

MITCHELL COUNTY ECONOMIC
DEVELOPMENT COMMISSION

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

JUNE 30, 2011

Table of Contents

	<u>Page</u>
Officials/Members	3
Independent Auditor's Report	4-5
Management's Discussion and Analysis	6-9
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 11
Governmental Fund Financial Statement:	
Statement of Cash Revenues, Expenditures and Changes in Cash Balances	B 12
Notes to Financial Statements	13-16
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances-Budget and Actual (Cash Basis)-All Governmental Funds	18
Notes to Required Supplementary Information-Budgetary Reporting	19
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	20-21
Schedule of Findings	22-23

MITCHELL COUNTY ECONOMIC DEVELOPMENT COMMISSION

OFFICIALS/MEMBERS

Joel Voaklander	Chairperson	Mitchell County
Ivan Wold	Vice-Chairman	St. Ansgar Development Corporation
Harlan Bisbee	Treasurer	City of Stacyville
Roger Brumm	Board Member	Stacyville Development Corporation
Paul Groth	Board Member	City of St. Ansgar
Kelvin Palsic	Board Member	City of Osage
Terry Byrnes	Board Member	City of Riceville
Rick Bodensteiner	Board Member	Osage Development Corporation
Brenda Dryer	Executive Director	
Katie Rice	Administrative Assistant	

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Mitchell County Economic Development Commission, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the Commission's basic financial statements listed in the table of contents. These financial statements are the responsibility of Mitchell County Economic Development Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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.

As described in Note 1, these financial statements were prepared on the basis of cash revenues and expenditures, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the Commission have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities and each major fund of the Mitchell County Economic Development Commission as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated March 22, 2012 on our consideration of the Mitchell 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 compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 9, 18 and 19 are not required parts of the basic financial statements, but are 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 required 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 Mitchell 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, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

March 22, 2012

Renner & Birchem, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Mitchell County Economic Development Commission (MCEDC) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the MCEDC's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the MCEDC's governmental activities increased \$16,608 from fiscal year 2010 to fiscal year 2011. Total revenues are \$133,203 and total program expenses are \$116,595.

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 MCEDC's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the MCEDC as a whole and presents an overall view of the MCEDC'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 MCEDC's operations in more detail than the government-wide statement by providing information about the most significant 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 further explains and supports the financial statements with a comparison of the MCEDC's General Fund budget for the year.

Basis of Accounting

The MCEDC maintains its financial records on the basis of cash revenues and expenditures and the financial statements of the MCEDC are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE MCEDC'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the MCEDC's finances is, "Is the MCEDC as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information that helps answer this question.

The Statement of Activities and Net Assets presents the MCEDC's net assets. Over time, increases or decreases in the MCEDC's net assets may serve as a useful indicator of whether the financial position of the MCEDC is improving or deteriorating.

The MCEDC's governmental activities are presented in the Statement of Activities and Net Assets. Governmental activities include loan programs and administration and general. Member assessments and investment earnings finance most of these activities. The MCEDC has no business type activities.

Fund Financial Statements

The MCEDC has one kind of fund:

- 1) Governmental funds account for most of the MCEDC's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds. The governmental fund financial statements provide a detailed short-term view of the MCEDC's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the MCEDC's programs.

The required financial statement for governmental funds is a statement of cash revenues, expenditures and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The MCEDC's cash balance for governmental activities increased from a year ago, from \$25,436 to \$42,044. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Government Activities	
	Year Ended
	June 30, 2011
Program revenues:	
Charges for service	\$ 36,959
Operating grants, contributions and restricted interest	93,413
General revenues:	
Unrestricted interest on investments	158
Other general revenues	2,673
Total receipts	<u>133,203</u>
Program expenses:	
Loan programs	9,500
Administration and general	107,095
Total expenses	<u>116,595</u>
Change in cash basis net assets	<u>16,608</u>
Cash basis net assets beginning of year	<u>25,436</u>
Cash basis net assets end of year	<u>\$ 42,044</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the Mitchell County Economic Development Commission completed the year, its governmental funds reported a combined fund balance of \$42,044, an increase of \$16,608 from last year's total of \$25,436. The following are the major reasons for the changes in individual fund balances from the prior year.

- The General Fund cash balance increased \$9,208 from the prior year to \$32,459.
- The Revolving Loan Fund cash balance increased by \$7,400 to \$9,585 during the fiscal year.

BUDGETARY HIGHLIGHTS

The MCEDC's Board annually adopts a budget for the General Fund on the cash basis. The budget may be amended during the fiscal year with Board approval. During the fiscal year, there were no amendments to the General Fund budget. During the fiscal year ended June 30, 2011, actual revenues came in above the amount budgeted by \$9,753 (due mainly to the amount of administrative fees and grants received) and actual expenditures came in above the amount budgeted by \$3,655.

ECONOMIC FACTORS

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

CONTACTING THE MCEDC'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens of Mitchell County, borrowers and creditors with a general overview of the MCEDC's finances and to show the MCEDC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brenda Dryer, Executive Director, 509 State Street, Osage, Iowa.

BASIC FINANCIAL STATEMENTS

Mitchell County Economic Development Commission

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2011

	Program Revenues			Net Revenues and Changes Cash Basis Net Assets
	Expenses	Charges for Service	Operating Grants Contributions and Restricted Interest	
Functions / Programs:				
Governmental activities:				
Loan programs	\$ 9,500	16,900		7,400
Administration and general	107,095	20,059	93,413	6,377
Total governmental activities	116,595	36,959	93,413	13,777
General Revenues:				
Unrestricted interest on investments				158
Miscellaneous				2,673
Total general revenues				2,831
Change in cash basis net assets				16,608
Cash basis net assets beginning of year				25,436
Cash basis net assets end of year				\$ 42,044
Cash Basis Net Assets				
Restricted:				
Expendable:				
Revolving loan fund				\$ 9,585
Unrestricted				32,459
Total cash basis net assets				\$ 42,044

See notes to financial statements.

Mitchell County Economic Development Commission

Statement of Cash Revenues, Expenditures and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue		
	General	Revolving Loan Fund	Total
Revenues:			
Contributions from public entity			
members (related parties)	\$ 64,163		64,163
Contributions from private sources	19,750		19,750
Administration fees	20,059		20,059
Grants	9,500		9,500
RLF payments received		16,900	16,900
Interest income	158		158
Miscellaneous	2,673		2,673
Total revenues	116,303	16,900	133,203
Expenditures:			
Salaries/IPERS	74,290		74,290
Payroll taxes	5,314		5,314
Employee benefits	2,400		2,400
Insurance	1,120		1,120
Newspaper publishings	174		174
Office expense	3,126		3,126
Publication/professional dues	683		683
RFL loans		9,500	9,500
Professional fees	870		870
Special projects	10,578		10,578
Tech and website management	198		198
Telephone	2,120		2,120
Travel and meals	5,143		5,143
Advertising	45		45
Board meetings	342		342
Repairs	150		150
Miscellaneous	542		542
Total expenditures	107,095	9,500	116,595
Excess (deficiency) of revenues over (under) expenditures	9,208	7,400	16,608
Cash balances beginning of year	23,251	2,185	25,436
Cash balances end of year	\$ 32,459	9,585	42,044
Cash Basis Fund Balances			
Restricted:			
Revolving loan fund		9,585	9,585
Unassigned	\$ 32,459		32,459
Total cash basis fund balances	\$ 32,459	9,585	42,044

See notes to financial statements.

MITCHELL COUNTY ECONOMIC DEVELOPMENT COMMISSION

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The Mitchell County Economic Development Commission (MCEDC) was formed July 1, 2001, under the 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 Mitchell, Iowa, the Cities of Osage, St. Ansgar, Stacyville and Riceville, Iowa, and Development Corporations of Osage, St. Ansgar and Stacyville, Iowa.

The governmental commission consists of a representative appointed by the Mitchell County Board of Supervisors, and one representative appointed by each City Council of the following cities: Osage, St. Ansgar, Stacyville and Riceville; and by each Development Corporation Board of the following corporations: Osage, St. Ansgar and Stacyville.

Under the 28E agreement each member shall be assessed annually and agrees to pay a share of the expenses of the operation of the MCEDC. These member contributions are a critical financial source of the MCEDC. During the fiscal year ended June 30, 2011, the total contributions from public entity members were as follows:

Mitchell County	\$ 50,000
City of Osage	8,750
City of St. Ansgar	2,062
City of Stacyville	1,250
City of Riceville	<u>2,100</u>
	\$ <u>64,162</u>

The MCEDC's financial statements are prepared on the basis of cash revenues and expenditures, which is a comprehensive basis of accounting other than U.S generally accepted accounting principles.

A. Reporting Entity

For financial reporting purposes, Mitchell County Economic Development Commission has included all funds, organizations, agencies, boards, commissions and authorities. The MCEDC 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 MCEDC are such that exclusion would cause the MCEDC'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 MCEDC 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 MCEDC. Criteria also can include an organization's fiscal dependency on the MCEDC or if it would be significantly misleading to exclude an organization because of its relationship with the MCEDC. The MCEDC has no component units which meet the Governmental Accounting Standards Board criteria in order to be included in MCEDC's reporting entity.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all the nonfiduciary activities of the MCEDC. For the most part, the effect of interfund activity has been removed from this statement. MCEDC activities are supported by member contributions, interest received on loans from ultimate recipients, investment interest and donations/grants.

The Statement of Activities and Net Assets presents the MCEDC's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the MCEDC.

Expendable 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 not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets 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, contributions and interest on investments 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 - Major individual governmental funds are reported as separate columns in the fund financial statements. The MCEDC has elected to report all governmental funds as major funds.

The MCEDC reports the following major governmental funds:

The General Fund is the general operating fund of the MCEDC. All contributions agreed to by the different entities within the intergovernmental agreement and other revenues 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 the fixed charges not paid from other funds.

Special Revenue:

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

C. Measurement Focus and Basis of Accounting

The Mitchell County Economic Development Commission maintains its financial records on the basis of cash revenues and expenditures and the financial statements of the MCEDC are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the MCEDC funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenditures are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the MCEDC's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the MCEDC's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and the unassigned fund balances.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Board intends to use for specific purposes

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The MCEDC's deposits in banks at June 30, 2011 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 MCEDC is authorized by statute and the MCEDC'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 MCEDC Board.

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

(3) Notes Receivable

Revolving Loan Fund

The MCEDC's mission of implementing economic development projects within Mitchell 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 of 4.395%. The terms of the notes are five and half years, with some extensions granted for hardships.

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

June 30, 2012	\$ 25,634
June 30, 2013	24,067
June 30, 2014	17,345
June 30, 2015	15,256
June 30, 2016	11,016
June 30, 2017	<u>3,388</u>
	\$ <u>96,706</u>

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.50% of their annual covered salary and the MCEDC is required to contribute 6.95% of covered salary. Contribution requirements are established by state statute. The MCEDC's contributions to IPERS for the year ended June 30, 2011, was \$4,828 equal to the required contributions for the year.

(5) Related Party Transactions

The MCEDC had business transactions between the MCEDC and a MCEDC board member totaling \$870 during the year ended June 30, 2011.

(6) Risk Management

The MCEDC is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The MCEDC 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.

(7) Subsequent Events

Since the end of the year, the Revolving Loan Fund issued notes receivable totaling \$14,000. These loans have a 4.395% interest rate and are payable based on a five and a half year payback schedule.

REQUIRED SUPPLEMENTARY INFORMATION

Mitchell County Economic Development Commission

Budgetary Comparison Schedule
of Revenues, Expenditures, and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds

Required Supplementary Information

Year ended June 30, 2011

	Less		Total	Budgeted Amounts	Budgeted to Net Variance
	Governmental Funds Actual	Funds not Required to be Budgeted			
Revenues:					
Contributions from public entity members (related parties)	\$ 64,163		64,163	64,850	(687)
Contributions from private sources	19,750		19,750	21,250	(1,500)
Administration fees	20,059		20,059	14,950	5,109
Grants	9,500		9,500	3,000	6,500
RLF payments received	16,900	16,900			
Interest income	158		158		158
Miscellaneous	2,673		2,673	2,500	173
Total revenues	133,203	16,900	116,303	106,550	9,753
Expenditures:					
Salaries/IPERS	74,290		74,290	70,000	(4,290)
Payroll taxes	5,314		5,314	6,500	1,186
Employee benefits	2,400		2,400	1,800	(600)
Insurance	1,120		1,120	1,500	380
Newspaper publishings	174		174	300	126
Office expense	3,126		3,126	2,500	(626)
Publication/professional dues	683		683	340	(343)
RFL loans	9,500	9,500			
Professional fees	870		870	2,000	1,130
Special projects	10,578		10,578	7,000	(3,578)
Tech and website management	198		198	250	52
Telephone	2,120		2,120	2,500	380
Travel and meals	5,143		5,143	6,500	1,357
Advertising	45		45	1,500	1,455
Board meetings	342		342	250	(92)
Repairs	150		150	500	350
Miscellaneous	542		542		(542)
Total expenditures	116,595	9,500	107,095	103,440	(3,655)
Excess (deficiency) of revenues over (under) expenditures	16,608	7,400	9,208	3,110	6,098
Cash balances beginning of year	25,436	2,185	23,251	23,251	
Cash balances end of year	\$ 42,044	9,585	32,459	26,361	6,098

See notes to financial statements.

Mitchell County Economic Development Commission

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the MCEDC Board annually adopts a budget on the cash basis. The annual budget may be amended during the year with Board approval. The MCEDC's Board is not required to and has chosen not to adopt a budget for the Special Revenue Fund (Revolving Loan Fund).

During the year ended June 30, 2011 the MCEDC's expenditures exceeded the amount budgeted in total.

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 the Mitchell
County Economic Development Commission:

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Mitchell County Economic Development Commission (MCEDC), as of and for the year ended June 30, 2011, which collectively comprise the MCEDC's basic financial statements listed in the table of contents and have issued our report thereon dated March 22, 2012. Our report on the financial statements which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010. Except as noted in the Independent Auditor's Report, 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 Mitchell County Economic Development Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Mitchell County Economic Development Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mitchell County Economic Development Commission's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Mitchell County Economic Development Commission's financial statements will not be prevented or

detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-11 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mitchell County Economic Development Commission'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 Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the MCEDC's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the MCEDC. 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.

The Mitchell County Economic Development Commission's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the MCEDC's responses, we did not audit the Mitchell County Economic Development Commission's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials/members and citizens of the Mitchell County Economic Development Commission and other parties to whom the Mitchell County Economic Development Commission may report, and 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 Mitchell County Economic Development Commission 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.

March 22, 2012

Renner & Birchem, P.C.

MITCHELL COUNTY ECONOMIC DEVELOPMENT COMMISSION

Schedule of Findings

Year Ended June 30, 2011

Part I: Findings Related to the Financial Statements:

Significant Deficiencies:

I-A-11 Preparation of Financial Statements – The MCEDC does not have an internal control system designed to provide for the preparation of the financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Therefore, as auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for the governmental entity similar in population to the MCEDC. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the MCEDC’s management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

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

Conclusion - Response accepted.

Instances of Non-Compliance:

No matters were reported.

MITCHELL COUNTY ECONOMIC DEVELOPMENT COMMISSION

Schedule of Findings

Year Ended June 30, 2011

Part II: Other Findings Related to Required Statutory Reporting:

II-A-11 Travel Expense - No expenditures of MCEDC money for travel expenses of spouses of MCEDC officials or employees were noted.

II-B-11 Business Transactions - Business transactions between the MCEDC and MCEDC officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Harlan Bisbee, Board Member	Accounting Services	\$870

In accordance with chapter 362.5(3)(j) of the Code of Iowa, the transactions with Harlan Bisbee do not appear to represent a conflict of interest since the total transactions were less than \$1,500 during the fiscal year.

II-C-11 Bond Coverage - Surety bond coverage of MCEDC officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-D-11 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

II-E-11 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the MCEDC's investment policy.

II-F-11 Certified Budget – The MCEDC prepares a budget for the General Fund only. Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted.

Recommendation – The budget should have been amended before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion - Response accepted.