

NORTH IOWA AREA COUNCIL OF GOVERNMENTS

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

JUNE 30, 2006

- Prepared By -

Larry Pump, CPA
117 North Jackson Street
Charles City, IA 50616-2036
Phone (641) 257-4222

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Larry Pump, CPA
117 North Jackson Street
Charles City, IA 50616

E-mail: rlp@fiai.net

(641) 257-4222
or (641) 228-2812
Fax (641) 228-1513

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, 2006. 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, 2006 and the respective changes in financial position 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 30, 2007 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 5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted 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 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 financial statements taken as a whole.

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

January 30, 2007

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, 2006. I encourage readers to consider this information in conjunction with NIACOG's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- NIACOG's support and revenues decreased less than 1%, or \$11,136, from fiscal 2005 to fiscal 2006.
- NIACOG's operation expenses were 19%, or \$405,211 more in fiscal 2006 than in fiscal 2005, due mainly to increased costs associated with the new joint transit facility, such as salaries, supplies and depreciation.
- NIACOG's net assets increased 39%, or \$1,219,759, from June 30, 2005 to June 30, 2006.

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 2006 totaled approximately \$4,330,209. This compares to approximately \$3,110,450 for fiscal 2005. A summary of NIACOG's net assets is presented below.

	Net Assets	
	June 30,	
	2006	2005
Current assets	\$ 720,251	\$ 816,955
Non-current assets	69,192	106,427
Capital assets at cost, less accumulated depreciation	3,884,860	2,743,545
Total assets	<u>\$4,674,303</u>	<u>\$3,666,927</u>
Current liabilities	\$ 187,469	\$ 405,286
Long-term debt	156,625	151,191
Total liabilities	<u>\$ 344,094</u>	<u>\$ 556,477</u>
Net assets:		
Reserved	\$ 975,249	\$ 392,549
Unreserved	<u>3,354,960</u>	<u>2,717,901</u>
Total net assets	<u>\$4,330,209</u>	<u>\$3,110,450</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, 2006 and 2005 are presented below:

	Changes in Net Assets	
	June 30,	
	2006	2005
Support and Revenue		
Grants	\$2,273,892	\$2,354,953
Program reimbursements and other local sources	<u>1,305,331</u>	<u>1,235,406</u>
Total support and revenue	<u>\$3,579,223</u>	<u>\$3,590,359</u>
Expenditures	<u>2,488,239</u>	<u>2,083,028</u>
Net transactions before other financing sources	\$1,090,984	\$1,507,331
Other financing sources	<u>128,775</u>	<u>20,733</u>
Change in net assets	\$1,219,759	\$1,528,064
Net assets beginning of year	3,110,450	1,605,350
Prior period adjustment	<u>-</u>	<u>(22,964)</u>
Net assets end of year	<u>\$4,330,209</u>	<u>\$3,110,450</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 \$1,219,759. This increase was mainly due to construction of the Joint Use Transit Facility which was placed in service in November 2005.
- NCRERC expenses for the year were \$124,217 and revenues were \$113,209. Future revenues and expenses will vary depending on incident response activity.
- Transit operating expenses (without depreciation) were \$1,297,166 and revenues were \$1,262,082. With depreciation, the total expenses were \$1,647,153 and revenues remained at \$1,297,166.
- State Transit Assistance, Federal Transit Operating Assistance, and Fuel Tax Refund for the year totaled \$938,486. These same funding sources for the previous fiscal year totaled \$899,139. The increase was in Federal Transit Assistance. These same funding sources are projected to decrease from fiscal year 2006 to fiscal year 2007.
- Transit equipment grants and grants for construction of the new Joint Use Transit Facility totaled \$1,461,807 for the year. These Federal Transit Administration funds require a 20% local match.

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, 2006, NIACOG had approximately \$3,884,860 invested in capital assets, net of accumulated depreciation of approximately \$2,375,469. Depreciation charges totaled \$419,930 for fiscal year 2006. 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 continue to maximize efficiencies related to providing transit services for Region 2. Under the terms of their 28E agreement, NIACOG and the City will continue to share in ongoing costs to operate and maintain the facility.

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, 525 6th Street SW, Mason City, IA 50401.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>NIACOG</u>	<u>NCRERC</u>	<u>Total</u>
ASSETS:			
Current assets:			
Cash and investments	\$ 390,445	\$ 58,014	\$ 448,459
Accounts receivable	225,790	8,350	234,140
Prepaid expenses	14,658	-	14,658
Notes receivable	22,994	-	22,994
Total current assets	<u>\$ 653,887</u>	<u>\$ 66,364</u>	<u>\$ 720,251</u>
Non-current assets:			
Notes receivable	<u>\$ 69,192</u>	<u>\$ -</u>	<u>\$ 69,192</u>
Fixed assets:			
Land	\$ 157,711	\$ -	\$ 157,711
Building	2,404,599	-	2,404,599
Equipment	187,945	39,183	227,128
Vehicles - unrestricted	711,217	62,516	773,733
Vehicles - restricted	2,697,158	-	2,697,158
Total	<u>\$6,158,630</u>	<u>\$ 101,699</u>	<u>\$6,260,329</u>
Less accumulated depreciation	<u>2,317,800</u>	<u>57,669</u>	<u>2,375,469</u>
Net fixed assets	<u>\$3,840,830</u>	<u>\$ 44,030</u>	<u>\$3,884,860</u>
 Total assets	<u>\$4,563,909</u>	<u>\$ 110,394</u>	<u>\$4,674,303</u>
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Trade accounts payable	\$ 98,819	\$ -	\$ 98,819
Accrued payroll taxes	1,089	-	1,089
Accrued benefits payable	32,002	-	32,002
Unearned revenue	3,350	-	3,350
Revolving loan	52,209	-	52,209
Total current liabilities	<u>\$ 187,469</u>	<u>\$ -</u>	<u>\$ 187,469</u>
Long-term debt:			
Revolving loan (Note 6)	<u>\$ 156,625</u>	<u>\$ -</u>	<u>\$ 156,625</u>
 Total liabilities	<u>\$ 344,094</u>	<u>\$ -</u>	<u>\$ 344,094</u>
Net assets:			
Reserved (Note 2)	\$ 975,249	\$ -	\$ 975,249
Unreserved	<u>3,244,566</u>	<u>110,394</u>	<u>3,354,960</u>
 Total net assets	<u>\$4,219,815</u>	<u>\$ 110,394</u>	<u>\$4,330,209</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, 2006

	<u>NIACOG</u>	<u>NCRERC</u>	<u>Total</u>
REVENUE:			
Federal funds	\$1,864,781	\$ 14,907	\$1,879,688
State funds	394,204	-	394,204
Local:			
Program reimbursements	1,169,086	92,996	1,262,082
Incident response revenue	-	2,356	2,356
Interest	12,632	2,950	15,582
Other revenue	25,311	-	25,311
Total	<u>\$3,466,014</u>	<u>\$ 113,209</u>	<u>\$3,579,223</u>
EXPENSES:			
Salaries	\$ 311,307	\$ -	\$ 311,307
Employee benefits	88,454	-	88,454
Contracted services	74,651	58,032	132,683
Telephone	5,170	-	5,170
Printing	20,676	-	20,676
Supplies	60,207	-	60,207
Travel	13,273	-	13,273
Postage	4,660	-	4,660
Conferences	5,456	1,158	6,614
Dues and memberships	6,570	187	6,757
Professional fees	15,435	775	16,210
Miscellaneous	1,540	1,456	2,996
Insurance	22,146	7,963	30,109
Repairs and maintenance	11,335	-	11,335
Utilities	20,117	108	20,225
Equipment	-	24,446	24,446
Depreciation	405,859	14,071	419,930
Transit provider payments	1,297,166	-	1,297,166
Training	-	14,907	14,907
Apparatus maintenance	-	1,114	1,114
Total	<u>\$2,364,022</u>	<u>\$ 124,217</u>	<u>\$2,488,239</u>
Net transactions before other financing sources	\$1,101,992	\$ (11,008)	\$1,090,984
Other financing sources:			
Gain on sale of fixed assets	<u>128,775</u>	<u>-</u>	<u>128,775</u>
Changes in net assets	\$1,230,767	\$ (11,008)	\$1,219,759
Net assets beginning of year	<u>2,989,048</u>	<u>121,402</u>	<u>3,110,450</u>
Net assets end of year	<u>\$4,219,815</u>	<u>\$ 110,394</u>	<u>\$4,330,209</u>

See Notes to Financial Statements.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2006

	<u>NIACOG</u>	<u>NCRERC</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from federal operating grants	\$ 429,230	\$ 20,650	\$ 449,880
Cash received from state operating grants	397,354	-	397,354
Cash received from program reimbursements	1,128,569	92,996	1,221,565
Cash received from incident response revenue	-	2,356	2,356
Cash received from miscellaneous revenue	25,311	-	25,311
Cash paid to employees for services	(392,718)	-	(392,718)
Cash paid for other suppliers of goods and services	<u>(1,951,744)</u>	<u>(124,218)</u>	<u>(2,075,962)</u>
Net cash used in operating activities	<u>\$ (363,998)</u>	<u>\$ (8,216)</u>	<u>\$ (372,214)</u>
Cash flows from capital and related financing activities:			
Net acquisition of fixed assets	\$(1,461,979)	\$ -	\$(1,461,979)
Cash received from asset sales	182,654	-	182,654
Cash received from federal capital grants	1,565,329	-	1,565,329
Cash used to repay short-term debt	(81,490)	-	(81,490)
Cash received from the issuance of long term debt	<u>139,133</u>	<u>-</u>	<u>139,133</u>
Net cash provided by capital and related financing activities	<u>\$ 343,647</u>	<u>\$ -</u>	<u>\$ 343,647</u>
Cash flows from investing activities:			
Interest received	<u>\$ 12,632</u>	<u>\$ 2,950</u>	<u>\$ 15,582</u>
Net decrease in cash	\$ (7,719)	\$ (5,266)	\$ (12,985)
Cash and cash equivalents at beginning of year	<u>398,164</u>	<u>63,280</u>	<u>461,444</u>
Cash and cash equivalents at end of year	<u>\$ 390,445</u>	<u>\$ 58,014</u>	<u>\$ 448,459</u>
Reconciliation of net transactions to net cash provided (used) by operating activities:			
Net transactions	\$ 1,230,767	\$ (11,008)	\$ 1,219,759
Adjustments for long-term non-cash items:			
Depreciation	405,859	14,071	419,930
Gain on disposal of assets	(128,775)	-	(128,775)
Receipts and expenditures not classified as operating	<u>(1,731,106)</u>	<u>(2,950)</u>	<u>(1,734,056)</u>
Adjustments for current non-cash items:			
Decrease in prepaid insurance	3,048	-	3,048
(Increase) decrease in accounts receivable	84,750	(8,329)	76,421
Decrease in notes receivable	41,485	-	41,485
(Decrease) in accounts payable	(265,707)	-	(265,707)
(Decrease) in unearned revenue	(12,233)	-	(12,233)
Increase in payroll taxes	197	-	197
Increase in accrued benefits payable	<u>7,717</u>	<u>-</u>	<u>7,717</u>
Net cash provided (used) by operating activities	<u>\$ (363,998)</u>	<u>\$ (8,216)</u>	<u>\$ (372,214)</u>

See Notes to Financial Statements.

**NORTH IOWA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

(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, 2006

(2) Summary of Significant Accounting Policies - continued

Investments - Investments are stated at cost which approximates market.

Notes Receivable - This account is utilized to record revolving loan funds loaned to eligible homeowners.

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, 2006.

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, 2006 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 \$130,921 and \$61,339, 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, 2006

(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 covered salary and NIACOG is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. NIACOG's contribution to IPERS for the year ended June 30, 2006 was \$17,630 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:

<u>NIACOG</u>	Balance Beginning of Year	<u>Additions</u>	<u>Deletions</u>	Balance End of Year
Land	\$ 183,075	\$ -	\$ 25,364	\$ 157,711
Building	92,578	2,404,599	92,578	2,404,599
Construction in progress	1,960,610	-	1,960,610	-
Equipment	103,065	127,395	42,515	187,945
Vehicles	2,792,366	1,043,740	427,731	3,408,375
Improvements other than building	<u>2,707</u>	<u>-</u>	<u>2,707</u>	<u>-</u>
Total	<u>\$5,134,401</u>	<u>\$3,575,734</u>	<u>\$2,551,505</u>	<u>\$6,158,630</u>

<u>NCRERC</u>	Balance Beginning of Year	<u>Additions</u>	<u>Deletions</u>	Balance End of Year
Equipment	\$ 39,183	\$ -	\$ -	\$ 39,183
Vehicles	<u>118,414</u>	<u>-</u>	<u>55,898</u>	<u>62,516</u>
Total	<u>\$ 157,597</u>	<u>\$ -</u>	<u>\$ 55,898</u>	<u>\$ 101,699</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, 2006 the Agency had requested \$208,834.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(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, 2006, there was no outstanding balance under this agreement.

(9) **Litigation**

NIACOG is involved as the Plaintiff in a pending case. The probability of outcome is undeterminable at this time.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
 STATEMENT OF SELECTED PROJECT COSTS AND COMPUTATION OF SELECTED PROJECT GRANTS
 YEAR ENDED JUNE 30, 2006

	STA Operating Assistance 020-06	FTA Elderly & Disabled 16-0030 020-06	FTA United We Ride 26-0003- 002-06	FTA Job Access Reverse Commute 37-X0006- 020-01	FTA Job Access Reverse Commute 37-X0008- 020-02
Operating Expenditures:					
Personal Services	\$ -	\$ -	\$ -	\$ -	\$ -
Contractual Services	397,354	416,950	1,300	12,654	16,600
Commodities	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Prior Year	-	-	-	194,546	-
Project Cost	<u>\$397,354</u>	<u>\$ 416,950</u>	<u>\$ 1,300</u>	<u>\$ 207,200</u>	<u>\$ 16,600</u>
Grant Participation in Project Cost	<u>100%</u>	<u>80%</u>	<u>100%</u>	<u>50%</u>	<u>50%</u>
Percentage Participation	<u>\$397,354</u>	<u>\$ 333,560</u>	<u>\$ 1,300</u>	<u>\$ 103,600</u>	<u>\$ 8,300</u>
Contract Amount	<u>\$397,354</u>	<u>\$ 333,560</u>	<u>\$ 1,800</u>	<u>\$ 103,600</u>	<u>\$ 84,000</u>
Permissible Grant (Lesser of Contract Amount or Percentage Participation)	\$397,354	\$ 333,560	\$ 1,300	\$ 103,600	\$ 8,300
Less: Grant Payments received in current year	(397,354)	(333,560)	(1,300)	(7,908)	(6,311)
Less: Grant Payments received in prior year	-	-	-	(95,692)	-
Grant Receivable/(Payable) at June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,989</u>

(continued)

<u>Section 3 Capital</u> 03-0092- 020-01	<u>Section 3 Capital</u> 03-0102- 020-03	<u>Section 3 Capital</u> 03-0103- 020-04	<u>Section 3 Capital</u> 03-0104- 020-05	<u>Section 18 Capital</u> 18-0025- 020-04	<u>Section 18 Capital</u> 18-0024- 020-03	<u>Section 18 Capital</u> 18-0027- 020-05
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	45,023	-	61,886
23,460	35,176	572,248	428,955	275,600	180,511	129,493
172,760	1,053,790	-	-	31,682	735,240	-
<u>\$196,220</u>	<u>\$1,088,966</u>	<u>\$ 572,248</u>	<u>\$428,955</u>	<u>\$352,305</u>	<u>\$915,751</u>	<u>\$ 191,379</u>
80%	80%	83%	83%	80%	80%	83/80%
<u>\$156,976</u>	<u>\$ 871,173</u>	<u>\$ 474,966</u>	<u>\$356,033</u>	<u>\$281,844</u>	<u>\$732,600</u>	<u>\$ 147,227</u>
<u>\$156,976</u>	<u>\$ 896,235</u>	<u>\$ 474,966</u>	<u>\$385,120</u>	<u>\$281,844</u>	<u>\$732,600</u>	<u>\$ 153,402</u>
\$156,976	\$ 871,173	\$ 474,966	\$356,033	\$281,844	\$732,600	\$ 147,227
(6,361)	(32,419)	(474,966)	(356,033)	(281,844)	(261,353)	(141,629)
(150,615)	(826,863)	-	-	-	(471,247)	-
<u>\$ -</u>	<u>\$ 11,891</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,598</u>

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
 STATEMENT OF SELECTED PROJECT COSTS AND COMPUTATION OF SELECTED PROJECT GRANTS
 YEAR ENDED JUNE 30, 2006

	<u>Section 18</u> <u>Capital</u> <u>18-0023-</u> <u>020-02</u>	<u>Section 18</u> <u>Capital</u> <u>18-0028-</u> <u>020-06</u>	<u>06-RPA-02</u>	<u>05-RPA-02</u>	<u>COG</u> <u>Assistance</u> <u>2006-COG-01</u>
Operating Expenditures:					
Personal Services	\$ -	\$ -	\$ -	\$ -	\$ -
Contractual Services	-	-	71,293	25,683	9,375
Commodities	-	5,154	-	-	-
Capital Outlay	8,251	-	-	-	-
Prior Year	56,154	-	-	42,143	-
Project Cost	<u>\$ 64,405</u>	<u>\$ 5,154</u>	<u>\$ 71,293</u>	<u>\$ 67,826</u>	<u>\$ 9,375</u>
Grant Participation in Project Cost	<u>80%</u>	<u>80%</u>	<u>80%</u>	<u>80%</u>	<u>100%</u>
Percentage Participation	<u>\$ 51,524</u>	<u>\$ 4,123</u>	<u>\$ 57,034</u>	<u>\$ 54,261</u>	<u>\$ 9,375</u>
Contract Amount	<u>\$ 51,524</u>	<u>\$116,598</u>	<u>\$ 57,034</u>	<u>\$ 54,261</u>	<u>\$ 9,375</u>
Permissible Grant (Lesser of Contract Amount or Percentage Participation)	\$ 51,524	\$ 4,123	\$ 57,034	\$ 54,261	\$ 9,375
Less: Grant Payments received in current year	(6,601)	(4,123)	(50,229)	(20,547)	(9,375)
Less: Grant Payments received in prior year	(44,923)	-	-	(33,714)	-
Grant Receivable/(Payable) at June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,805</u>	<u>\$ -</u>	<u>\$ -</u>

See Accompanying Independent Auditor's Report.

SCHEDULE 1
(continued)

<u>2001</u> <u>F540-09</u>	<u>EDA</u> <u>05-83-06417</u>	<u>HAZMAT</u> <u>HMEP</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -
-	-	14,907	966,116
-	-	-	112,063
-	-	-	1,653,694
400	75,357	-	2,362,072
<u>\$ 400</u>	<u>\$ 75,357</u>	<u>\$ 14,907</u>	<u>\$5,093,945</u>
100%	75%	100%	
<u>\$ 400</u>	<u>\$ 56,518</u>	<u>\$ 14,907</u>	<u>\$4,113,075</u>
<u>\$ 7,500</u>	<u>\$ 51,000</u>	<u>\$ 22,521</u>	<u>\$4,371,270</u>
\$ 400	\$ 51,000	\$ 14,907	\$4,107,557
-	-	(6,783)	(2,398,696)
<u>(3,750)</u>	<u>(51,000)</u>	<u>-</u>	<u>(1,677,804)</u>
<u>\$ (3,350)</u>	<u>\$ -</u>	<u>\$ 8,124</u>	<u>\$ 31,057</u>

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

<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	16-0030-020-06	\$ <u>333,560</u>
United We Ride Section 26	20.514	26-0003-002-06	\$ <u>1,300</u>
Capital Investment Assistance Project Section 3	20.500	03-0092-020-01	\$ 18,768
	20.500	03-0102-020-03	28,353
	20.500	03-0103-020-04	474,966
	20.500	03-0104-020-05	356,033
			<u>\$ 878,120</u>
Non-Urban Capital Assistance Project Section 18	20.509	18-0024-020-03	\$ 144,409
	20.509	18-0025-020-04	281,844
	20.509	18-0027-020-05	147,227
	20.509	18-0023-020-02	6,601
	20.509	18-0028-020-06	4,123
			<u>\$ 584,204</u>
Job Access/Reverse Commute	20.516	37-X006-020-01	\$ 6,327
	20.516	37-X008-020-02	8,300
			<u>\$ 14,627</u>
Urban Mass Transportation Technical Studies Grants: Regional Transit Development Plan	20.515	06-RPA-02	\$ 57,034
	20.515	05-RPA-02	20,547
			<u>\$ 77,581</u>
Homeland Security and Emergency Management District Planning and Training	20.703	HMEP	\$ <u>14,907</u>
Total			<u>\$1,955,299</u>

See Accompanying Independent Auditor's Report.



Larry Pump, CPA
117 North Jackson Street
Charles City, IA 50616

E-mail: rlp@fiai.net

(641) 257-4222
or (641) 228-2812
Fax (641) 228-1513

**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, 2006, and have issued my report thereon dated January 30, 2007. 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-06, is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NIACOG's 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, 2006 are based exclusively on knowledge obtained from procedures performed during my audit of the 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.



January 30, 2007



Larry Pump, CPA
117 North Jackson Street
Charles City, IA 50616

E-mail: rlp@fiai.net

(641) 257-4222
or (641) 228-2812
Fax (641) 228-1513

**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, 2006. 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, 2006.

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-06 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 30, 2007

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
Schedule of Findings
Year Ended June 30, 2006

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

- (a) Unqualified opinions were 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-06 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, 2006

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: 2006
U.S. Department of Transportation
Passed through the Iowa Department of Transportation

CFDA Number 20.509 Non-Urban Capital Assistance Project
Federal Award Year: 2006
U.S. Department of Transportation
Passed through the Iowa Department of Transportation

CFDA Number 20.513: Elderly and Disabled Transit Assistance
Federal Award Year: 2006
U.S. Department of Transportation
Passed through the Iowa Department of Transportation

III-A-06 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-06.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-06 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-B-06 Travel Expense - No disbursements of NIACOG money for travel expenses of spouses of NIACOG officials or employees were noted.

IV-C-06 Business Transactions - No business transactions between NIACOG and NIACOG officials or employees were noted.

IV-D-06 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-E-06 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.

