

NORTH IOWA AREA COUNCIL OF GOVERNMENTS

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

JUNE 30, 2005

- Prepared By -

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TABLE OF CONTENTS

	<u>PAGE</u>
<u>INDEPENDENT AUDITOR'S REPORT</u>	1-2
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>	3-6
	<u>Exhibit</u>
<u>FINANCIAL STATEMENTS:</u>	
Statement of Net Assets	A 7
Statement of Revenues, Expenses and Changes in Net Assets	B 8
Statement of Cash Flows	C 9
Notes to Financial Statements	10-13
	<u>Schedule</u>
<u>SUPPLEMENTARY INFORMATION:</u>	
Statement of Selected Project Costs and Computation of Selected Project Grants	1 14-16
Schedule of Expenditures of Federal Awards	2 17
<u>INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</u>	18-19
<u>INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133</u>	20-21
<u>SCHEDULE OF FINDINGS</u>	22-24



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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 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, 2005. These financial statements are the responsibility of NIACOG'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 NIACOG at June 30, 2005 and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 11, during the year ended June 30, 2005, NIACOG 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 September 2, 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 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 made for the purpose of forming opinions on the financial statements taken as a whole. Other supplementary information included in Schedules 1 and 2, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, 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.

A handwritten signature in cursive script that reads "Larry Pump".

September 2, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

North Iowa Area 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 NIACOG's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- NIACOG's support and revenues increased 71%, or \$1,502,641, from fiscal 2004 to fiscal 2005. Federal and State grants and program reimbursements increased.
- NIACOG's operation expenses were 12%, or \$219,179 more in fiscal 2005 than in fiscal 2004.
- NIACOG's net assets increased 93%, or \$1,505,100, from June 30, 2004 to June 30, 2005.

USING THIS ANNUAL REPORT

The North Iowa Area 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 NIACOG'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 NIACOG's financial activities.

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

The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on operating revenues and expenses, non-operating revenues and expenses and whether NIACOG's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in NIACOG's cash and cash equivalents during the year. This information can assist the use of the report in determining how NIACOG 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 NIACOG's financial position. NIACOG's net assets for fiscal 2005 totaled approximately \$3,110,450. This compares to approximately \$1,605,350 for fiscal 2004. A summary of NIACOG's net assets is presented below.

Net Assets		June 30,	
		2005	2004
Current assets		\$ 816,955	\$ 548,700
Non-current assets		106,427	138,754
Capital assets at cost, less accumulated depreciation		<u>2,743,545</u>	<u>1,063,760</u>
Total assets		<u>\$3,666,927</u>	<u>\$1,751,214</u>
Current liabilities		\$ 405,286	\$ 145,864
Long-term debt		151,191	-
Total liabilities		<u>\$ 556,477</u>	<u>\$ 145,864</u>
Net assets:			
Reserved		\$ 392,549	\$ 490,305
Unreserved		<u>2,717,901</u>	<u>1,115,045</u>
Total net assets		<u>\$3,110,450</u>	<u>\$1,605,350</u>

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	2004
Support and Revenue			
Grants		\$2,354,953	\$1,194,246
Program reimbursements and other local sources		<u>1,235,406</u>	<u>998,454</u>
Total support and revenue		<u>\$3,590,359</u>	<u>\$2,192,700</u>
Expenditures		<u>\$2,062,295</u>	<u>\$1,843,785</u>
Total expenditures		<u>\$2,062,295</u>	<u>\$1,843,785</u>
Changes in net assets		\$1,528,064	\$ 348,915
Net assets beginning of year		1,605,350	1,256,435
Prior period adjustment		<u>(22,964)</u>	<u>-</u>
Net assets end of year		<u>\$3,110,450</u>	<u>\$1,605,350</u>

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

- Net assets for the year increased \$1,505,100. This increase was due to construction of the Joint Use Transit Facility, reflected in construction in progress.
- During the year ended June 30, 2005, NIACOG awarded \$4,800 in new loans under the Low Income Housing Assistance Program. \$7,350 of outstanding loans were written off as uncollectible due to bankruptcy filings by borrowers. NIACOG anticipates that awards will decrease for next year, as no new grant revenue has been received and additional write-offs are anticipated.
- NCRERC expenses for the year were \$116,604 and revenues were \$112,036. Future revenues and expenses will vary depending on incident response activity.
- Transit operating expenses (without depreciation) were \$1,177,337 and revenues were \$1,195,369. With depreciation, the total expenses were \$1,400,292 and \$1,400,292 and revenues remained at \$1,195,369.
- State Transit Assistance, Federal Transit Operating Assistance, and Fuel Tax Refund for the year totaled \$889,139. These same funding sources for the previous fiscal year totaled \$812,279. 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.
- Transit equipment grants and grants for construction of a new Joint Use Transit Facility totaled \$1,465,814 for the year. These Federal Transit Administration funds require a 20% local match. At June 30, 2005, construction of the Joint Use Transit Facility was well underway with completion expected in late fall of 2005.

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, NIACOG had approximately \$2,743,545 invested in capital assets, net of accumulated depreciation of approximately \$2,548,453. Depreciation charges totaled \$240,715 for fiscal year 2005. More detailed information about NIACOG's capital assets is presented in Note 5 to the financial statements.

ECONOMIC FACTORS

In the upcoming year, NIACOG will complete construction of the Joint Use Transit Facility, and place a new fleet of transit vehicles into service, at which time all administrative and transit operations for both NIACOG and the City of Mason City will be transferred to the new facility. Under the terms of their 28E agreement, NIACOG and the City will share in ongoing costs to operate and maintain the facility, which is expected to result in increased operation efficiencies for both entities.

Contacting NIACOG's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of NIACOG's finances and to show NIACOG's accountability for the money it receives. If you have questions about this report or need additional financial information, contact North Iowa Area Council of Governments, 121 Third Street NW, Mason City, IA 50401.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>NIACOG</u>	<u>NCRERC</u>	<u>Total</u>
ASSETS:			
Current assets:			
Cash and investments	\$ 398,164	\$ 63,280	\$ 461,444
Accounts receivable	310,540	21	310,561
Prepaid expenses	17,706	-	17,706
Notes receivable	27,244	-	27,244
Total current assets	<u>\$ 753,654</u>	<u>\$ 63,301</u>	<u>\$ 816,955</u>
Non-current assets:			
Notes receivable	<u>\$ 106,427</u>	<u>\$ -</u>	<u>\$ 106,427</u>
Fixed assets:			
Land	\$ 183,075	\$ -	\$ 183,075
Building	92,578	-	92,578
Construction in progress	1,960,610	-	1,960,610
Equipment	103,065	39,183	142,248
Vehicles - unrestricted	622,251	118,414	740,665
Vehicles - restricted	2,170,115	-	2,170,115
Improvements other than building	2,707	-	2,707
Total	<u>\$5,134,401</u>	<u>\$ 157,597</u>	<u>\$5,291,998</u>
Less accumulated depreciation	<u>(2,448,957)</u>	<u>(99,496)</u>	<u>(2,548,453)</u>
Net fixed assets	<u>\$2,685,444</u>	<u>\$ 58,101</u>	<u>\$2,743,545</u>
Total assets	<u>\$3,545,525</u>	<u>\$ 121,402</u>	<u>\$3,666,927</u>
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Trade accounts payable	\$ 364,526	\$ -	\$ 364,526
Accrued payroll taxes	892	-	892
Accrued benefits payable	24,285	-	24,285
Unearned revenue	15,583	-	15,583
Total current liabilities	<u>\$ 405,286</u>	<u>\$ -</u>	<u>\$ 405,286</u>
Long-term debt:			
Revolving loan (Note 6)	<u>\$ 151,191</u>	<u>\$ -</u>	<u>\$ 151,191</u>
Total Liabilities	<u>\$ 556,477</u>	<u>\$ -</u>	<u>\$ 556,477</u>
Net assets:			
Reserved (Note 2)	\$ 392,549	\$ -	\$ 392,549
Unreserved	2,596,499	121,402	2,717,901
Total net assets	<u>\$2,989,048</u>	<u>\$ 121,402</u>	<u>\$3,110,450</u>

See Notes to Financial Statements.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2005

	<u>NIACOG</u>	<u>NCRERC</u>	<u>Total</u>
REVENUE:			
Federal grant receipts	\$1,911,890	\$ 10,140	\$1,922,030
State grant receipts	432,923	-	432,923
Program reimbursements	1,112,513	82,856	1,195,369
Incident response income	-	15,801	15,801
Interest income	8,497	1,307	9,804
Other income	12,500	1,932	14,432
Total	<u>\$3,478,323</u>	<u>\$ 112,036</u>	<u>\$3,590,359</u>
EXPENSES:			
Salaries	\$ 247,393	\$ -	\$ 247,393
Employee benefits	65,701	-	65,701
Contracted services	105,848	67,455	173,303
Telephone	4,368	-	4,368
Printing	11,016	-	11,016
Supplies	6,093	-	6,093
Travel	12,170	-	12,170
Postage	4,463	-	4,463
Conferences	2,336	1,607	3,943
Dues and memberships	7,075	-	7,075
Professional fees	14,854	-	14,854
Miscellaneous	10,595	4,622	15,217
Bad debt expense	7,350	-	7,350
Insurance	19,545	7,981	27,526
Repairs and maintenance	30,391	-	30,391
Utilities	9,078	-	9,078
Equipment	-	16,777	16,777
Depreciation	230,811	9,904	240,715
Transit provider payments	1,177,337	-	1,177,337
Training	-	6,329	6,329
Apparatus maintenance	-	1,929	1,929
Total	<u>\$1,966,424</u>	<u>\$ 116,604</u>	<u>\$2,083,028</u>
Net transactions before other financing sources	\$1,511,899	\$ (4,568)	\$1,507,331
Other financing sources:			
Gain on sale of fixed assets	<u>20,733</u>	<u>-</u>	<u>20,733</u>
Changes in net assets	\$1,532,632	\$ (4,568)	\$1,528,064
Net assets beginning of year	1,479,380	125,970	1,605,350
Prior period adjustment (Note 10)	<u>(22,964)</u>	<u>-</u>	<u>(22,964)</u>
Net assets end of year	<u>\$2,989,048</u>	<u>\$ 121,402</u>	<u>\$3,110,450</u>

See Notes to Financial Statements.

**NORTH IOWA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2005**

	<u>NIACOG</u>	<u>NCRERC</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from federal operating grants	\$ 536,737	\$ 10,140	\$ 546,877
Cash received from state operating grants	432,923	-	432,923
Cash received from program reimbursements	1,071,877	82,856	1,154,733
Cash received from incident response income	-	15,801	15,801
Cash received from miscellaneous revenue	12,500	1,932	14,432
Cash paid to employees for services	(313,097)	-	(313,097)
Cash paid for other suppliers of goods and services	<u>(1,412,949)</u>	<u>(110,756)</u>	<u>(1,523,705)</u>
Net cash provided by operating activities	<u>\$ 327,991</u>	<u>\$ (27)</u>	<u>\$ 327,964</u>
Cash flows from capital and related financing activities:			
Net acquisition of fixed assets	\$(1,579,760)	\$ (62,516)	\$(1,642,276)
Cash received from asset sales	20,733	-	20,733
Cash received from federal capital grants	1,319,763	-	1,319,763
Cash used to repay short-term debt	(25,000)	-	(25,000)
Cash received from the issuance of long term debt	<u>151,191</u>	<u>-</u>	<u>151,191</u>
Net cash used for capital and related financing activities	<u>\$ (113,073)</u>	<u>\$ (62,516)</u>	<u>\$ (175,589)</u>
Cash flows from investing activities:			
Interest received	<u>\$ 8,044</u>	<u>\$ 1,307</u>	<u>\$ 9,351</u>
Net increase (decrease) in cash	\$ 222,962	\$ (61,236)	\$ 161,726
Cash at beginning of year	<u>175,202</u>	<u>124,516</u>	<u>299,718</u>
Cash at end of year	<u>\$ 398,164</u>	<u>\$ 63,280</u>	<u>\$ 461,444</u>
Reconciliation of net transactions to net cash provided (used) by operating activities:			
Net transactions	\$ 1,532,632	\$ (4,568)	\$ 1,582,064
Adjustments for long-term non-cash items:			
Depreciation	230,811	9,904	240,715
Bad debt expense	7,350	-	7,350
Gain on disposal of assets	(20,733)	-	(20,733)
Receipts and expenditures not classified as operating	<u>(1,358,575)</u>	<u>(1,307)</u>	<u>(1,359,882)</u>
Adjustments for current non-cash items:			
(Increase) in prepaid insurance	(6,144)	-	(6,144)
(Increase) decrease in accounts receivable	(96,026)	5,944	(90,082)
Decrease in notes receivable	22,478	-	22,478
Increase(decrease) in accounts payable	3,968	(10,000)	(6,032)
Increase in unearned revenue	12,233	-	12,233
(Decrease) in payroll taxes	(53)	-	(53)
Increase in accrued benefits payable	<u>50</u>	<u>-</u>	<u>50</u>
Net cash provided (used) by operating activities	<u>\$ 327,991</u>	<u>\$ (27)</u>	<u>\$ 327,964</u>

See Notes to Financial Statements.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(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.

Reporting Entity

For financial reporting purposes, NIACOG 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 NIACOG are such that exclusion would cause NIACOG'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 NIACOG 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 NIACOG. NIACOG has one component unit which meets the Governmental Accounting Standards Board criteria. The North Central Regional Emergency Response Commission (NCRERC) is a committee established under a 28E agreement with NIACOG. Its purpose is to implement joint and cooperative action in training and response activities of hazardous materials for Region 2.

(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 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.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(2) Summary of Significant Accounting Policies - continued

Investments - Investments are stated at cost which approximates market.

Property and Equipment - Capital 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.

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

Reserved Net Assets - Reserved net assets 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, 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.

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 and NCRERC had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$238,654 and \$10,108, respectfully, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk - NIACOG'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 NIACOG.

Credit risk - NIACOG'S investment in the Iowa Public Agency Investment Trust is unrated.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2005

(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, 2005 was \$14,230 which was equal to the required contribution for the year.

(5) **Capital Assets**

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Land	\$ 195,154	\$ -	\$ 12,079	\$ 183,075
Building	92,578	-	-	92,578
Construction in progress	109,373	1,851,237	-	1,960,610
Equipment	101,716	1,349	-	103,065
Vehicles	2,849,447	17,477	74,558	2,792,366
Improvements other than building	<u>2,707</u>	<u>-</u>	<u>-</u>	<u>2,707</u>
Total	<u>\$3,350,975</u>	<u>\$1,870,063</u>	<u>\$ 86,637</u>	<u>\$5,134,401</u>

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Equipment	\$ 39,183	\$ -	\$ -	\$ 39,183
Vehicles	55,898	62,516	-	118,414
Total	<u>\$ 95,081</u>	<u>\$ 62,516</u>	<u>\$ -</u>	<u>\$ 157,597</u>

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(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, 2005 the Agency had requested \$151,191.

(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 \$450,000 at a variable rate of interest. At June 30, 2005, there was no outstanding balance under this agreement.

(9) **Commitments**

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. As of June 30, 2005, NIACOG had outstanding commitments of \$418,388 related to unbilled construction costs.

(10) **Prior Period Adjustment**

For the year ended June 30, 2004, a draw on NIACOG's revolving loan was classified as Federal grant revenue. This amount was reclassified to long term debt for the year ended June 30, 2005. As a result, debt increased and net assets decreased by \$22,964.

(11) **Accounting Change**

The Governmental Accounting Standards Boards has issued 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*. 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 NIACOG's financial activities.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
 STATEMENT OF SELECTED PROJECT COSTS AND COMPUTATION OF SELECTED PROJECT GRANTS
 YEAR ENDED JUNE 30, 2005

	STA Operating Assistance 020-05	FTA Elderly & Disabled 16-0029 020-05	FTA Job Access Reverse Commute 37-X0006- 020-01
Operating Expenditures:			
Personal Services	\$ -	\$ -	\$ -
Contractual Services	432,923	653,532	-
Commodities	-	-	-
Capital Outlay	-	-	24,110
Prior Year	-	-	170,436
Project Cost	<u>\$432,923</u>	<u>\$ 653,532</u>	<u>\$194,546</u>
Grant Participation in Project Cost	<u>100%</u>	<u>80%</u>	<u>50%</u>
Percentage Participation	<u>\$432,923</u>	<u>\$ 522,826</u>	<u>\$ 97,273</u>
Contract Amount	<u>\$432,923</u>	<u>\$ 363,131</u>	<u>\$103,600</u>
Permissible Grant (Lesser of Contract Amount or Percentage Participation)	\$423,923	\$ 363,131	\$ 97,273
Less: Grant Payments received in current year	(423,923)	(363,131)	(15,104)
Less: Grant Payments received in prior year	-	-	(80,588)
Grant Receivable/(Payable) at June 30, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,581</u>

(continued)

<u>Section 3 Capital</u> 03-0092- 020-01	<u>Section 3 Capital</u> 03-0102- 020-03	<u>Section 18 Capital</u> 18-0025- 020-04	<u>Section 18 Capital</u> 18-0024- 020-03	<u>04-RPA-02</u>	<u>05-RPA-02</u>	<u>COG Assistance 2005-COG-01</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	42,143	9,375
63,933	896,857	14,205	-	-	-	-
108,827	156,934	17,477	735,240	-	-	-
\$172,760	\$1,053,791	\$ 31,682	\$735,240	\$ 60,326	\$ 42,143	\$ 9,375
80%	80%	80%	80%	80%	80%	100%
<u>\$138,208</u>	<u>\$ 843,032</u>	<u>\$ 25,345</u>	<u>\$588,191</u>	<u>\$ 48,261</u>	<u>\$ 33,714</u>	<u>\$ 9,375</u>
<u>\$156,976</u>	<u>\$ 896,235</u>	<u>\$ 281,844</u>	<u>\$732,600</u>	<u>\$ 48,261</u>	<u>\$ 54,261</u>	<u>\$ 9,375</u>
\$138,208	\$ 843,032	\$ 25,345	\$588,191	\$ 48,261	\$ 33,714	\$ 9,375
(138,359)	(710,157)	-	(471,247)	(7,317)	(19,986)	(9,375)
(12,256)	(116,706)	-	-	(40,944)	-	-
<u>\$(12,407)</u>	<u>\$ 16,169</u>	<u>\$ 25,345</u>	<u>\$116,944</u>	<u>\$ -</u>	<u>\$ 13,728</u>	<u>\$ -</u>

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF SELECTED PROJECT COSTS AND COMPUTATION OF SELECTED PROJECT GRANTS
YEAR ENDED JUNE 30, 2005

	2001 <u>F540-09</u>	EDA <u>05-83-06417</u>	HAZMAT <u>HMEP</u>	<u>Total</u>
Operating Expenditures:				
Personal Services	\$ -	\$ -	\$ -	\$ -
Contractual Services	-	75,357	-	1,213,330
Commodities	-	-	-	14,205
Capital Outlay	-	-	-	1,737,616
Prior Year	400	-	10,878	507,801
Project Cost	<u>\$ 400</u>	<u>\$ 75,357</u>	<u>\$ 10,878</u>	<u>\$3,472,952</u>
Grant Participation in Project Cost	<u>100%</u>	<u>75%</u>	<u>100%</u>	
Percentage Participation	<u>\$ 400</u>	<u>\$ 56,518</u>	<u>\$ 10,878</u>	<u>\$2,806,944</u>
Contract Amount	<u>\$ 7,500</u>	<u>\$ 51,000</u>	<u>\$ 10,878</u>	<u>\$3,148,584</u>
Permissible Grant (Lesser of Contract Amount or Percentage Participation)	\$ 400	\$ 51,000	\$ 10,878	\$2,641,732
Less: Grant Payments received in current	-	(51,000)	(5,928)	(2,224,527)
Less: Grant Payments received in prior year	<u>(3,750)</u>	<u>-</u>	<u>(4,950)</u>	<u>(259,194)</u>
Grant Receivable/(Payable) at June 30, 2005	<u>\$ (3,350)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 158,010</u>

See Accompanying Independent Auditor's Report.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2005

<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	16-0029-020-05	\$ <u>363,131</u>
Capital Investment Assistance Project Section 3	20.500	03-0092-020-01	\$ 51,146
	20.500	03-0102-020-03	<u>717,485</u>
			<u>\$ 768,631</u>
Section 18	20.509	18-0024-020-03	\$ 588,191
	20.509	18-0025-020-04	<u>25,345</u>
			<u>\$ 613,536</u>
Job Access/Reverse Commute	20.516	37-X006-020-01	\$ <u>12,055</u>
Studies Grants Regional Transit Development Plan	20.515	05-RPA-02	\$ <u>33,714</u>
Total			<u>\$1,842,067</u>

See Accompanying Independent Auditor's Report.



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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
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, 2005, and have issued my report thereon dated September 2, 2005. My report expressed an unqualified opinion on the financial statements. 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.

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 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 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 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, item II-A-05, is a material weakness.

Compliance and Other Matters

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 grant agreements, 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 NIACOG'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 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.

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, 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.

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.



September 2, 2005



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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, 2005. 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 grant agreements 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, 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 OMB Circular A-133 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 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, 2005.

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 grant agreements 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 grant agreements. The reportable condition is described in Part III 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 noncompliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud 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-05 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.

A handwritten signature in cursive script that reads "Larry Pump".

September 2, 2005

NORTH IOWA AREA 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.
- (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, CFDA Number 20.509 Non-Urban Capital 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-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 receipts listing, bank deposits and bank reconciliations are all done by the same individual.

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

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
Schedule of Findings
Year Ended June 30, 2005

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

Response - We will consider this.

Conclusion - Response acknowledged. NIACOG 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:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

CFDA Number 20.500: Capital Investment Assistance Project
Federal Award Year: 2005
U.S. Department of Transportation
Passed through the Iowa Department of Transportation

CFDA Number 20.509 Non-Urban Capital Assistance Project
Federal Award Year: 2005
U.S. Department of Transportation
Passed through the Iowa Department of Transportation

CFDA Number 20.513: Elderly and Disabled Transit Assistance
Federal Award Year: 2005
U.S. Department of Transportation
Passed through the Iowa Department of Transportation

III-A-05 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-05.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-05 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, 2005.

IV-B-05 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-05 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, 2005

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

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

IV-E-05 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-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 the NIACOG's investment policy were noted.

