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

Contact: Andy Nielsen
515/281-5834

FOR RELEASE November 2, 2011

Auditor of State David A. Vaudt today released an audit report on the Iowa Agricultural Development Authority for the year ended June 30, 2011.

The Iowa Agricultural Development Authority reported total revenues of $569,839 for fiscal year 2011, an increase of 16.7% over the prior year. Revenues included $265,393 from beginning farmer loan program fees, $147,987 from interest income on loans, $41,800 from tax credit program fees and $22,734 from interest income on cash and investments. Expenses of the Iowa Agricultural Development Authority for fiscal year 2011 totaled $562,048, a 2.0% decrease from the prior year. The Authority reported an increase in net assets of $7,791.

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/1260-0014-B000.pdf.

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IOWA AGRICULTURAL DEVELOPMENT AUTHORITY

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

JUNE 30, 2011

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Iowa Agricultural Development Authority

Officials

Name	Title

State

Governor

Honorable Chester J. Culver (Ended during January 2011)	Honorable Terry E. Branstad (Began during January 2011)

Director, Department of Management

Richard C. Oshlo, Jr. (Ended during January 2011)	David Roederer (Began during January 2011)

Director, Legislative Services Agency

Glen P. Dickinson

Board Members

Fred C. Lundt	Chair
Jayme J. Ungs	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 Terry E. Branstad	Member Ex-Officio
Honorable Michael L. Fitzgerald	Member Ex-Officio
Jeff Ward	Executive Director

Iowa Agricultural Development Authority

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David A. Vaudt, CPA
Auditor of State

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, 2011, 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, 2011, 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, 2011, 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 10, 2011 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 10, 2011

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, 2011. We encourage readers to consider this information in conjunction with the Authority's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- Total revenues of the Authority increased 16.7%, or approximately $81,000, from fiscal year 2010 to fiscal year 2011. The increase was due primarily to a decrease in the estimate of allowance for loan losses of approximately $60,000. The decrease in the estimate of allowance for loan losses was deemed appropriate as there have been minimal past due payments and no loan losses since the Loan Participation Program's inception in 1997.

- The dollar volume of bonds issued under the Beginning Farmer Loan Program (BFLP) increased when compared to fiscal year 2010. The Authority continues to lead the nation in both the 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 2011 was similar to fiscal year 2010. 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 950 applications received to date. This program had a positive effect on revenues as the Authority able to implement and operate the program with existing staff.

- Expenses of the Authority decreased 2.0%, or approximately $12,000, in fiscal year 2011 from fiscal year 2010. Approximately $11,000 of the decrease is related to employee compensation within the Administrative/BFLP 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 prior 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 maintained 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% 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 which can be used to satisfy those liabilities.

Net Assets

	June 30, 2011	June 30, 2010
Current and other assets	$ 6,082,600	$ 6,126,682
Capital assets, net of accumulated depreciation	15,710	10,781
Total assets	6,098,310	6,137,463
Current liabilities	51,634	83,699
Noncurrent liabilities	56,843	71,722
Total liabilities	108,477	155,421
Net assets:		
Invested in capital assets, net of related debt	15,710	10,781
Restricted	5,312,964	5,298,808
Unrestricted	661,159	672,453
Total net assets	$ 5,989,833	$ 5,982,042

Total net assets as of year-end were $5,989,833, an increase of $7,791 over the previous year end. This increase is due primarily to a concentrated focus on reducing operating expenses.

The RRTF represents 88.7% of the Authority's net assets. Approximately 48.7% 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 increased $14,156 in fiscal year 2011.

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 decreased over the previous year due to the timing of payments for the fiscal year 2010 Iowa Agricultural Youth Institute and a decrease in the liability associated with 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, 2011	Year ended June 30, 2010
Operating revenues:		
Interest on loans	$ 147,987	$ 147,577
Program fees	307,793	280,604
Iowa Agricultural Youth Institute contributions	31,325	30,625
Decrease in the estimate of allowance for loan losses	60,000	-
Total operating revenues	547,105	458,806
Operating expenses:		
General and administrative	416,453	433,539
BFLP direct expenses	88,788	80,564
LPP direct expenses	471	453
Iowa Agricultural Youth Institute	34,357	38,176
Grants to agricultural development and education programs	21,979	21,059
Total operating expenses	562,048	573,791
Operating loss	(14,943)	(114,985)
Non-operating revenues:		
Interest on investments	22,734	29,647
Change in net assets	7,791	(85,338)
Net assets beginning of year	5,982,042	6,067,380
Net assets end of year	$ 5,989,833	$ 5,982,042

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 over fiscal year 2010, from $280,604 to $307,793.

Interest income from loans remained relatively consistent compared to the previous year. Year end net loans outstanding decreased approximately $274,000 from the previous year end. The decrease in outstanding loans is due to no new loans being issued during fiscal year 2011. The decrease in loan activity is due primarily to the 5% fixed interest rate on loans the Authority issues. Borrowers are able to find more competitive interest rates by utilizing other programs.

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 a decrease in expenses of 2.0% in fiscal year 2011. Most of this decrease was due to a decrease in employee salaries and compensation. During fiscal year 2010, the Authority reported an expense and liability related to the State Employee Retirement Incentive Program (SERIP) which accounted for the majority of the decrease in expenses. The Authority is continually exploring ways to reduce expenses.

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.

Cash Flows

	Year ended June 30, 2011	2010
Cash provided (used) by:		
Operating activities	$ 228,601	$ (162,890)
Capital and related financing activities	(11,753)	(4,626)
Investing activities	9,260	21,811
Net increase (decrease) in cash	226,108	(145,705)
Cash and cash equivalents beginning of year	2,370,356	2,516,061
Cash and cash equivalents end of year	2,596,464	2,370,356
Investments	692,951	689,242
Cash and investments end of year	$ 3,289,415	$ 3,059,598

Cash provided 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, 2011, the Authority originated no new loans but received $333,425 in loan payments. The result was a net increase in cash.

ACTUAL VERSUS BUDGET

Revenues were above budget projections for the year by $78,439 due to an increase in anticipated interest income on loans, BFLP loan closing fees and tax credit program fees of $59,780. The Authority also had an increase in revenue due to the decrease in the estimate of allowance for loan losses of $60,000 which was not budgeted for. Revenues were below budget projections for interest income on investments by $35,766.

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 2012 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 $47,485 due, in part, to the unexpected major illness of one employee which required the use of two temporary employees to accomplish the work.

Additionally, legal fees exceeded the budgeted amount by $21,755. 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 program fees.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Farmland values have remained strong. 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 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. For 2011, the maximum loan amount is $477,000. 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. For 2011, the maximum net worth is $577,000. This has increased the eligible pool of applicants for the program.

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 2012 will remain similar to 2011. 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 continuing to increase, which creates a challenge for beginning farmers. However, commodity prices are at record highs.

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, 2011

Assets	
Current assets:	
Cash and investments	$ 746,821
Loans receivable, net	277,601
Accrued interest receivable	58,324
Total current assets	1,082,746
Noncurrent assets:	
Restricted cash	2,542,594
Loans receivable, net	2,457,260
Capital assets, net of accumulated depreciation	15,710
Total noncurrent assets	5,015,564
Total assets	6,098,310
Liabilities	
Current liabilities:	
Accounts payable	40,468
Compensated absences	11,166
Total current liabilities	51,634
Noncurrent liabilities:	
Accounts payable	31,604
Compensated absences	25,239
Total noncurrent liabilities	56,843
Total liabilities	108,477
Net Assets	
Invested in capital assets	15,710
Restricted net assets	5,312,964
Unrestricted net assets	661,159
Total net assets	$ 5,989,833

See notes to financial statements.

Iowa Agricultural Development Authority

Statement of Revenues, Expenses and Changes in Fund Net Assets

Year ended June 30, 2011

Operating revenues:	
Interest income on loans	$ 147,987
Beginning Farmer Loan Program (BFLP) fees	265,393
Loan Participation Program (LPP) fees	600
Tax Credit Program fees	41,800
Iowa Agricultural Youth Institute sponsor contributions	22,600
Iowa Agricultural Youth Institute registration contributions	8,725
Decrease in the estimate of allowance for loan losses	60,000
Total operating revenues	547,105
Operating expenses:	
General and administrative	416,453
BFLP direct expenses	88,788
LPP direct expenses	471
Iowa Agricultural Youth Institute	34,357
Grants to agricultural development and education programs	21,979
Total operating expenses	562,048
Operating loss	(14,943)
Non-operating revenues:	
Interest income on cash and investments	22,734
Change in net assets	7,791
Net assets beginning of year	5,982,042
Net assets end of year	$ 5,989,833

See notes to financial statements.

Iowa Agricultural Development Authority

Statement of Cash Flows

Year ended June 30, 2011

Cash flows from operating activities:		
Repayments on loans	$ 333,896	
Interest income on loans	157,755	
Fees and contributions	339,118	
Grants to agricultural development and educational programs	(21,979)	
Cash paid to suppliers	(248,539)	
Cash paid to employees	(331,650)	
Net cash provided by operating activities		$ 228,601
Cash flows from capital and related financing activities:		
Acquisition of furniture and equipment		(11,753)
Cash flows from investing activities:		
Interest on cash and investments		9,260
Net increase in cash and cash equivalents		226,108
Cash and cash equivalents beginning of year		2,370,356
Cash and cash equivalents end of year		2,596,464
Investments		692,951
Cash and investments end of year		$ 3,289,415
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss		$ (14,943)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	$ 6,824	
Provision for doubtful accounts	(60,000)	
Changes in assets and liabilities:		
Decrease in accounts payable	(48,779)	
Increase in investment in loans, net	333,896	
Decrease in accrued interest receivable on loans	9,768	
Increase in compensated absences	1,835	
Total adjustments		243,544
Net cash provided by operating activities		$ 228,601

See notes to financial statements.

(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 Loan Participation Program. The Authority transferred $2,000,000 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% of the purchase price.

In fiscal year 2007, the Authority began administering 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, 2011 include certificates of deposit of $692,951.

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 the 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, 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 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, 2011 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Furniture and equipment	$ 57,982	11,753	-	69,735
Less accumulated depreciation	(47,201)	(6,824)	-	(54,025)
Total capital assets, net	$ 10,781	4,929	-	15,710

(4) Lease Agreements

The Authority has entered into non-cancelable, operating leases for office space and certain office equipment. The following is a schedule of the future minimum lease payments under the agreements in effect at June 30, 2011.

Year Ending June 30,	Office Space	Office Equipment
2012	$ 9,976	1,361
2013	19,953	1,361
2014	19,953	1,361
2015	19,953	1,361
2016	19,952	680
2017	9,976	-
Total minimum lease payments	$ 99,763	6,124

Rent expense for office space and office equipment for the year ended June 30, 2011 totaled $9,976 and $1,262, respectively. On July 16, 2010, the Authority entered into an extension to the current office space 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, 2011:

Loans receivable	$ 2,764,861
Less allowance for loan losses	(30,000)
Net loans receivable	2,734,861
Less current portion	277,601
Noncurrent loans receivable	$ 2,457,260

(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 4.50% of their annual covered salary and the Authority is required to contribute 6.95% of covered payroll. Contribution requirements are established by state statute. The Authority's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were $16,322, $14,927 and $13,617, 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 which 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 leave 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, 2011, one employee received benefits totaling $951 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 Authority 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 $14,125 at June 30, 2011 and the liability for the unused vacation leave and years of service incentive payments is $31,091 at June 30, 2011.

For the year ended June 30, 2011, one Authority employee received health insurance benefits totaling $5,465 and unused vacation leave and years of service incentive payments totaling $7,772 under SERIP.

(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, 2011, the Authority transferred $178,904 to its Administration Fund for costs of administration. The calculated percentage was 3.37% for the year ended June 30, 2011. The Authority will reimburse the Trust Fund for the overspent amount from non-general, non-trust funds. At June 30, 2011, net assets related to the Iowa Rural Rehabilitation Corporation Program were $5,312,964.

(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).

Iowa Agricultural Development Authority

Supplementary Information

Iowa Agricultural Development Authority

Budgetary Comparison Schedule of Revenues and Expenses - Budget to Actual

Year ended June 30, 2011

		Original/ Final Budget	Actual Amounts Budgetary Basis	Variance Between Actual and Final Budget
Revenues:				
Interest income on loans	$	135,000	147,987	12,987
Interest income on investments		58,500	22,734	(35,766)
Beginning Farmer Loan Program (BFLP) fees		230,000	265,393	35,393
Loan Participation Program (LPP) fees		7,000	600	(6,400)
Tax Credit Program fees		30,400	41,800	11,400
Iowa Agricultural Youth Institute sponsor donations		25,000	22,600	(2,400)
Iowa Agricultural Youth Institute registration fees		5,500	8,725	3,225
Decrease in the estimate of allowance for loan losses		-	60,000	60,000
Total revenues	$	491,400	569,839	78,439
Expenses:				
Employee compensation	$	286,000	333,485	(47,485)
Travel		11,000	8,268	2,732
Supplies and other		4,000	7,355	(3,355)
Postage		4,300	2,572	1,728
Printing		2,000	722	1,278
Telephone		3,000	3,285	(285)
Board expenses		10,000	8,612	1,388
Professional services		11,200	17,583	(6,383)
Office and computer equipment		13,500	8,825	4,675
Rent		9,974	12,166	(2,192)
Administrative services		3,500	3,898	(398)
Advertising and promotions		6,000	3,952	2,048
Legal fees		65,000	86,755	(21,755)
Public notices		1,400	1,410	(10)
Staff education and training		1,000	-	1,000
Iowa Agricultural Youth Institute		30,000	34,357	(4,357)
Grants to agricultural development and education programs		19,390	21,979	(2,589)
Depreciation		-	6,824	(6,824)
Total expenses	$	481,264	562,048	(80,784)

The Authority did not budget for depreciation or the decrease in the estimate of allowance for loan losses.

See accompanying independent auditor's report.

Iowa Agricultural Development Authority

Balance Sheet by Program Fund

June 30, 2011

		Administrative/ BFLP Fund
Assets		
Current assets:		
Cash and investments	$	746,821
Loans receivable, net		-
Interest receivable		13,762
Total current assets		760,583
Noncurrent assets:		
Restricted cash and cash equivalents		-
Loans receivable, net		-
Furniture and equipment, net of accumulated depreciation		15,710
Total noncurrent assets		15,710
Total assets	$	776,293
Liabilities		
Current liabilities:		
Accounts payable	$	31,415
Compensated absences		11,166
Total current liabilities		42,581
Noncurrent liabilities:		
Accounts payable		31,604
Compensated absences		25,239
Total noncurrent liabilities		56,843
Total liabilities		99,424
Net Assets		
Invested in capital assets		15,710
Restricted net assets		-
Unrestricted net assets		661,159
Total net assets		676,869
Total liabilities and net assets	$	776,293

See accompanying independent auditor's report.

Iowa Rural Rehabilitation Fund			
Trust	Loan Participation Program	Total	Grand Total
-	-	-	746,821
-	277,601	277,601	277,601
1,139	43,423	44,562	58,324
1,139	321,024	322,163	1,082,746
1,066,275	1,476,319	2,542,594	2,542,594
-	2,457,260	2,457,260	2,457,260
-	-	-	15,710
1,066,275	3,933,579	4,999,854	5,015,564
1,067,414	4,254,603	5,322,017	6,098,310
9,053	-	9,053	40,468
-	-	-	11,166
9,053	-	9,053	51,634
-	-	-	31,604
-	-	-	25,239
-	-	-	56,843
9,053	-	9,053	108,477
-	-	-	15,710
1,058,361	4,254,603	5,312,964	5,312,964
-	-	-	661,159
1,058,361	4,254,603	5,312,964	5,989,833
1,067,414	4,254,603	5,322,017	6,098,310

Iowa Agricultural Development Authority

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

Year ended June 30, 2011

	Administrative/ BFLP Fund
Operating revenues:	
Interest income on loans	$ -
Beginning Farmer Loan Program (BFLP) fees	265,393
Loan Participation Program (LPP) fees	-
Tax Credit Program fees	41,800
Iowa Agricultural Youth Institute sponsor contributions	-
Iowa Agricultural Youth Institute registration contributions	-
Decrease in estimate of allowance for loan losses	-
Total operating revenues	307,193
Operating expenses:	
General and administrative	416,453
BFLP direct expenses	88,788
LPP direct expenses	-
Iowa Agricultural Youth Institute	-
Grants to agricultural development and education programs	-
Total operating expenses	505,241
Operating income (loss)	(198,048)
Nonoperating revenues:	
Interest income on cash and investments	12,779
Change in net assets before transfers	(185,269)
Transfers in	178,904
Transfers out	-
Total transfers	178,904
Change in net assets	(6,365)
Net assets beginning of year	683,234
Net assets end of year	$ 676,869

See accompanying independent auditor's report.

Iowa Rural Rehabilitation Fund			
Trust	Loan Participation Program	Total	Grand Total
-	147,987	147,987	147,987
-	-	-	265,393
-	600	600	600
-	-	-	41,800
22,600	-	22,600	22,600
8,725	-	8,725	8,725
-	60,000	60,000	60,000
31,325	208,587	239,912	547,105
-	-	-	416,453
-	-	-	88,788
-	471	471	471
34,357	-	34,357	34,357
21,979	-	21,979	21,979
56,336	471	56,807	562,048
(25,011)	208,116	183,105	(14,943)
8,343	1,612	9,955	22,734
(16,668)	209,728	193,060	7,791
-	-	-	178,904
(178,904)	-	(178,904)	(178,904)
(178,904)	-	(178,904)	-
(195,572)	209,728	14,156	7,791
1,253,933	4,044,875	5,298,808	5,982,042
1,058,361	4,254,603	5,312,964	5,989,833

Iowa Agricultural Development Authority

Schedule of Operating Expenses by Program Fund

Year ended June 30, 2011

	General and Administrative	Beginning Farmer Loan Program
Employee compensation	$ 333,485	-
Travel	8,268	-
Supplies and other	6,884	-
Postage	2,572	-
Printing	722	-
Telephone	3,285	-
Board expenses	8,612	-
Professional services	17,583	-
Office and computer equipment	8,825	-
Rent	12,166	-
Administrative services	3,275	623
Advertising and promotions	3,952	-
Legal fees	-	86,755
Public notices	-	1,410
Iowa Agricultural Youth Institute	-	-
Grants to agricultural development and education programs	-	-
Depreciation	6,824	-
Total	$ 416,453	88,788

See accompanying independent auditor's report.

Iowa Rural Rehabilitation Fund			
Trust	Loan Participation Program	Total	Grand Total
-	-	-	333,485
-	-	-	8,268
-	471	471	7,355
-	-	-	2,572
-	-	-	722
-	-	-	3,285
-	-	-	8,612
-	-	-	17,583
-	-	-	8,825
-	-	-	12,166
-	-	-	3,898
-	-	-	3,952
-	-	-	86,755
-	-	-	1,410
34,357	-	34,357	34,357
21,979	-	21,979	21,979
-	-	-	6,824
56,336	471	56,807	562,048

Iowa Agricultural Development Authority

OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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

David A. Vaudt, CPA
Auditor of State

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, 2011, 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 10, 2011. 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 a 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 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 deficiency described in the accompanying Schedule of Findings as item (A) to be a material weakness.

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, 2011 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 10, 2011

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCY:

(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. 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.

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 – Segregation of duties during the fiscal year was complicated due to the relocation of one employee. Thus, three employees were required to do what four did under our segregation of duties plan. By October 2011, the Authority should be back to full staff and thus can further segregate these duties.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

(1) Questionable Expenditures – Certain expenses we believe 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 were noted. These expenditures are detailed as follows:

Paid to	Purpose	Amount
Domino's Pizza	Going away lunch	$ 22
Flower Garden	Flower arrangement for gift	69
HyVee.com	Flower arrangement for gift	31

According to the opinion, it is possible for certain expenditures 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.

In addition, the purchases from Flower Garden and HyVee.com are not for an allowable business related purpose as required for purchases with a procurement card.

Recommendation – The Board should determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the Authority should establish written policies and procedures, including requirements for proper documentation.

All procurement card purchases should be for allowable business related purposes.

Response – Authority management deemed the Domino's, Flower Garden and Hy-Vee flowers were legitimate business expenses and they were included within the fiscal year budget. Management will re-evaluate this position and minimize this in the future.

Management will continue to only use procurement cards for the purchase of business related items.

Conclusion – Response acknowledged. The Authority should continue to scrutinize expenses to ensure they meet the test of public purpose. For expenses that could be construed as not meeting the test of public purpose, management should document the public purpose of the expense.

(2) 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 – This issue was addressed in last year's audit. In January management spoke with the Governor's Office and management was directed to speak with the board member about attendance, which was done. Management will speak to the Governor's Office again as to how to proceed with this matter.

Conclusion – Response accepted.

(3) Iowa Rural Rehabilitation Trust - The United States Department of Agriculture Use Agreement, section IV (A), allows costs of administrating the Rural Rehabilitation Trust Fund (RRTF) which are reasonably necessary to be paid out of the trust, up to three percent of the book value of the fund in any fiscal year, to be paid without the prior written approval of the U.S. Government. The Authority transfers funds from the Rural Rehabilitation Trust Fund to the Administrative Fund to defray the costs.

During the year ended June 30, 2011, the Authority transferred $19,515 more than three percent of the book value of the RRTF to the Administrative Fund and did not obtain prior approval.

Recommendation – The Authority should track administrative expenses related to the Rural Rehabilitation Trust Fund and ensure the amount transferred to the Administrative Fund does not exceed three percent.

Response – This was simply an accounting error as one transfer was done from the RRTF rather than the general administrative fund. The Authority will reimburse the RRTF the funds in question from the general administrative fund.

A procedure is now in place to track administrative expenses from the RRTF. Management will begin reviewing this report each time a transfer for administrative expenses is made.

Conclusion – Response accepted.

Iowa Agricultural Development Authority

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Donald J. Lewis, CPA, Senior Auditor
Ann C. McMinimee, Assistant Auditor
Brandon J. Vogel, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State