

HOWARD COUNTY
Cresco, Iowa

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
June 30, 2005

HOWARD COUNTY, IOWA
Cresco, Iowa

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**HOWARD COUNTY
Cresco, Iowa**

OFFICIALS

(Before January 2005)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mary Jo Wilhelm.....	Board of Supervisors	January 2005
Dale Fenske.....	Board of Supervisors	January 2007
Janet McGovern	Board of Supervisors	January 2007
Mick Gamez	County Auditor.....	January 2005
Warren Steffen	County Treasurer	January 2007
Cherri Caffrey	County Recorder.....	January 2007
Mark Grinhaus	County Sheriff	January 2005
Joseph Haskovec	County Attorney.....	January 2007
Thomas Mullen	County Assessor.....	Appointed

(After January 2005)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dale Fenske.....	Board of Supervisors	January 2007
Janet McGovern	Board of Supervisors	January 2007
Mary Jo Wilhelm.....	Board of Supervisors	January 2009
Mick Gamez	County Auditor.....	January 2009
Warren Steffen	County Treasurer	January 2007
Cherri Caffrey	County Recorder.....	January 2007
Mark Grinhaus	County Sheriff	January 2009
Joseph Haskovec	County Attorney.....	January 2007
Thomas Mullen	County Assessor.....	Appointed



Gardiner Thomsen
Certified Public Accountants

Independent Auditors' Report

To the Officials of Howard County
Cresco, Iowa

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Howard County, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Howard County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Howard County at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, 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 December 9, 2005 on our consideration of Howard County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditors' Report (Continued)

Management's Discussion and Analysis and budgetary comparison information on pages **4 - 10** and **38 - 40** are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Howard County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

December 9, 2005

Gardiner T. Thomsen, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Howard County provides this Management's Discussion and Analysis of Howard County's annual financial statements. This narrative overview and analysis of the financial activities of Howard County is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- County governmental funds revenue decreased 16% or approximately \$1,437,679 2004 to 2005. Property and other County taxes decreased approximately \$291,277 and Operating & Capital Contributions & Restricted Interest decreased approximately \$1,116,449.
- County program expenses were 2.3% or approximately \$153,273 more in 2005 than in 2004. County Environment and Education expense increased approximately \$225,319.
- The county's net assets increased 7%; approximately \$547,949 at June 30, 2005.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 11 and 12, Exhibits A and B) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start on pages 13-14, Exhibit C. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as an agent or custodian for the benefit of those outside of the government (Agency Funds).

Reporting the County as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the County's finances is, "is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements

The Statement of Net Assets and the Statement of Activities (Continued)

include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents all of the County's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The County's governmental activities are displayed in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, government services to residents, administration or general government, interest on long-term debt and other non-program activities. Property taxes and state and federal grants finance most of these activities.

Fund Financial Statements

The fund financial statements begin on pages 13-14 Exhibit C and provide detailed information about the most significant funds—not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, the County establishes many other funds to help it control and manage money for particular purposes.

Most of the County's basic services are accounted for in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The government fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found beginning on page 23.

Supplemental Information

The supplemental information begins on page 41 – 42 (Schedule 1) and provides detailed information about the non-major governmental funds and the individual agency funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The County's combined net assets increased from \$7,702,036 to \$8,249,985. The analysis below focuses on net assets and changes in net assets of governmental activities.

Net Assets of Governmental Activities

(Expressed in Thousands)

	June 30	
	2005	2004
Current and Other Assets	\$6,256	\$6,462
Capital Assets	5,618	5,067
Total Assets	<u>11,874</u>	<u>11,529</u>
Long-Term Debt Outstanding	46	361
Other Liabilities	3,578	3,466
Total Liabilities	<u>3,624</u>	<u>3,827</u>
Net Assets:		
Invested in Capital Assets, Net of debt	5,582	4,979
Restricted	1,900	1,678
Unrestricted	768	1,045
Total Net Assets	<u>\$8,250</u>	<u>\$7,702</u>

Net assets of the County's governmental activities increased by approximately 7%, (from \$7.7 Million) the largest portion of the County's net assets is the Invested in Capital Assets (infrastructure, buildings and equipment), less the related debt. The debt related to the Investment in Capital Assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased from approximately \$1,045,698 at June 30, 2004 to approximately \$768,107 at the end of this year, a decrease of \$277.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Changes in Net Assets of Governmental Activities

(Expressed in Thousands)

	Year Ended June 30,	
	2005	2004
Program Revenues:		
Charges for service and sales	\$668	\$574
Operating grants and contributions	2,395	2,064
Capital grants and contributions	665	2,113
Property taxes	3,003	3,308
Unrestricted investments earnings	71	405
Other general revenues	665	441
Total revenues	<u>7,467</u>	<u>8,905</u>
Program Expenses:		
Public safety and legal services	955	895
Physical health and social services	444	451
Mental health	1,002	1,103
County environment and education	864	640
Roads and transportation	2,596	2,790
Government services to residents	243	218
Administration or general government	777	664
Non-program	35	4
Interest on long-term debt	3	1
Total expenses	<u>6,919</u>	<u>6,766</u>
Increase in net assets	548	2,139
Net assets July 1, 2004	<u>7,702</u>	<u>5,563</u>
Net assets June 30, 2005	<u>\$8,250</u>	<u>\$7,702</u>

The County's revenue increased 16% (\$1,437,679). The total cost of programs and services increased 2.3%, (\$153,273), with no new programs added this year.

Governmental Activities

Howard County experienced a 2% decrease in property taxes levied in 2005. The decrease was \$57,295. A large part of this decrease was due to the valuations took a decrease.

Revenue increased in 2005 due to overall revenue and some grants were also received.

THE COUNTY'S INDIVIDUAL MAJOR FUNDS

As the county completed the year, its governmental funds reported a combined fund balance of \$2.4 million, which is lower than last year's total by \$181,235. The \$2.4 million balance is 34% of the budgeted expenditures for the 2005 fiscal year. The following are the major reasons for the changes in fund balances from the prior year.

The combined ending fund balance of the General and General Supplemental funds decreased by \$241,774 from 2004 to 2005. One primary reason for the decrease is that the departments did use all, or a good majority of the allocated budgets and property tax asking was also lower than 2004. The county's health insurance also took a large increase.

The 37% reduction of balance in the Mental Health funds was as a result that there were more services and less revenue being generated.

The Rural Services fund expenditures and revenue were pretty similar to 2004, however, the departments did not use all of their budget appropriations and the balance was about \$92,068 higher in 2005 than in 2004.

The Secondary Road fund ended the year with a balance \$2,976 higher than in 2004. Otherwise, the expenditures and revenues were very close to 2004.

BUDGETARY HIGHLIGHTS

The budget was amended on November 15, 2004 with an increase to revenues due to Road Use Tax and Transfer of Jurisdiction revenue and various other revenue and grants. There was an increase in expenditures due to purchasing vehicles and grants for the conservation department. On March 28, 2005, the budget was amended with an increase to revenues due to state credits and the expenditures decreased due to the capital projects being changed and not completed. On June 27, 2005 the budget was amended due to the Howard County Health Insurance Plan needed a loan, so the budget was amended from the General Basic Fund to give a debt loan to the Howard County Health Plan.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the County had \$8.548 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This amount represents a net increase (including additions and deletions) of approximately \$679,000 or 8% over last year.

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Capital Assets at Year End of Governmental Activities

(Expressed in Thousands)

	Year Ended June 30,	
	2005	2004
Land	\$1,336	\$1,134
Buildings	1,298	1,298
Equipment	3,349	3,324
Infrastructure	2,539	2,113
Construction in Progress	26	8
Total	<u>\$8,548</u>	<u>\$7,869</u>

This year's major additions include (expressed in thousands)

Conservation Land	\$203
Conservation Equipment	60
Equipment	44
Infrastructure	426
	<u>\$733</u>

The County had depreciation expense of \$223,177 for the year ended June 30, 2005 and total accumulated depreciation as of June 30, 2005 of \$2,930,803.

Debt Administration

At year end, the County had \$313,250 in debt compared to \$361,015 in notes and other debt last year as shown below.

Outstanding Debt at Year-End of Governmental Activities

	(Expressed in Thousands)	
	2005	2004
Notes Payable	\$10	\$35
Installment Purchase Agreements	36	53
Compensated Absences	267	273
	<u>\$313</u>	<u>\$361</u>

The Constitution of the State of Iowa limits the amount of general obligation debt that counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. The County's outstanding general obligation debt is significantly below this \$18 million limit.

Other obligations include accrued vacation pay and sick leave. More detailed information about the County's long-term liabilities is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The county begins the 2006 fiscal year with a balance of 36% when compared to expected expenditures. This high balance indicates departments were being fiscally responsible. The debt would only be necessary to continue operation until fall property tax revenue was received. Increased expenses for 2006 will include a 5% increase in liability and property insurance, replacement and upgrading of computer equipment, attorney fees for litigation, increases in health insurance premiums, salary increases, and repair or replacement of worn out equipment and vehicles.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Auditor's Office, 137 N Elm St Cresco, IA 52136.

**HOWARD COUNTY
Cresco, Iowa**

**STATEMENT OF NET ASSETS
June 30, 2005**

	Governmental Activities
ASSETS	
Cash & Pooled Investments	\$2,537,268
Receivables	
Property Tax	
Delinquent	1,743
Succeeding Year	2,900,004
Interest & Penalty On Property Tax	27
Accounts	42,008
Accrued Interest	14,197
Due From Other Governments	184,213
Notes Receivable	301,409
Inventories	217,975
Prepaid Insurance	57,857
Capital Assets (Net of Accumulated Depreciation)	5,617,634
TOTAL ASSETS	11,874,335
LIABILITIES	
Accounts Payable	218,097
Accrued Interest Payable	134
Salaries and Benefits Payable	85,747
Due to Other Governments	107,118
Deferred Revenue	
Succeeding Year Property Tax	2,900,004
Long Term Liabilities	
Portion Due Or Payable Within One Year	
Capital Lease Purchase Agreements	17,749
General Obligation Notes	5,036
Compensated Absences	267,587
Portion Due Or Payable After One Year	
Capital Lease Purchase Agreement	18,129
General Obligation Notes	4,749
TOTAL LIABILITIES	3,624,350
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	5,581,757
Restricted For:	
Mental Health Purposes	40,317
Secondary Roads Purposes	984,503
Other Purposes	875,301
Unrestricted	768,107
TOTAL NET ASSETS	\$8,249,985

See Notes To Financial Statements

**HOWARD COUNTY
Cresco, Iowa**

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2005**

FUNCTIONS/PROGRAMS:	Expenses	Program Revenues			Net (Expense) Revenue & Change In Net Assets
		Charges for Service	Operating Grants, Contributions, & Restricted Interest	Capital Grants and Contributions	
GOVERNMENTAL ACTIVITIES:					
Public Safety & Legal Services	\$955,229	\$149,103	\$1,200	\$ 0	\$ (804,926)
Physical Health & Social Services	444,106	9,254	15,975	0	(418,877)
Mental Health	1,002,238	116,683	497,725	0	(387,830)
County Environment & Education	864,768	77,587	45,578	276,469	(465,134)
Roads & Transportation	2,596,057	23,711	1,834,774	388,862	(348,710)
Governmental Services to Residents	243,496	103,814	0	0	(139,682)
Administrative Services	777,370	75,638	0	0	(701,732)
Non-Program	35,517	112,019	0	0	76,502
Interest on Long-Term Debt	269	0	0	0	(269)
	<u>\$6,919,050</u>	<u>\$667,809</u>	<u>\$2,395,252</u>	<u>\$665,331</u>	<u>(3,190,658)</u>
GENERAL REVENUES:					
Property & Other County Tax Levied For:					
General Purposes					3,003,298
Penalty & Interest on Property Tax					26,264
State Tax Credits					202,260
Local Option Sales Tax					344,460
Unrestricted Investment Earnings					70,539
Miscellaneous					93,301
Loss on Disposal of Capital Assets					(1,515)
TOTAL GENERAL REVENUES					<u>3,738,607</u>
CHANGE IN NET ASSETS					547,949
NET ASSETS, BEGINNING OF YEAR					<u>7,702,036</u>
NET ASSETS END OF YEAR					<u>\$8,249,985</u>

See Notes To Financial Statements

HOWARD COUNTY
Cresco, Iowa

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General	Special Revenue	
		Mental Health	Rural Services
ASSETS			
Cash & Pooled Investments	\$552,253	\$151,027	\$411,637
Receivables			
Property Tax			
Delinquent	1,094	213	436
Succeeding Year	1,701,305	331,261	867,438
Interest & Penalty on Property Tax	27	0	0
Accounts	24,045	17,697	0
Accrued Interest	13,030	0	0
Due From Other Funds	5,159	0	0
Due From Other Governments	3,772	0	32,040
Note Receivable	403,076	0	0
Inventories	0	0	0
Prepaid Insurance	57,857	0	0
TOTAL ASSETS	\$2,761,618	\$500,198	\$1,311,551
LIABILITIES & FUND BALANCES			
Liabilities			
Accounts Payable	\$32,616	\$21,181	\$8,220
Salaries & Benefits Payable	38,316	4,756	5,446
Due To Other Governments	959	102,683	0
Deferred Revenue			
Succeeding Year Property Tax	1,701,305	331,261	867,438
Other	2,627	206	431
Total Liabilities	1,775,823	460,087	881,535
Fund Balances			
Reserved For:			
Inventories	0	0	0
Note Receivable	403,076	0	0
Unreserved, Reported In:			
General Fund	582,719	0	0
Special Revenue Funds	0	40,111	430,016
Capital Projects Fund	0	0	0
Total Fund Balances	985,795	40,111	430,016
TOTAL LIABILITIES & FUND BALANCES	\$2,761,618	\$500,198	\$1,311,551

See Notes To Financial Statements

Exhibit C

Special Revenue Secondary Roads	Capital Projects	Nonmajor Special Revenue	Total
\$942,272	\$134,771	\$318,566	\$2,510,526
0	0	0	1,743
0	0	0	2,900,004
0	0	0	27
55	0	211	42,008
40	0	1,095	14,165
0	0	0	5,159
143,776	0	4,625	184,213
0	0	0	403,076
217,975	0	0	217,975
0	0	0	57,857
<u>\$1,304,118</u>	<u>\$134,771</u>	<u>\$324,497</u>	<u>\$6,336,753</u>
\$138,326	\$13,983	\$ 0	\$214,326
37,229	0	0	85,747
3,476	0	0	107,118
0	0	0	2,900,004
0	0	0	3,264
<u>179,031</u>	<u>13,983</u>	<u>0</u>	<u>3,310,459</u>
217,975	0	0	217,975
0	0	0	403,076
0	0	0	582,719
907,112	0	324,497	1,701,736
0	120,788	0	120,788
<u>1,125,087</u>	<u>120,788</u>	<u>324,497</u>	<u>3,026,294</u>
<u>\$1,304,118</u>	<u>\$134,771</u>	<u>\$324,497</u>	<u>\$6,336,753</u>

**HOWARD COUNTY
Cresco, Iowa**

**RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2005**

Total governmental fund balances (page 13-14)	\$3,026,294
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. The cost of the assets is \$8,548,437 and the accumulated depreciation is \$2,930,803.	5,617,634
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	3,264
Internal service funds are used by management to charge the costs of self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	(83,823)
Long-term liabilities, including bonds payable, accrued interest payable and compensated absences payable are not due and payable in the current period and therefore are not reported in the funds.	<u>(313,384)</u>
Net assets of governmental activities (page 11)	<u><u>\$8,249,985</u></u>

See Notes to Financial Statements.

HOWARD COUNTY
Cresco, Iowa

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General	Special Revenue	
		Mental Health	Rural Services
REVENUES			
Property & Other County Tax	\$1,726,776	\$308,136	\$1,249,740
Interest & Penalty on Property Tax	26,264	0	0
Intergovernmental	310,971	519,543	60,664
Licenses & Permits	4,250	0	0
Charges for Services	248,141	116,682	0
Use of Money & Property	346,920	0	0
Miscellaneous	15,312	594	281
Total Revenues	<u>2,678,634</u>	<u>944,955</u>	<u>1,310,685</u>
EXPENDITURES			
Current:			
Public Safety & Legal Services	709,248	0	204,476
Physical Health & Social Services	443,218	0	0
Mental Health	0	996,192	0
County Environment & Education	798,843	0	225,577
Roads & Transportation	0	0	0
Governmental Services to Residents	208,406	0	2,145
Administrative Services	770,638	0	2,170
Nonprogram	541	0	0
Debt Service	0	0	0
Capital Projects	0	0	0
Total Expenditures	<u>2,930,894</u>	<u>996,192</u>	<u>434,368</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(252,260)</u>	<u>(51,237)</u>	<u>876,317</u>
Other Financing Sources (Uses)			
Sale of Capital Assets	1,465	0	1,055
Operating Transfers In	46,856	0	0
Operating Transfers Out	(51,316)	0	(791,000)
Total Other Financing Sources (Uses)	<u>(2,995)</u>	<u>0</u>	<u>(789,945)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(255,255)</u>	<u>(51,237)</u>	<u>86,372</u>
Fund Balances – Beginning of Year	1,164,246	91,348	343,644
Increase in Reserve For Notes Receivable	76,804	0	0
Increase in Reserve For Inventories	0	0	0
Fund Balances – End of Year	<u>\$985,795</u>	<u>\$40,111</u>	<u>\$430,016</u>

See Notes To Financial Statements

Exhibit E

Special Revenue			Nonmajor	
Secondary	Debt	Capital	Special	Total
Roads	Service	Projects	Revenue	
\$ 0	\$ 0	\$ 0	\$63,114	\$3,347,766
0	0	0	0	26,264
2,035,802	0	0	9,148	2,936,128
1,030	0	0	0	5,280
414	0	0	23,490	388,727
207	0	0	4,446	351,573
74,584	20,826	0	22,363	133,960
2,112,037	20,826	0	122,561	7,189,698
0	0	0	3,896	917,620
0	0	0	0	443,218
0	0	0	0	996,192
0	0	0	42,333	1,066,753
2,379,734	0	0	0	2,379,734
0	0	0	20,240	230,791
0	0	0	0	772,808
0	0	0	12,353	12,894
0	20,826	0	0	20,826
319,736	0	26,313	0	346,049
2,699,470	20,826	26,313	78,822	7,186,885
(587,433)	0	(26,313)	43,739	2,813
0	0	0	0	2,520
766,000	0	25,000	51,316	889,172
0	0	0	(46,856)	(889,172)
766,000	0	25,000	4,460	2,520
178,567	0	(1,313)	48,199	5,333
924,900	0	122,101	276,298	2,922,537
0	0	0	0	76,804
21,620	0	0	0	21,620
\$1,125,087	\$ 0	\$120,788	\$324,497	\$3,026,294

**HOWARD COUNTY
Cresco, Iowa**

**RECONCILIATION OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2005**

Net change in fund balances - Total governmental funds (page 16-17) \$103,757

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlays exceeded depreciation expense in the current year as follows:

Expenditures for Capital Assets	\$574,829	
Capital Assets Contributed by the Iowa Department of Transportation	203,215	
Depreciation Expense	(223,177)	554,867

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas in the governmental funds report the proceeds from the sale as an increase in financial resources. (4,035)

Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds.

Property Taxes	1	
Other	(173)	(172)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues as follow:

Issued	0	
Repaid	42,616	42,616

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds as follows:

Compensated Absences	5,149	
Interest on Long-Term Debt	83	5,232

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. (154,316)

Change in net assets of governmental funds (page 12) \$547,949

See Notes to Financial Statements

**HOWARD COUNTY
Cresco, Iowa**

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2005**

	Internal Service Employee Group Health
<hr/>	
ASSETS	
Cash & Cash Equivalents	\$21,583
Receivables	
Accrued Interest	32
TOTAL ASSETS	\$21,615
<hr/>	
LIABILITIES	
Accounts Payable	3,771
Loan Payable	101,667
TOTAL LIABILITIES	105,438
<hr/>	
NET ASSETS	
Unrestricted	\$ (83,823)
<hr/>	

See Notes To Financial Statements

HOWARD COUNTY
Cresco, Iowa

STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2005

	Internal Service Employee Group Health
OPERATING REVENUES	
Reimbursements From Operating Funds	\$498,060
Reimbursements From Employees	70,142
Insurance Reimbursements	64,764
Total Operating Revenues	632,966
OPERATING EXPENSES	
Medical Claims	380,280
Insurance Premiums	397,558
Administrative Fees	10,077
Total Operating Expenses	787,915
Operating Loss	(154,949)
NON-OPERATING REVENUES	
Interest on Investments	633
Net Loss	(154,316)
Net Assets Beginning of Year	70,493
Net Assets End of Year	\$ (83,823)

See Notes To Financial Statements

**HOWARD COUNTY
Cresco, Iowa**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2005**

	Internal Service Employee Group Health
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received From Operating Fund Reimbursements	\$497,162
Cash Received From Employees & Others	135,803
Cash Payments To Suppliers For Services	(822,101)
Net Cash Used in Operating Activities	(189,136)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Investments	797
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds of Long-Term Debt	101,667
Net Decrease in Cash & Cash Equivalents	(86,672)
Cash & Cash Equivalents at Beginning of Year	108,255
Cash & Cash Equivalents at End of Year	\$21,583
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating Loss	\$ (154,949)
Adjustments to Reconcile Operating Loss to Net Cash Used In Operating Activities	
Decrease in Accounts Payable	(34,187)
Net Cash Used In Operating Activities	\$ (189,136)

See Notes To Financial Statements

HOWARD COUNTY
Cresco, Iowa

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2005

ASSETS

Cash & Pooled Investments	
County Treasurer	\$617,358
Other County Officials	2,698
Receivables	
Property Tax	
Delinquent	215
Succeeding Year	7,624,937
Accounts	400
Accrued Interest	312
TOTAL ASSETS	8,245,920

LIABILITIES

Accounts Payable	5,243
Salaries & Benefits Payable	5,854
Due To Other Governments	8,213,345
Trusts Payable	2,381
Compensated Absences	19,097
TOTAL LIABILITIES	8,245,920

NET ASSETS	\$ 0
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See Notes To Financial Statements

HOWARD COUNTY
Cresco, Iowa

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Howard County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. REPORTING ENTITY

For financial reporting purposes, Howard County has included all funds, organizations, agencies, boards, commissions, and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the County.

These financial statements present Howard County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Blended Component Units – The following component units are entities that are legally separate from the County, but are so intertwined with the County that they are, in substance, the same as the County. They are reported as part of the County and blended into the appropriate funds.

Seven drainage districts have been established pursuant to Chapter 468 of the Code of Iowa for the drainage of surface waters from agricultural and other lands or the protection of such lands from overflow. Although these districts are legally separate from the County, they are controlled, managed and supervised by the Howard County Board of Supervisors. The drainage districts are reported as a Special Revenue Fund. Financial information of the individual drainage districts can be obtained from the Howard County Auditor's office.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Jointly Governed Organizations – The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The Howard County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Howard County Assessor's Conference Board, Howard County Emergency Management Commission, and Howard County Joint E911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

B. BASIS OF PRESENTATION

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the County and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other non-exchange transactions.

The Statement of Net Assets presents the County's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for secondary road construction and maintenance.

The Debt Service Fund is utilized to account for the payment of interest and principal on the County's general long term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

Additionally, the County reports the following funds:

Proprietary Fund – An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the County and provided to other departments or agencies on a cost reimbursement basis.

Fiduciary Funds – Agency funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units, and/or other funds.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However principal and interest on long term debt, claims, judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Fund is charges to customers for sales and services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The County maintains its financial records on a cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2004.

Interest and Penalty on Property Tax Receivable – Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable, but has not been collected.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2005, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they are not available to liquidate current obligations.

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Infrastructure	\$50,000
Land, buildings and improvements	25,000
Equipment and vehicles	5,000

Capital assets of the County are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	40-65
Building Improvements	20-50
Infrastructure	30-50
Equipment	2-20
Vehicles	3-10

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable – Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay Liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year-end.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absence liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

Long-term Liabilities – In the government-wide financial statements and the proprietary fund financial statements, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities or proprietary fund Statement of Net Assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. BUDGETS AND BUDGETARY ACCOUNTING

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements did not exceed amounts budgeted and department disbursements did not exceed the amounts appropriated.

Note 2: Cash and Pooled Investments

The County's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

Notes to Financial Statements (Continued)

Note 2: Cash and Pooled Investments (Continued)

The County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$5,000, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. The County’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the County.

Credit risk. The investment in Iowa Public Agency Investment Trust is unrated.

Concentration of credit risk. The County places no limit on the amount that may be invested in any one issuer.

Note 3: Due from and Due to Other Funds

The detail of inter-fund receivables and payables at June 30, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Trust and Agency: Auto License and Use Tax	\$5,159

These balances resulted from the time lag between the dates that inter-fund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Note 4 : Inter-fund Transfers

The detail of inter-fund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General Basic	Featherlite TIF	\$46,856
Special Revenue		
New County Shop	Rural Services	25,000
Secondary Roads	Rural Services	766,000
Conservation Special Project	General Basic	51,316
County Assessor	Special Appraiser	92,000
		<u>\$981,172</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Notes to Financial Statements (Continued)

Note 5: Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$1,133,592	\$202,618	\$ 0	\$1,336,210
Construction in Progress	0	26,313	0	26,313
Total Capital Assets, Not Being Depreciated	1,133,592	228,931	0	1,362,523
Capital Assets, Being Depreciated				
Buildings	1,297,712	0	0	1,297,712
Machinery & Equipment	3,323,787	131,363	106,394	3,348,756
Infrastructure	2,113,446	426,000	0	2,539,446
Total Capital Assets, Being Depreciated	6,734,945	557,363	106,394	7,185,914
Less Accumulated Depreciation For:				
Buildings	675,796	14,986	0	690,782
Machinery & Equipment	1,940,261	205,592	94,109	2,051,744
Infrastructure	185,678	2,599	0	188,277
Total Accumulated Depreciation	2,801,735	223,177	94,109	2,930,803
Total Capital Assets, Being Depreciated, Net	3,933,210	334,186	12,285	4,255,111
Governmental Activities Capital Assets, Net	\$5,066,802	\$563,117	\$12,285	\$5,617,634

Depreciation Expenses was Charged to the Following Functions:

Public Safety & Legal Services	\$21,787
County Environment & Education	43,691
Roads & Transportation	135,683
Government Services to Residents	2,735
Administration	19,281
Total Depreciation Expense – Governmental Activities	\$223,177

Notes to Financial Statements (Continued)

Note 6 : Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

Fund	Description	Amount
General	Services	\$959
Special Revenue:		
Mental Health	Services	102,683
Secondary Roads	Services	3,476
		<u>106,159</u>
Total for governmental funds		<u>\$107,118</u>
Trust & Agency:		
Agricultural Extension	Collections	\$103,266
Assessor		128,442
Schools		4,701,570
Community Colleges		208,276
Corporations		2,058,118
Auto License & Use Tax		154,766
All Others		858,907
Total for agency funds		<u>\$8,213,345</u>

Note 7 : Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005, is as follows:

	Installment Purchase Agreements	Notes Payable	Compensated Absences	Total
Beginning Balance	\$53,207	\$35,072	\$272,736	\$361,015
Increases	0	0	0	0
Decreases	17,329	25,287	5,149	47,765
Ending Balance	<u>\$35,878</u>	<u>\$9,785</u>	<u>\$267,587</u>	<u>\$313,250</u>
Due Within One Year	<u>\$17,749</u>	<u>\$5,036</u>	<u>\$267,587</u>	<u>\$290,372</u>

Notes to Financial Statements (Continued)

Note 7 : Changes in Long-Term Liabilities (Continued)

Installment Purchase Agreement

The County has entered into installment purchase agreements to purchase an AS400 and the related software. The following is a schedule of the future payments in effect at June 30, 2005:

	Year Ending June 30,	AS400	Software	Total
	2006	\$12,914	\$6,011	\$18,925
	2007	12,914	6,011	18,925
Total Installment Payments		25,828	12,022	37,850
Less Amount Representing Interest		(1,321)	(651)	(1,972)
Present Value of Payments		\$24,507	\$11,371	\$35,878

Payments under installment purchase agreement totaled \$18,925 for the year ended June 30, 2005.

Notes Payable

On October 25, 1993, Howard County entered into a loan agreement with the Cresco Union Savings Bank for a \$300,000 loan to finance the addition of the Patty Elwood Alzheimer's Unit to the Howard Residential Care Facility. The loan was to be repaid with 6% interest over a ten year period. Howard Residential Care Facility agreed to reimburse Howard County the \$300,000 with payments over a ten year period with 6% interest. This loan was paid in full during the fiscal year ended June 30, 2005.

Howard County entered into a loan agreement with Cresco Union Savings Bank for a \$20,000 loan for the purchase of an air conditioner for the Howard Residential Care Facility. The following is a schedule of future payments in effect at June 30, 2005:

Year Ending June 30,	Principal	Interest	Total
2006	\$5,036	\$436	\$5,472
2007	4,749	214	4,963
	\$9,785	\$650	\$10,435

Note 8: Inter-fund Loan

During the fiscal year ended June 30, 2005, the County transferred \$101,667 from the General Fund to the Internal Service – Employee Group Health Fund as an inter-fund loan. At June 27, 2005, it was determined that the Internal Service – Employee Group Health Fund would not have sufficient funds to repay the loan prior to June 30, 2005 as required by Chapter 331.477 of the Code of Iowa. The County reclassified this inter-fund loan as long-term, interest free debt to be repaid to the General Fund from the Internal Service – Employee Group Health Fund over a three-year period.

Notes to Financial Statements (Continued)

Note 8: Inter-fund Loan (Continued)

The following is a schedule of future payments in effect at June 30, 2005:

Year Ending June 30,	Payment
2006	\$33,889
2007	33,889
2008	33,889
	<u>\$101,667</u>

Note 9: Pension and Retirement Benefits

The County 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 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll except for law enforcement employees and conservation peace officers, in which case the percentages for the year ended June 30, 2005 are 8.535% and 8.535% and 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for law enforcement employees and the County were 4.99% and 7.48%, respectively, and for the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 8.05%, respectively. For the year ended June 30, 2004 the contribution rates for conservation peace officers and the County were 6.16% and 9.23%, respectively, and for the year ended June 30, 2003, the contribution rates for conservation peace officers and the County were 5.93% and 8.90%, respectively. Contribution requirements are established by State statute. The County's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$137,061 and \$131,521, \$130,497, respectively, equal to the required contributions for each year.

Note 10 Risk Management

Howard County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 509 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims and claim expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300

Notes to Financial Statements (Continued)

Note 10 Risk Management (Continued)

percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of a deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if sufficient, by the subsequent year's member contributions.

The County's property and casualty contribution to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2005 were \$77,390.

The Pool uses reinsurance and excess risk sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk sharing protection provided by the member's risk sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such losses can be reasonably estimated. Accordingly, at June 30, 2005, no liability has been recorded in the County's financial statements. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contribution which the withdrawing member would have made for the one-year period following withdrawal.

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$3,000,000 and \$20,000, respectively, with an additional \$30,000 for the Treasurer's employee blanket bond. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Notes to Financial Statements (Continued)

Note 11: Employee Health Insurance Plan

The Internal Service, Employee Group Health Fund was established to account for the self-funding of the County's health insurance benefit plan. This plan is funded by both employee and County contributions and is administered through a service agreement with The Benefits Group, Inc. The agreement is subject to automatic renewal provisions. The County assumes liability for claims up to the individual stop loss limitation of \$25,000. Claims in excess of coverage are insured through purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Employee Group Health Fund are recorded as expenditures from the operating funds. Under the administrative service agreement, monthly payments of service fees and claims processed are paid to The Benefits Group, Inc. from the Employee Group Health Fund. The County's contribution to the fund for the year ended June 30, 2005 were \$498,060.

Amounts payable from the Employee Group Health Fund at June 30, 2005 total \$3,771, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on actuarial estimates of the amounts necessary to pay prior-year and current-year claims, and to establish a reserve for catastrophic losses. That reserve had a deficit balance of \$83,823 at June 30, 2005 and is reported as a designation of the Internal Service, Employee Group Health Fund retained earnings. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement Number 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in any of the past three years.

Note 12: Tax Increment Financing

On June 21, 1993, Howard County entered into a Development and Assessment Agreement with Featherlite Manufacturing. In the agreement, the County agreed to loan Featherlite Manufacturing \$400,000 for the construction of a corporate headquarters building in the County. The loan will be repaid with 7% interest over a twenty year period using the incremental tax revenues generated by property taxes on the new facilities.

On January 3, 1996, Howard County entered into a Development and Assessment agreement with Master Plastic. In the agreement, the County agreed to loan Master Plastic \$40,000 for adding diversity and generating new opportunities for Howard County. The loan will be repaid with 7% interest over a ten year period using the incremental tax revenues generated in the Howard County Urban Renewal Area.

Notes to Financial Statements (Continued)

Note 13: Closure and Postclosure Care Cost

Howard County has contracted with the Winneshiek County Area Solid Waste Agency. The purpose of the Agency is to provide for the economic disposal or collection and disposal of all solid waste produced or generated within each member. In performing its duties, the Agency may contract with and expend funds from federal, state and local agencies and private individuals and corporations.

State and Federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, state laws require the Agency to submit a closure and postclosure plan detailing the schedule for the methods by which the operator will meet the conditions for proper closure and postclosure. The Agency is in compliance with this requirement. On June 30, 2005, Howard County did not anticipate any additional assessment for closure and postclosure costs.

Note 14: Business Transactions

No business transactions between the County and County officials or employees were noted.

HOWARD COUNTY
Cresco, Iowa

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS
REQUIRED SUPPLEMENTARY INFORMATION**
Year Ended June 30, 2005

	Actual	Less Funds Not Required to Be Budgeted	Net	Budgeted Amounts		Final to Net Variance
				Original	Variance	
RECEIPTS						
Property & Other County Tax	\$3,341,716	\$ 0	\$3,341,716	\$3,286,877	\$3,287,584	\$54,132
Interest & Penalty on Property Tax	26,245	0	26,245	10,030	10,042	16,203
Intergovernmental	2,946,253	0	2,946,253	2,724,950	3,230,246	(283,993)
Licenses & Permits	5,230	0	5,230	2,500	2,500	2,730
Charges for Services	378,916	0	378,916	335,416	364,157	14,759
Use of Money & Property	343,621	0	343,621	65,190	384,690	(41,069)
Miscellaneous	136,019	14,079	121,940	166,570	185,895	(63,955)
Total Receipts	7,178,000	14,079	7,163,921	6,591,533	7,465,114	(301,193)
DISBURSEMENTS						
Public Safety & Legal Services	915,954	0	915,954	927,717	957,617	41,663
Physical Health & Social Services	442,782	0	442,782	509,128	495,497	52,715
Mental Health	1,026,092	0	1,026,092	1,019,700	1,026,823	731
County Environment & Education	1,046,282	0	1,046,282	901,188	1,311,098	264,816
Roads & Transportation	2,565,156	0	2,565,156	2,424,171	2,572,866	7,710
Governmental Services to Residents	230,629	0	230,629	224,854	262,898	32,269
Administrative Services	777,898	0	777,898	679,907	795,105	17,207
Non-program	12,894	12,353	541	1,000	1,000	459
Debt Service	20,826	0	20,826	30,408	30,408	9,582
Capital Projects	321,547	0	321,547	427,463	331,231	9,684
Total Disbursements	7,360,060	12,353	7,347,707	7,145,536	7,784,543	436,836
Excess (Deficiency) of Receipts Under Disbursements	(182,060)	1,726	(183,786)	(554,003)	(319,429)	135,643
Other Financing Sources, Net	2,520	0	2,520	0	1,869	651
Excess (Deficiency) of Receipts & Other Financing Sources Under Disbursements & Other Financing Uses	(179,540)	1,726	(181,266)	(554,003)	(317,560)	136,294
Balance Beginning of Year	2,690,066	9,523	2,680,543	2,117,134	2,680,585	(42)
Balance End of Year	\$2,510,526	\$11,249	\$2,499,277	\$1,563,131	\$2,363,025	\$136,252

See Accompanying Independent Auditors' Report

HOWARD COUNTY
Cresco, Iowa

BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2005

	Governmental Fund		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$7,178,000	\$11,698	\$7,189,698
Expenditures	7,360,060	(173,175)	7,186,885
Net	(182,060)	184,873	2,813
Other Financing Sources	2,520	0	2,520
Beginning Fund Balances	2,690,066	232,471	2,922,537
Increase in Reserve For:			
Notes Receivable	0	76,804	76,804
Inventories	0	21,620	21,620
Ending Fund Balances	\$2,510,526	\$515,768	\$3,026,294

See Accompanying Independent Auditors' Report

**Howard County
Cresco, Iowa**

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units and agency funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administrative services, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund and capital projects funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, three budget amendments increased budgeted disbursements by \$639,007. These budget amendments are reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

HOWARD COUNTY
Cresco, Iowa

COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS
 June 30, 2005

	County Recorder's Record Management	County Recorder's Electronic Transaction Fee	Tax Increment Financing
ASSETS			
Cash & Pooled Investments	\$22,509	\$17,024	\$17,704
Receivables			
Accounts	211	0	0
Accrued Interest	47	40	0
Due From Other Governments	0	0	0
TOTAL ASSETS	\$22,767	\$17,064	\$17,704
FUND EQUITY			
Fund Equity			
Fund Balance			
Unreserved	\$22,767	\$17,064	\$17,704
Total Liabilities and Fund Equity	\$22,767	\$17,064	\$17,704

See Accompanying Independent Auditors' Report

Schedule 1

<u>Resource Enhancement & Protection</u>	<u>Conservation Special Projects</u>	<u>Drainage District</u>	<u>Special Equipment</u>	<u>Conservation Land Acquisition Trust</u>	<u>Total</u>
\$40,106	\$172,170	\$11,249	\$18,013	\$19,791	\$318,566
0	0	0	0	0	211
85	791	0	0	132	1,095
4,625	0	0	0	0	4,625
<u>\$44,816</u>	<u>\$172,961</u>	<u>\$11,249</u>	<u>\$18,013</u>	<u>\$19,923</u>	<u>\$324,497</u>
<u>\$44,816</u>	<u>\$172,961</u>	<u>\$11,249</u>	<u>\$18,013</u>	<u>\$19,923</u>	<u>\$324,497</u>
<u>\$44,816</u>	<u>\$172,961</u>	<u>\$11,249</u>	<u>\$18,013</u>	<u>\$19,923</u>	<u>\$324,497</u>

HOWARD COUNTY
Cresco, Iowa

COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR SPECIAL REVENUE FUNDS
Year Ended June 30, 2005

	County Recorder's Record Management	County Recorder's Electronic Transaction Fee	Tax Increment Financing
REVENUES			
Property & Other County Tax	\$ 0	\$ 0	\$63,114
Intergovernmental	0	0	0
Charges for Services	2,585	14,196	0
Use of Money & Property	302	354	0
Miscellaneous	0	0	0
Total Revenues	2,887	14,550	63,114
EXPENDITURES			
Operating:			
Public Safety & Legal Services	0	0	0
County Environment & Education	0	0	9,739
Governmental Services to Residents	0	20,240	0
Nonprogram	0	0	0
Total Expenditures	0	20,240	9,739
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,887	(5,690)	53,375
Other Financing Sources (Uses)			
Operating Transfers In	0	0	0
Operating Transfers Out	0	0	(46,856)
	0	0	(46,856)
Excess (Deficiency) of Revenues and Other Financing Sources (Uses) Over Expenditures	2,887	(5,690)	6,519
Fund Balances – Beginning of Year	19,880	22,754	11,185
Fund Balances – End of Year	\$22,767	\$17,064	\$17,704

See Accompanying Independent Auditors' Report

Schedule 2

Resource Enhancement & Protection	Conservation Special Projects	Drainage District	Special Equipment	Conservation Land Acquisition Trust	Total
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$63,114
9,148	0	0	0	0	9,148
0	0	0	6,709	0	23,490
563	3,021	0	0	206	4,446
0	8,284	14,079	0	0	22,363
9,711	11,305	14,079	6,709	206	122,561
0	0	0	3,896	0	3,896
0	32,594	0	0	0	42,333
0	0	0	0	0	20,240
0	0	12,353	0	0	12,353
0	32,594	12,353	3,896	0	78,822
9,711	(21,289)	1,726	2,813	206	43,739
0	51,316	0	0	0	51,316
0	0	0	0	0	(46,856)
0	51,316	0	0	0	4,460
9,711	30,027	1,726	2,813	206	48,199
35,105	142,934	9,523	15,200	19,717	276,298
\$44,816	\$172,961	\$11,249	\$18,013	\$19,923	\$324,497

HOWARD COUNTY
Cresco, Iowa

**COMBINING SCHEDULE OF FIDUCIARY
ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2005**

	County Offices	Agricultural Extension Education	County Assessor	Schools
ASSETS				
Cash & Pooled Investments				
County Treasurer	\$ 0	\$2,077	\$45,243	\$93,321
Other County Officials	2,698	0	0	0
Receivables				
Property Tax				
Delinquent	0	2	2	98
Succeeding Year	0	101,187	107,454	4,608,151
Accounts	14	0	0	0
Accrued Interest	0	0	0	0
TOTAL ASSETS	\$2,712	\$103,266	\$152,699	\$4,701,570
LIABILITIES				
Liabilities				
Accounts Payable	\$ 0	\$ 0	\$136	\$ 0
Salaries & Benefit Payable	0	0	5,024	0
Due to Other Governments	400	103,266	128,442	4,701,570
Trusts Payable	2,312	0	0	0
Compensated Absences	0	0	19,097	0
TOTAL LIABILITIES	\$2,712	\$103,266	\$152,699	\$4,701,570

See Accompanying Independent Auditors' Report

Schedule 3

Community Colleges	Corporations	Townships	City Special Assessments	Auto License & Use Tax	Other	Total
\$4,141	\$28,440	\$1,600	\$4,681	\$154,766	\$283,089	\$617,358
0	0	0	0	0	0	2,698
4	99	0	0	0	10	215
204,131	2,029,579	78,725	0	0	495,710	7,624,937
0	0	0	0	0	386	400
0	0	0	0	0	312	312
\$208,276	\$2,058,118	\$80,325	\$4,681	\$154,766	\$779,507	\$8,245,920
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$5,107	\$5,243
0	0	0	0	0	830	5,854
208,276	2,058,118	80,325	4,681	154,766	773,501	8,213,345
0	0	0	0	0	69	2,381
0	0	0	0	0	0	19,097
\$208,276	\$2,058,118	\$80,325	\$4,681	\$154,766	\$779,507	\$8,245,920

HOWARD COUNTY
Cresco, Iowa

COMBINING SCHEDULE OF CHANGES IN FIDUCIARY
ASSETS AND LIABILITIES – AGENCY FUNDS

Year Ended June 30, 2005

	County Offices	Agricultural Extension Education	County Assessor	Schools
ASSETS AND LIABILITIES				
Balances – Beginning of Year	\$4,604	\$101,692	\$136,996	\$4,549,085
Additions				
Property & Other County Tax	0	104,276	110,738	4,742,077
E911 Surcharge	0	0	0	0
State Tax Credits	0	7,277	7,733	327,157
Driver License Fees	0	0	0	0
Office Fees & Collections	209,264	0	0	0
Electronic Transaction Fees	0	0	0	0
Auto Licenses, Use Tax & Postage	0	0	0	0
Assessments	0	0	0	0
Trusts	69,783	0	0	0
Miscellaneous	0	0	3,114	0
Total Additions	279,047	111,553	121,585	5,069,234
Deductions				
Agency Remittances				
To County Funds	98,571	0	0	0
To Other Governments	110,293	109,979	197,882	4,916,749
Trusts Paid Out	72,075	0	0	0
Total Deductions	280,939	109,979	197,882	4,916,749
Other Financing Sources (Uses)				
Operating Transfers In (Out)	0	0	92,000	0
Balances – End of Year	\$2,712	\$103,266	\$152,699	\$4,701,570

See Accompanying Independent Auditors' Report

Schedule 4

Community Colleges	Corporations	Townships	City Special Assessments	Auto License & Use Tax	Other	Total
\$247,092	\$1,928,878	\$75,887	\$194	\$168,493	\$750,850	\$7,963,771
213,365	2,025,578	81,638	0	0	509,436	7,787,108
0	0	0	0	0	50,958	50,958
14,535	130,891	5,017	2	0	32,340	524,952
0	0	0	0	56,821	0	56,821
0	0	0	0	0	0	209,264
0	0	0	0	0	2,585	2,585
0	0	0	0	1,935,696	0	1,935,696
0	0	0	26,657	0	0	26,657
0	0	0	0	0	67,042	136,825
0	0	0	0	0	76,152	79,266
227,900	2,156,469	86,655	26,659	1,992,517	738,513	10,810,132
0	0	0	0	89,148	0	187,719
266,716	2,027,229	82,217	22,172	1,917,096	550,794	10,201,127
0	0	0	0	0	67,062	139,137
266,716	2,027,229	82,217	22,172	2,006,244	617,856	10,527,983
0	0	0	0	0	(92,000)	0
\$208,276	\$2,058,118	\$80,325	\$4,681	\$154,766	\$779,507	\$8,245,920

HOWARD COUNTY
Cresco, Iowa

SCHEDULE OF REVENUES BY SOURCE AND
EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS

For the Last Three Years

	Modified Accrual Basis		
	2005	2004	2003
Revenues:			
Property & Other County Tax	\$3,347,766	\$3,327,392	\$3,126,425
Interest & Penalty On Property Tax	26,264	28,902	30,227
Intergovernmental	2,936,128	2,788,622	2,664,971
Licenses & Permits	5,280	3,895	4,733
Charges For Service	388,727	356,000	314,652
Use of Money & Property	351,573	64,405	94,381
Miscellaneous	133,960	193,443	182,480
Total	\$7,189,698	\$6,762,659	\$6,417,869
Expenditures:			
Current:			
Public Safety & Legal Services	\$917,620	\$879,651	\$887,697
Physical Health & Social Services	443,218	450,526	465,631
Mental Health	996,192	1,099,206	1,004,410
County Environment & Education	1,066,753	641,948	641,870
Roads & Transportation	2,379,734	2,655,035	2,382,111
Governmental Services To Residents	230,791	211,876	214,051
Administration Services	772,808	696,011	579,142
Non-Program	12,894	4,110	7,870
Debt Services	20,826	30,408	113,408
Capital Projects	346,049	29,817	124,409
Total	\$7,186,885	\$6,698,588	\$6,420,599

See Accompanying Independent Auditors' Report



Gardiner Thomsen
Certified Public Accountants

Independent Auditors' 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 Officials of Howard County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Howard County, Iowa, as of and for the year ended June 30, 2005 which collectively comprise the County's basic financial statements listed in the table of contents and have issued our report thereon dated December 9, 2005. 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 Howard County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Howard County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness.

Independent Auditors' 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 (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Howard County's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Howard County and other parties to whom Howard County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Howard County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

January 28, 2006

Gardiner Thomsen, P.C.

HOWARD COUNTY
Cresco, Iowa

SCHEDULE OF FINDINGS
Year Ended June 30, 2005

Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were reported.

REPORTABLE CONDITIONS

- (A) **Segregation of Duties** – During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County's financial statements.

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

Response – We have reviewed procedures and plan to make the necessary changes to improve internal control.

Conclusion – Response accepted.

Other Findings Related to Required Statutory Reporting:

- 1 **Official Depositories** – A resolution naming official depositories has been adopted by the Board of Supervisors. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- 2 **Certified Budget** – Disbursements during the year ended June 30, 2005 did not exceed the amounts budgeted.
- 3 **Questionable Expenditures** – We noted no expenditures that may not meet the requirements of public purpose as defined by an Attorney General's opinion dated April 25, 1979.
- 4 **Travel Expense** – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- 5 **Business Transaction** - No transactions between the County and County officials of employees were noted.
- 6 **Bond Coverage** – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of all bonds should be periodically reviewed to ensure that the coverage is adequate for current operations.

HOWARD COUNTY
Cresco, Iowa

SCHEDULE OF FINDINGS

- 7 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not. However, it was noted the Board went into closed session several times without following the statutory procedures.

Recommendation – The Board of Supervisors should ensure that all closed sessions comply with Chapter 21 of the Code of Iowa.

Response – We will comply with these requirements in the future.

Conclusion – Response accepted

- 8 **Resource Enhancement and Protection Certification** - The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

- 9 **Deposits and Investments** – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the County’s investment policy were noted.

- 10 **Economic Development** – During the year ended June 30, 2005, the County paid \$87,436 for Economic Development, which appears to be an appropriate expenditure of public funds since benefits to be derived have been clearly documented.

- 11 **County Extension Office** – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2005 for the County Extension Office did not exceed the amount budgeted.

- 12 **Financial Condition** – We noted a deficit balance in the Internal Service Fund, Employee Group Health Fund of \$83,823 at June 30, 2005.

Recommendation – The County should investigate alternatives to eliminate the deficit.

Response – The deficit will be eliminated through the budget.

Conclusion – Response accepted

News Release

Gardiner Thomsen today released an audit report on Howard County, Iowa.

The County had local tax revenue of \$11,888,350 for the year ended June 30, 2005, which included \$727,212 in tax credits from the State. The County forwarded \$7,999,213 of the local tax revenue to the townships, school districts, cities, and other taxing bodies in the County.

The County retained \$3,576,282 of the local tax revenue to finance county operations, an 8% increase from the prior year. Other revenues included charges for services of \$667,809, operating grants, contributions and restricted interest of \$2,395,252, unrestricted investment earnings of \$70,539 and other general revenues of \$93,301.

Expenses for County operations totaled \$6,919,050, a 3% increase from the prior year. Expenses included \$2,596,057 for Roads and Transportation, \$1,002,238 for Mental Health, and \$955,229 for Public Safety and Legal Services.

A copy of the audit report is available for review in the Office of the Auditor of State and County Auditor's office.

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