

**NORTHEAST IOWA COMMUNITY
ACTION CORPORATION**

FINANCIAL REPORT

JANUARY 31, 2011

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**INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS**

**To the Board of Directors
Northeast Iowa Community Action Corporation
Decorah, Iowa**

We have audited the accompanying statement of financial position of Northeast Iowa Community Action Corporation (a nonprofit corporation) as of January 31, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the 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 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 the 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 Northeast Iowa Community Action Corporation as of January 31, 2011, and the changes in its net assets 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 May 18, 2011, on our consideration of Northeast Iowa Community Action Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or 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.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
May 18, 2011

NORTHEAST IOWA COMMUNITY ACTION CORPORATION
STATEMENT OF FINANCIAL POSITION
January 31, 2011

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 3,520,172
Receivables	
Funding source	634,465
Other	766,917
	766,917

Total current assets	4,921,554
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PROPERTY AND EQUIPMENT, net	1,783,227
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OTHER ASSETS

Investment in affiliates	388,415
Due from affiliate	150,398
	150,398

Total other assets	538,813
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Total assets	\$ 7,243,594
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	
General	\$ 405,211
Compensated absences	142,440
Current portion of long-term debt	25,309
Deferred revenue	981,546
	981,546

Total current liabilities	1,554,506
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LONG-TERM DEBT

Notes payable, less current portion	995,965
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NET ASSETS

Unrestricted	4,693,123
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Total liabilities and net assets	\$ 7,243,594
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See Notes to Financial Statements.

NORTHEAST IOWA COMMUNITY ACTION CORPORATION
STATEMENT OF ACTIVITIES
Year Ended January 31, 2011

	Unrestricted
REVENUES AND OTHER SUPPORT	
Federal and state grants	\$ 11,379,044
Local	2,769,129
Interest	48,466
Contributions	85,023
Total revenues and other support	14,281,662
EXPENSES	
Program services	13,347,102
Supporting services	
Management and general	665,632
Fundraising	72,598
Total expenses	14,085,332
Change in net assets from operations	196,330
OTHER CHANGES	
Equity in limited partnerships earnings	(7)
Gain on sale of fixed assets	5,822
Change in net assets	202,145
NET ASSETS, beginning of year	4,490,978
NET ASSETS, end of year	\$ 4,693,123

See Notes to Financial Statements.

NORTHEAST IOWA COMMUNITY ACTION CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended January 31, 2011

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Employee salaries	\$ 4,520,255	\$ 337,431	\$ 51,468	\$ 4,909,154
Employee fringe benefits	1,486,374	98,191	9,629	1,594,194
Contractual	327,993	95,533	4,777	428,303
Travel	113,592	46,532	2,327	162,451
Space costs	243,342	16,713	836	260,891
Consumable supplies	193,569	21,688	1,084	216,341
Equipment	569,968			569,968
Direct assistance	2,931,287			2,931,287
Depreciation	109,590			109,590
Food	759,669			759,669
Vehicle costs	164,166			164,166
Augmentation	319,721			319,721
Materials	921,584			921,584
Other	595,362	49,544	2,477	647,383
Contributed materials, facilities and services	85,023			85,023
Use of equipment and contributed materials and services	5,607			5,607
Total expenses	\$ 13,347,102	\$ 665,632	\$ 72,598	\$ 14,085,332

See Notes to Financial Statements.

NORTHEAST IOWA COMMUNITY ACTION CORPORATION
STATEMENT OF CASH FLOWS
Year Ended January 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 202,145
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	109,590
Loss from limited partnerships	7
Gain on sale of assets	(5,822)
(Increase) decrease in:	
Receivables	
Funding source	1,200,577
Other	(196,160)
Increase (decrease) in:	
Payables	
General	(332,139)
Compensated absences	23,245
Deferred revenue	<u>108,081</u>
Net cash provided by operating activities	<u>1,109,524</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of equipment	(62,610)
Proceeds from sale of equipment	<u>176,725</u>
Net cash provided by investing activities	<u>114,115</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on debt	<u>(216,851)</u>
Net increase in cash	1,006,788
CASH AND CASH EQUIVALENTS	
Beginning of year	<u>2,513,384</u>
End of year	<u><u>\$ 3,520,172</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Noncash from investing and financing activities	
Property purchased with loans	
Cost	\$ 292,000
Loan proceeds	<u>(292,000)</u>
	<u><u>\$ None</u></u>
Cash payments for interest	<u><u>\$ 24,417</u></u>
Property sold or scrapped	
Cost	\$ 353,692
Less accumulated depreciation	<u>182,789</u>
Book value	<u><u>\$ 170,903</u></u>

See Notes to Financial Statements.

NORTHEAST IOWA COMMUNITY ACTION CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

a. Background and Nature of Activities

Northeast Iowa Community Action Corporation is a non-profit corporation organized under the laws of the State of Iowa. The Corporation was created under the Economic Opportunity Act of 1964. The Community Services Act of 1974 continued the Community Action Program under the Community Services Administration. The Community Services Administration has been disbanded, and since July 1982, the Corporation's administrative costs have been funded by allocation of indirect costs to programs specifically benefited. Primary funding sources consist of federal, state and local agencies.

The Corporation operates programs in seven northeast Iowa counties and is governed by a twenty-one member Board of Directors, seven members representing low-income people, seven representing the public sector and seven representing private organizations.

The purpose of the Corporation is to stimulate a better focusing of all available resources upon the goal of enabling low-income families and individuals to gain the skills, knowledge and motivation needed for them to become self-sufficient.

The basic programs operated during the year by the Corporation include:

Outreach Program

Workers assisting low-income people in assessing their needs and assisting them in applying for available services.

Educational Related Programs

Operates a comprehensive early childhood development program for economically disadvantaged preschool children and their families.

Energy Related Programs

Works with low-income persons to provide assistance with heating and cooling payments.

Weatherization Programs

Assists low-income persons in weatherizing their homes and decreasing energy consumption.

Regional Transit System Program

Provides public transportation services in five northeast Iowa counties.

Family Planning Program

Provides subsidized family planning to persons in need of family planning, with priority given to low-income individuals and others without access to such services for reasons beyond their control.

Housing Programs

Provides affordable housing to low-income people.

Family Development and Self-Sufficiency

Provides training and assistance for parents receiving aid to dependent children to enable them to be self-sufficient.

1. Summary of Significant Accounting Policies (Continued)

b. Financial Statement Presentation

The accounts of Northeast Iowa Community Action Corporation are organized on the basis of grants received and are maintained in separate funds. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses.

The Corporation reports information regarding its financial position and activities according to three classes of net assets: permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets. As required by this statement, the Corporation has prepared its external financial statements to present the three classes of net assets required. The Corporation has no temporarily or permanently restricted net assets.

- Permanently restricted net assets are those that may never be spent by the Organization, including gifts of endowment, as well as the earnings on those assets when permanently restricted by the donor.
- Temporarily restricted net assets carry restrictions that expire upon the passage of a prescribed period or upon the occurrence of a stated event as specified by the donor. Included in this category are gifts held by the Corporation pending their use in accordance with donor stipulations.
- Unrestricted net assets are composed of all resources not included in the above categories. Included are expendable resources used to support the Corporation's core activities. Donor-restricted resources intended for capital projects are released and reclassified as unrestricted support when spent. All expenses are recorded as a reduction to unrestricted net assets.

However, in reality a substantial portion of these assets are not available for general organization purposes. Included in unrestricted net assets are significant resources subject to contractual agreements with external parties. In addition, a significant portion of these net assets as of January 31, 2011, is invested in the Organization's property and equipment. While FASB requires that all these resources be reported as unrestricted, the Corporation manages them in compliance with Board designations, legal requirements, and contractual obligations. Board designated net assets for fixed assets total \$798,955 at January 31, 2011.

Federal and state grants are recorded as revenue when earned. The financial statements present any funds received and not expended as deferred revenue. Expenses are recorded when the liability is incurred. Disbursements for the purchase of fixed assets providing future benefits whose title remains with the funding source are recorded as expenses in the program at the time of purchase.

Contributions received are recorded as unrestricted or temporarily restricted depending on the existence and/or nature of any donor restrictions. Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Corporation.

1. Summary of Significant Accounting Policies (Continued)

c. Investment in Affiliates

The financial statements include the investments of NEICAC in its affiliates, NEICAC Senior Housing Limited Partnership and Decorah Woolen Mill Limited Partnership (the Partnerships) under the equity method. The Corporation is the general partner in the Partnerships, owns a .01% interest, and the Corporation's Board of Directors serve as directors of both Partnerships. The Partnerships were formed to finance the construction and operation of housing complexes in Decorah utilizing low income housing credits. Both Partnerships have a fiscal year end of December 31. NEICAC Senior Housing Limited Partnership and Decorah Woolen Mill Limited Partnership were audited separately as of December 31, 2010 and received unqualified opinions dated February 17, 2011 and February 14, 2011, respectively. Management has determined that the limited partners of NEICAC Senior Housing Limited Partnership and Decorah Woolen Mill Limited Partnership do have rights that could overcome the presumption of control by the general partner. Because of these rights, generally accepted accounting principles do not require the partnerships to be consolidated with the Corporation.

d. Pooled Cash and Cash Equivalents

The Corporation uses one checking account for most program funds. Interest earned by this account is allocated to the various programs based upon the average balances quarterly. The Corporation includes certificates of deposit with cash equivalents since there is no penalty for early withdrawal. The Corporation maintains a separate bank account for Waukon-USDA program to set money aside to cover the annual loan payment.

e. Interfund Receivables/Payables

During the course of its operations, the Corporation has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of January 31, 2011, balances of interfund amounts receivable or payable have been recorded. For external reporting, interfund receivables and payables have been eliminated in the statement of financial position.

f. Fixed Assets

Fixed asset purchases funded by grants have been expensed in the grant period. Fixed assets with a cost of \$2,742,941 are not included in the statement of financial position since title remains with the funding sources. The grantor agencies reserve the right to have the assets be returned or sold if the Corporation discontinues their use. Equipment purchased with local funds is stated at cost. Depreciation is computed using the straight-line method over the estimated lives of the related assets, which range from 3-40 years. Depreciation expense totaled \$109,590 for the year ended January 31, 2011. Accumulated depreciation totaled \$989,263 as of January 31, 2011. Expenditures for maintenance repairs and minor replacements are charged to the current year, while major replacements and betterments costing over \$5,000 per item are capitalized. The cost of assets disposed of is deleted. Long-lived assets, such as property, plant, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying value of the asset exceeds its fair value. The Corporation has not encountered any events in which impairment of fixed assets has occurred.

g. Income Taxes

Northeast Iowa Community Action Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. In addition, the Corporation has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for fiscal 2011. The Organization adopted the provisions of *Accounting for Uncertainty in Income Taxes*, on February 1, 2009. Management of the Organization believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

1. Summary of Significant Accounting Policies (Continued)

h. Annual Leave and Vacation Leave

The Corporation's employees accumulate sick leave and annual leave for subsequent use. The accumulation of annual leave is recognized when earned however the accumulation of sick leave is not funded and is not recognized as expense by the Corporation until used. Accumulated sick leave is not paid out at separation from the Corporation.

i. Annual Budget

Northeast Iowa Community Action Corporation does not prepare an agency wide annual budget. The Corporation does, however, prepare individual program budgets that contemplate revenues and expenses over the life of each program.

j. Concentrations of Credit Risk

Financial instruments that potentially subject the Corporation to significant concentrations of credit risk consists principally of accounts receivables and cash. Receivables are primarily from the U.S. Government, the State of Iowa and local governments in Iowa. These receivables are uncollateralized.

The Corporation's cash balances at two financial institutions fluctuate during the year and at various times exceed the Federal Deposit Insurance Corporation insurance limit. The Corporation's funds are considered public funds under state law and are thus secured by pledged investments of a multiple financial institution collateral pool.

k. Management Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Deposits

At year end the carrying amount of the Corporation's deposits was \$3,520,172 and the bank balances totaled \$2,895,995. Of the bank balances, \$500,000 was covered by federal depository insurance. The balance was covered by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against members of the pool to insure there will be no loss of public funds.

Included in the carrying amount of \$3,520,172 there is \$13,266 held at a broker, which is not collateralized.

3. Contributed Services

Contributed services, which require special skills that would be purchased if not donated, or create or enhance a nonfinancial asset are recognized in the statement of activities. This amount equaled \$None for the year ended January 31, 2011. Other donated services are from parents and others which do not meet the requirements to be recognized in the financial statements.

4. Contributed Facilities

The Corporation occupies without charge certain premises located in government owned buildings. The estimated fair rental value of the premises is reported as contributions and contributed facilities in the accompanying financial statements. The amount of contributed facilities for the year ended January 31, 2011 is \$85,023.

5. Support from Governmental Units

The Corporation receives substantially all of its support from federal, state and local governments. The federal government is the source for 72% of the Corporation's revenue and support. A significant reduction in the level of this support, if this were to occur, would have a significant effect on the Corporation's programs and activities.

NOTES TO FINANCIAL STATEMENTS

6. Indirect Costs

Indirect costs are certain administrative expenditures incurred for a common or joint purpose benefiting more than one program and not readily assignable to the programs specifically benefited. During fiscal 2011, the Corporation's indirect costs were allocated in accordance with its plan as submitted to its cognizant agency, the Department of Health and Human Services.

The indirect cost plan and rate was reviewed and approved by its cognizant agency for the year ending January 31, 2011. The Corporation's approved provisional rate for the year ended January 31, 2011 was 11.1%, the actual rate will be finalized at a later date by the Corporation's cognizant agency. For FY11, the indirect cost plan and rate was determined based on salary and benefits.

7. Equity in Affiliates

The Corporation has minority interests (.01 percent) in both NEICAC Senior Housing and Decorah Woolen Mill, limited partnerships, formed to construct and operate housing facilities in Decorah, Iowa. The partnerships are accounted for under the equity method of accounting. The Corporation's equity in Decorah Woolen Mill includes the rehabilitation credits, therefore their equity is greater than .01% but they receive only .01% of the net loss. Summary information on the partnerships as of December 31, 2010 follows:

	NEICAC Senior Housing	Decorah Woolen Mill
Assets	\$ 918,910	\$ 1,553,823
Less liabilities	670,186	496,430
Net assets	\$ 248,724	\$ 1,057,393
Operating revenues	\$ 61,961	\$ 60,708
Net loss	\$ (17,596)	\$ (35,878)
Corporation's interest		
Share of net loss	\$ (2)	\$ (5)
Equity in net assets	\$ 24	\$ 388,391

8. Property and Equipment

A summary of property and equipment, categorized by acquiring program/source, is as follows:

Acquiring Program/Source	Land	Buildings	Vehicles/ Equipment	Total
Contributions			\$ 139,625	\$ 139,625
Waukon USDA		\$ 455,194		455,194
Head Start Local		26,218		26,218
Transit			464,283	464,283
Ridgewood Duplex		131,024		131,024
Rent to Own		517,000		517,000
Calmar Apartments				
Phase I	\$ 9,975	477,568	11,983	499,526
Phase II	9,975	512,292	17,353	539,620
	19,950	2,119,296	633,244	2,772,490
Less accumulated depreciation	None	489,215	500,048	989,263
	\$ 19,950	\$ 1,630,081	\$ 133,196	\$ 1,783,227

NOTES TO FINANCIAL STATEMENTS

8. Property and Equipment (Continued)

The components of Northeast Iowa Community Action Corporation's accumulated depreciation at January 31, 2011 are as follows:

	Buildings	Vehicles	Equipment	Total
Balance, beginning of year	\$ 448,710	\$ 210,744	\$ 403,008	\$ 1,062,462
Current year depreciation	49,255	37,219	23,116	109,590
Current year disposals	(8,750)	(7,500)	(166,539)	(182,789)
Balance, end of year	\$ 489,215	\$ 240,463	\$ 259,585	\$ 989,263

9. Long-term Debt

Details of long-term debt as of January 31, 2011 are as follows:

	Balance Due	
	Total	Current
Calmar Apartments		
<i>Decorah Bank & Trust, Decorah</i>		
4.2% interest bearing note payable, due \$1,242 per month including interest through January 2018, with a balloon payment then due, collateralized by real estate.	\$ 132,187	\$ 9,548
<i>Iowa Finance Authority</i>		
1.0% interest bearing note payable, due \$1,082 annually through May 2011, collateralized by real estate.	935	935
1.0% interest bearing note payable, due \$1,309 annually through May 2013, collateralized by real estate.	3,753	1,272
The real estate has a carrying value of \$625,358.		
Waukon Head Start Building		
<i>United States Department of Agriculture</i>		
4.75% interest bearing note payable, due \$1,615 monthly including interest through November 2042, collateralized by real estate.	297,398	4,862
Rent to Own		
<i>Hawkeye Tri-County Electric</i>		
1.0% interest bearing note payable, due \$708 monthly through February 2013, collateralized by real estate with carrying value of \$106,474.	35,452	1,068
<i>Iowa Department of Economic Development</i>		
0.0% interest bearing note payable, forgivable in 2030.	100,000	
0.0% interest bearing note payable, forgivable in 2026.	180,000	
0.0% interest bearing note payable, forgivable in 2031.	112,000	
These notes are transferred with the related real estate as the homes are sold.		
<i>Iowa Finance Authority</i>		
3.0% interest bearing note payable, interest due quarterly, due June 2012.	60,000	

NOTES TO FINANCIAL STATEMENTS

9. Long-term Debt (Continued)

	Balance Due	
	Total	Current
Ridgewood Duplex Building		
<i>Habitat for Humanity</i>		
0.0% interest bearing note payable, due \$304 monthly through September 2032, collateralized by real estate with a carrying value of \$116,284.	\$ 76,087	\$ 3,652
0.0% interest bearing note payable, with 10% forgiven each year through November 2016.	23,462	3,972
	\$ 1,021,274	\$ 25,309

Maturities of long-term debt during the years following January 31, 2011 are as follows:

Long-term debt maturities	
2012	\$ 25,309
2013	118,068
2014	24,550
2015	24,057
2016	24,792
2017-2021	137,295
2022-2026	241,296
2027-2031	277,503
2032-2036	79,485
2037-2041	68,919
	\$ 1,021,274

Interest expense totaled \$24,417 for the year ending January 31, 2011. No interest cost was capitalized for the year ended January 31, 2011.

10. Pension and Retirement Benefits

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

Plan members are required to contribute 4.30% from February 1, 2010 through June 30, 2010 and 4.50% from July 1, 2010 through January 31, 2011, of their annual covered salary and the Corporation is required to contribute 6.65% from February 1, 2010 through June 30, 2010 and 6.95% from July 1, 2010 through January 31, 2011, of annual covered payroll. Contribution requirements are established by state statute. The Corporation's contribution to IPERS for the years ended January 31, 2011, 2010, and 2009 were \$319,280, \$283,591 and \$241,352 respectively, equal to the required contributions for each year.

NOTES TO FINANCIAL STATEMENTS

11. Deferred Revenue

Deferred revenue consists of the following as of January 31, 2011:

U.S. Department of Health and Human Services	
Wrap-around	\$ 174,676
State Department of Human Rights	
Weatherization Assistance for Low Income Persons	19,439
Low Income Heat Energy Assistance	480,005
HEAP Weatherization Assistance for Low Income Persons	23,992
Community Service Block Grant	50,316
FADSS	48,270
	622,022
State Department of Economic Development	
Homeless Prevention and Rapid Re-Housing	20,996
U.S. Department of Agriculture	
USDA	6,160
Other Sources	
Child Developments	39,870
Oelwein Child Developments	10,781
Unmet Disaster Needs	25,643
	76,294
Local Sources	
Contributions	81,398
	\$ 981,546

12. Leases

The Corporation leases office space from the following under the terms as described below:

- Winneshiek County for \$5,176 per month on a month to month basis. The Corporation is required to provide insurance and upkeep on the building.
- Fayette County for \$240 per month for Outreach on a month to month basis.
- Upper Explorerland Regional Planning Commission for \$30 per month. The lease expires on June 30, 2012.
- Gal Investments, Ltd for \$550 per month. The lease expires July 30, 2011.
- 414, LLC for \$500 per month. The lease expires June 30, 2011.
- City of Fayette for \$325 per month. The lease expires June 30, 2011.

The Transit Program leases garage, office, and vehicle parking space and wash bay from Kenneth Schatz for \$800 per month in West Union. The lease expires June 2011.

NOTES TO FINANCIAL STATEMENTS

12. Leases (Continued)

The Crossroads Housing Program rents nine transitional homes under various agreements with monthly rent payments ranging from \$400 to \$650. The lease agreements expire at various dates from February 2011 through November 2011.

The Head Start Program leases classroom space under various agreements as follows:

Center	Monthly Period of Lease	Rent
Monona HS	August 1, 2010 to July 30, 2011	\$ 750
Postville CD	July 1, 2010 to June 30, 2011	550
Postville	July 1, 2010 to June 30, 2011	650
Gunderson HS	March 1, 2010 to February 28, 2011	880

Head Start Program has space donated for several classrooms but the Corporation must pay a monthly amount to cover utilities. Each center must provide equipment required to operate and provide insurance for the equipment and employees. The following is a summary of the Head Start and child development leases:

Center	Period of Lease	Monthly Utility Payment
Howard-Winn CSD HS	July 1, 2010 to June 30, 2011	\$ 400
First United Church CD	July 1, 2010 to June 30, 2011	400
Guttenberg HS	July 1, 2010 to June 30, 2011	300
Decorah CSD	June 1, 2010 to May 31, 2011	400
Elkader	September 1, 2010 to August 31, 2011	714
Oelwein CSD	August 1, 2010 to July 31, 2011	500
North Fayette	August 1, 2010 to July 31, 2011	400
Civic Center	July 1, 2010 to June 30, 2011	500

The future minimum lease payments required under the operating leases that have initial or remaining non-cancelable lease terms are as follows:

2012	\$ 35,385
2013	4,150
	<u>\$ 39,535</u>

13. Contingent Liabilities

The Corporation participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the Corporation may be required to reimburse the grantor government. As of January 31, 2011 significant amounts of grant expenditures have not been audited by granting authorities but the Corporation believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual funds or the overall financial position of the Corporation.

The Corporation built a duplex for handicapped persons in Winneshiek County with Winneshiek County Habitat for Humanity. Winneshiek County Habitat for Humanity loaned the Corporation \$39,720 to help build this duplex, in which 10% would be forgiven on an annual basis. The Corporation must own the building for 20 years. See Note 9.

13. Contingent Liabilities (Continued)

The Corporation built homes in the Cresco, Lawler, West Union, Tripoli, and Volga areas for low-income families to eventually own. Some of the funds were provided by a loan from the Iowa Department of Economic Development of \$392,000. Once the home is purchased by the family, the loan is forgiven over the next fifteen years. If the family sells the home, then the family is responsible for repaying the outstanding loan. The loans are reported on the Corporation's financials until the home is purchased by an eligible family.

The Corporation is the general partner in NEICAC Senior Housing Limited Partnership (the Partnership). The Partnership constructed a 16 unit senior housing complex in Decorah, Iowa at a total cost of \$980,520. The funds for the project were provided by loans from the Iowa Department of Economic Development of \$383,779 and the Iowa Finance Authority of \$21,658. Also, the construction was financed by the sale of \$466,000 of low income housing tax credits and thus will require compliance with various IRS regulations over a number of years. The Corporation loaned the project approximately \$4,654 for start up costs and operations and deferred its development fee of \$96,000. As of January 31, 2011, the balance of the loan from the Corporation to the project for its development fee was \$69,362.

The Corporation is the general partner in Decorah Woolen Mill Limited Partnership (the Partnership). The Partnership constructed a 15 unit housing complex in Decorah, Iowa at a total cost of \$1,740,245. The funds for the project were provided by loans from the Iowa Department of Economic Development of \$330,000. Also, the construction was financed by the sale of \$294,925 of federal historic rehabilitation tax credits and thus will require compliance with various IRS regulations over a number of years. The Corporation loaned the project its development fee of \$75,000.

The Partnership agreements include requirements of the Corporation to maintain insurance, retain reserves for replacements and operating deficits, and furnish information to limited partners and limits payments to the Corporation. The Corporation has materially complied with the partnership agreements during the year ended January 31, 2011.

14. Agency Risk Management

Northeast Iowa Community Action Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Corporation assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

15. Cafeteria Plan

The Corporation sponsors a Section 125 cafeteria plan. The benefits available under the plan are health insurance. Participants may elect salary reduction to cover family health insurance, disability insurance, non-covered medical and dental expenses and day care. There were 121 participants in the plan for the plan year ended January 31, 2011.

16. Subsequent Events

Subsequent events were evaluated through May 18, 2011 which is the date the financial statements were available to be issued.

NORTHEAST IOWA COMMUNITY ACTION CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended January 31, 2011**Part I: Summary of the Independent Auditor's Results:**

- (a) Unqualified opinions were issued on the financial statements.
- (b) No significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No significant deficiencies in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 93.600 Head Start
 - CFDA Number 93.708 ARRA-Head Start
 - CFDA Number 93.217 Family Planning Services
 - CFDA Number 14.257 ARRA-Homeless Prevention and Rapid Re-housing
 - CFDA Number 20.509 ARRA-Non-Urbanized Capital Assistance Program
 - CFDA Number 20.509 Formula Grants for other than Urbanized Areas
 - CFDA Number 81.042 Weatherization Assistance for Low Income Persons
 - CFDA Number 81.042 ARRA-Weatherization Assistance for Low Income Persons
 - CFDA Number 93.569 Community Services Block Grant
 - CFDA Number 93.710 ARRA-Community Services Block Grant
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$311,819.
- (i) Northeast Iowa Community Action Corporation did qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

No matters were noted.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards:**INSTANCES OF NONCOMPLIANCE:**

No matters were noted.

SIGNIFICANT DEFICIENCIES:

No matters were noted.

Part IV: Other Findings Related to Required Statutory Reporting:

See Management Letter dated May 18, 2011.

Part V: Summary of Prior Federal Audit Findings and Questions Costs

N/A

NORTHEAST IOWA COMMUNITY ACTION CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended January 31, 2011

Grantor/Program	CFDA Number	Grant Number	Period of Grant	Program Expenditures
U.S. Department of Health and Human Services				
Direct				
Head Start	93.600	07CH6090/43	02/01/10-1/31/11	\$ 1,764,377
Head Start Discretionary		07CH6090/43	02/01/10-1/31/11	757,878
ARRA - Head Start	93.708	07SE6090/01	06/01/09-09/30/10	108,951
Passed through Iowa Department of Human Rights				
Wrap-Around Child Care	93.600	N/A	12/15/08-08/31/10 09/01/10-08/31/11	382,624 78,824 <u>3,092,654</u>
Passed through Iowa Department of Human Rights				
Low Income Home Energy Assistance	93.568	LIHEAP 10-09-I LIHEAP 11-09-I HEAP 10-09I HEAP 11-09I	10/01/09-09/30/10 10/01/10-09/30/11 01/01/10-12/31/10 01/01/11-12/31/11	1,100,900 1,407,509 305,546 10,567 <u>2,824,522</u>
Subtotal U.S. Department of Health and Human Services				<u>5,917,176</u>
Other Federal Awards				
Department of Homeland Security				
Direct				
Emergency Food and Shelter National Board Program	97.024	N/A	01/01/10-12/31/10	<u>20,485</u>
Subtotal Department of Homeland Security				<u>20,485</u>
U.S. Department of Health and Human Services				
Passed through Iowa Department of Human Rights				
Community Services Block Grant	93.569	CSBG-10-09-CI CSBG-11-09	10/01/09-12/31/10 10/01/10-12/31/11	273,770 54,672
ARRA - Community Services Block Grant	93.710	CSBG-R9-09	04/10/09-09/30/10	244,844 <u>573,286</u>
Community Services Block Grant Discretionary Awards				
	93.570	FADSS 10-25-F4 FADSS 11-09-F4	07/01/09-06/30/10 07/01/10-06/30/11	51,483 62,384 <u>113,867</u>
Passed through Iowa Department of Health				
Family Planning Services	93.217	5889MH20 5880MH20	10/01/09-09/30/10 10/01/10-09/30/11	18,652 75,509 <u>94,161</u>
Subtotal U.S. Department of Health and Human Services				<u>781,314</u>
U.S. Department of Transportation				
Federal Transit Administration				
Formula Grants for Other Than Urbanized Areas	20.509	Section 5311	07/01/09-06/30/10 07/01/10-06/30/11	30,445 481,805
ARRA Non-Urbanized Capital Assistance Program		ARRA Section 5311	03/10/09-06/30/11	262,619 <u>774,869</u>

See Independent Auditor's Report on the Schedule of Expenditures of Federal Awards.

NORTHEAST IOWA COMMUNITY ACTION CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended January 31, 2011

Grantor/Program	CFDA Number	Grant Number	Period of Grant	Program Expenditures
Other Federal Awards (Continued)				
U.S. Department of Transportation (Continued)				
Federal Transit - Capital Investment Grants	20.500	IA-04-0113	05/01/09-09/30/11	\$ 143,259 47,703 <u>190,962</u>
Subtotal U.S. Department of Transportation				<u>965,831</u>
U.S. Department of Energy				
Passed through Iowa Department of Human Rights				
Weatherization Assistance for Low Income Persons	81.042	DOE 09-09I	04/01/09-03/31/11	379,809
ARRA - Weatherization Assistance for Low Income Persons		DOE ARRA-09-09I	04/01/09-03/31/12	<u>965,769</u>
Subtotal U.S. Department of Energy				<u>1,345,578</u>
U.S. Department of Agriculture				
Passed through Iowa Department of Education				
Child and Adult Care Food Program	10.558	96-8010	10/01/09-09/30/10	138,487
		96-8013	10/01/10-09/30/11	93,214
			10/01/09-09/30/10	443,270
			10/01/10-09/30/11	<u>181,493</u>
Subtotal U.S. Department of Agriculture				<u>856,464</u>
U.S. Department of Justice				
Passed through Helping Services for Northeast Iowa, Inc.				
Crossroads Transitional Housing	16.805	2009-HH-S6-0037	07/01/09-06/30/11	<u>118,008</u>
U.S. Department of Housing and Urban Development				
Passed through Iowa Finance Authority				
ARRA - Homeless Prevention and Rapid Re-housing	14.257	S09-DY-19-0001	07/14/09-07/13/12	<u>347,591</u>
Subtotal U.S. Department of Housing and Urban Development				<u>347,591</u>
Subtotal Other Federal Awards				<u>4,435,271</u>
Total Federal Awards				<u>\$ 10,352,447</u>

See Independent Auditor's Report on the Schedule of Expenditures of Federal Awards.

NORTHEAST IOWA COMMUNITY ACTION CORPORATION

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended January 31, 2011

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Northeast Iowa Community Action Corporation under programs of the federal government for the year ended January 31, 2011. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Because the Schedule presents only a selected portion of the operations of Northeast Iowa Community Action Corporation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Northeast Iowa Community Action Corporation.

Note 2. Summary of Significant Accounting Policies

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.

See Independent Auditor's Report on the Schedule of Expenditures of Federal Awards.

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**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
Northeast Iowa Community Action Corporation
Decorah, Iowa

We have audited the financial statements of Northeast Iowa Community Action Corporation (a nonprofit corporation) as of and for the year ended January 31, 2011, and have issued our report thereon dated May 18, 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 Northeast Iowa Community Action 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 the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. 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 Northeast Iowa Community Action Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Northeast Iowa Community Action Corporation in a separate letter dated May 18, 2011.

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

Hacker, Nelson & Co., P.C.

Decorah, Iowa
May 18, 2011

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Northeast Iowa Community Action Corporation
Decorah, Iowa

Compliance

We have audited Northeast Iowa Community Action Corporation's (a nonprofit corporation) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Northeast Iowa Community Action Corporation's major federal programs for the year ended January 31, 2011. Northeast Iowa Community Action 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 Northeast Iowa Community Action Corporation's management. Our responsibility is to express an opinion on Northeast Iowa Community Action Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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 Northeast Iowa Community Action 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 of Northeast Iowa Community Action Corporation's compliance with those requirements.

In our opinion, Northeast Iowa Community Action Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended January 31, 2011.

Internal Control over Compliance

Management of Northeast Iowa Community Action Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Northeast Iowa Community Action Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Northeast Iowa Community Action Corporation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Northeast Iowa Community Action Corporation as of and for the year ended January 31, 2011, and have issued our report thereon dated May 18, 2011, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Hacker, Nelson & Co., P.C.

Decorah, Iowa
May 18, 2011

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MANAGEMENT LETTER

To the Board of Directors
Northeast Iowa Community Action Corporation
Decorah, Iowa

In planning and performing our audit of the financial statements of Northeast Iowa Community Action Corporation for the year ended January 31, 2011, we considered the Corporation's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

As part of our audit, we are required to comment on the Corporation's compliance with certain aspects of state laws and rulings as specified by the Iowa Auditor of State. The following summarizes our comments and suggestions regarding that matter. A separate report dated May 18, 2011 contains our report on the Corporation's internal control. This letter does not affect our report dated May 18, 2011 on the financial statements of Northeast Iowa Community Action Corporation.

1. Questionable Disbursements

We noted no disbursements that may not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.

2. Deposit and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Organization's investment policy.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of Northeast Iowa Community Action Corporation during the course of our examination.

If you have any questions concerning these or other matters, we would be happy to discuss them with you at your convenience.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
May 18, 2011