

TRI-COUNTY ECONOMIC
DEVELOPMENT CORPORATION
(A NONPROFIT CORPORATION)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2007

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Tri-County Economic Development Corporation

We have audited the accompanying statement of financial position of Tri-County Economic Development Corporation (a nonprofit corporation) as of June 30, 2007, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Tri-County Economic Development Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tri-County Economic Development Corporation (a nonprofit corporation) as of June 30, 2007, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our reports dated April 29, 2008, on our consideration of Tri-County Economic Development Corporation's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, grants, 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Tri-County Economic Development Corporation, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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.



HARRISON-DAILEY-WRIGHT
Accountancy Corporation

April 29, 2008

HARRISON-
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CERTIFIED PUBLIC
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TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION
(A Nonprofit Corporation)

FINANCIAL STATEMENTS
June 30, 2007

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TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION
(A Nonprofit Corporation)

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Support, Gains, Losses and Other Reclassifications:				
Federal grants:				
Planning	\$ 67,000			\$ 67,000
Sub-Recipient	539,712			539,712
Local grants	60,651			60,651
Interest Income:				
Loan Programs:				
Loans	161,074			161,074
Bank	55,638			55,638
Late and prepayment fees	390			390
Fee for services, loan fees:				
Loan program	23,476			23,476
Fee for service	99,694			99,694
Contributions	25,000			25,000
Other	333			333
	1,032,968	-	-	1,032,968
 Expenses:				
Program services	883,248			883,248
Management and general	118,279			118,279
	1,001,527	-	-	1,001,527
 Changes in Net Assets	31,441			31,441
 Net Assets, Beginning of Year	214,858		\$ 2,075,446	2,290,304
Net Assets, End of Year	\$ 246,299	\$ -	\$ 2,075,446	\$ 2,321,745

The accompanying notes are an integral part of this statement.

TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION
(A Nonprofit Corporation)

STATEMENT OF FINANCIAL POSITION
June 30, 2007

ASSETS

Current Assets:

Cash (Note 3)	\$ 62,380
Accounts receivable (Note 2)	33,459
Deposits and prepaid expenses	<u>10,294</u>

Total Current Assets \$ 106,133

Restricted Assets - Revolving Loan

Programs (Note 4):

Cash (Note 3)	1,684,649
Loans receivable (Note 2)	2,993,516
Accrued interest receivable	<u>5,731</u>

Total Restricted Assets - Revolving
Loan Programs 4,683,896

Fixed Assets:

Equipment	110,347
Leasehold improvements	1,279
Accumulated depreciation	<u>(84,797)</u>

Total Fixed Assets 26,829

Other Asset - North Valley Community Foundation

10,000

TOTAL ASSETS

\$ 4,826,858

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 79,692
Accrued payroll liabilities	35,036
Notes payable (Note 6)	23,985
Credit line (Note 7)	<u>10,032</u>

Total Current Liabilities \$ 148,745

Other Liabilities:

Deposits in trust (Note 5)	863,102
Notes payable (Note 6)	<u>1,493,266</u>

Total Other Liabilities 2,356,368

Total Liabilities 2,505,113

Net Assets:

Unrestricted	246,299
Permanently restricted	<u>2,075,446</u>

Total Net Assets 2,321,745

TOTAL LIABILITIES AND NET ASSETS

\$ 4,826,858

The accompanying notes are an integral part of this statement.

TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION
(A Nonprofit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2007

Program Services

	Activity Delivery	Application Preparation	Business Technical Assistance	Collections	Loan	Loan Packaging
Salaries	\$ 57,583	\$ 5,857	\$ 26,696	\$ 10,287	\$ 110,719	\$ 2,330
Payroll taxes	4,081	411	1,613	777	8,217	156
Medical insurance	4,131	610	2,210	727	12,183	59
Workers' compensation	537	50	203	87	248	24
Total Salary Cost	66,332	6,928	30,722	11,878	131,367	2,569
Contract labor	92,273	2,223	316,644	151	10,679	16
Depreciation	2,829	328	1,299	498	2,364	185
Dues/Subscriptions	1,457	110	572	184	1,377	15
Equipment lease	2,252	237	1,024	524	6,822	151
Insurance	1,564	186	704	289	4,849	68
Interest	116		709	50	24,280	
Legal/Accounting	2,447	137	1,140	252	11,100	
Licenses/Permits/Fees	452	26	215	177	736	
Loan costs	3,987	6		10	2,707	389
Miscellaneous	50	16	(2)	(4)	919	44
Office supplies	1,741	174	1,394	325	2,605	449
Postage	432	71	99	81	1,289	29
Promotion/Publicity	3,860		711	55	5,696	118
Rent	6,818	806	3,198	1,227	7,184	5
Repairs/Maintenance	2,343	224	1,040	498	4,462	454
Seminars/Development	965	133	258	254	1,377	183
Telephone	1,381	147	650	258	1,218	8
Training/Development					1,403	103
Travel	785	53	132	189	3,737	58
Utilities	1,030	137	477	61	869	73
Total	\$ 193,114	\$ 11,942	\$ 360,986	\$ 16,957	\$ 227,040	\$ 4,917

TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION
(A Nonprofit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2007

	Program Services			Management and General	Total
	Planning	Total			
Salaries	\$ 37,473	\$ 250,945	\$ 62,133	\$ 313,078	
Payroll taxes	2,234	17,489	3,912	21,401	
Medical insurance	2,423	22,343	3,909	26,252	
Workers' compensation	(50)	1,099	262	1,361	
Total Salary Cost	42,080	291,876	70,216	362,092	
Contract labor	4,476	426,462	8,039	434,501	
Depreciation	2,225	9,728	3,350	13,078	
Dues/Subscriptions	1,409	5,124	1,895	7,019	
Equipment lease	2,295	13,305	3,325	16,630	
Insurance	2,222	9,882	2,987	12,869	
Interest	177	25,332	968	26,300	
Legal/Accounting	1,598	17,063	3,127	20,190	
Licenses/Permits/Fees	444	2,094	1,462	3,556	
Loan costs		7,159	299	7,458	
Miscellaneous	(22)	986	345	1,331	
Office supplies	1,135	7,492	2,255	9,747	
Postage	410	2,387	565	2,952	
Promotion/Publicity	162	10,484	1,188	11,672	
Rent	4,859	24,546	8,653	33,199	
Repairs/Maintenance	2,581	11,331	4,164	15,495	
Seminars/Development	490	3,485	1,054	4,539	
Telephone	922	4,679	1,506	6,185	
Training/Development		1,403	199	1,602	
Travel	171	5,125	1,591	6,716	
Utilities	658	3,305	1,091	4,396	
Total	\$ 68,292	\$ 883,248	\$ 118,279	\$ 1,001,527	

TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION
(A Nonprofit Corporation)

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007

Cash Flows from Operating Activities:		
Change in net assets	\$ 31,441	
Noncash expense - depreciation	13,078	
Decrease in accounts receivable	37,620	
Decrease in deposits and prepaid expenses	13,123	
Increase in payables and refundable advances	50,441	
Net Cash Provided by Operating Activities		\$ 145,703
Cash Flows from Investing Activities:		
Increase in restricted assets	(454,373)	
Purchase of fixed assets	(19,312)	
North Valley Community Foundation investment	(10,000)	
Net Cash Used by Investing Activities		(483,685)
Cash Flows from Financing Activities:		
Decrease in deposits in trust	(61,062)	
Increase in notes payable	477,866	
Decrease in credit line	(24,968)	
Net Cash Used by Financing Activities		391,836
Net Increase in Cash		53,854
Cash at June 30, 2006		8,526
Cash at June 30, 2007		\$ 62,380
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest		\$ 23,371

The accompanying notes are an integral part of this statement.

TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION
(A Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 - ORGANIZATIONAL INFORMATION

The Corporation was organized and established in 1985 as a private nonprofit organization serving the three county region of Butte, Glenn and Tehama. The Corporation's primary goal is to foster stable and diversified local economies, improve local conditions to alleviate substantial unemployment and underemployment, and to provide financial assistance loans to local businesses.

Services related to economic development are primarily funded through various federal grants. The Corporation was designated as an economic development district by the Economic Development Administration under the provisions of the Public Works and Economic Development Act of 1965. Funds provided are to be used to foster economic planning and coordination services.

The Corporation also has established a revolving loan program in which funds are made available to local businesses. The funds for the program are derived from a U.S. Department of Commerce Economic Development Administration Grant, U.S. Department of Housing and Urban Development Community Development Block Grants, various local grant funds, local matching funds, refundable loans and reinvestment of interest and loan packaging fees. The funds available for these programs are identified on the statement of financial position as Restricted Assets-Revolving Loan Programs.

The Corporation also provides contract services, primarily to local government units, related to obtaining and administering grant projects.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

B. Financial Statement Presentation

During the period beginning July 1, 1996, the Corporation adopted Statement of Financial Accounting Standards Board (SFAS) No. 117, Financial Statements for Not-For-Profit Organizations. Under SFAS No. 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

At June 30, 2007 the permanently restricted net assets consist of loan program revenues received from multiple federal and local governmental units, which are required to be used for capitalization of the revolving loan programs.

C. Income Tax

The Corporation, a voluntary health and welfare organization, is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

D. Expense Allocation

The Corporation has adopted a cost allocation policy which has been approved by the U.S. Department of Commerce Economic Development Administration. The policy provides for direct expenses to be charged to programs for which they relate. Indirect expenses are identified and allocated to each program and general administration based upon contemporaneous time studies.

TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION
(A Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Accounts Receivable

The Corporation utilized the allowance method with respect to its accounts receivable. The allowance represents an estimated amount of accounts receivable deemed to be uncollectible. Because of the character of accounts receivable at June 30, 2007, no allowance was deemed necessary.

F. Loans Receivable

The Corporation operates a revolving loan program in connection with governmental grants and advances received, the purpose of which is to provide financing to qualified small businesses. The loans are evidenced by various secured promissory notes, bearing interest and with varying due dates. The notes currently bear interest at rates between 5 to 11.5%.

G. Fixed Assets

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method over the estimated useful life of the asset.

H. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 - CASH

At June 30, 2007, the Corporation maintained multiple cash accounts at Butte Community Bank which exceeded FDIC insurance coverage by \$1,366,118 and Wells Fargo Bank which exceeded FDIC insurance coverage by \$175,000. Additionally, various grant agreements require that the grant funds be maintained in separate bank accounts. The Corporation has complied with all such requirements.

NOTE 4 - RESTRICTED ASSETS

Restrictions on uses of assets are made on certain funds received from federal and local governmental units. Restricted assets identified by the RLF designation represent funds received for use in connection with the revolving loan program and are specifically available only for use in providing loans.

NOTE 5 - DEPOSITS IN TRUST

The Corporation has received funds from various government agencies to be used in the revolving loan programs. The Corporation earns a management fee related to administration of the funds, however, the fund advances, plus certain excess earnings, are refundable to the government agencies.

NOTE 6 - NOTES PAYABLE

IRP Promissory Note

The Corporation has entered into a lending agreement with the United States Department of Agriculture to provide up to \$500,000 in loan funds. Loan proceeds are restricted and may be used only for the purpose of making loans to businesses meeting certain eligibility requirements. Interest only payments of one percent are

TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION
(A Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 6 – NOTES PAYABLE (Continued)

due on December 20, 1997, 1998 and 1999, and thereafter payments of \$21,225, including one percent interest, are due on December 20 of each year beginning in the year 2000. The note is collateralized by the loans made from the loan proceeds and is included in the Restricted Assets - Revolving Loan Programs, in the statement of financial position.

IRP Promissory Note

The projected repayment of principal as of June 30, 2007, is as follows:

June 30,	2008	\$	17,406
	2009		17,581
	2010		17,758
	2011		17,936
	2012		18,117
Remaining			291,416
	Total		\$ 390,214

IRP Promissory Note

The Corporation has entered into a lending agreement with the United States Department of Agriculture to provide up to \$300,000 in loan funds. Loan proceeds are restricted and may be used only for the purpose of making loans to businesses meeting certain eligibility requirements. Interest only payments of one percent are due on June 17, 2003, 2004 and 2005 and \$7,959 thereafter on June 17 of each year until principal and interest are fully paid. The note is collateralized by the loans made from the loan proceeds and are included in the Restricted Assets – Revolving Loan Programs, in the statement of financial position.

The projected repayment of principal as of June 30, 2007, is as follows:

June 30,	2008	\$	6,579
	2009		6,645
	2010		6,712
	2011		6,780
	2012		6,848
Remaining			103,473
	Total		\$ 137,037

Wells Fargo Community Development Corporation Note

The Corporation has entered into a lending agreement on December 1, 2002, with Wells Fargo Community Development Corporation to provide loan funding of \$500,000. Loan proceeds are restricted and may be used only for the purpose of making loans to businesses meeting certain eligibility requirements. Interest only payments at two percent are due quarterly. At the end of the initial ten year period all interest and principal are due, unless Wells Fargo elects to extend the loan with an adjustment to the interest rate to the treasury rate minus 3.5%.

TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION
(A Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 6 – NOTES PAYABLE (Continued)

Wells Fargo Community Development Corporation Note

The Corporation has entered into a lending agreement on August 22, 2006, with Wells Fargo Community Development Corporation to provide loan funding of \$500,000. Loan proceeds are restricted and may be used only for the purpose of making loans to businesses meeting certain eligibility requirements. Interest only payments at two percent are due quarterly. At the end of the initial ten year period all interest and principal are due, unless Wells Fargo elects to extend the loan with an adjustment to the interest rate to the treasury rate minus 3.5%.

NOTE 7 – CREDIT LINE

At June 30, 2007, the Corporation has a credit line account with Butte Community Bank in the amount of \$100,000, with a maturity date of May 10, 2009. Variable interest rates apply to the outstanding balance and interest is due monthly. At June 30, 2007, the outstanding indebtedness was \$10,032 and is unsecured.

NOTE 8 - OPERATING LEASES

On June 23, 2003, the Corporation entered into a lease agreement on a new facility, effective for the period October 1, 2003, through August 30, 2011, with a right to terminate the lease on October 1, 2006, by notification and payment of a termination penalty. Rent expense for the year ended June 30, 2007 was \$32,199. Future minimum lease payments under this non-cancelable operating lease are as follows:

Fiscal Years Ending June 30,	
2008	\$ 32,837
2009	33,476
2010	34,207
2011	35,472
2012	5,912

On September 29, 2004, the Corporation entered into a lease agreement on a copier system, effective for the period October 15, 2003 through October 15, 2008. Rent expense for the year ended June 30, 2007 was \$6,448. Future minimum lease payments under this non-cancelable operating lease are as follows:

Fiscal Years Ending June 30,	
2008	\$ 6,448
2009	2,149

On May 11, 2005, the Corporation entered into a lease agreement on a vehicle, effective for the period May 11, 2005, through June 11, 2008. Rent expense for the year ended June 30, 2007, was \$3,522. Future minimum lease payments under this non-cancelable operating lease are as follows:

Fiscal Year Ending June 30,	
2008	\$ 2,935

TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION
(A Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 8 - OPERATING LEASES (Continued)

On September 26, 2005, the Corporation entered into a lease agreement on a vehicle, effective for the period September 26, 2005, through September 25, 2008. Rent expense for the year ended June 30, 2007, was \$2,743. Future minimum lease payments under this non-cancellable operating lease are as follows:

Fiscal Years Ending June 30,	
2008	\$ 3,291
2009	823

NOTE 9 – SPECIAL FINANCING AGREEMENT

On May 3, 2006, the Corporation entered into a revolving line of credit with the California Economic Development Lending Initiative in the amount of \$500,000. The loan proceeds use is restricted to use in the Corporation's loan programs with further restrictions as stated in the loan agreement. As of June 30, 2007, the Corporation has not drawn any funds against the line of credit.

On June 8, 2007, the Corporation entered into a loan agreement with Washington Mutual Bank Community Investments in the amount of \$250,000. The loan proceeds use is restricted to use in the Corporation's loan program with further restrictions as stated in the loan agreement. As of June 30, 2007, the Corporation has not drawn any funds against the loan.

TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION
(A Nonprofit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2007

<u>Federal Grantor</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Commerce</u>				
<u>Direct Programs:</u>				
<u>Planning Assistance</u>	11.303	N/A	\$ 67,000	\$ 67,000
<u>U.S. Department of Housing and Urban Development</u>				
<u>Community Development Block Grant:</u>				
<u>Pass-through entities</u>	14.228			
County of Butte		N/A	718,575	504,348
County of Glenn		N/A	26,917	26,917
City of Orland		N/A	20,000	5,599
City of Gridley		N/A	30,000	4,262
Subtotal - U.S. Department of Housing and Urban Development			795,492	541,126
<u>Totals</u>			<u>\$ 862,492</u>	<u>\$ 608,126</u>

NOTE 1

The Corporation has received in prior years federal funds used in revolving loan programs. Failure of the Corporation to continue to use the grant funds for the intended purposes would result in a requirement to repay the grant amounts to the federal agencies. The prior funded amounts are as follows:

U.S. Department of Commerce - Economic Assistance	\$ 1,050,000
U.S. Department of Agriculture - National Forest	\$ 698,768
U.S. Department of Agriculture - Intermediate Relending	\$ 539,385

NOTE 2

Refer to notes to financial statements for summary of significant accounting policies.

The accompanying notes are an integral part of this statement.

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 of Directors
Tri-County Economic Development Corporation

We have audited the financial statements of Tri-County Economic Development Corporation (a nonprofit corporation) as of and for the year ended June 30, 2007, and have issued our report thereon dated April 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

HARRISON-
DAILEY-WRIGHT
accountancy
corporation



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Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tri-County Economic Development Corporation'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 an opinion on the effectiveness of Tri-County Economic Development Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiency identified as 2007-1 in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tri-County Economic Development Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants and agreements, noncompliance with which could have a direct and material effect on 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 noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, Board of Directors and federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.



HARRISON-DAILEY-WRIGHT
Accountancy Corporation

April 29, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Tri-County Economic Development Corporation

Compliance

We have audited the compliance of Tri-County Economic Development Corporation (a nonprofit corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Tri-County Economic Development Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Tri-County Economic Development Corporation's management. Our responsibility is to express an opinion on Tri-County Economic Development Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Tri-County Economic Development Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Tri-County Economic Development Corporation's compliance with those requirements.

In our opinion, Tri-County Economic Development Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Tri-County Economic Development Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Tri-County Economic Development Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Tri-County Economic Development Corporation's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

HARRISON-
DAILEY-WRIGHT
accountancy
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CERTIFIED PUBLIC
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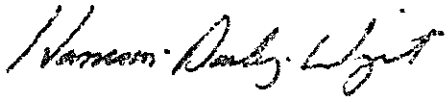
Lisanne M. Kelly
CPA

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-1 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider the deficiency described as item 2007-1 in the accompanying schedule of findings and questioned costs to be a material weakness.

Tri-County Economic Development Corporation's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Tri-County Economic Development Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Directors and federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.



HARRISON-DAILEY-WRIGHT
Accountancy Corporation

April 29, 2008

TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION
(A Nonprofit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2007

(1) Summary of Auditor's Results

- (i) The Auditors' report expresses an unqualified opinion on the financial statements of Tri-County Economic Development Corporation.
 - (ii) A significant deficiency in internal control was disclosed by the audit of the financial statement and such condition was considered a material weakness, as required to be reported by Government Accounting Standards.
 - (iii) No instances of noncompliance material to the financial statements of Tri-County Economic Development Corporation were disclosed during the audit.
 - (iv) A significant deficiency in internal control over major programs was disclosed by the audit and such condition was considered a material weakness.
 - (v) The auditor's report on compliance for the major federal award programs for Tri County Economic Development Corporation expresses an unqualified opinion on all major federal programs.
 - (vi) The audit did disclose an audit finding required to be reported under Sections 510 (a) of OMB Circular A-133.
 - (vii) The major programs tested are as follows:
 - U.S. Department of Agriculture:
 - National Forest 10.670
 - Intermediate Relending Program 10.767
 - (viii) The threshold for distinguishing Type A and Type B programs, \$300,000.
 - (ix) The Tri County Economic Development Corporation was determined to be a low-risk auditee.
- (2) The finding identified as 2007-1 relating to the financial statements is required to be reported in accordance with GAGAS.
- (3) The findings or questioned costs, identified as 2007-1 related to federal awards is required to be disclosed by the audit.

Finding 2007-1

This finding applies to all federal financial assistance programs as well as to the financial statements taken as a whole.

Condition and Criteria: Internal control over financial reporting should be designed and operated to provide the ability to initiate, authorize, record, process and report financial data reliably in accordance with generally accepted accounting standards and to allow for the timely detection of errors or misstatements by employees in the normal course of their duties. The Organization's controls over financial reporting were not operating in a manner to allow for the timely preparation of financial statements or the detection of errors in the amounts reported.

Effect: The initial financial statement information provided to the auditor was neither timely nor accurate. After the initial review of the information by the auditor and the discovery of errors the Organization retained outside assistance to review and correct the financial records for resubmission to the auditor.

Cause: The primary factor which contributed to the condition was the leaving of the long time finance officer and the loss of that person's in depth knowledge of the Organization's financial accounting practices and requirements. The Organization did not have in place appropriately trained or knowledgeable personnel to insure that the financial reporting systems were operating in an appropriate manner. A contributing factor to the condition was that during this period the Organization converted the financial reporting system to a new software program which was a significant change to prior practices.

TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION
(A Nonprofit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2007

Finding 2007-1 (Continued)

Auditor's Recommendation: Procedures should be established to ensure that the financial reporting aspects of the internal control is properly supervised by persons that have the requisite knowledge of accounting procedures and practices to insure that financial statements are accurate, produced timely and that generally accepted accounting principles are correctly applied.

Management Response: Management agrees with the finding and has made adjustments in staffing and contractual labor to ensure that financial reporting is properly supervised by knowledgeable persons concerning accounting procedures and practices to ensure that financial statement are accurate, produced timely, and that generally accepted accounting principles are correctly applied.

As noted in the finding, the loss of a long-time employee and the related institutional memory, and the conversion of the existing financial system to new software all converged to make the transition a daunting task. The assigned staff made a good-faith effort to complete this conversion without the benefit of a transition period with the long-time employee or the institutional memory to better connect the old system with the new system. Management continuously monitored the transition and acted to make necessary changes when warranted. We view this as a transitory event based on unforeseen events. Nonetheless, the Organization has the personnel and procedures in place to fully comply with the audit finding and related recommendation.

TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION
(A Nonprofit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2007

The audit for the year ended June 30, 2006 disclosed no findings.