

**TRI-COUNTY ECONOMIC  
DEVELOPMENT CORPORATION  
(A NONPROFIT CORPORATION)**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2008**

TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION  
(A Nonprofit Corporation)

FINANCIAL STATEMENTS  
June 30, 2008

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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, 2008, 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, 2008, 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 January 27, 2009, 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 important for assessing the results of our audit.

Our audit was conducted 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

January 27, 2009

HARRISON-  
DAILEY-WRIGHT  
accountancy  
corporation



CERTIFIED PUBLIC  
ACCOUNTANTS

Richard L. Harrison  
CPA

George F. Dailey  
CPA

Michael E. Wright  
CPA

John G. Woodmansee  
CPA

Susan M. Farr  
CPA

Ruth Wright  
CPA

Lisanne M. Kelly  
CPA

**TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION**  
(A Nonprofit Corporation)

**STATEMENT OF FINANCIAL POSITION**  
June 30, 2008

ASSETS

Current Assets:

Cash (Note 3)	\$	28,636
Accounts receivable (Note 2)		56,088
Deposits and prepaid expenses		7,644
		7,644

Total Current Assets \$ 92,368

Restricted Assets - Revolving Loan Programs (Note 4):

Cash (Note 3)		2,322,864
Loans receivable (Note 2)		3,098,807
		3,098,807

Total Restricted Assets - Revolving Loan Programs 5,421,671

Fixed Assets (Note 2):

Equipment		76,599
Leasehold improvements		1,279
Accumulated depreciation		(58,034)
		(58,034)

Total Fixed Assets 19,844

Other Asset - North Valley Community Foundation

9,472

**TOTAL ASSETS**

**\$ 5,543,355**

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$	59,930
Accrued payroll liabilities		13,151
Notes payable (Note 6)		24,179
		24,179

Total Current Liabilities \$ 97,260

Other Liabilities:

Deposits in trust (Note 5)		969,634
Notes payable (Note 6)		2,124,031
Refundable advances		58,186
		58,186

Total Other Liabilities 3,151,851

Total Liabilities 3,249,111

Net Assets (Note 2):

Unrestricted		264,431
Permanently restricted		2,029,813
		2,029,813

Total Net Assets 2,294,244

**TOTAL LIABILITIES AND NET ASSETS**

**\$ 5,543,355**

The accompanying notes are an integral part of this statement.

**TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION**  
(A Nonprofit Corporation)

**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Support, Gains, Losses and Other Reclassifications:				
Federal grants:				
Planning	\$ 67,000			\$ 67,000
Sub-Recipient	419,734			419,734
Local grants	64,226			64,226
Interest Income:				
Loan Programs:				
Loans	196,422			196,422
Bank	43,928			43,928
Late and prepayment fees	720			720
Fee for services, loan fees:				
Loan program	17,796			17,796
Fee for service	87,484			87,484
Contributions	6,000			6,000
Other	875			875
	904,185	-	-	904,185
Expenses:				
Program services	855,136			855,136
Management and general	20,426			20,426
	875,562	-	-	875,562
Other Change in Net Assets:				
Loan losses			\$ (66,086)	(66,086)
Loan receivable			20,453	20,453
Prior period adjustment (Note 9)	(10,491)			(10,491)
	(10,491)	-	(45,633)	(56,124)
Changes in Net Assets	18,132		(45,633)	(27,501)
Net Assets, Beginning of Year	246,299		2,075,446	2,321,745
Net Assets, End of Year	\$ 264,431	\$ -	\$ 2,029,813	\$ 2,294,244

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, 2008

Program Services

	Activity Delivery	Application Preparation	Business Technical Assistance	Collections	Loan	Portfolio Management
Salaries	\$ 41,751	\$ 3,800	\$ 40,993	\$ 11,883	\$ 107,330	\$ 10,266
Payroll taxes	2,956	251	2,558	836	8,452	731
Medical insurance	3,108	410	3,700	1,293	8,727	833
Workers' compensation	225	28	190	82	(73)	74
Total Salary Cost	48,040	4,489	47,441	14,094	124,436	11,904
Contract labor	68,263	230	223,013	552	9,242	1,635
Depreciation	1,246	150	2,066	269	3,657	657
Dues/Subscriptions	1,266	76	1,479	219	2,601	184
Equipment lease	2,296	245	1,964	660	7,539	567
Insurance	1,367	118	1,361	380	3,809	328
Interest	12		669	1	40,955	4
Legal/Accounting	1,660	138	3,221	272	13,611	1,347
Licenses/Permits/Fees	222		68	158	2,979	91
Loan costs	604			91	4,167	3,197
Miscellaneous	152	(5)	130	45	696	50
Office supplies	895	82	597	214	1,952	477
Postage	446	40	126	75	714	125
Promotion/Publicity	6,457		203	517	4,833	499
Rent	4,267	504	5,080	1,004	10,422	868
Repairs/Maintenance	1,832	180	1,690	513	6,072	463
Seminars/Meetings	668	14	381	105	1,254	83
Telephone	741	54	848	174	1,802	161
Training/Development	51			61	235	50
Travel	585	43	183	181	2,254	195
Utilities	590	75	666	141	1,672	120
Total	\$ 141,660	\$ 6,433	\$ 291,186	\$ 19,726	\$ 244,902	\$ 23,005

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, 2008

	Program Services		
	Planning	Total	Management and General
Salaries	\$ 69,453	\$ 285,476	\$ 6,677
Payroll taxes	5,586	21,370	431
Medical insurance	6,492	24,563	594
Workers' compensation	(250)	276	31
Total Salary Cost	81,281	331,685	7,733
Contract labor	10,688	313,623	2,925
Depreciation	333	8,378	8,378
Dues/Subscriptions	1,718	7,543	182
Equipment lease	4,169	17,440	288
Insurance	2,583	9,946	263
Interest	17	41,658	3
Legal/Accounting	4,215	24,464	5,987
Licenses/Permits/Fees	141	3,659	328
Loan costs		8,059	4
Miscellaneous	191	1,259	256
Office supplies	1,356	5,573	109
Postage	367	1,893	18
Promotion/Publicity	2,390	14,899	1
Rent	9,964	32,109	824
Repairs/Maintenance	3,652	14,402	303
Seminars/Meetings	1,349	3,854	341
Telephone	1,661	5,441	172
Training/Development		397	397
Travel	752	4,193	571
Utilities	1,397	4,661	118
Total	\$ 128,224	\$ 855,136	\$ 20,426
			\$ 875,562

The accompanying notes are an integral part of this statement

**TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION**  
(A Nonprofit Corporation)

**STATEMENT OF CASH FLOWS**  
For the Year Ended June 30, 2008

Cash Flows from Operating Activities:		
Change in net assets	\$	(27,501)
Noncash expense - depreciation		8,378
Increase in accounts receivable		(22,629)
Decrease in deposits and prepaid expenses		2,650
Increase in payables and refundable advances		16,539
Loss on asset		<u>548</u>
Net Cash Used by Operating Activities		\$ (22,015)
Cash Flows from Investing Activities:		
Increase in restricted assets		(737,775)
Purchase of fixed assets		<u>(1,413)</u>
Net Cash Used by Investing Activities		(739,188)
Cash Flows from Financing Activities:		
Increase in deposits in trust		106,532
Increase in notes payable		630,959
Decrease in credit line		<u>(10,032)</u>
Net Cash Provided by Financing Activities		<u>727,459</u>
Net Decrease in Cash		(33,744)
Cash at June 30, 2007		<u>62,380</u>
Cash at June 30, 2008		<u><u>\$ 28,636</u></u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$	35,823

The accompanying notes are an integral part of this statement.



**TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION**  
(A Nonprofit Corporation)

**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**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, 2008 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, 2008

**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, 2008, no allowance was deemed necessary.

**F. Loans Receivable**

The Corporation operates a revolving loan program in connection with governmental grants and advances and private company loans 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 requires 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, 2008, the Corporation maintained multiple cash accounts at Butte Community Bank which exceeded FDIC insurance coverage by \$1,763,926 and Wells Fargo Bank which exceeded FDIC Insurance coverage by \$411,369. 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 and private company loans. 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, 2008

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, 2008, is as follows:

June 30,	2009		\$ 17,581
	2010		17,759
	2011		17,936
	2012		18,116
	2013		18,298
Remaining			273,016
	Total		\$ 362,706

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, 2008, is as follows:

June 30,	2009		\$ 6,598
	2010		6,664
	2011		6,731
	2012		6,799
	2013		6,867
Remaining			101,846
	Total		\$ 135,505

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, 2008

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%.

Washington Mutual Bank Community Investments

The Corporation has entered into a lending agreement on June 8, 2007, with Washington Mutual Bank Community Investments to provide loan funding of \$250,000. 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 four percent are due quarterly until June 8, 2012 at which time all outstanding principal and interest are due.

U.S. Bancorp Community Development Corporation

The Corporation has entered into a lending agreement on November 2, 2007, with U.S. Bancorp Community Development Corporation to provide loan funding of \$150,000. 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 four percent are due quarterly. At the end of the initial ten year period the Organization can annually extend the agreement for five one year periods if all compliance terms have been met. After the five year period U.S. Bancorp has the annual option to extend or recall the loan.

Butte Community Bank

The Corporation has entered into a lending agreement on February 28, 2008, with Butte Community Bank to provide loan funding of \$250,000. 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 four percent are due quarterly until February 28, 2013 at which time all outstanding principal and interest are due.

NOTE 7 – CREDIT LINE

At June 30, 2008, 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, 2008, there was no outstanding balance.

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, 2008 was \$32,199.

TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION  
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NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

NOTE 8 - OPERATING LEASES (Continued)

minimum lease payments under this non-cancelable operating lease are as follows:

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

On June 11, 2008, the Corporation entered into a lease agreement on a vehicle, effective for the period June 11, 2008, through June 11, 2011. Rent expense for the year ended June 30, 2008, was \$198. Future minimum lease payments under this non-cancelable operating lease are as follows:

Fiscal Years Ending June 30,	
2009	\$ 2,376
2010	2,376
2011	2,178

NOTE 9 – PRIOR PERIOD ADJUSTMENT

Correction of the June 30, 2007 liability accounts for participant loans and deposits in trust and the associated revenue accounts.

**TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION**  
(A Nonprofit Corporation)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2008

<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 Agriculture</u>				
<u>Rural Business Enterprise Grant:</u>				
<u>Pass-through City of Orland</u>	10.769	N/A	45,000	14,804
<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	930,835	350,306
County of Glenn		N/A	40,000	40,000
City of Orland		N/A	10,000	
City of Gridley		N/A	30,000	10,367
City of Biggs		N/A	33,600	2,964
County of Tehama		N/A	1,240	1,240
City of Willows		N/A	53	53
Subtotal - U.S. Department of Housing and Urban Development			1,045,728	404,930
Totals			\$ 1,157,728	\$ 486,734

**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	11.307	\$ 1,050,000
U.S. Department of Agriculture - National Forest	10.670	\$ 698,768
U.S. Department of Agriculture - Intermediate Relending	10.767	\$ 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, 2008, and have issued our report thereon dated January 27, 2009. 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.

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.

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 or material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

January 27, 2009



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, 2008. 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, 2008.

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.

HARRISON-  
DAILEY-WRIGHT  
accountancy  
corporation



CERTIFIED PUBLIC  
ACCOUNTANTS

Richard L. Harrison  
CPA

George F. Dailey  
CPA

Michael E. Wright  
CPA

John G. Woodmansee  
CPA

Susan M. Farr  
CPA

Ruth Wright  
CPA

Lisonne 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.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

January 27, 2009

**TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION**  
(A Nonprofit Corporation)

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2008

(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) No reportable conditions in internal control were disclosed by the audit of the financial statements.
- (iii) No instances of noncompliance material to the financial statements of Tri-County Economic Development Corporation were disclosed during the audit.
- (iv) No reportable conditions relating to the audit of major federal award programs were disclosed by the audit.
- (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 not disclose any audit findings 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
U.S. Department of Housing and Urban Development:	
Community Development Block Grant	14.228
U.S. Department of Commerce:	
Economic Assistance	11.307

- (viii) The threshold for distinguishing Type A and Type B programs, \$300,000.
  - (ix) The Tri County Economic Development Corporation was determined not to be a low-risk auditee.
- (2) There were no findings disclosed relating to the financial statements which are required to be reported in accordance with GAGAS.
- (3) There were no findings or questioned costs related to federal awards disclosed by the audit.

**TRI-COUNTY ECONOMIC DEVELOPMENT CORPORATION**  
(A Nonprofit Corporation)

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
For the Year Ended June 30, 2008

The audit for the June 30, 2007 year disclosed the following finding:

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.

**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.