

**LYON COUNTY ECONOMIC
DEVELOPMENT CONSORTIUM**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS**

DECEMBER 31, 2004

Table of Contents

	<u>Page</u>
Officials/Members	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-7
Basic Financial Statements:	<u>Exhibit</u> 8
Government-Wide Financial Statements:	
Statement of Net Assets	A 9
Statement of Activities	B 10
Governmental Fund Financial Statements:	
Balance Sheet	C 11
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	D 12
Statement of Revenues, Expenditures and Changes in Fund Balances	E 13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F 14
Notes to Financial Statements	15-25
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting	26-27
Schedule of Findings	28-35
Staff	36

LYON COUNTY ECONOMIC DEVELOPMENT CONSORTIUM

OFFICIALS/MEMBERS

2004

<u>Name</u>	<u>Title</u>	<u>Representing</u>	<u>Term</u>
Leonard Vanden Bosch	President (Chairman)	City of Larchwood	All of 2004
Dennis Thielvoldt	Vice-President (Vice Chairman)	City of Alvord	All of 2004
Marlin Hilbrands	Member	Lyon County	All of 2004
Robert Gerber	Member	City of Lester	All of 2004
Dan Moen	Member	City of Inwood	All of 2004
Marven Van Noort	Member	City of George	All of 2004
Rhonda Menning	Member	City of Rock Rapids	All of 2004
Dwayne Van Grootheest	Member	City of Doon	All of 2004
Galen Jackson	Secretary	Appointed	All of 2004
Eugene Metzger	Financial/Loan Advisor	Appointed	All of 2004
Julie Metzger	Treasurer	Appointed	All of 2004

*The City of Little Rock has not appointed a representative to the Consortium.

Independent Auditor's Report

To the Officials/Members of the Lyon County Economic Development Consortium:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Lyon County Economic Development Consortium (LCEDC), as of and for the calendar year ended December 31, 2004, which collectively comprise the Consortium's basic financial statements listed in the table of contents. These financial statements are the responsibility of Lyon County Economic Development Consortium's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we 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. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Lyon County Economic Development Consortium at December 31, 2004, and the respective changes in financial position for the calendar year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 10 to the financial statements, during the year ended December 31, 2004, the Lyon County Economic Development Consortium adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2005 on our consideration of the Lyon County Economic Development Consortium's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 4 through 7 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

De Noble & Company PC
Certified Public Accounting Firm

December 31, 2005

Lyon County Economic Development Consortium Management's Discussion & Analysis

Lyon County Economic Development Consortium provides this Management's Discussion and Analysis of its annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended December 31, 2004. We encourage readers to consider this information in conjunction with the Consortium's financial statements, which follow.

The Lyon County Economic Development Consortium is implementing new GASB 34 reporting standards for this fiscal year. There are significant changes in content and structure and much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Consortium's financial position and results of operations.

2004 Financial Highlights

- Governmental fund revenues increased by approximately 4% or \$1,654 from calendar year 2003 to calendar year 2004. The governmental fund revenues increased from \$46,480 to \$48,134.
- Governmental fund expenditures decreased by approximately 77% or \$77,552 from calendar year 2003 to calendar year 2004. The governmental fund expenditures decreased from \$100,873 to \$23,321 (in calendar year 2003 there was \$78,489 bad debt).
- The total governmental activities net assets increased approximately 13% or \$38,575 from December 31, 2003 to December 31, 2004. The governmental activities net assets increased from \$287,340 to \$325,915.

Using this Annual Report

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 the Consortium's financial activities.
- The Government-Wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These statements provide information about the activities of the Consortium as a whole and present an overall view of the Consortium's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund Financial Statements report the Lyon County Economic Development Consortium's operations in more detail than the Government-Wide Statements by providing information about the funds.
- Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Reporting the Consortium's Financial Activities as a Whole

Government-Wide Financial Statements (Statement of Net Assets and the Statement of Activities)

One of the most important questions asked about the Consortium’s finances is “Is the Consortium as a whole better off or worse as a result of the year’s activities?” The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account, regardless of when cash is received or paid.

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

The Statement of Activities presents information showing how the Consortium’s net assets changed during the most recent calendar year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

Fund Financial Statements

The Consortium has two kinds of funds:

- 1) Governmental Funds account for the Consortium’s basic service. These focus on how money flows into and out of these funds, and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund and 2) the Special Revenue Fund (Intermediary Relending Program Revolving Fund). These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the Consortium’s general governmental operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the Consortium’s program.

The required financial statements for Governmental Funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on net assets and to a limited extent on the changes in the net assets for governmental activities.

Lyon County Economic Development Consortium Net Assets
December 31, 2004

Current Assets	\$	206,427
Notes Receivable		441,926
Total Assets		648,353
Long-term Debt Outstanding		320,131
Other Liabilities		2,307
Total Liabilities		322,438

Net Assets:	
Restricted	136,342
Unrestricted	<u>189,573</u>
Total Net Assets	<u>\$ 325,915</u>

Net assets of the Lyon County Economic Development Consortium's governmental activities increased from calendar year 2003 by \$38,575. The beginning balance on the statement of activities was restated due to the implementation of GASB 34 to include the changes in assets and liabilities resulting from the conversion to the accrual basis of accounting. Restricted net assets represent resources that are subject to external restrictions. Unrestricted net assets is the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements.

Changes in Net Assets of Governmental Activities

	<u>Year Ended</u> <u>December 31, 2004</u>
Revenues:	
Program Revenues:	
Charges for Service	\$ 1,170
General Revenues:	
Grants and Contributions Not Restricted to Specific Purposes	25,000
Unrestricted Investment Earnings	<u>21,984</u>
Total Revenues	<u>48,154</u>
Program Expenses:	
Note Issuance Fees	990
Administration & General	5,350
Interest on Long-term Debt	3,239
Total Expenses	<u>9,579</u>
Increase in Net Assets	38,575
Net Assets Beginning of Year, as Restated	<u>287,340</u>
Net Assets End of Year	<u><u>\$ 325,915</u></u>

Consortium's Individual Major Fund Analysis

The Lyon County Economic Development Consortium uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

General Fund Analysis

The General Fund showed an increase in fund balance of \$27,855. The main reason for the increase in calendar year 2004 was a \$25,000 member contribution from Lyon County.

Intermediary Relending Program Revolving Fund Analysis

The Intermediary Relending Program Revolving Fund showed a decrease in fund balance of \$3,042. The main reason for the decrease is that the investment earnings were less than the USDA/Rural Development loan repayment requirement and professional fees.

Budgetary Highlights/Capital Assets

The Consortium does not set a financial budget and does not own any capital assets.

Debt Administration

The Consortium has a promissory note with the USDA/Rural Development in the amount of \$320,131. The note is to be fully repaid in year 2025 and carries a 1% rate of interest.

Economic Factors

The Lyon County Economic Development Consortium is dependent on the economic health of the Lyon County, Iowa businesses that have been loaned money (the ability of these businesses to make payments on their notes).

Contacting the Consortium's Financial Management

This financial report is designed to provide the citizens of Lyon County, borrowers, and creditors with a general overview of the Consortium's finances and to show the Consortium's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Galen Jackson at 908 S. Tama St., Rock Rapids, Iowa.

Lyon County Economic Development Consortium
Financial Statements

**Lyon County Economic Development Consortium
Statement of Net Assets
December 31, 2004**

	Governmental Activities
Assets	
Cash	\$ 147,904
Cash - Debt Reserve	16,848
Cash - Loan Loss Reserve	38,215
Prepaid Insurance	380
Interest Receivable	3,080
Notes Receivable	441,926
Total Assets	648,353
Liabilities	
Accrued Interest Payable	2,307
Long-Term Liabilities:	
Portion Due or Payable Within One Year:	
Note Payable - USDA	13,779
Portion Due or Payable After One Year:	
Note Payable - USDA	306,352
Total Liabilities	322,438
Net Assets	
Restricted for:	
Intermediary Relending Program Revolving Purposes	136,342
Unrestricted	189,573
Total Net Assets	\$ 325,915

See Notes to Financial Statements.

**Lyon County Economic Development Consortium
Statement of Activities
December 31, 2004**

	Expenses	Program Revenues Charges for Service	Net (Expense) Revenue & Changes In Net Assets
Functions/Programs:			
Governmental Activities:			
Note Issuance Fees	\$ 990	1,170	180
Administration & General	5,350	0	(5,350)
Interest on Long-Term Debt	3,239	0	(3,239)
Total	\$ 9,579	1,170	(8,409)

General Revenues:

Grants and Contributions Not Restricted to Specific Purpose	25,000
Unrestricted Investment Earnings	21,984
Total General Revenues	46,984
Change in Net Assets	38,575
Net Assets Beginning of Year, as Restated	287,340
Net Assets End of Year	\$ 325,915

See Notes to Financial Statements.

**Lyon County Economic Development Consortium
Balance Sheet
Governmental Funds
December 31, 2004**

	General Fund	<u>Special Revenue</u> Intermediary Relending Program Revolving Fund	Total
<u>Assets</u>			
Cash	\$ 71,836	76,068	147,904
Cash - Debt Reserve	0	16,848	16,848
Cash - Loan Loss Reserve	0	38,215	38,215
Prepaid Insurance	380	0	380
Interest Receivable	341	2,739	3,080
Due From Other Fund	21,315	0	21,315
Notes Receivable	95,702	346,224	441,926
Total Assets	<u>\$ 189,574</u>	<u>480,094</u>	<u>669,668</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Due to Other Fund	\$ 0	21,315	21,315
Deferred Revenue - Interest Income	0	1,390	1,390
Total Liabilities	<u>0</u>	<u>22,705</u>	<u>22,705</u>
Fund Balances:			
Reserved For:			
Debt Reserve	0	16,848	16,848
Loan Loss Reserve	0	38,215	38,215
Notes Receivable	93,662	335,744	429,406
Unreserved:			
Undesignated	95,912	66,582	162,494
Fund Balances	<u>189,574</u>	<u>457,389</u>	<u>646,963</u>
Total Liabilities and Fund Balances	<u>\$ 189,574</u>	<u>480,094</u>	<u>669,668</u>

See Notes to Financial Statements.

**Lyon County Economic Development Consortium
Reconciliation of the Balance Sheet –
Governmental Funds to the Statement of Net Assets
December 31, 2004**

Total Governmental Fund Balances (page 11)	\$ 646,963
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Other long-term assets that produce revenues are not available to pay current period expenditures and, therefore, are deferred in the funds.	1,390
Long-term liabilities, including the accrued interest payable and the note payable – USDA, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(322,438)</u>
Net Assets of Governmental Activities (page 9)	<u>\$ 325,915</u>

See Notes to Financial Statements.

Lyon County Economic Development Consortium
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2004

	General Fund	Special Revenue Intermediary Relending Program Revolving Fund	Total
Revenues:			
Interest on Notes Receivable and Bank Accounts:			
I.R.P. Related Notes Receivable	\$ 0	15,947	15,947
Non I.R.P. Related Notes Receivable	3,578	0	3,578
Interest Bearing Bank Accounts	599	1,840	2,439
Member Funding (County)	25,000	0	25,000
Loan Application & Documentation Fees	275	895	1,170
Total Revenues	29,452	18,682	48,134
Expenditures:			
Bank Charges	18	9	27
Professional Fees	0	3,895	3,895
Insurance	1,268	0	1,268
Legal Fees (Note Receivable Issuances)	250	740	990
Filing Fees	0	100	100
Travel Costs	61	0	61
Notes Payable Interest	0	3,338	3,338
Notes Payable Principal	0	13,642	13,642
Total Expenditures	1,597	21,724	23,321
Change in Fund Balances	27,855	(3,042)	24,813
Fund Balances: January 1, 2004	161,719	460,431	622,150
Fund Balances: December 31, 2004	\$ 189,574	457,389	646,963

See Notes to Financial Statements.

Lyon County Economic Development Consortium
Notes to Financial Statements
December 31, 2004

1) Summary of Significant Accounting Policies

The Lyon County Economic Development Consortium (LCEDC) was organized and incorporated under Section 504A of the Code of Iowa as a Non-Profit Corporation on May 17, 1989 as a separate entity for all legal purposes. The organization consists of representatives from Lyon County and the various communities within the political boundary of Lyon County, Iowa, joined together for the implementation of economic development projects within the County. Local governments of the area jurisdiction entered into the Consortium for intergovernmental cooperation by the virtue of the powers granted them by Chapter 28E of the Code of Iowa.

The LCEDC's mission of implementing economic development projects within Lyon County is being accomplished by the lending of monies to businesses located in Lyon County, Iowa, for various economic development projects at a reasonable rate of interest. The economic conditions in Lyon County, Iowa, and the surrounding area of Northwest Iowa, Southwest Minnesota, and Southeast South Dakota affect significantly on the businesses abilities to make the amortized note receivable payments to the LCEDC.

The LCEDC's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the Lyon County Economic Development Consortium has included all funds, organizations, agencies, boards, commissions, and authorities. The LCEDC has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the LCEDC are such that exclusion would cause the LCEDC'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 the LCEDC 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 the LCEDC. Criteria also can include an organization's fiscal dependency on the Consortium or if it would be misleading to exclude an organization because of its relationship with the Consortium. The LCEDC has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-Wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all the activities of the Consortium. The effects of interfund activity have been removed from these statements. Consortium activities are supported primarily by interest received on loans from ultimate recipients, investment interest, loan application and documentation fees and member contributions.

The Statement of Net Assets presents the Consortium's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets. The Consortium has no capital assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. The Consortium's net assets are restricted through requirements of the U.S.D.A./Rural Development.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for the governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Consortium reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Consortium. All original contributions agreed to by the different communities and Lyon County are accounted for in this fund, as well as all interest received on notes made to development projects that are not accounted for through the Intermediary Relending Program, interest received on monies on deposit (not required to be included in the Intermediary Relending Program Revolving Fund) and other income not allocated by law or contractual agreement to the other fund. From the fund are paid the general operating expenditures needed to operate the Consortium and fixed charges that are not paid from the other fund.

Intermediary Relending Program Revolving Fund - The Intermediary Relending Program Revolving Fund (I.R.P.) accounts for all funds derived from the I.R.P. agreement with the U.S. Department of Agriculture/Rural Development, the Consortium's local match to the I.R.P., the subsequent lending for economic development projects, the receipt of principal and interest on notes receivable paybacks from these projects, bank account interest earned on this money, related loan and application and documentation fees, and the disbursement of funds for allowable costs and eventual payment of principal to the U.S.D.A./Rural Development for the monies borrowed through the I.R.P.

C. Measurement Focus

The government-wide 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 satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Consortium considers revenues to be available if they are collected within 60 days after year end.

To properly account for the notes receivable, the notes receivable are also shown on the LCEDC's Governmental Funds Balance Sheet, even though some of the notes receivable balance is not considered to be a current asset. Although all the notes receivable balance is measurable, some of the notes receivable balance is not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (within sixty days after the end of the calendar year). The account, fund balances - reserved for notes receivable, represents the amount of the notes receivable and the resulting fund balance that is not available within the current period or soon enough thereafter to be used to pay liabilities of the current period (see Note 4 for notes receivable amounts).

Interest is considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Consortium.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt is recorded as an expenditure only when payment is due.

The Consortium maintains its financial records on the cash basis. The financial statements of the Consortium are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

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

Prepaid Insurance

Prepaid insurance represents insurance coverage that will benefit a future calendar year. Prepayments are recorded as expenses/expenditures when utilized rather than when paid for.

Due from and Due to Other Fund

During the course of the calendar year, the Consortium had transactions with bank accounts that are designated as a part of the General Fund or the Intermediary Relending Program Revolving Fund, but the related disbursement should have been paid from the other fund. Also, the Consortium occasionally loans money between the funds. To the extent that these transactions had not been properly transferred from an Intermediary Relending Program Revolving Fund bank account to a General Fund bank account as of December 31, 2004 and to the extent there were loans outstanding from the General Fund to the Intermediary Relending Program Revolving Fund as of December 31, 2004, a balance of an interfund amount receivable and payable has been recorded.

Capital Assets

The Consortium does not own any capital assets.

Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue – interest consists of accrued interest receivable not collected within sixty days after year end.

Long-Term Liabilities

In the government-wide financial statements, long-term debt is reported as a liability in the governmental activities column of the Statement of Net Assets.

E. Budget

The LCEDC's officials do not annually adopt a financial budget for its financial activities. A proposed Intermediary Relending Program Revolving Fund budget was submitted to the U.S.D.A./Rural Development for calendar year 2004 as necessitated by the Intermediary Relending Program reporting requirements. However, this budget is intended to meet Intermediary Relending Program requirements only, not to be used as a financial analysis tool. Accordingly, there is no presentation of any budget figures for calendar year 2004.

2) Cash: Bank Deposits/Investments

The LCEDC's deposits in banks at December 31, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The LCEDC 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 LCEDC's officials/members; 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.

The LCEDC has its cash invested in interest bearing bank accounts located in banking institutions within Lyon County. The LCEDC also earns interest from direct notes receivable (See Note 4). The interest earned on the cash accounts and notes receivable is recorded and maintained in the appropriate funds.

3) Due from and Due to Other Funds

The detail of interfund receivables and payables at December 31, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
	Special Revenue:	
	Intermediary Relending	
General	Program Revolving	<u>\$ 21,315</u>

The \$21,315 of interfund receivables and payables is made up of \$14,425 in loans from the General Fund to the Intermediary Relending Program Revolving Fund (payable upon demand) and \$6,890 in expenditures paid from the General Fund bank accounts but were Intermediary Relending Program Revolving Fund expenditures.

4) Notes Receivable

The LCEDC lends money for various economic development projects to businesses located within Lyon County, Iowa.

The notes receivable issued carry an interest rate that range from 4.5% to 5.5%. The terms of the notes are generally amortized for pay back over approximately ten years. The amounts shown on the balance sheet as of December 31, 2004 reflect the amounts due on those notes receivable as of that date and are computed as follows:

	General Fund	I.R.P. Revolving Fund	Total (Memorandum Only)
Balance on December 31, 2003	\$ 58,568	288,382	346,950
New Notes Issued:			
Calendar Year 2004	50,000	122,000	172,000
Payments on Principal:			
Calendar Year 2004	(12,866)	(64,158)	(77,024)
Balance on December 31, 2004	\$ 95,702	346,224	441,926
Less Portion Received by February 28, 2005	(2,040)	(10,480)	(12,520)
Non-Current Notes Receivable	\$ 93,662	335,744	429,406

The following are the scheduled amounts of notes receivable principal coming due for the calendar years ending:

	General Fund	I.R.P. Revolving Fund	Total (Memorandum Only)
December 31, 2005	\$ 12,356	94,520	106,876
December 31, 2006	12,214	58,398	70,612
December 31, 2007	11,970	48,129	60,099
December 31, 2008	12,415	47,000	59,415
December 31, 2009	10,722	37,851	48,573
December 31, 2010 and After	36,025	60,326	96,351
	<u>\$ 95,702</u>	<u>346,224</u>	<u>441,926</u>

Loans are carried as notes receivable until deemed uncollectible. During 2004, there were no notes receivable deemed uncollectible. However, as of December 31, 2004, there were \$4,178 in I.R.P. Revolving Fund notes receivable principal payments (two notes in the amount of \$3,688 were over ninety days behind and one note in the amount of \$490 was under ninety days behind) that were due but had not been paid and no formal extension had been approved by the LCEDC's officials.

5) Notes Payable

The LCEDC as of December 31, 2004 had borrowed \$400,000 from the U.S.D.A./Rural Development Intermediary Relending Program. Under terms of the I.R.P. Loan Agreement dated April 10, 1995, interest at the rate of 1% per annum on the unpaid balance is due on April 10 of each year, with principal payments starting on April 10, 1999 payable in 27 equal annual amortized payments with any remaining balance due and payable 30 years from the date of the note.

During 2004, \$3,338 was paid for interest due and payable and \$13,642 in principal amount was retired on this note payable. The current year principal and interest, as well as prior years' principal and interest, has all been paid by the Intermediary Relending Program Revolving Fund.

The Consortium has pledged as collateral for the note all assets of the Intermediary Relending Program Revolving Fund and all collateral obtained by the Consortium as a result of Intermediary Relending Program activities.

A summary of the Consortium's December 31, 2004 Intermediary Relending Program indebtedness is as follows:

Calendar Year Ending December 31	Interest Rates	Principal	Interest	Total
2005	1%	\$ 13,779	3,201	16,980
2006	1%	13,916	3,064	16,980
2007	1%	14,055	2,925	16,980

2008	1%	14,196	2,784	16,980
2009	1%	14,338	2,642	16,980
2010-2014	1%	73,870	11,030	84,900
2015-2019	1%	77,638	7,262	84,900
2020-2024	1%	81,599	3,301	84,900
2025	1%	16,740	170	16,910
Total		\$ 320,131	36,379	356,510

6) Changes in Long-Term Liability

A summary of changes in the long-term liability for the calendar year ended December 31, 2004 is as follows:

	<u>Intermediary Relending Program Notes Payable</u>
Balance January 1, 2004	\$ 333,773
Additions	0
Deletions	(13,642)
Balance December 31, 2004	<u>\$ 320,131</u>

7) Debt Reserve And Loan Loss Reserve Accounts

The I.R.P. Pledge and Security Agreement on the U.S.D.A./Rural Development Intermediary Relending Program loan requires that the Consortium establish a debt reserve account within the I.R.P. Revolving Fund at the rate of \$1,698 annually starting April 10, 1996 until the debt reserve account reaches the sum of \$16,980 or such higher amount agreed to with the U.S.D.A./Rural Development and shall be resumed at any time when necessary because of disbursements from the debt reserve account to restore it to the agreed upon sum. Withdrawals from the debt reserve account shall be used solely for the purpose of paying the interest on and the installments of principal of the I.R.P. promissory note when there are insufficient funds in the general operating account of the I.R.P. Revolving Fund to meet the payments then due.

The agreement also requires an annual transfer to a loan loss reserve account within the I.R.P. Revolving Fund equal to a rate of not less than 1% of the outstanding principal balance of recipients loans with the initial transfer made as of April 10, 1996. Annual transfers will be made until the balance of such account reaches \$40,000 or such higher amount later agreed to with the U.S.D.A./Rural Development and shall be resumed at any time when necessary because of disbursements from the loan loss reserve account to restore it to the agreed upon sum. Withdrawals from the loan loss reserve account shall be used only for the purpose of transfers to the general operating account of the I.R.P. Revolving Fund of amounts not more than the amount of actual loan losses and for the purpose of paying the interest on and the installment of principal of the I.R.P. promissory note when there are insufficient funds in the general operating account of the I.R.P. Revolving Fund and the debt reserve account to meet the payments then due.

Investment income derived from each account shall remain a part of said account and shall be used only for the purposes for which such accounts may be used except when the amounts in the debt reserve account exceed \$16,980 and/or the amount in the loan loss reserve account exceed

\$40,000 (whether due to investment earnings or other deposits from any source) then any and all of such excess shall accrue to and be deposited in the general operating account of the I.R.P. Revolving Fund.

The debt reserve and loan loss reserve accounts are reflected in the Statement of Net Assets by showing the cash set aside for these accounts separately and reported in the Governmental Funds Balance Sheet by also reserving the appropriate fund balance for each account. The December 31, 2004 balance in the debt reserve account was \$16,848 (shown as fund balance – reserved for debt reserve) and the December 31, 2004 balance in the loan loss reserve account was \$38,215 (shown as fund balance – reserved for loan loss reserve).

The debt reserve and loan loss reserve accounts for 2004 were set up by bookkeeping entries and by trying to make sure this much cash was always maintained in a particular bank account for the Intermediary Relending Program Revolving Fund. The required reserve amounts were sufficient for the entire calendar year of 2004.

8) Risk Management

The Lyon County Economic Development Consortium is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing Pool with over 509 members from 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 offers coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

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

The Consortium's general liability and wrongful acts for officials liability contributions to the risk pool are recorded as expenditures from its General Fund at the time the insurance coverage is utilized by the Consortium. The Consortium's annual cash basis contribution to the Pool for the calendar year ended December 31, 2004 was \$1,150.

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

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Consortium does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at December 31, 2004, no liability has been recorded in the Consortium's financial statements. As of December 31, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

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

The Consortium also carries commercial insurance purchased from another insurer for coverage associated with fidelity bonding in the amount of \$300,000 (\$100 was paid on a cash basis in premiums during 2004 for this coverage). The Consortium assumes liability for any claims in excess of the coverage limitation. Settled claims resulting from this risk have not exceeded any commercial insurance coverage that was in place in any of the past three calendar years (there were no claims at all during the last three years).

9) Subsequent Events

Events that have occurred subsequent to December 31, 2004 include the following:

- (a) In April 2005, a \$50,000 note receivable was issued from the General Fund. The note receivable carries a 5.5% interest rate and is to be paid back over 10 years.
- (b) In May 2005, a \$50,000 note receivable was issued from the Intermediary Relending Program Revolving Fund. The note receivable carries a 5.5% interest rate and is to be paid back over 10 years.
- (c) In July 2005, the Consortium issued an additional \$18,000 loan from the Intermediary Relending Revolving Fund to a business that already had an existing note receivable. This phase of the note receivable is to be repaid over the remaining life of the first phase of the loan (which was for \$32,000 to be paid back over 10 years) and carries a 5.5% interest rate.
- (d) The Consortium issued a letter of commitment in August 2005 to issue a note receivable in the amount of \$40,000 to a business. The note had not been finalized as of December 31, 2005. This note receivable will carry an interest rate of 5.5% to be paid back over 10 years and is expected to be issued from the Intermediary Relending Program Revolving Fund.
- (e) The Consortium agreed to issue a note receivable in the amount of \$20,000 to a business in December 2005. This note receivable will carry an interest rate of 5.5% to be paid back over 10 years and is expected to be issued from the General Fund. The note had not been finalized as of December 31, 2005.

10) Accounting Change and Restatement

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures were implemented during the year ended December 31, 2004. These statements create new basic financial statements for reporting the Consortium’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type.

The government-wide financial statements report the Consortium’s governmental activities. Beginning net assets for governmental activities has been restated to include the changes in assets and liabilities at December 31, 2003 resulting from the conversion to the accrual basis of accounting.

The effects of the accounting change in the governmental activities are summarized as follows:

Amount

Net Assets December 31, 2003 As Previously Reported	<u>\$ 622,150</u>
GASB 34 Adjustments:	
Accrued Interest Payable	(2,407)
Long-term Liability - U.S.D.A./Rural Development	(333,773)
Deferral of Long-term Assets	<u>1,370</u>
Net Assets January 1, 2004, As Restated	<u>\$ 287,340</u>

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

To the Officials/Members of the Lyon County Economic Development Consortium:

We have audited the financial statements of the Lyon County Economic Development Consortium (LCEDC) as of and for the year ended December 31, 2004, and have issued our report thereon dated December 31, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the LCEDC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two instances of non-compliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings. We also noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Consortium's operations for the year ended December 31, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Consortium. Since our 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. Prior year statutory comments have been resolved except for items 04-A-Non-Compliance, 04-B-Non-Compliance and 04-1, 8, 9 and 10.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the LCEDC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the LCEDC's ability to record, process,

summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in 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, of the reportable conditions described above, we believe items 04-A, C, D, E and F are material weaknesses. Prior year reportable conditions have been resolved except for items 04-A, B, C, D and E.

This report, a public record by law, is intended solely for the information and use of the officials/members and citizens of members of the Lyon County Economic Development Consortium and other parties to whom the Lyon County Economic Development Consortium may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by individuals associated with the Lyon County Economic Development Consortium during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

De Noble & Company PC
Certified Public Accounting Firm

December 31, 2005

**Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2004**

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

04-A-Non-Compliance Ultimate Recipients Insurance Coverages – We noted that the Consortium does not have proof of insurance on a couple of the businesses that have outstanding notes receivable to the Consortium. This issue is a violation of the Intermediary Relending Program loan agreement. The Consortium should maintain current proof of insurance as a normal practice regardless of the Intermediary Relending Program loan agreement.

Recommendation – Proof of insurance on all businesses that have outstanding notes receivable to the Consortium should be brought up-to-date and kept current. A system needs to be developed that ensures proof of insurance is obtained before notes receivable are formally issued and that current, accurate insurance records are being maintained. If monitoring of these issues is to cease once a note receivable drops below a certain level, the Board and the U.S.D.A./Rural Development must formally approve this.

Response – We will work toward fully implementing your recommendation.

Conclusion – Response accepted. It is very important that this recommendation is implemented.

04-B-Non-Compliance Fidelity Bond Coverage – The Consortium carries fidelity bond insurance coverage on the Treasurer and Secretary for the Consortium only. None of the other officials (President, Vice-President and Financial/Loan Advisor) are covered by fidelity bond insurance. This appears to be a violation of the Intermediary Relending Program loan agreement. The Consortium should consider carrying fidelity bond insurance coverage on these other officials, regardless of loan agreement requirements, at all times.

Recommendation – The Consortium should discuss with the U.S.D.A./Rural Development as to who has to have fidelity bond insurance coverage to be in compliance with the Intermediary Relending Program loan agreement. The Consortium should get this in writing. The level of fidelity bond insurance coverage the Consortium needs to meet the Intermediary Relending Program loan agreement should be viewed as the minimum level needed. The individuals covered and the amount of coverage acquired should be analyzed annually to ensure that coverage is adequate for current operations.

Response – We will address this recommendation.

Conclusion – Response accepted. Please do address this recommendation.

**Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2004**

REPORTABLE CONDITIONS:

- 04-A Segregation of Duties – During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same individual. This segregation of duties helps to prevent losses from individual error or dishonesty and therefore maximizes the accuracy of the Consortium’s financial statements. We noted that generally one individual has control over most business transactions (banking transactions, accounting functions, etc...). Also, financial duties are not rotated at any time during the year.
- Recommendation – We realize that with no office employees, and only using a volunteer, segregation of duties is difficult. However, the Consortium should review its operating procedures to obtain the maximum internal control possible under the circumstances. To provide additional control, the officials should review financial transactions, reconciliations and reports. Such reviews should be evidenced by initials or signature of the reviewers and the dates of the reviews. Also, financial duties should be rotated for a period of time during the year.
- Response – We are attempting to review the financial records regularly. We will make an earnest effort to evidence the reviews by initialing and dating the reviews.
- Conclusion – Response accepted. It is important that you attempt to implement this recommendation.
- 04-B Notes Receivable – We noted instances of late payments being made on notes receivable after the scheduled dates, but the payments were amortized just as if the payments were all timely made on a monthly basis. The result of this is the Consortium is losing out on interest income. This treatment is being applied to all notes.
- Recommendation – The Consortium needs to set a formal written policy on how late payments are to be amortized. The Consortium should also consult with an attorney as to any legal consideration this issue could create.
- Response – The Board will consider this recommendation.
- Conclusion – Response accepted. It is important that you address this recommendation and involve legal counsel.
- 04-C Manual Records Storage/Written Disaster Recovery Plan – The Consortium does not have any standard policies or procedures regarding storage of manual records at more than one location. The Consortium does not have a written disaster recovery plan.

**Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2004**

Recommendation –Manual records should be evaluated for importance and duplicate copies stored at an additional location. A written disaster recovery plan should be considered and adopted.

Response – We will attempt to implement this recommendation.

Conclusion – Response accepted. It is important that this recommendation is evaluated and implemented.

04-D Bank Signature Cards – The Consortium needs to remove from the authorized signers’ lists at most banks individuals who are no longer authorized to make disbursements. The Consortium needs to get bank accounts updated at all banks to include only the properly authorized signers.

Recommendation – The Consortium needs to correct the authorized bank accounts signers’ lists to allow only all eligible current officials to make transactions. Procedures need to be established to ensure that individuals who are no longer authorized to make financial transactions are immediately removed from all authorized signers’ lists and that the new individuals are properly authorized to do so on the signers’ lists.

Response – We will implement this recommendation.

Conclusion – Response accepted. It is important to establish procedures that address this issue.

04-E Note Receivable File – A note receivable file for a General Fund note receivable was not available for our review.

Recommendation – The note receivable file that was unavailable for our review needs to be located and reviewed to make sure all contents are present and that all necessary documentation is current (example: security interests, proof of insurance, etc...). A system needs to be developed to make sure all loan files are present, safeguarded and kept current.

Response – We will attempt to implement your recommendation.

Conclusion – Response accepted. It is important that a reliable file system is developed and the file being discussed is placed with all the other loan files.

04-F Dual Check Signers – The September 21, 1998 Board minutes noted that all checks over \$500 need dual signatures. We noted one check which violated the aforementioned policy by having only one signature.

Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2004

Recommendation – In order to provide an additional control, the policy on dual check signers should be complied with in all instances.

Response – We will attempt to comply with the Board policy in the future.

Conclusion – Response accepted.

**Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2004**

Other Findings Related to Required Statutory Reporting:

- 04-1 Official Depositories – A resolution naming official depositories has been adopted by the Consortium. The maximum deposit amounts stated in the resolution were not exceeded during the calendar year ended December 31, 2004, except for deposits at Frontier Bank. The maximum authorized amount of \$100,000 was exceeded from January through the first part of September 2004.
- Recommendation – A new resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the Board or the amount at each depository needs to be monitored to avoid exceeding the approved amount.
- Response – We will comply with this in the future.
- Conclusion – Response accepted. Please attempt to implement this recommendation.
- 04-2 Certified Budget – The Consortium does not prepare a formal financial budget. The Consortium prepares a budget for the Intermediary Relending Program Revolving Fund intended only to meet loan requirements, not meant for financial analysis.
- 04-3 Questionable Expenditures – No reportable expenditures were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- 04-4 Travel Expense – No expenditures of Consortium money for travel expenses of spouses of Consortium officials/members were noted.
- 04-5 Business Transactions – No business transactions between the LCEDC and LCEDC officials/members were noted.
- 04-6 Bond Coverage – Please see finding related to the financial statements 04-B-Non-Compliance for comment.
- 04-7 Board Minutes – Most of the disbursements, regardless what the amount was on any particular disbursement, were never approved by the Board in the minutes. The Board minutes do not state what fund the notes receivable are to be issued from. When a note receivable that has been offered to a business is not accepted by the business or when the offer for a note receivable has been withdrawn by the Board, there is no mention of this in the minutes. The Consortium is only charging \$25 on accepted applications. Applications that are not approved are no longer assessed the \$25 fee. This change was never formally

**Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2004**

approved in the minutes. Please also see finding related to the financial statements 04-B for a related comment.

No Board approval or discussion of one General Fund loan issued was recorded in the minutes. Consortium Bylaws require at least four regular meetings annually. Minutes exist for only three meetings during 2004. The Board minutes should be more detailed.

Recommendations – Even though the treasurer is given authority to automatically pay bills that are under \$500, the Board should review and approve all bills at the Board meetings. The Board minutes should state what fund a particular note receivable is to be issued from. When an offered note receivable is not accepted or the offer has been terminated by the Board, the declining/termination of this note receivable offering should be noted in the Board minutes. The Board needs to approve in the minutes what the policy is going to be regarding the application fee.

The Board should document all decisions regarding issuance of notes receivable and list the terms of approved notes. The Board needs to make sure the Bylaws are complied with for the number of meetings in a year. Please attempt to create and retain more detailed minutes.

Response – We will work toward implementing these recommendations regarding the Board minutes.

Conclusion – Response accepted. Please attempt to implement these recommendations.

04-8 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Consortium’s investment policy were noted.

04-9 Proof of Tax Exempt Status – The Consortium has not filed for proof of tax exempt status as issued by the Internal Revenue Service. The Consortium is not filing Form 990.

Recommendation – The Consortium should continue to work on getting tax exempt status recognition from the Internal Revenue Service. The Consortium needs written documentation that Form 990 is not required; otherwise, Form 990 should probably be filed.

Response – We were working on finalizing some issues first. Now that the issues are resolved, we will file the necessary paperwork to get tax exempt status approval. We want to file the application in a manner and the time frame that is least costly for the Consortium. We will file a Form 990 when the Internal Revenue Service informs us that filing this form is required.

Conclusion – Response accepted. Receiving proof of tax exempt status is very important.

**Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2004**

04-10

Federal Financial Assistance Program – The following instances of non-compliance with the Intermediary Relending Program were noted (in addition to the security interest filings and ultimate recipients insurance coverages non-compliance and fidelity bond coverage non-compliance already discussed):

1. The Consortium is late in issuing the following report to the U.S.D.A./Rural Development:
 - a. The audit was not issued within 90 days of the audit period. However, the U.S.D.A./Rural Development has accepted that audited financial statements will be filed late every year as a cost saving measure for the Consortium.
2. The Consortium is currently waiving on all notes receivable the following provisions of the work plan submitted to the U.S.D.A./Rural Development:
 - a. Late payment charges of 10%.
 - b. The loan servicing fee of .5% per annum on the unpaid balance of the loans as determined at five year anniversary intervals.
 - c. Deposit fees of 1½% of I.R.P assistance requested.

The Consortium did obtain written approval from the U.S.D.A./Rural Development to waive these provisions on an as-needed basis. However, this approval was contingent upon the Consortium adequately documenting in each ultimate recipient's file the circumstances for the waiver or submitting a revised written work plan. There is no documentation in any ultimate recipient's file that supports the circumstances for the waiver of these provisions and no proof that a revised written work plan was submitted.

3. The June 30, 2004 and December 31, 2004 Forms FMHA 1951-4, "Report on I.R.P./R.D.L.F. Lending Activity" each contained some errors as follows:
 - a. The following sections reported amounts that vary from the actual figures:
 1. Summary note receivable loan activity.
 2. Available assets from relending/guaranteeing.
 3. Income and expense statement.
 4. Balance sheet.
 - b. The type of collateral on several ultimate recipient loans were identified as equipment, when in actuality, there are mortgages for collateral.
4. The Consortium did not properly report to the U.S.D.A./Rural Development whenever an ultimate recipient was more than ninety days past due with a payment.

**Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2004**

Recommendation – The Consortium should consult with Shannon Chase of the U.S. Department of Agriculture/Rural Development concerning the disposition of these matters.

Response – We will be in contact with Shannon Chase to determine the disposition of these matters. We will attempt to provide all the necessary information that is requested by the U.S.D.A./Rural Development in an accurate manner in the future.

Conclusion – Response accepted. Please address these Intermediary Relending Program issues.

Lyon County Economic Development Consortium

Staff

This audit was performed by:

David De Noble, CPA, Senior Auditor/Reviewer
James Fisher, Assistant Auditor

De Noble & Company PC
Certified Public Accounting Firm