



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE November 19, 2010

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the Iowa Agricultural Development Authority for the year ended June 30, 2010.

The Iowa Agricultural Development Authority reported total revenues of \$488,453 for fiscal year 2010, a decrease of 7.9% from the prior year. Revenues included \$238,937 from beginning farmer loan program fees, \$147,577 from interest income on loans, \$34,450 from tax credit program fees and \$29,647 from interest income on cash and investments. Expenses of the Iowa Agricultural Development Authority for fiscal year 2010 totaled \$573,791, a 5.9% increase over the prior year. The Authority reported a decrease in net assets of \$85,338.

A copy of the audit report is available for review in the Iowa Agricultural Development Authority's Office, in the Office of Auditor of State and on the Auditor of State's website at <http://auditor.iowa.gov/reports/1160-0014-B000.pdf>.

###

IOWA AGRICULTURAL DEVELOPMENT AUTHORITY

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

JUNE 30, 2010

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Statement of Net Assets	A	15
Statement of Revenues, Expenses and Changes in Fund Net Assets	B	16
Statement of Cash Flows	C	17
Notes to Financial Statements		18-24
Supplementary Information:	<u>Schedule</u>	
Budgetary Comparison Schedule of Revenues and Expenses - Budget to Actual	1	27
Balance Sheet by Program Fund	2	28-29
Schedule of Revenues, Expenses and Changes in Fund Net Assets by Program Fund	3	30-31
Schedule of Operating Expenses by Program Fund	4	32-33
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 <u>Government Auditing Standards</u>		35-36
Schedule of Findings		37-42
Staff		43

Iowa Agricultural Development Authority

Officials

<u>Name</u>	<u>Title</u>
	State
Honorable Chester J. Culver	Governor
Honorable Michael L. Fitzgerald	Treasurer of State
Richard C. Oshlo, Jr.	Director, Department of Management

Board Members

Fred Lundt	Chair
Jayme J. Unga	Vice Chair
Annette J. Townsley	Treasurer
Cheryl Adam	Member
Frank J. Carroll	Member
Kathleen Delate	Member
Timothy Galm	Member
Lisa Irlbeck	Member
Greg Steelsmith	Member
Honorable Chester J. Culver	Member Ex-Officio
Honorable Michael L. Fitzgerald	Member Ex-Officio
Jeff Ward	Executive Director

Iowa Agricultural Development Authority



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Board Members of the Iowa
Agricultural Development Authority:

We have audited the accompanying financial statements of the Iowa Agricultural Development Authority, a component unit of the State of Iowa, as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements listed in the table of contents. These financial statements are the responsibility of the Iowa Agricultural Development Authority's management. Our responsibility is to express an opinion 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 our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Iowa Agricultural Development Authority are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the component units of the State that is attributable to the transactions of the Iowa Agricultural Development Authority. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2010, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Iowa Agricultural Development Authority as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

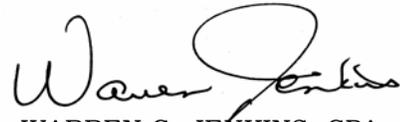
In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2010 on our consideration of the Iowa Agricultural Development Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 7 through 12 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 required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Iowa Agricultural Development Authority's basic financial statements. Other supplementary information included in Schedules 1 through 4 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 28, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Iowa Agricultural Development Authority (Authority) provides this Management's Discussion and Analysis of the Authority's annual financial statements. This narrative overview and analysis of the financial activities of the Authority is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the Authority's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- Total revenues of the Authority decreased 7.9%, or approximately \$42,000, from fiscal year 2009 to fiscal year 2010. The decrease was due to a decline in interest earned on investments of approximately \$55,000. Low investment rates continue to impact the Authority's income statement and continue to have a serious impact on the earnings of the Authority.
- The dollar volume of bonds issued under the Beginning Farmer Loan Program (BFLP) increased when compared to fiscal year 2009. The Authority continues to lead the nation in both number and dollar volume of loans. The BFLP loan fees represent the major portion of revenue for the Authority and we continually promote and market the program. Land prices continue to make it difficult for beginning farmers to purchase agricultural production assets and the BFLP represents an important tool in helping aspiring beginning farmers reach their goal of farm ownership. The number of applications approved during fiscal year 2010 was similar to fiscal year 2009. However, the average loan size was up slightly as land prices continue to increase. In January 2007, the Authority began offering the Beginning Farmer Tax Credit Program. This program provides a state income tax credit to agricultural asset owners which lease their assets to qualified beginning farmers. This program has been hugely successful with over 825 applications received to date. This program had a positive effect on revenues as we were able to implement and operate the program with existing staff.
- Expenses of the Authority increased 5.9%, or approximately \$32,000, in fiscal year 2010 over fiscal year 2009. Approximately \$36,000 of the increase is related to employee compensation within the General and Administrative Fund. During fiscal year 2010, the Authority recorded the expense and liability for the State Employee Retirement Incentive Program (SERIP). Therefore, expenses were higher in the current year.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Iowa Agricultural Development Authority's basic financial statements. The Authority's basic financial statements consist of two basic areas. Income, expenses, assets and liabilities are allocated to the Administrative/BFLP Fund and the Rural Rehabilitation Trust Fund (RRTF). The RRTF is further divided between the Loan Participation Program (LPP) and the Trust Fund accounts. The tax credit programs are contained within the Administrative/BFLP Fund.

The RRTF is managed by the Authority through a Use Agreement executed with the U.S. Department of Agriculture. The Use Agreement allows the Authority to use the fund for assistance to low income farmers, agricultural educational programs and administrative expenses. The fund is currently used for the Loan Participation Program, the Iowa Agricultural Youth Institute (IAYI) and contributions to ag education groups. Also, the Use Agreement allows the Authority to annually use 3 percent of the fund for administrative expenses.

The Administrative/BFLP fund consists of revenues generated from the Beginning Farmer Loan Program and the tax credit program and general administrative expenses required to operate the office. Only program specific costs, such as legal fees and IAYI expenses, are allocated to the RRTF accounts.

The Authority does not receive General Fund monies from the State of Iowa. The Authority is a self-funded agency which charges modest loan origination and closing fees. The fees and investment income pay the Authority's operating expenses.

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 Authority's financial activities.

The Basic Financial Statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets and a Statement of Cash Flows. These provide information about the activities of the Authority as a whole and present an overall view of the Authority's finances.

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

Other Supplementary Information provides detailed information about the individual funds. The Budgetary Comparison Schedule of Revenues and Expenses – Budget to Actual further explains and supports the financial statements with a comparison of the Authority's budget for the year.

COMPARISON WITH PRIOR YEAR AND SIGNIFICANT FINANCIAL FACTORS

The Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities and net assets of the Authority as a whole at the end of the fiscal year. The Statement of Net Assets is a point-in-time financial statement. The purpose of this statement is to present a fiscal snapshot of the Authority to the readers of the financial statements. The Statement of Net Assets includes year-end information concerning current and noncurrent assets, current and noncurrent liabilities and net assets (assets less liabilities). Over time, readers of the financial statements will be able to determine the Authority's financial position by analyzing the increases and decreases in net assets. This statement is also a good source for readers to determine how much the Authority owes to outside vendors and creditors. The statement also presents the available assets that can be used to satisfy those liabilities.

Net Assets

	June 30,	
	2010	2009
Current and other assets	\$ 6,126,682	6,134,625
Capital assets, net of accumulated depreciation	10,781	11,773
Total assets	6,137,463	6,146,398
Current liabilities	83,699	37,010
Noncurrent liabilities	71,722	42,008
Total liabilities	155,421	79,018
Net assets:		
Invested in capital assets, net of related debt	10,781	11,773
Restricted	5,298,808	5,314,084
Unrestricted	672,453	741,523
Total net assets	\$ 5,982,042	6,067,380

Total net assets as of year-end were \$5,982,042, a decrease of \$85,338 from the previous year end. This decrease is due primarily to the decrease in interest earned on investments as a result of declining interest rates during fiscal year 2010. Over 90 percent of the Authority's assets are investable or liquid assets and are subject to interest rate variability.

The RRTF represents 88.6 percent of the Authority's net assets. Approximately 42.5 percent of these assets are liquid and available for additional program development. The remainder of the assets are loans to Iowa farmers and represent a significant investment in helping Iowa's low-income farmers. The net assets of the RRTF decreased \$15,276 in fiscal year 2010.

The Authority is very liquid, which can provide an operating cushion in adverse times. Likewise, this liquid position can potentially have an adverse or positive impact on earnings in times of interest rate volatility. The Authority continues to explore investment options to enhance the return on investable funds and will begin extending maturities on investments to maximize returns as the yield curve indicates. This will be done while maintaining safe, secure investments and complying with state investment guidelines and Authority policy.

Liabilities are limited to various accounts payable and compensated absences. The accounts payable balance increased over the previous year due to a long time employee retiring under SERIP.

Statement of Revenues, Expenses and Changes in Fund Net Assets

Changes in net assets presented in the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Fund Net Assets. The purpose of the statement is to present the revenues earned by the Authority, both operating and non-operating, and the expenses incurred by the Authority.

Changes in Net Assets

	Year ended June 30,	
	2010	2009
Operating revenues:		
Interest on loans	\$ 147,577	140,460
Program fees	280,604	265,270
Iowa Agricultural Youth Institute contributions	30,625	30,500
Decrease in the estimate of allowance for loan losses	-	10,000
Total operating revenues	458,806	446,230
Operating expenses:		
General and administrative	433,539	403,695
BFLP direct expenses	80,564	78,430
LPP direct expenses	453	753
Iowa Agricultural Youth Institute	38,176	38,496
Grants to agricultural development and education programs	21,059	20,219
Total operating expenses	573,791	541,593
Operating loss	(114,985)	(95,363)
Non-operating revenues:		
Interest on investments	29,647	84,216
Decrease in net assets	(85,338)	(11,147)
Net assets beginning of year	6,067,380	6,078,527
Net assets end of year	\$ 5,982,042	6,067,380

The loan application and closing fees collected as part of the BFLP typically represent the largest source of revenue for the Authority. The BFLP and tax credit program volume was up for the year, creating an increase in revenues from fiscal year 2009, from \$265,270 to \$280,604.

Interest income from loans increased approximately \$7,000 compared to the previous year. Year end loans outstanding increased approximately \$124,000 over the previous year end. Most of the loan growth can be attributed to program enhancements which were implemented in the fall of 2007. This made the programs underwriting guidelines much more flexible and user friendly. Also, we now offer a 5% fixed interest rate on the loans, which reduces interest rate risk to the Authority.

The most significant factor affecting the Authority's income is interest income on cash and investments. The volatility of investment interest rates can dramatically affect the Authority's operating statement. The Authority again had several certificate of deposit investments mature during the year and we continued to reinvest short term to take advantage when interest rates begin to rise. Also, the yield curve is flat, so there is no incentive to invest long term. The Authority is authorized to use alternative investment options and we continue to explore these as investment opportunities to enhance income.

The Authority had an increase in expenses of 5.9% in fiscal year 2010. Most of this increase was due to an increase in employee salaries and compensation. During the fiscal year, the Authority reported an expense and liability related to the State Employee Retirement Incentive Program (SERIP) which accounted for the majority of the increase in expenses. No bonuses were awarded during fiscal year 2010. The Authority is continually exploring ways to reduce expenses. One example is the Authority will receive a twelve month rent abatement on office space beginning January 1, 2011.

The Authority is a significant sponsor of the Iowa FFA Foundation. Support of agricultural education programs is an authorized use of the RRTF and the sponsorship is paid from that fund. The Authority's Board of Directors strongly believes support of the FFA and its programs help ensure the future of agriculture in Iowa and cultivate a base of potential beginning farmers for the Authority's programs.

Statement of Cash Flows

The Statement of Cash Flows is an important tool in helping readers assess the Authority's ability to generate future net cash flows, its ability to meet its obligations as they come due and its need for external financing. The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities.

	<u>Year ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Cash provided (used) by:		
Operating activities	\$ (162,890)	(606,385)
Capital and related financing activities	(4,626)	-
Investing activities	21,811	82,182
Net decrease in cash	<u>(145,705)</u>	<u>(524,203)</u>
Cash and cash equivalents beginning of year	2,516,061	3,040,264
Cash and cash equivalents end of year	<u>2,370,356</u>	<u>2,516,061</u>
Investments	689,242	678,335
Cash and investments end of year	<u>\$ 3,059,598</u>	<u>3,194,396</u>

Cash used by operating activities includes investment, repayment and interest on loans, fees and contributions and grants made, net of payments to employees and suppliers. Cash used by capital and related financing activities represents the purchase of capital assets. Cash provided by investing activities includes investment income received. For the year ended June 30, 2010, the Authority paid out \$537,400 for new loans but only received \$413,257 in loan payments. Thus, the net decrease to cash.

ACTUAL VERSUS BUDGET

Revenues were below budget projections for the year by \$13,397 due to a decrease in anticipated interest income on investments of \$75,353. There was an increase in revenues above projections in interest income on loans, BFLP loan closing fees and tax credit program fees that offset a large part of the decrease in anticipated interest income on investments.

As indicated earlier, BFLP fee income represents a significant portion of total revenue. Despite continuing high land prices, BFLP volume exceeded the previous year and budget expectations. The Authority actively markets the BFLP program and promotes the use of companion programs which assist beginning farmers with down payment and interest rate reductions. Continued marketing efforts will be done in fiscal year 2011 in an attempt to maintain BFLP volume. In addition, several enhancements made to the BFLP program in the summer of 2008 at both the state and federal level should increase the use of the program in future years.

Overall expenses exceeded budget projections. In a few categories, the budget was exceeded marginally. However, since the Authority is a non-General Fund agency, this does not represent a significant problem. Employee compensation expense exceeded the budget amount by \$49,097 due, in part, to recording the expense and liability associated with the State Employee Retirement Incentive Program (SERIP) not anticipated during the budgeting process.

Additionally, legal fees exceeded the budgeted amount. However, this expense is directly tied to BFLP loan volume and the increase in this expense was offset by the additional revenue received from loan closing fees.

Another significant expense exception relates to the Iowa Agricultural Youth Institute (IAYI). Most of the additional expense can be attributed to increased attendance from historical levels, resulting in additional room and board expenses. Also, Iowa State University increased their room and board charges and the Authority was not aware of this increase at the time the budget was prepared.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Farmland values have remained strong, but the annual increase in values has slowed. In addition, it appears outside investor purchases of farmland has slowed, thus providing more opportunity for beginning farmers. This should have a positive effect on BFLP volume and income in the coming year.

We continue to see an increase in bankers using the Farm Service Agency (FSA) 50/45/5 program with our BFLP program. This program assists beginning farmers with down payments and also reduces the risk to the participating bank. Use of this program helps beginning farmers who otherwise might not qualify for credit and thus should further enhance our beginning farmer loan numbers. The Authority has a memorandum of understanding (MOU) with FSA whereby we cross-promote each other's programs. This has proven to be a very successful marketing arrangement for both parties.

During 2008, the maximum BFLP bond was increased from \$250,000 to \$450,000 at the federal level. Subsequently, the loan maximum increased to \$469,200 on January 1, 2009 and was adjusted to \$471,100 on January 1, 2010. This has provided additional fee income to the Authority and has also allowed beginning farmers to purchase more economically viable farms. Also, the maximum net worth of a qualified beginning farmer was increased from \$300,000 to \$500,000 during 2008, and was increased to \$600,000 for 2009. This has increased the eligible pool of applicants for the program.

Funding for the FSA program continues to be an issue and frequently delays the closing of our BFLP loans. To address this, the federal government increased the maximum loan amount and the State Legislature increased the net worth ceiling on our Loan Participation Program (LPP). These have been indexed to cost of living indexes and will adjust annually on January 1. This had a positive effect on loan volume and interest income on loans. Additional loan growth is anticipated for the LPP program in 2011. Increased use of the LPP program not only helps Iowa's beginning farmers get their start in farming, but also increases the yield on investable cash assets.

The Authority remains susceptible to investment rate risk due to our level of liquid assets. Our investments in CD's have intentionally been kept short term the past few years based on the shape of the yield curve. The Authority is now well positioned to take advantage of rising interest rates in the future as the yield curve returns to a more normal shape.

It is anticipated the BFLP loan volume in fiscal year 2011 will exceed the loan volume in fiscal year 2010. The BFLP program continues to be the most successful program of its kind in the nation and is continually modeled by startup programs around the nation. In addition, the current ag real estate market prices are steady, thus making real estate purchases more affordable for beginning farmers.

In summary, the Authority is well positioned to provide assistance to Iowa's beginning farmers. Our programs assist beginning farmers get their start in production agriculture, which creates new businesses in Iowa.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and citizens of the state of Iowa with a general overview of the Iowa Agricultural Development Authority's finances and to show the Authority's accountability for monies under its discretion. If you have questions about the report or need additional financial information, contact the Iowa Agricultural Development Authority, 505 Fifth Avenue, Suite 327, Des Moines, IA 50309.

Basic Financial Statements

Iowa Agricultural Development Authority

Iowa Agricultural Development Authority

Statement of Net Assets

June 30, 2010

Assets	
Current assets:	
Cash and investments	\$ 794,563
Loans receivable, net	264,325
Accrued interest receivable	58,327
Total current assets	<u>1,117,215</u>
Noncurrent assets:	
Restricted cash	2,265,035
Loans receivable, net	2,744,432
Capital assets, net of accumulated depreciation	10,781
Total noncurrent assets	<u>5,020,248</u>
Total assets	<u>6,137,463</u>
Liabilities	
Current liabilities:	
Accounts payable	77,078
Compensated absences	6,621
Total current liabilities	<u>83,699</u>
Noncurrent liabilities:	
Accounts payable	43,773
Compensated absences	27,949
Total noncurrent liabilities	<u>71,722</u>
Total liabilities	<u>155,421</u>
Net Assets	
Invested in capital assets	10,781
Restricted net assets	5,298,808
Unrestricted net assets	672,453
Total net assets	<u>\$ 5,982,042</u>

See notes to financial statements.

Exhibit B

Iowa Agricultural Development Authority

Statement of Revenues, Expenses and Changes in Fund Net Assets

Year ended June 30, 2010

Operating revenues:	
Interest income on loans	\$ 147,577
Beginning Farmer Loan Program (BFLP) fees	238,937
Loan Participation Program (LPP) fees	7,217
Tax Credit Program fees	34,450
Iowa Agricultural Youth Institute sponsor contributions	24,550
Iowa Agricultural Youth Institute registration contributions	6,075
Total operating revenues	<u>458,806</u>
Operating expenses:	
General and administrative	433,539
BFLP direct expenses	80,564
LPP direct expenses	453
Iowa Agricultural Youth Institute	38,176
Grants to agricultural development and education programs	21,059
Total operating expenses	<u>573,791</u>
Operating loss	(114,985)
Non-operating revenues:	
Interest income on cash and investments	<u>29,647</u>
Change in net assets	(85,338)
Net assets beginning of year	<u>6,067,380</u>
Net assets end of year	<u>\$ 5,982,042</u>

See notes to financial statements.

Iowa Agricultural Development Authority

Statement of Cash Flows

Year ended June 30, 2010

Cash flows from operating activities:		
Investment in loans	\$ (537,400)	
Repayments on loans	413,257	
Interest income on loans	141,794	
Fees and contributions	311,229	
Grants to agricultural development and educational programs	(21,059)	
Cash paid to suppliers	(160,792)	
Cash paid to employees	(309,919)	
Net cash used for operating activities		\$ (162,890)
Cash flows from capital and related financing activities:		
Acquisition of furniture and equipment		(4,626)
Cash flows from investing activities:		
Interest on cash and investments		<u>21,811</u>
Net decrease in cash and cash equivalents		(145,705)
Cash and cash equivalents beginning of year		<u>2,516,061</u>
Cash and cash equivalents end of year		2,370,356
Investments		<u>689,242</u>
Cash and investments end of year		<u>\$ 3,059,598</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss		\$ (114,985)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	\$ 5,078	
Loss on disposal of assets	540	
Changes in assets and liabilities:		
Increase in investment in loans, net	(124,143)	
Increase in accrued interest receivable on loans	(5,783)	
Increase in accounts payable	102,631	
Decrease in compensated absences	(26,228)	
Total adjustments		<u>(47,905)</u>
Net cash used for operating activities		<u>\$ (162,890)</u>

See notes to financial statements.

Iowa Agricultural Development Authority

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

The Iowa Agricultural Development Authority (the Authority), a component unit of the State of Iowa, was created in 1980 under Chapter 175 of the Code of Iowa as a public instrumentality and agency of the State of Iowa to undertake programs which assist beginning farmers in purchasing agricultural land and improvements and depreciable agricultural property for the purpose of farming. Chapter 175 has been amended to include a Loan Participation Program and to expand the Beginning Farmer Loan Program to include an Individual Agricultural Development Bond Program. Chapter 175 also includes an operating Loan Guarantee Program and an Agricultural Loan Assistance Program, which are currently inactive.

The Authority, under the Individual Agricultural Development Bond Program, issues federally approved tax-exempt development bonds, the proceeds of which are to provide authorized agricultural and soil conservation financing. The bonds are payable solely from repayments of the loans, which have been assigned, without recourse, to the participating lending institutions. Participating lending institutions receive a federal tax exemption for the interest earned on the loans. These obligations do not constitute a debt of the State nor of the Authority, and neither is liable for any repayments. Therefore, the loans and bonds are not recorded in the Authority's financial statements.

Under Chapter 175 of the Code of Iowa, the Authority applied to the Secretary of Agriculture of the United States and received the trust assets previously held by the United States for the dissolved Iowa Rural Rehabilitation Corporation (IRRC). The assets are subject to the provisions of an agreement which specify certain limitations on the use of such assets and the types of securities in which the assets may be invested.

In fiscal year 1997, the Authority started the IADA Loan Participation Program. The Authority transferred \$2,000,000 of funds from the IRRC into the program. The program is designed to assist lenders and qualified farmers by participating on a last-in, last-out basis in a loan for the purchase of agricultural property. The Authority will participate in qualifying loans to low income farmers up to the lesser of \$150,000 or 30 percent of the purchase price.

In fiscal year 2007, the Authority started to administer the Beginning Farmer Tax Credit Program for the State of Iowa. To operate this program, the Authority receives application fees for each tax credit certificate issued.

The Authority conducts the Iowa Agricultural Youth Institute annually.

The financial statements of the Authority have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The more significant of the Authority's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the Authority has included all funds, organizations, boards, commissions and authorities. The Authority 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 Authority are such that exclusion would cause the Authority'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 Authority 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 Authority. The Authority has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

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

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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

D. Assets, Liabilities and Net Assets

Cash, Cash Equivalents and Investments – The Authority considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at June 30, 2010 include certificates of deposit of \$689,242.

Loans Receivable – Interest on loans is accrued and credited to operations based primarily on the principal amount outstanding. Accrual of interest income on any loan is discontinued when, in the opinion of management, there is reasonable doubt as to the ability to timely collect interest or principal.

Capital Assets – Furniture and equipment are recorded at cost and depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from five to ten years.

Compensated Absences – Employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory time for subsequent use or for payment upon termination, death or retirement. The cost of earned vacation, sick leave and compensatory time are recorded as liabilities. These liabilities for compensated absences are based on current rates of pay.

Allowance for Loan Losses – The allowance for loan losses is established through a provision for loan losses charged to operations. Loans are charged against the allowance for loan losses when management believes collection of the principal is unlikely.

The allowance for loan losses is maintained at a level believed adequate by management to absorb potential losses in the loan portfolio. Management's determination of adequacy of the allowance is based on an evaluation of the portfolio, past loan experience, current economic conditions and other relevant factors.

Beginning Farmer Loan Fees – Beginning farmer loan fees include application and closing fees received in conjunction with the Individual Agricultural Development Bond Program.

Loan Participation Program Fees – Loan participation program fees include application and closing fees received in conjunction with the Loan Participation Program.

Tax Credit Program Fees – Tax credit program fees include application fees received in conjunction with managing the Iowa Beginning Farmer Tax Credit Act.

Grants to Agricultural Development and Education Programs – Contributions in the form of grants are made to various agricultural development and educational programs. Grants are recorded as expended by the Authority and unexpended amounts revert to the Authority at the expiration of the grant period.

Budgets and Budgetary Accounting – Authority staff prepare an annual budget for general operations. The budget is approved and monitored by the Authority's Board.

(2) Cash, Cash Equivalents and Investments

The Authority's deposits in banks and with the Treasurer of State throughout the period and at June 30, 2010 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 Authority is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Authority's Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

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

(3) Capital Assets

Capital assets activity for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Capital assets				
Furniture and equipment	\$ 64,453	4,626	(11,097)	57,982
Less accumulated depreciation	(52,680)	(5,078)	10,557	(47,201)
Total capital assets, net	<u>\$ 11,773</u>	<u>(452)</u>	<u>(540)</u>	<u>10,781</u>

(4) Lease Agreement

The Authority has entered into a non-cancelable operating lease for office space. The following is a schedule of the future minimum lease payments under the agreement in effect at June 30, 2010.

Year Ending June 30,	Amount
2011	\$ 9,976
2012	9,976
2013	19,953
2014	19,953
2015	19,953
2016-2017	<u>29,928</u>
Total minimum lease payments	<u>\$ 109,739</u>

Rent for office space for the year ended June 30, 2010 was \$20,841. On July 16, 2010, the Authority entered into an extension to the current lease that will extend the lease until December 31, 2016. Under the lease extension, lease payments will remain at current levels and the Authority will receive a one year rent abatement from January 1, 2011 to December 31, 2011.

(5) Loans Receivable

The following is a summary of loans receivable at June 30, 2010:

Loans receivable	\$ 3,098,757
Less allowance for loan losses	<u>(90,000)</u>
Net loans receivable	3,008,757
Less current portion	<u>264,325</u>
Noncurrent loans receivable	<u><u>\$ 2,744,432</u></u>

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 4.30% of their annual covered salary and the Authority is required to contribute 6.65% of covered payroll. Contribution requirements are established by state statute. The Authority's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$14,927, \$13,617 and \$13,895, respectively, equal to the required contributions for each year.

(7) Other Retirement Benefits

Sick Leave Insurance Program (SLIP)

A voluntary termination benefit program has been established by the State of Iowa. The program is an opportunity for employees who are eligible upon a bona fide retirement to use the value of their unused sick leave to pay the employer share of the monthly premium of the State's group health insurance plan after their retirement.

Upon retirement, employees shall first receive cash payment for accumulated, unused sick leave converted at the employee's current regular hourly rate of pay, up to \$2,000, payable with the final payroll warrant that includes the employee's retirement date. The value of the remaining balance of the accrued sick leave will be converted based upon the original balance (before the cash payment). The remainder of the sick leave value is calculated based on the number of sick hours the employee had before the cash payment.

The final calculated dollar value will be credited to the employee's Sick Leave Insurance Program (SLIP). Each month, the retiree's former employing department will pay 100% of the employer share of the selected state group health insurance premium from the retiree's SLIP account. The retiree is responsible for any additional premiums associated with the employee/retiree share.

All program benefits are financed on a pay-as-you-go basis by the department from which the employee retired. Amounts calculated for this program are included in the compensated absences liability for current employees and accounts payable for retired employees.

For the year ended June 30, 2010, one employee received benefits totaling \$5,003 under SLIP.

State Employee Retirement Incentive Program (SERIP):

On February 10, 2010, the Governor signed into law a State Employee Retirement Incentive Program (SERIP) for eligible executive branch employees. To be eligible, an employee must have been employed on February 10, 2010, be age 55 or older on July 31, 2010 and terminate employment no later than June 24, 2010.

Participants in the SERIP will receive the following incentives:

- 1) Unused sick leave – A cash payment of the monetary value of the participant’s accrued sick leave balance, not to exceed \$2,000. The payment is calculated by multiplying the number of hours of accrued sick leave by the participant’s regular hourly rate of pay at the time of retirement. This payment was made in fiscal year 2010 on the participant’s last pay check.
- 2) Health insurance – A minimum of five years of state contributions toward the premiums of a state-sponsored health insurance plan either through the Sick Leave Insurance Program (SLIP), SERIP or a combination of both programs.
- 3) Unused vacation leave and years of service incentive – Cash payments for the entire value of the participant’s accrued but unused vacation leave and, for participants with at least ten years of state employment, \$1,000 for each year of state employment, up to 25 years of employment. The total unused vacation leave and years of service incentive shall be paid in five equal installments beginning in September 2010 and ending in 2014.

SERIP is financed on a pay-as-you-go basis by the department from which the employee retired. One employee retired under this program and the amounts due have been recorded as accounts payable. The liability for the expected future health insurance benefits is \$18,735 at June 30, 2010 and the liability for the unused vacation leave and years of service incentive payments is \$38,274 at June 30, 2010.

(8) United States Department of Agriculture Use Agreement

Effective June 30, 1980, all of the trust assets held by the United States in trust for the dissolved Iowa Rural Rehabilitation Corporation were transferred to the Authority, subject to the provisions of an agreement specifying the use of such assets for loans (as defined in the agreement), grants, establishment of reserves and other rural rehabilitation purposes as agreed between the Authority and the Federal government. The agreement provides, among other things, the annual cost of administration of the program shall not exceed 3 percent of the book value thereof during any fiscal year without the prior written approval of the U.S. government. During the year ended June 30, 2010, the Authority transferred \$158,000 to its Administration Fund for costs of administration. The calculated percentage was 2.98% for the year ended June 30, 2010. At June 30, 2010, net assets related to the Iowa Rural Rehabilitation Corporation Program were \$5,298,808.

(9) Risk Management

State employee benefits for health, dental, long-term disability and life insurance coverage are insured through commercial insurers. There were no significant reductions in insurance coverage for the prior year and settlements have not exceeded coverage for the past three fiscal years.

The State of Iowa self-insures on behalf of its agencies for losses related to workers' compensation, its motor vehicle fleet, property damage and torts. A contingent fund exists under Section 29C.20 of the Code of Iowa to provide compensation for loss or damage to state property (casualty losses).

Supplementary Information

Iowa Agricultural Development Authority

Iowa Agricultural Development Authority

Budgetary Comparison Schedule of Revenues and Expenses -
Budget to Actual

Year ended June 30, 2010

	Original/ Final Budget	Actual Amounts Budgetary Basis	Variance Between Actual and Final Budget
Revenues:			
Interest income on loans	\$ 128,000	147,577	19,577
Interest income on investments	105,000	29,647	(75,353)
Beginning Farmer Loan Program (BFLP) fees	200,000	238,937	38,937
Loan Participation Program (LPP) fees	9,500	7,217	(2,283)
Tax Credit Program fees	30,400	34,450	4,050
Iowa Agricultural Youth Institute sponsor donations	25,000	24,550	(450)
Iowa Agricultural Youth Institute registration fees	3,950	6,075	2,125
Total revenues	\$ 501,850	488,453	(13,397)
Expenses:			
Employee compensation	\$ 295,000	344,097	(49,097)
Travel	14,000	8,770	5,230
Supplies and other	4,000	4,754	(754)
Postage	4,300	4,967	(667)
Printing	3,000	795	2,205
Telephone	2,700	2,784	(84)
Board expenses	10,000	13,071	(3,071)
Professional services	11,200	12,917	(1,717)
Office and computer equipment	5,000	5,683	(683)
Rent	19,950	20,841	(891)
Administrative services	3,800	4,676	(876)
Advertising and promotions	6,000	5,456	544
Legal fees	65,000	78,788	(13,788)
Public notices	1,400	1,339	61
Staff education and training	1,000	-	1,000
Iowa Agricultural Youth Institute	30,000	38,176	(8,176)
Grants to agricultural development and education programs	24,630	21,059	3,571
Depreciation	-	5,078	(5,078)
Loss on disposal of assets	-	540	(540)
Total expenses	\$ 500,980	573,791	(72,811)

The Authority did not budget for depreciation or loss on disposal of assets.

See accompanying independent auditor's report.

Iowa Agricultural Development Authority

Balance Sheet by Program Fund

June 30, 2010

	<u>Administrative/ BFLP Fund</u>
Assets	
Current assets:	
Cash and investments	\$ 794,563
Loans receivable, net	-
Interest receivable	4,511
Total current assets	<u>799,074</u>
Noncurrent assets:	
Restricted cash and cash equivalents	-
Loans receivable, net	-
Furniture and equipment, net of accumulated depreciation	10,781
Total noncurrent assets	<u>10,781</u>
Total assets	<u><u>\$ 809,855</u></u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 48,278
Compensated absences	6,621
Total current liabilities	<u>54,899</u>
Noncurrent liabilities:	
Accounts payable	43,773
Compensated absences	27,949
Total noncurrent liabilities	<u>71,722</u>
Total liabilities	<u>126,621</u>
Net Assets	
Invested in capital assets	10,781
Restricted net assets	
Unrestricted net assets	672,453
Total net assets	<u>683,234</u>
Total liabilities and net assets	<u><u>\$ 809,855</u></u>

See accompanying independent auditor's report.

Iowa Rural Rehabilitation Fund			
	Loan Participation Program	Total	Grand Total
-	-	-	794,563
-	264,325	264,325	264,325
1,134	52,682	53,816	58,327
1,134	317,007	318,141	1,117,215
1,281,599	983,436	2,265,035	2,265,035
-	2,744,432	2,744,432	2,744,432
-	-	-	10,781
1,281,599	3,727,868	5,009,467	5,020,248
1,282,733	4,044,875	5,327,608	6,137,463
28,800	-	28,800	77,078
-	-	-	6,621
28,800	-	28,800	83,699
-	-	-	43,773
-	-	-	27,949
-	-	-	71,722
28,800	-	28,800	155,421
-	-	-	10,781
1,253,933	4,044,875	5,298,808	5,298,808
-	-	-	672,453
1,253,933	4,044,875	5,298,808	5,982,042
1,282,733	4,044,875	5,327,608	6,137,463

Iowa Agricultural Development Authority

Schedule of Revenues, Expenses and Changes in Fund Net Assets by Program Fund

Year ended June 30, 2010

	<u>Administrative/ BFLP Fund</u>
Operating revenues:	
Interest income on loans	\$ -
Beginning Farmer Loan Program (BFLP) fees	238,937
Loan Participation Program (LPP) fees	-
Tax Credit Program fees	34,450
Iowa Agricultural Youth Institute sponsor contributions	-
Iowa Agricultural Youth Institute registration contributions	-
Total operating revenues	<u>273,387</u>
Operating expenses:	
General and administrative	433,539
BFLP direct expenses	80,564
LPP direct expenses	-
Iowa Agricultural Youth Institute	-
Grants to agricultural development and education programs	-
Total operating expenses	<u>514,103</u>
Operating income (loss)	(240,716)
Nonoperating revenues:	
Interest income on cash and investments	12,973
Change in net assets before transfers	<u>(227,743)</u>
Transfers in	158,000
Transfers out	(319)
Total transfers	<u>157,681</u>
Change in net assets	(70,062)
Net assets beginning of year	<u>753,296</u>
Net assets end of year	<u>\$ 683,234</u>

See accompanying independent auditor's report.

Iowa Rural Rehabilitation Fund			
	Loan		
Trust	Participation Program	Total	Grand Total
-	147,577	147,577	147,577
-	-	-	238,937
-	7,217	7,217	7,217
-	-	-	34,450
24,550	-	24,550	24,550
6,075	-	6,075	6,075
30,625	154,794	185,419	458,806
-	-	-	433,539
-	-	-	80,564
-	453	453	453
38,176	-	38,176	38,176
21,059	-	21,059	21,059
59,235	453	59,688	573,791
(28,610)	154,341	125,731	(114,985)
9,371	7,303	16,674	29,647
(19,239)	161,644	142,405	(85,338)
319	-	319	158,319
(158,000)	-	(158,000)	(158,319)
(157,681)	-	(157,681)	-
(176,920)	161,644	(15,276)	(85,338)
1,430,853	3,883,231	5,314,084	6,067,380
1,253,933	4,044,875	5,298,808	5,982,042

Iowa Agricultural Development Authority
 Schedule of Operating Expenses by Program Fund
 Year ended June 30, 2010

	General and Administrative	Beginning Farmer Loan Program
Employee compensation	\$ 344,097	-
Travel	8,770	-
Supplies and other	4,954	-
Postage	4,967	-
Printing	795	-
Telephone	2,723	-
Board expenses	13,071	-
Professional services	12,917	-
Office and computer equipment	5,683	-
Rent	20,841	-
Administrative services	3,647	829
Advertising and promotions	5,456	-
Legal fees	-	78,396
Public notices	-	1,339
Iowa Agricultural Youth Institute	-	-
Grants to agricultural development and education programs	-	-
Depreciation	5,078	-
Loss on disposal of assets	540	-
Total	<u>\$ 433,539</u>	<u>80,564</u>

See accompanying independent auditor's report.

Iowa Rural Rehabilitation Fund			
Trust	Loan Participation Program	Total	Grand Total
-	-	-	344,097
-	-	-	8,770
-	-	-	4,954
-	-	-	4,967
-	-	-	795
-	61	61	2,784
-	-	-	13,071
-	-	-	12,917
-	-	-	5,683
-	-	-	20,841
-	-	-	4,476
-	-	-	5,456
-	392	392	78,788
-	-	-	1,339
38,176	-	38,176	38,176
21,059	-	21,059	21,059
-	-	-	5,078
-	-	-	540
59,235	453	59,688	573,791

Iowa Agricultural Development Authority



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board Members of the Iowa
Agricultural Development Authority:

We have audited the accompanying financial statements of the Iowa Agricultural Development Authority, a component unit of the State of Iowa, as of and for the year ended June 30, 2010, which collectively comprise the Iowa Agricultural Development Authority's basic financial statements listed in the table of contents, and have issued our report thereon dated October 28, 2010. 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 Iowa Agricultural Development Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Iowa Agricultural Development Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Iowa Agricultural Development Authority's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of the 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 a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Iowa Agricultural Development Authority's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (C), (D), (E) and (F) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iowa Agricultural Development Authority'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 which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Authority's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Authority. 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 Iowa Agricultural Development Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Authority's responses, we did not audit the Iowa Agricultural Development Authority'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, employees and citizens of the State of Iowa and other parties to whom the Iowa Agricultural Development Authority 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 Iowa Agricultural Development Authority 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 28, 2010

Iowa Agricultural Development Authority

Schedule of Findings

Year ended June 30, 2010

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one or two individuals may have control over the following areas for which no compensating controls exist:

- a. There is a lack of segregation of duties in collecting, deposit preparation and recording cash.
- b. There is lack of segregation of duties in maintaining detailed accounts receivable records and posting receipts.
- c. There is no independent reconciliation of recorded receipts to the initial listing.
- d. The responsibility for preparing the bank reconciliations is not segregated from those for recording cash and performing other cash receipt and disbursement functions.
- e. There is no evidence of an independent review of the bank reconciliations.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Authority should review the operating procedures to obtain the maximum internal control possible under the circumstances.

Response – Given the limited staff size, we feel we are maximizing internal controls. The person authorized to expend funds is separate from the bank reconciliation process.

Reconciliations are reviewed by a person separate from the accounting function or cash receipts received. Weekly deposits are reviewed against receipts received. These policies and procedures can be found on page 2 of the Iowa Agricultural Development Authority (IADA) Financial, Depository Policy. This policy is approved annually by the IADA Board of Directors.

Conclusion – Response accepted.

(B) Loan Receivable Reconciliations - Monthly reconciliations of the outstanding Loan Participation Program (LPP) loans to the loan receivable balances were not prepared.

Recommendation - To improve financial accountability and control, a monthly reconciliation of the outstanding loan principal balance to the loan receivable balance per the accounting system should be prepared and retained. Any variances should be investigated and resolved in a timely manner.

Response – The accounting of the LPP program has gone basically unchanged since the program inception in 1997. No audits since that time have noted a problem with

Iowa Agricultural Development Authority

Schedule of Findings

Year ended June 30, 2010

how the accounting is done with the program. IADA will review this and determine the feasibility and need for such a procedure.

Conclusion – Response accepted.

- (C) Signing of Checks in Advance - One check was observed to be signed in advance.

Recommendation - To strengthen internal control, each check should be prepared by one employee and then the supporting documentation should be made available along with the check to the authorized check signer for review and signature after review.

Response – The recommendation is the procedure we try to follow at IADA. We will make sure this does not happen again.

Conclusion – Response accepted.

- (D) Capital Assets – Chapter 7A.30 of the Code of Iowa requires each department of the state to maintain a written, detailed and up-to-date inventory of property under its charge and control. The Authority does not have written procedures for capitalizing assets or for properly accounting for additions and deletions.

Recommendation – The Authority should develop written procedures to ensure a detailed, up-to-date capital asset listing is maintained. Procedures should include, but not be limited to, ensuring capital asset additions are included in the capital asset listing when acquired, deletions are promptly reported and removed from the capital asset listing and all assets are properly accounted for and included on the capital asset listing.

Response – The IADA will evaluate the feasibility of formulating a capital asset policy. Due to the size of the agency, capital purchases are limited and this comment represents very little risk to the IADA.

Conclusion – Response accepted.

- (E) Financial Reporting – During the audit, we identified a misstatement of loans receivable in the Authority's financial statements. An adjustment was subsequently made by the Authority to properly correct these amounts in the financial statements.

Recommendation – The Authority should implement procedures to ensure loans receivable are properly accounted for and included in the Authority's financial statements.

Response – This was an input error by the previous accounting technician. The original entries done in fiscal year 2009 were correct. During fiscal year 2010 a change was made to the previous year when a payment was received on the loan. This again is the first time this has happened. IADA will weigh the cost/benefit of implementing the recommendation.

Conclusion – Response accepted.

Iowa Agricultural Development Authority

Schedule of Findings

Year ended June 30, 2010

- (F) Journal Entries – All journal entries, including error corrections, should be reviewed and approved by an independent person. The journal entries should be supported by adequate documentation, including descriptions.

Recommendation – The Authority should implement policies and procedures to ensure all journal entries, including error corrections, are reviewed and approved by an independent person. In addition, all journal entries should be adequately supported, including complete descriptions and documentation.

Response – This procedure is already in place and has been conveyed to the new accounting technician.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Iowa Agricultural Development Authority

Schedule of Findings

Year ended June 30, 2010

Other Findings Related to Required Statutory Reporting:

- (1) Travel Expense – During the year ended June 30, 2010, the Authority paid \$110 for a guest registration fee for a Board Member’s spouse while attending the National Association of Rural Rehabilitation Corporations annual meeting. This expense 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.

According to the opinion, it is possible for such expenses to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – The Authority should determine and document the public purpose served by this expense before authorizing any further payments. If this practice is continued, the Authority should establish a written policy, including the requirement for proper documentation of public purpose.

Response – The registration fee was paid by IADA at the time of the advance registration to the conference, with the understanding it would be reimbursed after the trip. This is apparently an oversight following the conference.

Conclusion – Response acknowledged. The Authority should ensure the reimbursement is received.

- (2) Travel Procurement Card – The Iowa Department of Administrative Services – State Accounting Enterprise (DAS-SAE) issues travel purchasing cards to department heads and employees designated by the Department for use when traveling. The rules governing the use of these cards are outlined in DAS-SAE procedure 210.101. The following transactions were noted to be unallowable:

- In two instances, hotel and airfare were purchased for an employee other than the card holder.
- In one instance, parking was charged to the purchasing card.
- A late charge of \$7 was paid for one card.

Recommendation – The Authority should provide adequate training to employees to ensure cardholders are aware of allowable expenses and payments should be made timely to avoid late charges.

Response – The cards were used per the instructions/procedures we were given at the time. Apparently these procedures were either conveyed to IADA incorrectly or they were changed later and we were not informed of the changes. We have now procured individual P-cards for all employees who travel out of state, which should alleviate the problem. The Commerce Bank late fee was for the IADA P-card.

Iowa Agricultural Development Authority

Schedule of Findings

Year ended June 30, 2010

There was a timing issue from when the charge was incurred and billed to the P-card and when the trip was completed and documentation was provided to the accounting technician. Therefore, payment on the P-card bill was delayed until the proper documentation was provided.

Conclusion – Response accepted.

- (3) Board Member Attendance – Chapter 69.15 of the Code of Iowa states a person appointed to a board is deemed to have submitted a resignation from the position if they do not attend three or more consecutive meetings or if they attend less than one-half of the regular meetings within twelve calendar months beginning on July 1. One Board Member did not comply with the attendance requirements of Chapter 69.15 of the Code of Iowa.

Recommendation – The Authority should take the necessary steps to comply with Chapter 69.15 of the Code of Iowa.

Response – Management is currently working with the Governor’s Office to resolve this problem. The Board Member in question will offer her official resignation following the October board meeting.

Conclusion – Response accepted.

- (4) Mandatory Furlough Days – As part of the across-the-board cuts mandated by the Governor, all State Departments within the Executive Branch were ordered to take mandatory furlough days as a cost savings measure by June 30, 2010. The number of days required to be furloughed depended on negotiations with local unions. Union employees were required to take five furlough days and non-union employees were required to take seven furlough days. One union employee did not take the required five furlough days and one non-union employee did not take the required seven furlough days.

Recommendation – The Authority should consult legal counsel to determine the disposition of furlough days not taken.

Response – Legal counsel has been contacted about the issue. In the case of the union employee, this was an input error in the HRIS system. She actually claimed and took all the furlough days but made an input error to utilize some unused comp time prior to year end.

In the case of the non-union employee, in mid-May the Executive Director was on the schedule to complete all seven days. However, at that time the Executive Director became aware the accounting technician was retiring effective June 24, 2010. In addition, the program planner was moving to Iowa City due to relocation of her husband. At that point, it became more important to deal with these issues. Given IADA has only four employees, losing 50% of the staff would have been devastating to the ability to carry out programs. By not taking the furlough days, the Executive Director was able to successfully fill the accounting technician position prior to the SERIP employee leaving, allowing for training time. In addition, the Executive Director was able to figure out a way the program planner was able to work from

Iowa Agricultural Development Authority

Schedule of Findings

Year ended June 30, 2010

home in Iowa City. This saved the time and expense of an employee search as well as time and money in training a new person.

In addition, The IADA is a non-General Fund authority. Therefore any savings realized by the furlough days would not be reflected in the state budget.

The IADA has requested the advice of legal counsel with an opinion forthcoming.

Conclusion – Response accepted.

Iowa Agricultural Development Authority

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Donald J. Lewis, CPA, Staff Auditor
Tiffany M. Ainger, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, looped initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State