

NORTH IOWA AREA COUNCIL OF GOVERNMENTS

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

JUNE 30, 2012

- Prepared By -

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

TABLE OF CONTENTS

		<u>Page</u>
<u>OFFICIALS</u>		1
<u>INDEPENDENT AUDITOR'S REPORT</u>		2-3
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>		4-6
<u>BASIC FINANCIAL STATEMENTS:</u>	<u>Exhibit</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		10-15
<u>SUPPLEMENTARY INFORMATION:</u>	<u>Schedule</u>	
Statement of Selected Project Costs and Computation of Selected Project Grants	1	16-20
Schedule of Expenses of Federal Awards	2	21
<u>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</u>		22-23
<u>INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133</u>		24-25
<u>SCHEDULE OF FINDINGS</u>		26-29

NORTH IOWA AREA COUNCIL OF GOVERNMENTS

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>County</u>	<u>Term Expires</u>
John Drury	Member	Cerro Gordo	Indefinite
Jay Urdahl	Member	Cerro Gordo	Indefinite
David Viktunek	Treasurer	Cerro Gordo	Indefinite
James Erb	Chair	Floyd	Indefinite
J.R. Ackley	Member	Floyd	Indefinite
Mark Kuhn	Member	Floyd	Indefinite
Jeanie Ahrens	Member	Franklin	Indefinite
Corey Eberling	Member	Franklin	Indefinite
Kent Morton	Member	Franklin	Indefinite
Ted Hall	Member	Hancock	Indefinite
Terry Johnson	Member	Hancock	Indefinite
Kathy Smith	Member	Hancock	Indefinite
Harley Kohlhaas	Member	Kossuth	Indefinite
Don McGregor	Member	Kossuth	Indefinite
Vicki Mallory	Member	Kossuth	Indefinite
Marilyn Johannis	Member	Mitchell	Indefinite
Rick Bodensteiner	Member	Mitchell	Indefinite
Stan Walk	Member	Mitchell	Indefinite
Terry Gasper	Member	Winnebago	Indefinite
Marilyn Hoffman	Member	Winnebago	Indefinite
Mike Stensrud	Member	Winnebago	Indefinite
Dennis May	Vice-Chair	Worth	Indefinite
Terry Steinmetz	Member	Worth	Indefinite
Randy Severson	Member	Worth	Indefinite
Ned Wicker	Secretary	At-Large	Indefinite



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, 2012. 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 my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NIACOG as of June 30, 2012, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated November 8, 2012 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 my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on 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.

My audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. The supplementary information included in Schedules 1 and 2, including the Schedule of Expenses 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 basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in my audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise NIACOG's basic financial statements. Management's Discussion and Analysis on pages 4 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

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

November 8, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

North Iowa Area Council of Governments (NIACOG) 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, 2012. I encourage readers to consider this information in conjunction with NIACOG's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- NIACOG's operating revenues decreased 12%, or \$691,367, from fiscal 2011 to fiscal 2012, due to a decrease in the number of flood grants administered and grants to acquire capital assets compared to the prior year.
- NIACOG's operating expenses were 1%, or \$50,002 higher in fiscal 2012 than in fiscal 2011, due mainly to increased costs associated with transit programs.
- NIACOG's net assets decreased 9%, or \$545,148, from June 30, 2011 to June 30, 2012.

USING THIS ANNUAL REPORT

The North Iowa Area Council of Governments is a 28E Organization 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.

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

Supplementary information provides detailed information about the grant activity. In addition, the Schedule of Expenses of Federal Awards provides details of various federal programs benefiting the Agency.

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 2012 totaled approximately \$5,225,576. This compares to approximately \$5,770,724 at the end of fiscal 2011. A summary of NIACOG's net assets is presented below.

Net Assets		June 30,	
	2012	2011	
Current assets	\$1,636,620	\$1,768,208	
Non-current assets	125,687	16,285	
Capital assets at cost, less accumulated depreciation	<u>3,928,817</u>	<u>4,358,787</u>	
Total assets	<u>\$5,691,124</u>	<u>\$6,143,280</u>	
Current liabilities	<u>\$ 465,548</u>	<u>\$ 372,556</u>	
Net assets:			
Reserved	\$1,094,466	\$1,540,341	
Unreserved	<u>4,131,110</u>	<u>4,230,383</u>	
Total net assets	<u>\$5,225,576</u>	<u>\$5,770,724</u>	

Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues are received from federal grants, state grants, and other local sources. Operating expenses are 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, 2012 and 2011 is presented below:

Changes in Net Assets		Year ended June 30,	
	2012	2011	
Operating Revenues			
Grants	\$3,041,370	\$3,898,453	
Program reimbursements and other local sources	<u>2,013,406</u>	<u>1,847,690</u>	
Total operating revenues	<u>\$5,054,776</u>	<u>\$5,746,143</u>	
Operating Expenses	<u>5,625,112</u>	<u>5,575,110</u>	
Operating income (deficit)	\$ (570,336)	\$ 171,033	
Non-operating revenues, net	<u>25,188</u>	<u>19,161</u>	
Changes in net assets	\$ (545,148)	\$ 190,194	
Net assets beginning of year	<u>5,770,724</u>	<u>5,580,530</u>	
Net assets end of year	<u>\$5,225,576</u>	<u>\$5,770,724</u>	

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

- Net assets for the year decreased \$545,148, mainly due to depreciation of fixed assets.
- NCRERC expenses for the year were \$94,147 and revenues were \$96,691. Future revenues and expenses will vary depending on incident response activity.
- State and Federal Transit Operating Assistance for the year totaled \$1,087,841. These same funding sources for the previous fiscal year totaled \$1,055,436. The increase was in State Transit Assistance.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing 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 by capital and related financing activities includes principal payments and the purchase of capital assets. Cash provided by investing activities includes interest income.

CAPITAL ASSETS

At June 30, 2012, NIACOG had approximately \$3,928,817 invested in capital assets, net of accumulated depreciation of approximately \$4,413,370. Depreciation expense totaled \$701,778 for fiscal year 2012. More detailed information about NIACOG's capital assets is presented in Note 4 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 of Mason City will continue to share in ongoing costs to operate and maintain the facility.

In the fall of 2008, NIACOG was selected to administer disaster assistance funds under the State and Federal Jumpstart programs for an expanded 22 county region. State and Federal grant revenue and related administrative expenses decreased in 2012 as many of these programs closed out. Program activity related to newer disaster assistance grants from fiscal 2010 is expected to continue into fiscal year 2013. For fiscal year 2013, NIACOG has also increased its involvement in the administration of various grants for urban revitalization, housing rehabilitation and economic development throughout the region.

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, 2012

	<u>NIACOG</u>	<u>NCRERC</u>	<u>Total</u>
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 659,254	\$ 66,070	\$ 725,324
Accounts receivable	869,471	-	869,471
Prepaid expenses	10,576	-	10,576
Notes receivable	30,309	-	30,309
Other receivables	940	-	940
Total current assets	<u>\$ 1,570,550</u>	<u>\$ 66,070</u>	<u>\$1,636,620</u>
Noncurrent assets:			
Notes receivable	\$ 125,687	\$ -	\$ 125,687
Fixed assets:			
Land	\$ 157,711	\$ -	\$ 157,711
Building	2,640,644	-	2,640,644
Equipment	379,817	101,530	481,347
Vehicles - unrestricted	1,001,941	62,516	1,064,457
Vehicles - restricted	3,998,028	-	3,998,028
Total	<u>\$ 8,178,141</u>	<u>\$ 164,046</u>	<u>\$8,342,187</u>
Less accumulated depreciation	<u>(4,281,938)</u>	<u>(131,432)</u>	<u>(4,413,370)</u>
Net fixed assets	<u>\$ 3,896,203</u>	<u>\$ 32,614</u>	<u>\$3,928,817</u>
Total assets	<u>\$ 5,592,440</u>	<u>\$ 98,684</u>	<u>\$5,691,124</u>
LIABILITIES:			
Current liabilities:			
Trade accounts payable	\$ 34,834	\$ 800	\$ 35,634
Unearned income	45,050	-	45,050
Accrued payroll liabilities	20,136	-	20,136
Accrued benefits payable	60,340	-	60,340
Line of credit	304,388	-	304,388
Total current liabilities	<u>\$ 464,748</u>	<u>\$ 800</u>	<u>\$ 465,548</u>
NET ASSETS:			
Reserved (Note 2)	\$ 1,094,466	\$ -	\$1,094,466
Unreserved	<u>4,033,226</u>	<u>97,884</u>	<u>4,131,110</u>
Total net assets	<u>\$ 5,127,692</u>	<u>\$ 97,884</u>	<u>\$5,225,576</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, 2012

	<u>NIACOG</u>	<u>NCRERC</u>	<u>Total</u>
OPERATING REVENUES:			
Federal funds	\$2,614,014	\$ 1,541	\$2,615,555
State funds	425,815	-	425,815
Local funds	1,918,256	95,150	2,013,406
Total operating revenues	<u>\$4,958,085</u>	<u>\$ 96,691</u>	<u>\$5,054,776</u>
OPERATING EXPENSES:			
Salaries	\$1,044,679	\$ -	\$1,044,679
Employee benefits	322,579	-	322,579
Contracted services	138,129	52,452	190,581
Telephone	2,462	-	2,462
Printing	10,697	-	10,697
Supplies	29,165	-	29,165
Travel	15,073	-	15,073
Postage	3,980	-	3,980
Conferences	2,986	24	3,010
Dues and memberships	9,084	-	9,084
Professional fees	10,302	-	10,302
Miscellaneous	7,268	401	7,669
Insurance	66,720	9,383	76,103
Repairs and maintenance	123,501	1,623	125,124
Utilities	26,318	-	26,318
Equipment	-	15,261	15,261
Depreciation	692,660	9,118	701,778
Transit provider payments	1,291,692	-	1,291,692
Program awards	1,467,563	-	1,467,563
Training	-	5,885	5,885
Fuels and lubricants	130,627	-	130,627
Materials and supplies	135,480	-	135,480
Total operating expenses	<u>\$5,530,965</u>	<u>\$ 94,147</u>	<u>\$5,625,112</u>
Operating Income	<u>\$ (572,880)</u>	<u>\$ 2,544</u>	<u>\$ (570,336)</u>
Non-operating revenues (expenses):			
Interest income	\$ 4,838	\$ 728	\$ 5,566
Interest expense	(6,531)	-	(6,531)
Gain on sale of equipment	26,153	-	26,153
Net non-operating revenues (expenses)	<u>\$ 24,460</u>	<u>\$ 728</u>	<u>\$ 25,188</u>
Change in net assets	\$ (548,420)	\$ 3,272	\$ (545,148)
Net assets beginning of year	<u>5,676,112</u>	<u>94,612</u>	<u>5,770,724</u>
Net assets end of year	<u>\$5,127,692</u>	<u>\$ 97,884</u>	<u>\$5,225,576</u>

See Notes to Financial Statements.

**NORTH IOWA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012**

	<u>NIACOG</u>	<u>NCRERC</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from federal operating grants	\$ 2,379,413	\$ 2,041	\$ 2,381,454
Cash received from state operating grants	406,917	-	406,917
Cash received from program reimbursements	1,722,958	95,150	1,818,108
Cash received from miscellaneous revenue	-	-	-
Cash paid for salaries and benefits	(1,358,801)	-	(1,358,801)
Cash paid for other suppliers of goods and services	(3,443,055)	(85,029)	(3,528,084)
Net cash provided (used) by operating activities	<u>\$ (292,568)</u>	<u>\$ 12,162</u>	<u>\$ (280,406)</u>
Cash flows from capital and related financing activities:			
Net acquisition of fixed assets	\$ (255,698)	\$ (16,110)	\$ (271,808)
Cash received from asset sales	26,153	-	26,153
Cash received from federal capital grants	77,213	-	77,213
Cash received from short term debt funds	1,121,154	-	1,121,154
Cash used to repay short-term debt	(1,052,218)	-	(1,052,218)
Net cash (used) for capital and related financing activities	<u>\$ (83,396)</u>	<u>\$ (16,110)</u>	<u>\$ (99,506)</u>
Cash flows from investing activities:			
Interest received	\$ 4,838	\$ 728	\$ 5,566
Interest paid	(6,531)	-	(6,531)
Cash advanced for notes receivable	(128,900)	-	(128,900)
Cash received from notes receivable	5,870	-	5,870
Net cash provided (used) by investing activities	<u>\$ (124,723)</u>	<u>\$ 728</u>	<u>\$ (123,995)</u>
Net increase (decrease) in cash	\$ (500,687)	\$ (3,220)	\$ (503,907)
Cash and cash equivalents beginning of year	<u>1,159,941</u>	<u>69,290</u>	<u>1,229,231</u>
Cash and cash equivalents end of year	<u>\$ 659,254</u>	<u>\$ 66,070</u>	<u>\$ 725,324</u>
Reconciliation of net transactions to net cash provided (used) by operating activities:			
Net transactions	\$ (548,420)	\$ 3,272	\$ (545,148)
Adjustments for long-term non-cash items:			
Depreciation	692,660	9,118	701,778
Gain on sale of assets	(26,153)	-	(26,153)
Revenues and expenses not classified as operating	(75,520)	(728)	(76,248)
Changes in assets and liabilities:			
(Increase) in prepaid insurance	(2,557)	-	(2,557)
(Increase) decrease in accounts receivable	(359,576)	-	(359,576)
Decrease in other receivables	2,942	500	3,442
Increase (decrease) in accounts payable	12,732	-	12,732
Increase in payroll taxes	17,817	-	17,817
(Increase) in accrued benefits payable	8,457	-	8,457
(Decrease) in unearned revenue	(14,950)	-	(14,950)
Net cash provided by operating activities	<u>\$ (292,568)</u>	<u>\$ 12,162</u>	<u>\$ (280,406)</u>
Supplemental disclosure of cash flow information:			
Interest paid	<u>\$ 6,531</u>	<u>\$ -</u>	<u>\$ 6,531</u>

See Notes to Financial Statements.

**NORTH IOWA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

(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 are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

(b) Basis of Presentation

The accounts of NIACOG are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(2) Summary of Significant Accounting Policies - continued

(c) Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NIACOG applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

NIACOG distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the NIACOG's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(d) Assets, Liabilities and Net Assets

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

Cash and Cash Equivalents - The cash balances are deposited in bank accounts. 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.

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

Capital Assets - Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by NIACOG as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$5,000
Building	5,000
Equipment	5,000
Vehicles	5,000

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

(2) Summary of Significant Accounting Policies - continued

Capital assets of NIACOG are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful lives (In Years)</u>
Building	40
Improvements other than buildings	15
Equipment	5-10
Vehicles	5

Accrued Benefits Payable - Accrued benefits payable are earned vacation leave and compensatory time and have been accrued as liabilities on the statement of net assets. These current liabilities have been computed based on rates of pay in effect at June 30, 2012.

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, 2012 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 no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

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.

**NORTH IOWA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

(4) Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

<u>NIACOG</u>	Balance Beginning of Year	<u>Additions</u>	<u>Deletions</u>	Balance End of Year
Land	\$ 157,711	\$ -	\$ -	\$ 157,711
Building	2,640,644	-	-	2,640,644
Equipment	262,169	117,648	-	379,817
Vehicles	<u>5,114,119</u>	<u>138,050</u>	<u>252,200</u>	<u>4,999,969</u>
Total	<u>\$8,174,643</u>	<u>\$ 255,698</u>	<u>\$252,200</u>	<u>\$8,178,141</u>

<u>NCRERC</u>	Balance Beginning of Year	<u>Additions</u>	<u>Deletions</u>	Balance End of Year
Equipment	\$ 85,420	\$ 16,110	\$ -	\$ 101,530
Vehicles	<u>62,516</u>	<u>-</u>	<u>-</u>	<u>62,516</u>
Total	<u>\$ 147,936</u>	<u>\$ 16,110</u>	<u>\$ -</u>	<u>\$ 164,046</u>

Depreciation activity for the year ended June 30, 2012 was as follows:

<u>NIACOG</u>	Balance Beginning of Year	<u>Additions</u>	<u>Deletions</u>	Balance End of Year
Building	\$ 346,952	\$ 66,127	\$ -	\$ 413,079
Equipment	167,270	27,899	-	195,169
Vehicles	<u>3,327,256</u>	<u>598,634</u>	<u>252,200</u>	<u>3,673,690</u>
Total	<u>\$3,841,478</u>	<u>\$ 692,660</u>	<u>\$252,200</u>	<u>\$4,281,938</u>

<u>NCRERC</u>	Balance Beginning of Year	<u>Additions</u>	<u>Deletions</u>	Balance End of Year
Equipment	\$ 63,966	\$ 4,950	\$ -	\$ 68,916
Vehicles	<u>58,348</u>	<u>4,168</u>	<u>-</u>	<u>62,516</u>
Total	<u>\$ 122,314</u>	<u>\$ 9,118</u>	<u>\$ -</u>	<u>\$ 131,432</u>

(5) 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 statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.38% of their annual covered salary and NIACOG is required to contribute 8.07% of covered salary. Contribution requirements are established by state statute. NIACOG's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$83,176, \$63,005 and \$57,604, respectively, equal to the required contributions for each year.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

(6) **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 \$750,000 at a variable rate of interest. The line of credit is used for Jumpstart program expenditures.

Short-term notes payable activity for the year ended June 30, 2012 is as follows:

	Balance Beginning of year	Advances Received	Advances Repaid	Balance End of year
Line of credit	<u>\$235,452</u>	<u>\$1,121,154</u>	<u>\$1,052,218</u>	<u>\$304,388</u>

(7) **Related Party Transactions**

The Agency had no business transactions between the Agency and Agency officials during the year ended June 30, 2012.

(8) **Risk Management**

The Agency is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(8) **Risk Management** - continued

The Agency's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Agency's contributions to the Pool for the year ended June 30, 2012 were \$117,075.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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

The Agency also carries commercial insurance purchased from other insurers for coverage associated with public employee dishonesty coverage and workers compensation coverage. The Agency assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) **Litigation**

The Agency is subject to pending litigation seeking compensatory damages. The probability of loss, if any, is undeterminable.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
 STATEMENT OF SELECTED PROJECT COSTS AND COMPUTATION OF SELECTED PROJECT GRANTS
 YEAR ENDED JUNE 30, 2012

	STA Operating Assistance	STA TTF	COG Assistance 2012-COG-01	Iowans Helping Iowans IHI #10-07
Operating Expenses:				
Personal Services	\$ -	\$ -	\$ -	\$ -
Contractual Services	381,910	574	10,294	11,673
Commodities	-	-	-	-
Capital Outlay	-	-	-	-
Prior Year	-	1,545	-	5,342
Project Cost	\$ 381,910	\$ 2,119	\$ 10,294	\$ 17,015
Grant Participation in Project Cost	<u>100%</u>	<u>80%</u>	<u>100%</u>	<u>100%</u>
Percentage Participation	<u>\$ 381,910</u>	<u>\$ 1,695</u>	<u>\$ 10,294</u>	<u>\$ 17,015</u>
Contract Amount	<u>\$ 381,910</u>	<u>\$ 1,695</u>	<u>\$ 10,294</u>	<u>\$ 750,000</u>
Permissible Grant (Lesser of Contract Amount or Percentage Participation)	\$ 381,910	\$ 1,695	\$ 10,294	\$ 17,015
Less: Grant Payments received in current year	(381,910)	(1,236)	(10,294)	(13,477)
Less: Grant Payments received in prior year	-	-	-	(3,538)
Grant Receivable/(Payable) at June 30, 2012	<u>\$ -</u>	<u>\$ 459</u>	<u>\$ -</u>	<u>\$ -</u>

(continued)

<u>IDED GIVF 10-OT-002</u>	<u>STA Transit Cares</u>	<u>STA STA-SPEC- 020-FY12</u>	<u>Section 4 Capital 04-0113-020-11</u>	<u>Section 16 Contracted Serv #16-X001-020-11</u>	<u>Section 16 Contracted Serv #16-X002-020-12</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14,950	4,330	2,749	-	-	530,893
-	-	-	-	-	-
-	-	-	42	-	-
-	-	-	204,421	533,168	-
<u>\$ 14,950</u>	<u>\$ 4,330</u>	<u>\$ 2,749</u>	<u>\$ 204,463</u>	<u>\$ 533,168</u>	<u>\$ 530,893</u>
100%	100%	80%	83%	80%	80%
<u>\$ 14,950</u>	<u>\$ 4,330</u>	<u>\$ 2,199</u>	<u>\$ 169,703</u>	<u>\$ 426,534</u>	<u>\$ 424,714</u>
<u>\$ 60,000</u>	<u>\$ 4,330</u>	<u>\$ 11,856</u>	<u>\$ 206,670</u>	<u>\$ 426,534</u>	<u>\$ 424,714</u>
\$ 14,950	\$ 4,330	\$ 2,199	\$ 169,703	\$ 426,534	\$ 424,714
-	-	-	(4,428)	(102,413)	(424,714)
(60,000)	-	-	(165,275)	(324,121)	-
<u>\$ (45,050)</u>	<u>\$ 4,330</u>	<u>\$ 2,199</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
 STATEMENT OF SELECTED PROJECT COSTS AND COMPUTATION OF SELECTED PROJECT GRANTS
 YEAR ENDED JUNE 30, 2012

	FTA-JOB Access Rev Commute 37-X016- 020-11	Section 18 OP Deficit #18-0030- 020-12	Section 57 I.C. Shuttle #57-X008- 020-12	Section 57 Mobility MGR #57-X002-020-12
Operating Expenses:				
Personal Services	\$ -	\$ -	\$ -	\$ -
Contractual Services	13,978	562,434	2,706	39,504
Commodities	-	-	-	-
Capital Outlay	-	-	-	-
Prior Year	15,854	-	-	-
Project Cost	<u>\$ 29,832</u>	<u>\$ 562,434</u>	<u>\$ 2,706</u>	<u>\$ 39,504</u>
Grant Participation in Project Cost	<u>50%</u>	<u>50%</u>	<u>50%</u>	<u>80%</u>
Percentage Participation	<u>\$ 14,916</u>	<u>\$ 281,217</u>	<u>\$ 1,353</u>	<u>\$ 31,602</u>
Contract Amount	<u>\$ 30,000</u>	<u>\$ 281,217</u>	<u>\$ 22,464</u>	<u>\$ 96,861</u>
Permissible Grant (Lesser of Contract Amount or Percentage Participation)	\$ 14,916	\$ 281,217	\$ 1,353	\$ 31,602
Less: Grant Payments received in current year	(11,400)	(194,591)	-	(13,393)
Less: Grant Payments received in prior year	(3,516)	-	-	-
Grant Receivable/(Payable) at June 30, 2012	<u>\$ -</u>	<u>\$ 86,626</u>	<u>\$ 1,353</u>	<u>\$ 18,209</u>

(continued)

SCHEDULE 1
(continued)

Capital 85-X032- 020-10	12 RPA- 02	11-RPA- 02	EDA 05-83- 04983	EDA 05-79- 04733	CDBG 08-DRH -202	CDBG 08-DRB -208	HAZMAT HMEP
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	45,726	-	122,000	115,000	1,558,330	39,262	1,541
-	-	-	-	-	-	-	-
90,980	-	-	-	-	-	-	-
51,216	-	56,473	-	-	2,133,478	225,741	1,400
<u>\$ 142,196</u>	<u>\$ 45,726</u>	<u>\$ 56,473</u>	<u>\$ 122,000</u>	<u>\$ 115,000</u>	<u>\$3,691,808</u>	<u>\$265,003</u>	<u>\$ 2,941</u>
80%	80%	80%	50%	87%	100%	100%	100%
<u>\$ 113,757</u>	<u>\$ 36,581</u>	<u>\$ 45,178</u>	<u>\$ 61,000</u>	<u>\$ 100,050</u>	<u>\$3,691,808</u>	<u>\$265,003</u>	<u>\$ 2,941</u>
<u>\$ 113,757</u>	<u>\$103,562</u>	<u>\$108,852</u>	<u>\$ 61,000</u>	<u>\$ 400,000</u>	<u>\$6,619,430</u>	<u>\$300,000</u>	<u>\$ 14,950</u>
\$ 113,757	\$ 36,581	\$ 45,178	\$ 61,000	\$ 100,050	\$3,691,808	\$265,003	\$ 2,941
(72,785)	(18,158)	(11,080)	(61,000)	(100,050)	(1,409,538)	(32,980)	(2,041)
(40,972)	-	(34,098)	-	-	(1,953,456)	(223,338)	(900)
<u>\$ -</u>	<u>\$ 18,423</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 328,814</u>	<u>\$ 8,685</u>	<u>\$ -</u>

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF SELECTED PROJECT COSTS AND COMPUTATION OF SELECTED PROJECT GRANTS
YEAR ENDED JUNE 30, 2012

	<u>Total</u>
Operating Expenses:	
Personal Services	\$ -
Contractual Services	3,457,854
Commodities	-
Capital Outlay	91,022
Prior Year	3,228,638
Project Cost	<u>\$ 6,777,514</u>
Grant Participation in Project Cost	
Percentage Participation	<u>\$ 6,098,750</u>
Contract Amount	<u>\$10,430,096</u>
Permissible Grant (Lesser of Contract Amount or Percentage Participation)	\$ 6,098,750
Less: Grant Payments received in current year	(2,865,488)
Less: Grant Payments received in prior year	<u>(2,809,214)</u>
Grant Receivable/(Payable) at June 30, 2012	<u>\$ 424,048</u>

See Accompanying Independent Auditor's Report.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENSES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

<u>GRANTOR/PROGRAM</u>	<u>CFDA NUMBER</u>	<u>AGENCY PASS-THROUGH NUMBER</u>	<u>PROGRAM EXPENSES</u>
Direct:			
Department of Commerce			
Economic Development Administration:			
Planning Grant	11.302	05-83-04983	\$ 61,000
Economic Adjustment Disaster Recovery	11.307	05-69-04685	100,050
Total Direct Awards			<u>\$ 161,050</u>
Indirect:			
Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Cerro Gordo County:			
Community Development Block Grant			
Program	14.228	08-DRH-202	\$1,558,330
	14.228	08-DRB-208	39,262
			<u>\$1,597,592</u>
Department of Transportation:			
Iowa Department of Transportation:			
Urban Mass Transportation Technical			
Studies Grants:			
FHWA STP/FTA Section 18	20.205	12-RPA-02	\$ 26,055
Capital Investment Assistance Project	20.500	04-0113-020-11	\$ 35
Formula Grants for Other than Urbanized			
Areas:			
Non-Urban Operating Assistance Project	20.509	18-0030-020-12	\$ 281,217
FTA 5311 New		12-RPA-02	10,526
Non-Urban Operating Assistance Project	20.509	85-0032-020-10	72,785
Total for CFDA Number 20.509			<u>\$ 364,528</u>
Project for Elderly Persons			
and Persons with Disabilities	20.513	16-X002-020-12	\$ 424,714
Job Access-Reverse Commute	20.516	37-X016-020-11	6,989
New Freedom Assistance	20.521	57-X008-020-12	1,353
New Freedom Operating Assistance	20.521	57-X002-020-12	31,602
			<u>\$ 464,658</u>
Homeland Security and Emergency Management:			
Hazardous Material Public Sector			
Training	20.703	HMEP	\$ 1,541
Total Indirect Awards			<u>\$2,454,409</u>
Total			<u>\$2,615,459</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 basic financial statements of the North Iowa Area Council of Governments (NIACOG) as of and for the year ended June 30, 2012 and have issued my report thereon dated November 8, 2012. 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

The management of NIACOG is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered NIACOG's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of NIACOG's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of NIACOG's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies I consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of NIACOG's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies described in Part II of the accompanying Schedule of Findings as items II-A-12 and II-B-12 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-C-12 to be a significant deficiency.

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, non-compliance 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 non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about NIACOG's operations for the year ended June 30, 2012 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.

NIACOG's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on NIACOG's responses, I did not audit NIACOG's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the North Iowa Area Council of Governments officials, employees and other parties to whom the Agency may report, including federal awarding agencies and pass-through entities, and 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.

A handwritten signature in black ink that reads "Larry Pump". The signature is written in a cursive, flowing style.

November 8, 2012



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 THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON 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 North Iowa Area Council of Governments (NIACOG)'s compliance with the types of compliance requirements described in U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on NIACOG's major federal programs for the year ended June 30, 2012. 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 could have a direct and material effect on its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of NIACOG is responsible for establishing and maintaining effective internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of NIACOG's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, I identified a deficiency in internal control over compliance that I consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. I consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item III-A-12 to be a material weakness.

NIACOG's response to the finding identified in my audit is described in the accompanying Schedule of Findings. While I have expressed my conclusion on NIACOG's response, I did not audit NIACOG's response and, accordingly, I express no opinion on it.

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, and 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 "Lamy Pump".

November 8, 2012

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
Schedule of Findings
Year Ended June 30, 2012

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Material weaknesses and significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed no 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 20.509 - Non-urban Operating Assistance Project, CFDA Number 20.513 Elderly Persons and Persons with Disabilities Project, CFDA Number 20.516 - Job Access-Reverse Commute, CFDA Number 20.521 - New Freedom Assistance Project and CFDA Number 14.228 - Community Development Block Grants.
- (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 Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-12 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, payroll 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 utilizing currently available staff, including elected officials.

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

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.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
Schedule of Findings
Year Ended June 30, 2012

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

II-B-12 Preparation of Financial Statements - The Agency does not have an internal control system designed to provide for the preparation of the financial statements in accordance with U.S. generally accepted accounting principles, nor has management identified risks related to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements. Therefore, as an auditor, I was requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in size to the Agency. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation - I recognize that with a limited number of office employees, preparation of the financial statements is difficult. However, I recommend that Agency officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances.

Response - The Agency will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

II-C-12 Credit Cards - The Agency has credit cards for use by various employees while on Agency business. The Agency has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. Additionally, supporting documentation was not always available to support credit card charges, and public purpose of expenses should be clarified on the documentation.

Recommendation - The Agency should adopt a formal written policy regulating the use of Agency credit cards. The policy, at minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response - Although we have not established a formal written policy detailing specifics on the use of Agency credit cards, we have unwritten guidelines. We will review procedures and guidelines and establish a written policy.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
Schedule of Findings
Year Ended June 30, 2012

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

CFDA Number 20.509: Non-Urban Operating Assistance Project
Federal Award Year: 2012
U.S. Department of Transportation
Passed through the Iowa Department of Transportation

CFDA Number 20.513: Elderly Persons and Persons with Disabilities Project.
Federal Award Year: 2012
U.S. Department of Transportation
Passed through the Iowa Department of Transportation

CFDA Number 20.516: Job Access-Reverse Commute
Federal Award Year: 2012
U.S. Department of Transportation
Passed through the Iowa Department of Transportation

CFDA Number 20.521 New Freedom Assistance Project
Federal Award Year: 2012
U.S. Department of Transportation
Passed through the Iowa Department of Transportation

CFDA Number 14.228: Community Development Block Grants
Federal Award Year: 2012
U.S. Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development and Cerro Gordo County

III-A-12 The Agency did not properly segregate custody, recordkeeping and reconciling functions for revenues and expenses, including those related to Federal Programs. See audit finding II-A-12.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Questionable Expenses - No expenses I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-B-12 Travel Expense - No expenses of NIACOG money for travel expenses of spouses of NIACOG officials or employees were noted.

IV-C-12 Business Transactions - No business transactions between NIACOG and NIACOG officials or employees were noted.

IV-D-12 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.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
Schedule of Findings
Year Ended June 30, 2012

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

- IV-E-12 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.
- IV-F-12 Board Minutes - No transactions were found that I believe should have been approved in the Board minutes but were not.