		
Reserved	$ 415,734	$ 463,474
Unreserved	286,849	345,970
Total net assets	$ 702,583	$ 809,444

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Support and revenues are received from federal grants, state grants, and other local sources. Expenditures are expenses to operate the transit systems and programs. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net assets for the years ended June 30, 2005 and 2004 are presented below:

Changes in Net Assets

	June 30, 2005	June 30, 2004
Support and Revenue		
Grants	$ 848,451	$ 830,188
Program reimbursements and other local sources	655,084	706,827
Total support and revenue	$1,503,535	$1,537,015
Expenditures	1,598,714	1,418,514
Net transactions before other financing uses	$ (95,179)	$ 118,501
Gain (loss) on sale of assets	(11,682)	7,678
Changes in net assets	$ (106,861)	$ 126,179
Net assets beginning of year	809,444	683,265
Net assets end of year	$ 702,583	$ 809,444

The Statement of Revenues, Expenses and Changes in Net Assets reflects a negative year with a decrease in the net assets at the end of the fiscal year.

- Net assets for the year decreased $106,861. This decrease was due to loss on the sale of the GRO home and depreciation on transit vehicles.
- ECICOG's operating expenses (without depreciation) were $1,399,064 and revenues were $1,503,535. With depreciation, the total expenses were $1,598,714 and revenues remained at $1,503,535.
- State Transit Assistance and, Federal Transit Operating Assistance, for the year totaled $633,640. These same funding sources for the previous fiscal year totaled $526,492. The increases were in Federal and State Transit Assistance. These same funding sources are projected to increase from fiscal year 2005 to fiscal year 2006.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing activities. Cash provided by the operating activities includes federal and state support, program reimbursements and other revenue, reduced by payments to employees and to suppliers. Cash used from financing activities includes principal payments and the purchase of capital assets. Cash provided by investing activities includes interest income.

CAPITAL ASSETS

At June 30, 2005, ECICOG had approximately $515,210 invested in capital assets, net of accumulated depreciation of approximately $2,737,673. Depreciation charges totaled $199,650 for fiscal year 2005. More detailed information about ECICOG's capital assets is presented in Note 4 to the financial statements.

ECONOMIC FACTORS

The East Central Iowa Council of Government's Board of Directors (with input from local elected officials and citizens) considered various factors when setting the fiscal year 2006 budget and fees that will be charged for agency activities. ECICOG general fund operations are expected to remain consistent with the previous year, but could vary according to contracts received during the year.

Contacting ECICOG's Financial Management

This financial report is designed to provide our citizens, taxpayers and customers with a general overview of ECICOG's finances and to show ECICOG's accountability for the money it receives. If you have questions about this report or need additional financial information, contact East Central Iowa Council of Governments, 108 Third Street SE, Suite 300, Cedar Rapids, IA 52401.

EAST CENTRAL IOWA COUNCIL OF GOVERNMENTS
STATEMENT OF NET ASSETS
JUNE 30, 2005, 2004 and 2003

	2005	2004	2003
ASSETS:			
Current assets:			
Cash and cash equivalents	$ 143,189	$ 146,616	$ 141,424
Prepaid expenses	4,603	8,831	8,504
Accounts receivable	62,288	48,344	75,574
Rehab note receivable	936	896	934
Total current assets	$ 211,016	$ 204,687	$ 226,436
Noncurrent assets:			
Rehab note receivable – noncurrent	$ 563	$ 1,576	$ 2,399
Investment in environmental house	-	87,480	35,830
Total noncurrent assets	$ 563	$ 89,056	$ 38,229
Fixed assets:			
Furniture and equipment	$ 72,246	$ 71,845	$ 71,845
Vehicles – unrestricted	652,740	644,442	612,738
Vehicles – restricted	2,527,897	2,469,020	2,325,048
Total	$3,252,883	$3,185,307	$3,009,631
Less accumulated depreciation	2,737,673	(2,606,626)	(2,520,778)
Net fixed assets	$ 515,210	$ 578,681	$ 488,853
Total assets	**$ 726,789**	**$ 872,424**	**$ 753,518**
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Trade accounts payable	$ 9,807	$ 48,818	$ 55,966
Accrued benefits payable	14,399	14,162	14,287
Total current liabilities	**$ 24,206**	**$ 62,980**	**$ 70,253**
Net assets:			
Reserved (Note 2)	$ 415,734	$ 463,474	$ 391,505
Unreserved	286,849	345,970	291,760
Total net assets	**$ 702,583**	**$ 809,444**	**$ 683,265**

See Notes to Financial Statements.

EAST CENTRAL IOWA COUNCIL OF GOVERNMENTS
STATEMENTS OF REVENUES, EXPENSE, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005, 2004 and 2003

	2005	2004	2003
REVENUES:			
Federal funds	$ 434,705	$ 509,821	$ 311,648
State funds	413,746	320,367	633,122
Local funds	654,322	705,350	528,218
Interest	762	1,477	2,018
Total	$1,503,535	$1,537,015	$1,475,006
EXPENSES:			
Salaries and fringe benefits	$ 551,295	$ 514,400	$ 521,203
Payroll taxes	39,440	36,388	36,077
Parking	3,300	2,500	2,600
Travel	24,031	26,171	21,868
Travel – professional development	4,633	1,046	2,008
Utilities	11,565	12,323	13,759
Transit provider payments	560,801	471,361	550,031
Contracted services	14,448	37,640	113,746
Office expense	4,592	4,775	5,353
Printing and copying	732	1,814	842
Advertising	106	634	52
Dues and subscriptions	7,948	7,349	8,070
Rent	18,000	18,000	18,000
Education and training	2,300	3,731	2,864
Insurance	13,067	7,601	5,012
Repairs and maintenance	2,489	2,532	3,062
Legal and accounting	19,578	23,095	8,264
Depreciation	199,650	181,166	227,542
Freight and postage	3,099	4,960	4,552
Tire recycling expense	-	-	19,733
Summer library reading	969	-	-
Fuel tax	-	879	-
GRO	5,519	7,144	17,877
JC-FHLB	111,152	53,005	10,550
RCC Satellite grant	-	-	9,046
Recycling evaluation	-	-	47,460
Total	$1,598,714	$1,418,514	$1,649,571
Net transactions before other financing sources (uses)	$ (95,179)	$ 118,501	$ (174,565)
Other financing sources (uses):			
Gain (loss) on sale of fixed assets	(11,682)	7,678	5,000
Change in net assets	$ (106,861)	$ 126,179	$ (169,565)
Net assets beginning of year	809,444	683,265	852,830
Net assets end of year	**$ 702,583**	**$ 809,444**	**$ 683,265**

See Notes to Financial Statements.

EAST CENTRAL IOWA COUNCIL OF GOVERNMENTS
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005, 2004 and 2003

	2005	2004	2003
Cash flows from operating activities:			
Cash received from local sources	$ 601,130	$ 708,433	$ 573,503
Cash received from state operating grants	420,208	299,713	406,621
Cash paid for salaries and benefits	(551,058)	(514,525)	(520,428)
Cash paid for administration	(271,580)	(258,260)	(362,841)
Net cash provided by operating activities	$ 198,700	$ 235,361	$ 96,855
Cash flows from noncapital financing activities:			
Cash received from state grants	$ -	$ 36,012	$ 107,118
Cash received from federal grants	317,473	308,307	290,918
Cash paid to governmental entities for grant contracts	(559,982)	(472,161)	(514,705)
Net cash used for noncapital financing activities	$(242,509)	$(127,842)	$ (116,669)
Cash flows from capital and related financing activities:			
Cash received from federal capital grants	$ 112,012	$ 210,302	$ 52,859
Net acquisition of fixed assets	(138,565)	(263,317)	(72,471)
Net cash used for capital and related financing activities	$ (26,553)	$ (53,015)	$ (19,612)
Cash flows from investing activities:			
Cash received for rehab note receivable	$ 973	$ 861	$ 828
Cash paid for investment in environmental house	-	(51,650)	(35,830)
Cash received from sale of investment in environmental house	65,199	-	-
Interest received	762	1,477	2,018
Net cash used in investing activities	$ 66,934	$ (49,312)	$ (32,984)
Net increase (decrease) in cash	$ (3,428)	$ 5,192	$ (72,410)
Cash and cash equivalents beginning of year	146,616	141,424	213,834
Cash and cash equivalents end of year	**$ 143,188**	**$ 146,616**	**$ 141,424**
Reconciliation of net transactions to net cash provided by operating activities:			
Net transactions	$(106,861)	$(126,179)	$ (169,565)
Adjustments for long-term non-cash items:			
Depreciation	199,650	181,166	227,542
Gain (loss) on sale of assets	(11,682)	7,678	5,000
Receipts and expenditures not classified as operating	166,083	153,066	53,887
Change in assets and liabilities:			
(Increase) decrease in prepaid expenses	4,228	(327)	(2,648)
(Increase) decrease in accounts receivables	(13,944)	27,230	28,033
Increase (decrease) in accounts payable	(39,011)	(7,148)	(21,310)
Increase (decrease) in accrued benefits payable	237	(125)	775
Increase (decrease) in unearned revenue	-	-	(24,859)
Net cash provided by operating activities	**$ 198,700**	**$ 235,361**	**$ 96,855**

See Notes to Financial Statements.

(1) Organization

The East Central Iowa Council of Governments (ECICOG) 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 10 which includes Benton, Iowa, Johnson, Jones, Linn and Washington counties. ECICOG's powers and duties are those authorized by Chapter 28H of the State of Iowa (Councils of Governments). ECICOG 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. ECICOG also provides transportation services to the elderly, disabled and rural areas through East Central Iowa Transit. In performing its duties, ECICOG may contract with and expend funds from federal, state, and local agencies, public or semi-public agencies and private individuals and Corporations.

Reporting Entity

For financial reporting purposes, ECICOG has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with ECICOG are such that exclusion would cause ECICOG'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 ECICOG 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 ECICOG. ECICOG has no component units which meet the Governmental Accounting Standards Board criteria.

(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 Net Assets

The following accounting policies are followed in preparing the statement of net assets:

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.

(2) Summary of Significant Accounting Policies - continued

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, 2005.

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

ECICOG's deposits in banks at June 30, 2005 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.

ECICOG 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.

ECICOG had no investments at June 30, 2005.

Interest rate risk - ECICOG's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of ECICOG.

(4) Fixed Assets

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Furniture and equipment	$ 71,845	$ 401	$ -	$ 72,246
Vehicles	3,113,462	138,164	70,992	3,180,634
Total	$3,185,307	$138,565	$ 70,992	$3,252,880

(5) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and ECICOG is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. ECICOG's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were $27,214, $25,679, and $26,022, respectfully, equal to the required contributions for each year.

(6) Operating Lease

ECICOG leases its office space on an operating lease basis. The lease calls for lease payments as described below. In addition, ECICOG is responsible for any leasehold improvements. Total rental and lease expense for the year ended June 30, 2005 was $18,000.

Future rental payments are as follows:

Year ended June 30,	Amount
2006	$12,000

(7) Note Receivable

ECICOG has a note receivable for additional home rehabilitation work completed. The note is interest bearing at 4%. As of June 30, 2005, remaining principal on the note receivable is $1,499. The short-term portion of the receivable is $936.

(8) Risk Management

The Agency is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 509 members include various governmental entities throughout the State of Iowa. The Pool was formed in August, 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, property, police professional liability, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current member's basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital.

Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, in insufficient, by the subsequent year's member contributions.

The Agency's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Agency's annual contributions to the Pool for the year ended June 30, 2005 were $3,501

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to $250,000 per claim. Claims exceeding $250,000 are reinsured in an amount not to exceed $1,750,000 per claim and $5,000,000 in aggregate per year. For members requiring specific coverage from $2,000,000 to $10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to $100,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

(8) Risk Management - continued

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon such withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the members in refunded 100 percent of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Agency also carries commercial insurance purchased from other insurers for coverage associated with public employee dishonesty coverage and workers compensation coverage. The Agency assumes liability for any deductibles, and claims in excess of coverage limitations.

(9) Accounting Change

The Governmental Accounting Standards Boards has issued Statement No. 34, *Basic Financial Statement - and Management's Discussion and Analysis - for State and Local Governments;* Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus;* and Statement No. 38, *Certain Financial Statement Note Disclosures.* These statements were implemented for the fiscal year ending June 30, 2005. The revised requirements include using the economic resources measurement focus and full accrual accounting. Also, the revised minimum reporting requirements include Management's Discussion and Analysis to introduce the basic financial statements and to provide an analytical overview of ECICOG's financial activities.

EAST CENTRAL IOWA COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

GRANTOR/PROGRAM	CFDA NUMBER	AGENCY PASS-THROUGH NUMBER	PROGRAM EXPENDITURES
Indirect:			
Department of Transportation:			
Iowa Department of Transportation:			
Urban Mass Transportation Technical Studies Grants:			
FHWA STP/FTA Section 18	20.515	04-SPR-RPA10	$ 54,225
Federal Transit Administration: Discretionary Capital Grant:			
Section 3	20.500	03-0103-100-04	$ 51,383
		03-0098-100-03	60,629
			$112,012
Federal Transit Administration: Elderly and Disabled Grant:			
Section 16	20.513	16-0029-100-05	$229,269
Federal Transit Administration: Non-Urban Capital Assistance Project:			
Section 18	20.509	18-0025-100-05	$ 3,190
Total Department of Transportation			$398,696
Department of Agriculture:			
Region XII Cog:			
Rural Community Development Initiative			34,979
Total			**$433,675**

See Accompanying Independent Auditor's Report.

Larry Pump, CPA
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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
East Central Iowa Council of Governments:

I have audited the general purpose financial statements of the East Central Iowa Council of Governments (ECICOG) as of and for the years ended June 30, 2005, 2004 and 2003 and have issued my reports thereon dated October 27, 2005. My reports expressed unqualified opinions on those financial statements. I conducted my 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered ECICOG's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion
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 ECICOG'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 reportable 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 caused by error or fraud 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, which is item II-A-05, is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ECICOG's general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about ECICOG's operations for the year ended June 30, 2005, are based exclusively on knowledge obtained from procedures performed during my audit of the general purpose financial statements of ECICOG. 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.

This report, a public record by law, is intended solely for the information and use of the East Central Iowa Council of Governments officials, employees and other parties to whom the Agency 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 ECICOG 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.

Larry Pump

October 27, 2005

EAST CENTRAL IOWA COUNCIL OF GOVERNMENTS
Schedule of Findings
Year Ended June 30, 2005

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.

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

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

II-A-05 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 revenues and expenditures are all done by the same individual.

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

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

Conclusion - Response acknowledged. ECICOG should 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:

Not applicable.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-05 Official Depositories - A resolution naming official depositories has been approved by ECICOG. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

IV-B-05 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Part IV: Other Findings Related to Statutory Reporting: (continued)

IV-C-05 Travel Expense - No disbursements of ECICOG money for travel expenses of spouses of ECICOG officials or employees were noted.

IV-D-05 Business Transactions - No business transactions between ECICOG and ECICOG officials or employees were noted.

IV-E-05 Bond Coverage - Surety bond coverage of ECICOG 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-05 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 ECICOG's investment policy were noted.