

**OSCEOLA COUNTY ECONOMIC
DEVELOPMENT COMMISSION**

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

JUNE 30, 2006

Table of Contents

| | | | Page |
|---|-----------------|--|-------|
| Officials | | | 1 |
| Independent Auditor’s Report | | | 2-3 |
| Management’s Discussion and Analysis | | | 4-6 |
| Basic Financial Statements: | <u>Exhibit</u> | | 7 |
| Government-Wide Financial Statements: | | | |
| Statement of Net Assets | A | | 8 |
| Statement of Activities | B | | 9 |
| Governmental Fund Financial Statements: | | | |
| Balance Sheet | C | | 10 |
| Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets | D | | 11 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances | E | | 12-13 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities | F | | 14 |
| Fiduciary Funds Financial Statement: | | | |
| Combining Statement of Fiduciary Assets and Liabilities | G | | 15 |
| Notes to Financial Statements | | | 16-25 |
| Required Supplementary Information: | | | 26 |
| Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Modified Accrual Basis) – General Fund | | | 27 |
| Notes to Required Supplementary Information – Budgetary Reporting | | | 28 |
| Other Supplementary Information: | <u>Schedule</u> | | 29 |
| Agency Funds: | | | |
| Combining Schedule of Changes in Fiduciary Assets and Liabilities | 1 | | 30 |
| 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 <i>Government Auditing Standards</i> | | | 31-33 |
| Schedule of Findings | | | 34-40 |
| Staff | | | 41 |

OSCEOLA COUNTY ECONOMIC DEVELOPMENT COMMISSION

OFFICIALS/MEMBERS

Fiscal Year Ending June 30, 2006

| <u>Name</u> | <u>Title</u> | <u>Representing</u> |
|-----------------|--|---------------------|
| Kevin Espey | Chairman | City of Ocheyedan |
| Lila Hatting | Vice-Chairperson | City of Sibley |
| John Benz | Treasurer | City of Melvin |
| Brian Mino | Board of Directors | City of Ashton |
| Jeff Loring | Board of Directors | City of Harris |
| Daryl Streng | Board of Directors | Osceola County |
| Kirk Grau | Executive Director | |
| Jodi Nasers | Administrative Assistant (Before September 2005) | |
| Peggy Steinmetz | Administrative Assistant (After September 2005) | |

DE NOBLE & COMPANY PC

Certified Public Accounting Services

111 S. Story St.
Rock Rapids, IA 51246

MEMBERS
American Institute - Certified Public Accountants
Private Companies Practice Section
Iowa Society - Certified Public Accountants

Phone: [712] 472-2549
Fax: [712] 472-2540
Email: ssdnrr@hickorytech.net

Independent Auditor's Report

To the Officials/Members of the Osceola County Economic Development Commission:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Osceola County Economic Development Commission (OCEDC), as of and for the fiscal year ended June 30, 2006, which collectively comprise the Commission's basic financial statements listed in the table of contents. These financial statements are the responsibility of Osceola County Economic Development Commission'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 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 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 Osceola County Economic Development Commission at June 30, 2006, and the respective changes in financial position for the fiscal year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2007 on our consideration of the Osceola County Economic Development Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 6 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Osceola County Economic Development Commission's basic financial statements. Other supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

De Noble & Company PC

De Noble & Company PC
Certified Public Accounting Firm

September 24, 2007

Osceola County Economic Development Commission Management's Discussion & Analysis

Osceola County Economic Development Commission (OCEDC) 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 June 30, 2006. We encourage readers to consider this information in conjunction with the Commission's financial statements, which follow.

2006 Financial Highlights

- Governmental activities revenue increased 54%, or \$67,392 from fiscal year 2005 to fiscal year 2006.
- Governmental activities expenses increased \$1,015 in fiscal year 2006 from fiscal year 2005.
- The total governmental activities net assets increased 12% or \$85,322 from fiscal year 2005 to fiscal year 2006. The total governmental funds fund balances increased 13%, or \$89,655 from fiscal year 2005 to fiscal year 2006.

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 Commission's financial activities.
- The Government-Wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the OCEDC as a whole and present an overall view of the Commission'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 operations in more detail than the government-wide statements by providing information about the funds. The remaining statements provide financial information about activities for which the OCEDC acts solely as an agent for the benefit of those outside of the Commission (Agency Funds).
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information that further explains and supports the financial statements with a comparison of the Commission's General Fund budget for the year.
- Other Supplementary Information further provides additional detailed information about the individual Agency Funds.

Reporting the Commission's Financial Activities as a Whole

Government-Wide Financial Statements

One of the most important questions asked about the Commission's finances is "Is the Commission 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 Commission's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the Commission's net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The Statement of Activities presents information showing how the Commission's net assets changed during the most recent fiscal 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.

The Commission has no business type activities.

Fund Financial Statements

The Consortium has two kinds of funds:

- 1) Governmental Funds account for the Commission's basic services. 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 Funds. 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 Commission'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 Commission's programs.

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

- 2) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the Commission's own programs. The required financial statements for fiduciary funds include a statement of fiduciary assets and liabilities.

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 the changes in the net assets for governmental activities from a year ago.

| | Net Assets | |
|--|--------------------------|--------------------------|
| | <u>June 30, 2006</u> | <u>June 30, 2005</u> |
| Current Assets | \$ 273,967 | \$ 467,397 |
| Notes Receivable | 499,459 | 233,528 |
| Capital Assets | 2,245 | 3,335 |
| Total Assets | <u>775,671</u> | <u>704,260</u> |
| Other Liabilities | <u>5,588</u> | <u>19,499</u> |
| Net Assets: | | |
| Invested in Capital Assets, Net of Related Debt | 2,245 | 3,335 |
| Restricted | 715,245 | 635,184 |
| Unrestricted | <u>52,593</u> | <u>46,242</u> |
| Total Net Assets | <u><u>\$ 770,083</u></u> | <u><u>\$ 684,761</u></u> |

Cash in the bank decreased while notes receivable increased. Restricted net assets represent resources that are subject to external restrictions on how they can be used. Unrestricted net assets are 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 June 30, 2006</u> | <u>Year Ended June 30, 2005</u> |
|---|-------------------------------------|-------------------------------------|
| Program Revenues: | | |
| Charges for Service | \$ 3,279 | \$ 0 |
| Operating Grants, Contributions, and Restricted Interest | 161,773 | 108,239 |
| General Revenues: | | |
| Grants and Contributions Not Restricted to Specific Purposes | 3,579 | 30 |
| Unrestricted Investment Earnings | 23,800 | 16,770 |
| Total Revenues | <u>\$ 192,431</u> | <u>\$ 125,039</u> |
| Program Expenses: | | |
| Loan Programs | 6,503 | 866 |
| Administration and General | 100,606 | 105,228 |
| Total Expenses | <u>107,109</u> | <u>106,094</u> |
| Excess of Revenues Over Expenditures | 85,322 | 18,945 |

| | | |
|---|-------------------|-------------------|
| Net Assets Beginning of Year, As Restated | 684,761 | 665,816 |
| Net Assets End of Year | <u>\$ 770,083</u> | <u>\$ 684,761</u> |

Revenues increased mainly due to receiving a USDA grant.

Individual Major Fund Analysis

The OCEDC uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

General Fund Analysis

The General Fund showed an increase in fund balance in fiscal year 2006 of \$9,811, from \$46,243 to \$56,054. This compares to a \$12,004 decrease in fund balance during fiscal year 2005. The main reason for the increase is due to receiving contributions and admin services grant income and a reduction in payroll costs during the fiscal year.

Revolving Loan Fund Analysis

The Revolving Loan Fund showed an increase in fund balance in fiscal year 2006 of \$79,824, from \$618,332 to \$698,156. This compares to a \$32,662 increase in fund balance during fiscal year 2005. The main reason for the increase is due to receiving more in USDA grant funding this fiscal year.

Spec Property Loan Fund Analysis

The Spec Property Loan Fund showed an increase in fund balance in fiscal year 2006 of \$20, from \$16,852 to \$16,872. This compares to a \$24 increase in fund balance during fiscal year 2005.

Budgetary Highlights

The OCEDC's Board annually adopts a budget for the General Fund on the modified accrual basis. The budget may be amended during the fiscal year with Board approval. During the fiscal year, the OCEDC amended the General Fund budget once. Total revenue decreased by \$503 and total expenditures decreased by \$610 in the amended General Fund budget. During the fiscal year ended June 30, 2006, actual revenue was below budget by \$8,344 and actual expenditures were below budget by \$5,972.

Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|---|---------------------------------|-----------------|-----------------|---------------------------|
| Furniture and Fixtures | \$ 3,814 | \$ 0 | \$ (9) | \$ 3,805 |
| Computer Equipment | 5,955 | 349 | (2,361) | 3,943 |
| Other Equipment | 785 | 0 | (260) | 525 |
| | <u>10,554</u> | <u>349</u> | <u>(2,630)</u> | <u>8,273</u> |
| Less Accumulated Depreciation | 7,220 | 835 | (2,027) | 6,028 |
| Governmental Activities Capital Assets, Net | <u>\$ 3,334</u> | <u>\$ (486)</u> | <u>\$ (603)</u> | <u>\$ 2,245</u> |

Depreciation expense of \$835 was charged to the General Fund.

Debt Administration

The Commission had no outstanding notes or bonds during the year.

Economic Factors

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

Contacting the Commission's Financial Management

This financial report is designed to provide the citizens of Osceola County, borrowers, and creditors with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have any questions about this report or need additional information, contact Kirk Grau at 300 7th Street, Sibley, Iowa 51249 (phone number: 712-754-2523).

Osceola County Economic Development Commission

Basic Financial Statements

Osceola County Economic Development Commission
Statement of Net Assets
June 30, 2006

| | Governmental Activities |
|--|----------------------------|
| Assets | |
| Cash | \$ 103,615 |
| Certificates of Deposit | 164,370 |
| Receivable – Employee | 1,130 |
| Account Receivable | 143 |
| Due from Agency Funds | 945 |
| Prepaid Insurance | 606 |
| Interest Receivable | 3,158 |
| Notes Receivable – Agency Fund | 35,367 |
| Notes Receivable – Related Parties | 9,200 |
| Notes Receivable | 454,892 |
| Capital Assets (Net of Accumulated Depreciation) | 2,245 |
| Total Assets | 775,671 |
| Liabilities | |
| Payroll and Benefits Payable | 1,396 |
| Compensated Absences | 4,192 |
| Total Liabilities | 5,588 |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 2,245 |
| Restricted for: | |
| Revolving Loan Purposes | 698,374 |
| Spec Property Loan Purposes | 16,871 |
| Unrestricted | 52,593 |
| Total Net Assets | \$ 770,083 |

See Notes to Financial Statements.

**Osceola County Economic Development Commission
Statement of Activities
Year Ended June 30, 2006**

| | Program Revenues | | | |
|---|-------------------|---------------|----------------|-------------------|
| | Charges for | Operating | Grants, | |
| Expenses | Service | Contributions | and Restricted | Net (Expense) |
| | | Interest | | Revenue & Changes |
| | | | | in Net Assets |
| Functions/Programs: | | | | |
| Governmental Activities: | | | | |
| Loan Programs | \$ 6,503 | 2,260 | 73,986 | 69,743 |
| Administration & General | 100,606 | 1,019 | 87,787 | (11,800) |
| Total | \$ 107,109 | 3,279 | 161,773 | 57,943 |
| General Revenues: | | | | |
| Grants and Contributions Not Restricted to Specific Purpose | | | | 3,579 |
| Unrestricted Investment Earnings | | | | 23,800 |
| Total General Revenues | | | | 27,379 |
| Change in Net Assets | | | | 85,322 |
| Net Assets Beginning of Year, as Restated | | | | 684,761 |
| Net Assets End of Year | | | | \$ 770,083 |

See Notes to Financial Statements.

Osceola County Economic Development Commission
Balance Sheet
Governmental Funds
June 30, 2006

| | Special Revenue | | | Total |
|--|------------------|------------------------|-------------------------------|----------------|
| | General Fund | Revolving Loan Fund | Spec Property Loan Fund | |
| Assets | | | | |
| Cash | \$ 2,611 | 97,992 | 3,012 | 103,615 |
| Certificates of Deposit | 53,431 | 110,939 | 0 | 164,370 |
| Receivable - Employee | 1,130 | 0 | 0 | 1,130 |
| Account Receivable | 143 | 0 | 0 | 143 |
| Due from General Fund | 0 | 1,443 | 0 | 1,443 |
| Due from Agency Funds | 731 | 214 | 0 | 945 |
| Prepaid Insurance | 606 | 0 | 0 | 606 |
| Interest Receivable | 971 | 2,187 | 0 | 3,158 |
| Notes Receivable – Agency Fund | 0 | 35,367 | 0 | 35,367 |
| Notes Receivable – Related Parties | 0 | 0 | 9,200 | 9,200 |
| Notes Receivable | 0 | 450,232 | 4,660 | 454,892 |
| Total Assets | \$ 59,623 | 698,374 | 16,872 | 774,869 |
| Liabilities | | | | |
| Payroll and Benefits Payable | \$ 1,396 | 0 | 0 | 1,396 |
| Due to Revolving Loan Fund | 1,443 | 0 | 0 | 1,443 |
| Deferred Revenue | 730 | 218 | 0 | 948 |
| Total Liabilities | 3,569 | 218 | 0 | 3,787 |
| Fund Balances | | | | |
| Reserved for Notes Receivable | 0 | 466,685 | 4,426 | 471,111 |
| Unrestricted | 56,054 | 231,471 | 12,446 | 299,971 |
| Total Fund Balances | 56,054 | 698,156 | 16,872 | 771,082 |
| Total Liabilities and Fund Balances | \$ 59,623 | 698,374 | 16,872 | 774,869 |

See Notes to Financial Statements.

**Osceola County Economic Development Commission
Reconciliation of the Balance Sheet –
Governmental Funds to the Statement of Net Assets
June 30, 2006**

| | | |
|---|----|---------|
| Total Governmental Fund Balances (page 10) | \$ | 771,082 |
|---|----|---------|

Amounts reported for governmental activities in the Statement of Net Assets are different because:

| | | |
|--|--|-------|
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$8,273 and the accumulated depreciation is \$6,028. | | 2,245 |
|--|--|-------|

| | | |
|--|--|-----|
| Other long-term assets that produce revenues are not available to pay current period expenditures and, therefore, are deferred in the funds. | | 948 |
|--|--|-----|

| | | |
|---|--|---------|
| Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds. | | (4,192) |
|---|--|---------|

| | | |
|---|-----------|-----------------------|
| Net Assets of Governmental Activities (page 8) | \$ | <u>770,083</u> |
|---|-----------|-----------------------|

See Notes to Financial Statements.

Osceola County Economic Development Commission
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2006

| | Special Revenue | | | Total |
|--|-----------------|------------------------|-------------------------------|----------------|
| | General Fund | Revolving Loan Fund | Spec Property Loan Fund | |
| Revenues: | | | | |
| Contributions from Public Entity Members | \$ 87,787 | 0 | 0 | 87,787 |
| Contributions | 2,849 | 0 | 0 | 2,849 |
| Admin Services Grant Revenue | 1,019 | 0 | 0 | 1,019 |
| Interest Income - Banks | 1,777 | 7,706 | 20 | 9,503 |
| Interest Income - Notes | 0 | 14,079 | 0 | 14,079 |
| USDA Grant | 0 | 73,986 | 0 | 73,986 |
| Loan Application and Documentation Fees | 0 | 2,260 | 0 | 2,260 |
| Total Revenues | 93,432 | 98,031 | 20 | 191,483 |
| Expenditures: | | | | |
| Salaries | 62,926 | 0 | 0 | 62,926 |
| IPERS | 3,618 | 0 | 0 | 3,618 |
| Payroll Taxes | 5,035 | 0 | 0 | 5,035 |
| Employee Benefits | 8,860 | 0 | 0 | 8,860 |
| Workman's Compensation | 728 | 0 | 0 | 728 |
| Travel and Meals | 343 | 0 | 0 | 343 |
| Auto Allowance | 2,400 | 0 | 0 | 2,400 |
| Professional Fees | 3,764 | 995 | 0 | 4,759 |
| Postage | 467 | 0 | 0 | 467 |
| Office Expense | 1,435 | 0 | 0 | 1,435 |
| Loan Fees and Expenses | 0 | 2,925 | 0 | 2,925 |
| Bond Insurance | 434 | 0 | 0 | 434 |
| Telephone | 2,036 | 0 | 0 | 2,036 |
| Publications/Professional Dues | 690 | 0 | 0 | 690 |
| Miscellaneous Expense | 316 | 0 | 0 | 316 |
| Special Projects | 430 | 0 | 0 | 430 |
| Tech and Website Management | 1,843 | 0 | 0 | 1,843 |
| Loss on Uncollectible Note Receivable | 0 | 2,583 | 0 | 2,583 |
| Total Expenditures | 95,325 | 6,503 | 0 | 101,828 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (1,893) | 91,528 | 20 | 89,655 |

Osceola County Economic Development Commission
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2006

| | | | | |
|---|-------------|-----------|--------|---------|
| Other Financing Sources (Uses): | | | | |
| Operating Transfers | 11,704 | (11,704) | 0 | 0 |
| | <hr/> | | | |
| Net Change in Fund Balances | 9,811 | 79,824 | 20 | 89,655 |
| Fund Balances - Beginning of Year, | | | | |
| As Restated | 46,243 | 618,332 | 16,852 | 681,427 |
| | <hr/> | | | |
| Fund Balances - End of Year | \$ 56,054 | 698,156 | 16,872 | 771,082 |
| | <hr/> <hr/> | | | |

See Notes to Financial Statements.

Osceola County Economic Development Commission

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances -
Governmental Funds to the Statement of Activities
Year Ended June 30, 2006**

| | | |
|---|--------------|----------------|
| Net Change in Fund Balances - Total Governmental Funds (page 12) | \$ | 89,655 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Depreciation expense exceeded capital outlay expenditures in the current year as follows: | | |
| Expenditures for capital assets | 349 | |
| Depreciation expense | <u>(835)</u> | (486) |
| In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas the governmental funds report only proceeds from the sale of capital assets as an increase in financial resources. There were no proceeds received during the current year on the capital assets disposed. | | |
| | | (603) |
| Because some revenues will not be collected for several months after the Commission's year end, they are not considered available revenue and are deferred in the governmental funds. The resulting timing difference is as follows: | | |
| Note receivable interest | 218 | |
| Other | <u>730</u> | 948 |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds, as follows: | | |
| Compensated absences | | <u>(4,192)</u> |
| Changes in Net Assets of Governmental Activities (page 9) | \$ | <u>85,322</u> |

See Notes to Financial Statements.

Osceola County Economic Development Commission
Combining Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2006

| | City Of Sibley Revolving Loan | ChatRoom | Community Foundation of Osceola County | Total |
|-----------------------------------|-------------------------------------|--------------|--|----------------|
| Assets | | | | |
| Cash | \$ 41,980 | 5,646 | 15,036 | 62,662 |
| Interest Receivable | 224 | 0 | 0 | 224 |
| Notes Receivable | 193,810 | 0 | 0 | 193,810 |
| Total Assets | 236,014 | 5,646 | 15,036 | 256,696 |
| Liabilities | | | | |
| Due to Primary Government | 214 | 0 | 731 | 945 |
| Note Payable – Primary Government | 35,367 | 0 | 0 | 35,367 |
| Due to Other Governments | 200,433 | 0 | 0 | 200,433 |
| Trusts Payable | 0 | 5,646 | 14,305 | 19,951 |
| Total Liabilities | 236,014 | 5,646 | 15,036 | 256,696 |
| Net Assets | \$ 0 | 0 | 0 | 0 |

See Notes to Financial Statements.

**Osceola County Economic Development Commission
Notes to Financial Statements
June 30, 2006**

1) Summary of Significant Accounting Policies

The Osceola County Economic Development Commission (OCEDC) was formed July 1, 1988, under an intergovernmental agreement pursuant to the Chapter 28E of the Code of Iowa as a separate entity for legal purposes. This agreement was made by and among the County of Osceola, Iowa, and the Cities of Ashton, Harris, Melvin, Ocheyedan, and Sibley, Iowa.

The governmental commission consists of a representative appointed by the Osceola County Board of Supervisors, and one representative appointed by each City Council of the following cities: Ashton, Harris, Melvin, Ocheyedan, and Sibley. Each representative has one vote.

Under the 28E agreement, each member shall be assessed annually and agrees to pay a share of the expenses of the operation of the OCEDC. These member contributions are a critical financial source of the OCEDC. During the fiscal year ended June 30, 2006, the total contributions from public entity members were as follows:

| | |
|-------------------|-----------|
| Osceola County | \$ 42,614 |
| City of Ashton | 2,521 |
| City of Melvin | 1,406 |
| City of Ocheyedan | 2,893 |
| City of Sibley | 38,353 |
| | \$ 87,787 |

The OCEDC'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 Osceola County Economic Development Commission has included all funds, organizations, agencies, boards, commissions, and authorities. The OCEDC 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 OCEDC are such that exclusion would cause the OCEDC'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 OCEDC 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 OCEDC. Criteria also can include an organization's fiscal dependency on the OCEDC or if it would be significantly misleading to exclude an organization because of its relationship with the OCEDC. The OCEDC 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 OCEDC. The effects of interfund activity have been removed from these statements. OCEDC activities are supported primarily by member contributions, grant revenue from the USDA, interest received on loans from ultimate recipients, investment interest, loan application and documentation fees, and donations.

The Statement of Net Assets presents the OCEDC'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.

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.

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. 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 OCEDC reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the OCEDC. All contributions agreed to by the different entities within the intergovernmental agreement and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures and fixed charges that are not paid from other funds.

Special Revenue Funds – The Special Revenue Funds are used to account for revenues derived from specific sources which are usually required by law, regulation, or contractual agreement to be accounted for in separate funds.

The following are the Special Revenue Funds maintained by the OCEDC:

Revolving Loan Fund – The Revolving Loan Fund is used to provide financial assistance to attract, retain, or expand business that would generate public gains and benefits within Osceola County. These funds are loaned out to businesses with a pay back period of not more than ten years. All interest earned stays within the fund.

Spec Property Loan Fund – The Spec Property Loan Fund is used to provide financial assistance to development corporations for new construction, purchase of existing commercial/retail property, acquisitions of land, and/or demolition or renovation of spec property within the Cities of Ashton, Harris, Melvin, Oheyedan, and Sibley, Iowa. These funds are targeted toward properties which potentially generate public gains and benefits. Funds can be used for a 0% or low-interest loan

which would be paid back to the pool when the property is sold. All interest earned stays in the fund.

Additionally, the OCEDC reports the following funds:

Fiduciary Funds – Agency Funds are used to account for assets held by the OCEDC as an agent for private organizations and other governmental units.

The following are the Agency Funds maintained by the OCEDC:

City of Sibley Revolving Loan Fund – The City of Sibley Revolving Loan Fund provides financial assistance to attract, retain, or expand business that would generate public gains and benefits within the City of Sibley. These funds are loaned out to businesses with a pay back period of not more than ten years. All interest earned stays within the fund.

ChatRoom – The ChatRoom is an after-school home work program for students. It is funded by the State of Iowa, DHS, and donations.

The Community Foundation of Osceola County – The Community Foundation of Osceola County receives money from the State of Iowa – Endow Iowa Program. The proceeds from these allocations are distributed as follows: 25% into a Permanent Endowment Fund, 5% for marketing costs of the program, 2% administration fee to the Greater Des Moines Community Foundation and 68% is granted out to nonprofits, cities and counties for county/city-wide projects.

C. Measurement Focus and Basis of Accounting

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 Commission 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 OCEDC's Balance Sheet (Governmental Funds), 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).

Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

D. Assets, Liabilities and Fund Balances

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

Employee - Receivable

Employee – receivable represents money owed to the OCEDC by an employee related to a payroll donation.

Due from General Fund, Due from Agency Funds, Due to Revolving Loan Fund and Due to Primary Government

During the course of the fiscal year, the Commission made deposits into the General Fund’s bank accounts that should have been paid to the Revolving Loan Fund and had transactions between the Commission’s governmental funds and the agency funds. To the extent that the deposits between bank accounts and certain transactions between the OCEDC’s governmental funds and agency funds had not been paid or received as of June 30, 2006, balances of interfund amounts receivable or payable have been recorded in the financial statements.

Prepaid Insurance

Prepaid insurance represent insurance coverage that will benefit a future fiscal year. Prepayments are recorded as expense/expenditure when utilized rather than when paid.

Capital Assets

Capital assets are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. The OCEDC does not have a Board approved capitalization policy. Capital assets of the OCEDC are depreciated using the straight line method over the following estimated useful lives:

| <u>Asset Class</u> | <u>Estimated Useful lives</u> |
|------------------------|-------------------------------|
| Computer Equipment | 5 years |
| Furniture and Fixtures | 10 years |
| Other Equipment | 10 years |

Compensated Absences

OCEDC employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. Sick pay is also accumulated on a limited basis by employees for subsequent use, but is not paid upon termination, death, or retirement. A liability for the cost of vacation and compensatory time termination accumulations is recorded when incurred in the government-wide financial statements. A liability for the cost of vacation and compensatory time termination accumulations is reported in governmental fund financial statements only if any employees have resigned, retired or employment has terminated for another reason. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid by the General Fund.

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 consists of accrued interest receivable and employee – receivable (payroll related donation) not collected within sixty days after year end.

Trusts Payable – Trusts payable represents amounts due to others which are held in fiduciary capacities.

Fund Equity

In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

E. Budgets and Budgetary Accounting

The OCEDC Board annually adopts a budget on the modified accrual basis for the General Fund. The budget may be amended during the year. During the year ended June 30, 2006, the General Fund budget was not exceeded; however, the original budget was not formally approved by the OCEDC Board in the minutes.

2) Cash and Certificates of Deposit

The OCEDC’s deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The OCEDC is authorized by statute and the OCEDC’s written investment policy to invest public funds in certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the OCEDC’s Board.

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

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

3) Due from General Fund, Due from Agency Funds, Due to Revolving Loan Fund and Due to Primary Government

The detail of interfund receivables and payables at June 30, 2006 is as follows:

| Receivable Fund | Payable Fund | Amount |
|---|---|----------|
| Special Revenue: Revolving Loan Fund | General Fund | \$ 1,443 |
| Special Revenue: Revolving Loan Fund | Agency Fund: City of Sibley Revolving Loan | 214 |

| | | |
|--------------|--|-------------------|
| General Fund | Agency Fund: | 731 |
| | Community Foundation of Osceola County | <u> </u> |
| Total | | <u>\$ 2,388</u> |

The \$1,443 in General Fund and Revolving Loan Fund receivable and payable is Revolving Loan Fund revenue which was deposited into General Fund bank accounts by error. During the start-up of the Community Foundation of Osceola County, the General Fund paid \$731 of expenses for the Foundation. This amount is to be reimbursed by the Foundation yet. The \$214 due to the Revolving Loan Fund from the City of Sibley Revolving Loan Fund represents accrued interest on a loan between the funds (see Note 4).

4) Notes Receivable, Notes Receivable – Agency Fund, and Notes Receivable – Related Parties

A. Revolving Loan Fund

The OCEDC’S mission of implementing economic development projects within Osceola County is being accomplished by the lending of monies for various economic development projects at a reasonable rate of interest.

The notes issued carry an interest rate from 3% to 9.75%. The terms of notes vary from three years to five years, with some extensions granted for hardships that meet certain criteria. The amount shown on the statement of net assets as of June 30, 2006 reflects the amount due on those notes receivable as of that date and is computed as follows:

| | |
|--|-------------------|
| Balance on June 30, 2005 | \$ 218,264 |
| New Notes Issued | 361,902 |
| Payments on Principal | (91,984) |
| Write-off of Uncollectible Balance | <u>(2,583)</u> |
| Balance on June 30, 2006 | \$ 485,599 |
| Less Portion Received by August 29, 2006 | <u>(18,914)</u> |
| Non-Current Notes Receivable | <u>\$ 466,685</u> |

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

| | |
|-------------------------|-------------------|
| June 30, 2007 | \$ 126,998 |
| June 30, 2008 | 60,962 |
| June 30, 2009 | 56,661 |
| June 30, 2010 | 82,613 |
| June 30, 2011 | 148,768 |
| June 30, 2012 and After | <u>9,597</u> |
| | <u>\$ 485,599</u> |

Loans are carried as notes receivable until deemed uncollectible. During 2006, there was one note receivable deemed uncollectible.

During the year ended June 30, 2006, the City of Sibley Revolving Loan Fund (Agency Fund) entered into a loan agreement with the OCEDC for \$37,702.11. This note is scheduled to be paid back over 5 years at a

3% interest rate. The balance as of June 30, 2006 on this note was \$35,367 and is included in the above totals. This amount is reported separately in the financial statements as notes receivable – agency fund.

B. Spec Property Loan Fund

The notes issued carry an interest rate of 0%. The terms of the notes run until the spec property is sold. Several of the notes receivable are with cities which are members of the OCEDC and are therefore considered to be with related parties. All notes receivable - related parties are considered non-current as of June 30, 2006.

The note receivable balance of \$4,660 is due in monthly installments of \$117. As of June 30, 2006, \$234 is considered currently available (received by August 29, 2006) and \$4,426 is considered non – current. Total annual payments due are as follows:

| | |
|---------------|-----------------|
| June 30, 2007 | \$ 1,404 |
| June 30, 2008 | 1,404 |
| June 30, 2009 | 1,404 |
| June 30, 2010 | 448 |
| | <u>\$ 4,660</u> |

C. City of Sibley Revolving Loan Fund

The amount shown on the statement of net assets as of June 30, 2006 reflects the amount due for notes receivable issued and outstanding. The following are the scheduled amounts of notes receivable principal coming due for the fiscal years ending:

| | |
|---------------|-------------------|
| June 30, 2007 | \$ 26,026 |
| June 30, 2008 | 29,689 |
| June 30, 2009 | 23,794 |
| June 30, 2010 | 24,730 |
| June 30, 2011 | 89,571 |
| | <u>\$ 193,810</u> |

5) Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|---|---------------------------------|-----------------|-----------------|---------------------------|
| Furniture and Fixtures | \$ 3,814 | \$ 0 | \$ (9) | \$ 3,805 |
| Computer Equipment | 5,955 | 349 | (2,361) | 3,943 |
| Other Equipment | 785 | 0 | (260) | 525 |
| | <u>10,554</u> | <u>349</u> | <u>(2,630)</u> | <u>8,273</u> |
| Less Accumulated Depreciation | 7,220 | 835 | (2,027) | 6,028 |
| Governmental Activities Capital Assets, Net | <u>\$ 3,334</u> | <u>\$ (486)</u> | <u>\$ (603)</u> | <u>\$ 2,245</u> |

Depreciation expense of \$835 was charged to the General Fund.

6) Interfund Transfer

The Board approved a transfer of \$11,704 from the Revolving Loan Fund to the General Fund during the fiscal year to be used for normal operations.

7) Short-Term Loan Payable

In September 2006, the OCEDC took out a short-term loan payable for \$25,837 with a 4% interest rate. The proceeds were used to issue a note receivable in the Revolving Loan Fund. In October 2006, total principal and interest were paid in full. The note payable balance as of June 30, 2006 was \$0. The total interest expense included in the Revolving Loan Fund for the year ended June 30, 2006 was \$60.

8) Due to Other Governments

The OCEDC is acting as an agent for the City of Sibley's revolving loan program. The amount due to the City of Sibley as of June 30, 2006 was \$200,433.

9) Changes in Compensated Absences

A summary of changes in compensated absences for the fiscal year ended June 30, 2006 is as follows:

| | Compensated Absences |
|-----------------------------|-------------------------|
| Balance – Beginning of Year | \$ 0 |
| Additions | 4,192 |
| Reductions | 0 |
| Balance – End of Year | <u>\$ 4,192</u> |

10) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the OCEDC is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The OCEDC's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$3,618, \$4,180 and \$3,793, respectively, equal to the required contributions for each year (however, please see Schedule of Finding 06-10 for issue noted).

11) Risk Management

The OCEDC is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance provided mainly through Osceola County’s insurance carrier and policies, with some commercial insurance purchased from independent third parties. The OCEDC assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

12) Accounting Corrections

The government-wide financial statements for the year ended June 30, 2005 were not reported in total. These amounts have properly been reported for the year ended June 30, 2006.

During the year ended June 30, 2005, the OCEDC in the fund financial statements (General Fund) recognized as revenue \$14,746 of contributions from public entity member – related party, which was the contribution for the fiscal year end June 30, 2006. This revenue should have been recorded as deferred revenue as of June 30, 2005. Also, in the fund financial statements for the year ended June 30, 2005, the ChatRoom was improperly recorded as a Special Revenue Fund instead of an Agency Fund and the City of Sibley Revolving Loan Fund was improperly omitted as an Agency Fund. These funds have been properly disclosed for the fiscal year ended June 30, 2006.

The beginning net assets for Governmental Activities, the Governmental Fund Balances and the Agency Funds have been restated as follows:

| <u>Government-Wide Activities</u> | <u>Amount</u> |
|---|-------------------|
| Net Assets June 30, 2005, As Previously Reported | \$ 0 |
| Reporting of June 30, 2005 Net Assets | 684,761 |
| Net Assets July 1, 2005, As Restated | <u>\$ 684,761</u> |
| | |
| <u>Governmental Fund Balances</u> | |
| Fund Balances June 30, 2005, As Previously Reported | \$ 701,400 |
| Remove Net Capital Assets Improperly Included. | (3,335) |
| Record Deferred Revenues for Amounts Incorrectly Reported as Revenue. | (14,745) |
| Removal of ChatRoom as a Special Revenue Fund | (1,893) |
| Fund Balances July 1, 2005, As Restated | <u>\$ 681,427</u> |
| | |
| <u>Agency Funds</u> | |
| Ending Balances June 30, 2005, As Previously Reported | \$ 0 |
| Reporting of June 30, 2005 City of Sibley Revolving Loan Fund Balance | 149,927 |
| Reporting of June 30, 2005 ChatRoom Balance | 1,893 |
| Beginning Balances July 1, 2005, As Restated | <u>\$ 151,820</u> |

13) Subsequent Events

In July 2006, the Revolving Loan Fund issued a note receivable for \$45,043.

In October 2006, the Revolving Loan Fund issued a note receivable for \$20,400.

In December 2006, the Revolving Loan Fund issued a note receivable for \$100,000.

In December 2006, the OCEDC took out a note payable through the Revolving Loan Fund for \$11,020. The note payable was for 6.57% interest due January 31, 2007. The proceeds were used to issue a note receivable. Principal and interest were paid in full in January 2007. Interest paid was \$81 and the OCEDC was reimbursed this by the note receivable recipient.

In February 2007, the Revolving Loan Fund issued a note receivable for \$30,000.

In March 2007, the Revolving Loan Fund issued a note receivable for \$22,500.

In April 2007, the Revolving Loan Fund issued a note receivable for \$7,560.

In May 2007, the Revolving Loan Fund issued a note receivable for \$45,000.

In August 2007, a company with a note receivable from the Revolving Loan Fund declared bankruptcy. As of June 30, 2006, the outstanding balance of the loan was \$60,716. The balance still outstanding after bankruptcy is \$54,453. At this time, the OCEDC has not determined the amount that may be uncollectible.

In August 2007, the OCEDC loaned \$36,000 to Osceola County to be used to pay the down payment on land purchased for economic development. The interest rate was 0% and the balance is due once Osceola County receives the proceeds from the County's other financing.

14) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Osceola County Economic Development Commission
Required Supplementary Information

Osceola County Economic Development Commission

**Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances-
Budget and Actual (Modified Accrual Basis) – General Fund
Required Supplementary Information
Year Ended June 30, 2006**

| | Actual | Budgeted Amounts | | Final to Actual Variance |
|--|-------------------|------------------|----------------|--------------------------|
| | | Original | Final | |
| Revenue: | | | | |
| Contributions from Public Entity | | | | |
| Members – Related Party | \$ 87,787 | \$ 92,053 | \$ 87,787 | \$ 0 |
| Contributions | 2,849 | 0 | 3,504 | (655) |
| Admin. Services Grant Revenue | 1,019 | 5,129 | 5,129 | (4,110) |
| Interest Income – Banks | 1,777 | 5,097 | 5,356 | (3,579) |
| Total Revenue | 93,432 | 102,279 | 101,776 | (8,344) |
| Expenditures: | | | | |
| Salaries | 62,926 | 65,920 | 65,920 | (2,994) |
| IPERS | 3,618 | 3,813 | 3,813 | (195) |
| Payroll Taxes | 5,035 | 5,181 | 5,181 | (146) |
| Employee Benefits | 8,860 | 9,576 | 9,576 | (716) |
| Workman’s Compensation | 728 | 791 | 634 | 94 |
| Travel and Meals | 343 | 651 | 329 | 14 |
| Auto Allowance | 2,400 | 2,400 | 2,400 | 0 |
| Professional Fees | 3,764 | 5,301 | 5,170 | (1,406) |
| Postage | 467 | 1,000 | 1,000 | (533) |
| Office Expense | 1,435 | 1,500 | 1,500 | (65) |
| Bond Insurance | 434 | 434 | 434 | 0 |
| Telephone | 2,036 | 2,500 | 2,500 | (464) |
| Publications/Professional Dues | 690 | 500 | 500 | 190 |
| Miscellaneous Expense | 316 | 0 | 0 | 316 |
| Special Projects | 430 | 1,500 | 1,500 | (1,070) |
| Tech and Website Management | 1,843 | 840 | 840 | 1,003 |
| Total Expenditures | 95,325 | 101,907 | 101,297 | (5,972) |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | \$ (1,893) | 372 | 479 | (2,372) |

See Accompanying Independent Auditor’s Report.

Osceola County Economic Development Commission

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41. The OCEDC's Board annually adopts a budget for the General Fund on the modified accrual basis. The budget may be amended during the fiscal year with Board approval.

During the fiscal year, the OCEDC amended the General Fund budget once. Total revenue decreased by \$503 and total expenditures decreased by \$610 in the amended General Fund budget.

During the year ended June 30, 2006, the Commission did not exceed its budget; however, the original budget was not formally approved by the OCEDC's Board in the minutes.

Osceola County Economic Development Commission

Other Supplementary Information

Osceola County Economic Development Commission
Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds
Year Ended June 30, 2006

| | City of Sibley Revolving Loan | ChatRoom | Community Foundation of Osceola County | Total |
|---|-------------------------------------|----------|--|---------|
| Assets and Liabilities | | | | |
| Balances Beginning of Year, as Restated | \$ 149,927 | 1,893 | 0 | 151,820 |
| Additions: | | | | |
| Grant Income | 45,870 | 0 | 46,700 | 92,570 |
| Chat Room Income | 0 | 6,151 | 0 | 6,151 |
| Loan Application and Documentation Fees | 255 | 0 | 0 | 255 |
| Interest Income | 5,471 | 866 | 0 | 6,337 |
| Miscellaneous | 316 | 0 | 0 | 316 |
| Note Payable Proceeds – Primary Government | 35,367 | 0 | 0 | 35,367 |
| Total Additions | 87,279 | 7,017 | 46,700 | 140,996 |
| Deductions: | | | | |
| Agency Remittances: | | | | |
| To Primary Government Funds | 376 | 0 | 0 | 376 |
| To Other Governments | 816 | 0 | 0 | 816 |
| Trusts Paid Out | 0 | 3,264 | 31,664 | 34,928 |
| Total Deductions | 1,192 | 3,264 | 31,664 | 36,120 |
| Balances End of Year | \$ 236,014 | 5,646 | 15,036 | 256,696 |

See Accompanying Independent Auditor's Report.

Osceola County Economic Development Commission

**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***

DE NOBLE & COMPANY PC

Certified Public Accounting Services

111 S. Story St.
Rock Rapids, IA 51246

MEMBERS

American Institute - Certified Public Accountants
Private Companies Practice Section
Iowa Society - Certified Public Accountants

Phone: [712] 472-2549
Fax: [712] 472-2540
Email: ssdnrr@hickorytech.net

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 Officials/Members of Osceola County Economic Development Commission:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Osceola County Economic Development Commission (OCEDC) as of and for the fiscal year ended June 30, 2006, which collectively comprise the Commission's basic financial statements listed in the table of contents and have issued our report thereon dated September 24, 2007. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the OCEDC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 OCEDC'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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 06-A, B, C, D, E, G, H and I are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the OCEDC's financial statements are free of material misstatement, we 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Commission's operations for the fiscal year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Commission. 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.

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 Osceola County Economic Development Commission and other parties to whom the OCEDC 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 personnel of the OCEDC 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

De Noble & Company PC
Certified Public Accounting Firm

September 24, 2007

**Osceola County Economic Development Commission
Schedule of Findings
For The Fiscal Year Ended June 30, 2006**

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

06-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 OCEDC’s financial statements. We noted that generally the administrative assistant performs all recordkeeping functions and handles all cash. Financial duties are not rotated at any time during the year. Additionally, this individual is also an authorized signer on several of the OCEDC’s accounts.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the OCEDC should review its operating procedures to obtain the maximum internal control possible under the circumstances. At a minimum, a member of the Board 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, the administrative assistant should be removed as an authorized signer and financial duties should be rotated for a period of time during the year.

Response – We will investigate this and attempt to segregate duties when possible by utilizing existing personnel and independent persons to provide additional control through review of financial transactions and reports. Additionally, the administrative assistant has been removed as a check signer.

Conclusion – Response accepted. It is important you attempt to implement this recommendation.

06-B Financial Reporting – The OCEDC maintains the General Fund, the Revolving Loan Fund and the City of Sibley RLF (Agency Fund) in one Quickbooks database. During the audit, we found these funds were not being reconciled separately by fund. Significant adjustments were necessary in order to properly reflect all accounts and fiscal year transactions by separate funds. Additionally, there were errors noted in the amounts due between the funds.

Recommendation – The OCEDC should implement procedures to ensure all funds are reconciled separately by fund and all interfund transactions are recorded properly. Interfund receivables and payables need to be balanced on a regular basis.

Response – We will attempt to segregate the different funds into separate accounting databases to facilitate better accounting of each fund. We will reconcile interfund receivables and payables regularly.

Conclusion – Response accepted.

Osceola County Economic Development Commission
Schedule of Findings
For The Fiscal Year Ended June 30, 2006

06-C Payroll Issues – During our audit, we noted that the OCEDC’s employees do not complete timesheets and do not keep track of vacation or sick leave earned and used.

Recommendation – The OCEDC should implement procedures for employees to track hours worked and compensated absences used. Compensated absences should be earned and taken in accordance with an established written personnel policy.

Response – All OCEDC employees are paid a set salaried amount and we do not feel a daily accounting of hours worked is necessary. We will address the issue of tracking compensated absences and implement procedures as recommended.

Conclusion – Response accepted. However, timesheets provide support for compensated absences taken and can be used by the Board as an analysis tool.

06-D Written Personnel Policy – The OCEDC does not have a written personnel policy. Such a policy is important to communicate the employees’ rights and responsibilities of employment. An employee handbook would detail polices such as expected hours of work, list of paid holidays, employee benefits (insurance, paid vacation and compensation time), conflict of interest issues, code of conduct, expense reimbursements, and other rights of employment.

Recommendation – We recommend the OCEDC prepare and implement a detailed written personnel policy. Specific items relevant to OCEDC which should be addressed are working hours and accumulation of compensated absences (vacation, sick leave, and comp time).

Response – We will address this issue. We will work on preparing and approving a personnel policy for the OCEDC.

Conclusion – Response accepted.

06-E Information Systems – During our review of internal control, the existing control activities in the computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the computer based systems were noted:

- The OCEDC does computer backups on one computer only monthly. The tape is kept in the vault at the office. Backups should be done daily on all computers and backup tapes should be stored off-site.
- There are no passwords on the computers. Password length should be set at a minimum of at least six characters, require use of multiple characters on the keyboard, and should be periodically changed.

Osceola County Economic Development Commission
Schedule of Findings
For The Fiscal Year Ended June 30, 2006

- There are no automatic log-off provisions when left unattended for a period of time. Upon log-off, the user should have to again enter a password to re-access information.

Recommendation – Written policies and procedures should be developed addressing the above information system issues in order to improve the control over computer based systems.

Response – We will work on implementing these computer related policies.

Conclusion – Response accepted.

06-F Written Disaster Recovery Plan – The OCEDC does not have a written disaster recovery plan. Also, the OCEDC does not have any standard policies or procedures regarding storage of manual records at an off-site location.

Recommendation – A written disaster plan should be considered and adopted. Sensitive/important manual records should be evaluated for needed protection and stored at an off-site location.

Response – We will attempt to implement this recommendation.

Conclusion – Response accepted.

06-G Bank Signature Cards – There are several of the OCEDC’s bank accounts which have authorized signers’ lists that include individuals who are no longer authorized to make disbursements.

Recommendation – The OCEDC 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.

06-H Invoices – We noted several disbursements which had no supporting documentation/invoices in the OCEDC’s files, including one payment for mileage reimbursement to the prior administrative assistant.

Recommendation – All claims should have adequate supporting documentation/invoices before being approved for payment. The supporting documentation/invoices should be retained and kept on file. Additionally, support for mileage reimbursements should include date, destination, business purpose of trip and number of miles traveled.

**Osceola County Economic Development Commission
Schedule of Findings
For The Fiscal Year Ended June 30, 2006**

Response – We will attempt to retain supporting documentation/invoices for all payments.

Conclusion – Response accepted.

06-I

Grant Awards – The OCEDC did not have the USDA grant award documentation readily available.

Recommendation – It is important that all grant contracts are maintained in order to ensure compliance issues are being adequately satisfied. The OCEDC needs to develop a system that ensures grant contracts are on file, readily available and compliance requirements are being met.

Response – We will implement this recommendation.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**Osceola County Economic Development Commission
Schedule of Findings
For The Fiscal Year Ended June 30, 2006**

Other Findings Related to Required Statutory Reporting:

- 06-1 Official Depositories – A resolution naming official depositories has not been adopted by the OCEDC.
- Recommendation – A resolution naming official depositories and maximum allowable balances at each bank should be adopted by the Board.
- Response – We will address your recommendation and take appropriate actions.
- Conclusion – Response accepted.
-
- 06-2 Certified Budget – The OCEDC prepares a budget for the General Fund only. Disbursements did not exceed the budget in total for the year ended June 30, 2006. However, the original budget was not approved by the OCEDC’s Board.
- Recommendation – The OCEDC’s Board should approve the annual General Fund budget prior to the start of each fiscal year.
- Response – The Board will work on making sure all budgets are properly approved and documented in the minutes before the start of each fiscal year.
- Conclusion – Response accepted.
-
- 06-3 Questionable Expenditures – Certain expenses were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These expenses are detailed as follows:
- During the fiscal year, the OCEDC paid \$56.89 for catered meals for the annual meeting that was not reimbursed back to the OCEDC and \$83.65 for several gifts of flowers/plants.
- Recommendation – The OCEDC’s Board should determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the OCEDC should establish written policies and procedures, including requirements for proper documentation.
- Response – We will address your recommendation and take appropriate actions.
- Conclusion – Response accepted.
-
- 06-4 Travel Expense – No expenditures of OCEDC money for travel expenses of spouses of OCEDC officials or employees were noted.

Osceola County Economic Development Commission
Schedule of Findings
For The Fiscal Year Ended June 30, 2006

06-5 Business Transactions – No business transactions between the OCEDC and OCEDC officials or employees were noted.

06-6 Bond Coverage – Surety bond coverage of OCEDC officials and employees is maintained. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

06-7 Board Minutes – We noted that operating disbursements are not always being approved by the OCEDC’s Board in the minutes. On November 22, 2005, the OCEDC’s Board passed a resolution authorizing a transfer from the Revolving Loan Fund to the General Fund. However, this transfer had actually been made on October 5, 2005. There are also instances during the year of interfund receivables/payables which were not approved.

The OCEDC assisted the City of Ocheyedan administer a grant from the USDA for high-speed internet. The OCEDC was to receive an administration fee for administering the grant. As of June 30, 2006, there was \$2,038 in charges that the OCEDC does not expect to collect. There has not been a motion to stop collections on this balance.

Recommendations – All disbursements, including any interfund receivables/payables, should be approved at each regularly scheduled meeting. Approvals for transfers between funds should be made before the transfer is made. The OCEDC’s Board also needs to approve when it is no longer necessary to seek collection on a receivable.

Response – A listing of expenses will be given to the Board at each meeting for review and approval and noted in the minutes. Any future transfers will be approved prior to making the transfer. Also, a motion will be made regarding the City of Ocheyedan receivable and any other future receivables considered uncollectible.

Conclusion – Response accepted.

06-8 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 OCEDC’s investment policy were noted. However, please see Finding 06-1 above.

06-9 Electronically Retained Check Images – The OCEDC is not receiving the actual cleared check or electronically retained check images of all checks that have cleared the bank on several of its accounts. Additionally, the accounts which do send check images do not include the back (endorsement) side of these checks as required by Chapter 554D.114(5) of the Code of Iowa.

Osceola County Economic Development Commission
Schedule of Findings
For The Fiscal Year Ended June 30, 2006

Recommendation – The OCEDC should be receiving and maintaining the actual cleared check or electronically retained check images of all checks that have cleared the back. Electronically retained check images should include both the front and back (endorsement) side.

Response – We have contacted all banks and will now receive images of both the front and back of cleared checks.

Conclusion – Response accepted.

06-10

Payroll Issues – The OCEDC treated an employee reimbursement as taxable income and withheld/paid payroll taxes on this amount. However, this reimbursement is being handled as part of an accountable plan, and therefore, should have not been considered taxable income. Additionally, we noted that IPERS was not withheld/paid on a payroll item when IPERS should have been.

Recommendation – The OCEDC should review all payments to employees, including payroll and expense reimbursements, to determine that the proper tax reporting and withholdings/payments are done. Additionally, the OCEDC should file amended returns for these identified errors.

Response – We will address your recommendation and take appropriate actions.

Conclusion – Response accepted.

Osceola County Economic Development Commission

Staff

This audit was performed by:

David De Noble, CPA, Senior Auditor
Carmen Austin, CPA, Senior Auditor
James Fisher, CPA, Assistant Auditor
Stephenie Korthals, Assistant Auditor

De Noble & Company PC
Certified Public Accounting Firm