

MITCHELL COUNTY
Osage, Iowa

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

MITCHELL COUNTY, IOWA
Osage, Iowa

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MITCHELL COUNTY
Osage, Iowa

OFFICIALS

(Before January 2005)

<u>Name</u>	<u>Term Expires</u>	<u>Title</u>
Stan Walk.....	January 2005	Board of Supervisors
Cheryl Jahnel	January 2007	Board of Supervisors
Verne Tanner.....	January 2007	Board of Supervisors
Lowell Tesch.....	January 2005	Auditor
Carol Zerck	January 2007	Treasurer
Sue Reimers	January 2007	Recorder
Curtis Younker.....	January 2005	Sheriff
Mark Walk	January 2007	Attorney
L. Dean Pohren	Appointed.....	Assessor

(After January 2005)

<u>Name</u>	<u>Term Expires</u>	<u>Title</u>
Cheryl Jahnel	January 2007	Board of Supervisors
Verne Tanner.....	January 2007	Board of Supervisors
Stan Walk.....	January 2009	Board of Supervisors
Lowell Tesch.....	January 2009	Auditor
Carol Zerck	January 2007	Treasurer
Sue Reimers	January 2007	Recorder
Curtis Younker.....	January 2009	Sheriff
Mark Walk	January 2007	Attorney
L. Dean Pohren	Appointed.....	Assessor



Gardiner Thomsen
Certified Public Accountants

Independent Auditors' Report

To the Officials of Mitchell County
Osage, Iowa

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mitchell 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. These financial statements are the responsibility of Mitchell 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 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 Mitchell County at June 30, 2005, and the respective changes in financial position 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 March 20, 2006 on our consideration of Mitchell 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 - 9 and 33 - 35 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 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 Mitchell 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 two years ended June 30, 2004 (which are not presented herein) and expressed an unqualified opinion on those financial statements. We previously audited in accordance with standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2002 (which are not presented herein) and expressed qualified opinions on those financial statements for lack of materials and supplies inventory records pertaining to Special Revenue Funds. 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.

March 20, 2006

Gardiner Thomsen, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Mitchell County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of Mitchell 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.

FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities increased 14.53% or approximately \$1,111,254, from fiscal 2004 to fiscal 2005. Property taxes decreased approximately \$87,876, operating grants and contributions increased approximately \$298,694, and capital grants and contributions increased approximately \$861,468.
- Program expenses were 3.7%, or approximately \$273,636 more in fiscal 2005 than in fiscal 2004. Roads and transportation expense increased approximately \$339,675.
- The County's net assets increased 20.17%, or approximately \$1,097,510 from June 30, 2004 to June 30, 2005.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows.

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Mitchell County as a whole and present an overall view of the County's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Mitchell County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Mitchell County acts solely as an agent or custodian for the benefit of those outside of the County government (Agency Funds).

Note to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue and the individual Agency funds.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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 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 County has two types of funds:

(1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenues Funds, such as Mental Health, Rural Services and Secondary Roads, and 3) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

(2) Fiduciary funds are used to report assets held in a trust or agency capacity for other which cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for emergency management services and the County Assessor, to name a couple.

The required financial statements for fiduciary funds include a statement of fiduciary assets and liabilities.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Mitchell County’s combined net assets increased significantly from a year ago, increasing from \$5,441,293 to \$6,538,803.

Net Assets of Governmental Activities

(Expressed in Thousands)

	June 30	
	2005	2004
Current and Other Assets	\$6,882	\$6,005
Capital Assets	6,050	5,320
Total Assets	<u>12,932</u>	<u>11,325</u>
Long-Term Debt Outstanding	2,361	2,601
Other Liabilities	4,032	3,283
Total Liabilities	<u>6,393</u>	<u>5,884</u>
Net Assets:		
Invested in Capital Assets, Net of debt	3,879	2,899
Restricted	2,151	1,940
Unrestricted	509	602
Total Net Assets	<u>\$6,539</u>	<u>\$5,441</u>

Net assets of the County’s governmental activities increased by approximately 20.17%, (\$6.539 Million compared to \$5.441 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. 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.

Changes in Net Assets of Governmental Activities

	June 30	
	2005	2004
Program Revenues:		
Charges for service	\$1,231	\$786
Operating grants and contributions	3,092	2,793
Capital grants and contributions	861	0
Property taxes	2,918	3,006
Unrestricted investments earnings	62	44
Other general revenues	596	1,019
Total revenues	<u>8,760</u>	<u>7,648</u>
Program Expenses:		
Public safety and legal services	1,230	1,178
Physical health and social services	697	721
Mental health	1,358	1,539
County environment and education	557	578
Roads and transportation	2,705	2,366
Government services to residents	239	212
Administration	765	665
Non-program	27	43
Interest on long-term debt	84	86
Total expenses	<u>7,662</u>	<u>7,388</u>
Increase in net assets	1,098	260
Net assets beginning of year	<u>5,441</u>	<u>5,181</u>
Net assets end of year	<u>\$6,539</u>	<u>\$5,441</u>

The County's revenue increased 14.53% (\$1,111,254). The total cost of programs and services increased 3.7%, (\$273,636) with no new programs added this year.

INDIVIDUAL MAJOR FUNDS

As Mitchell County completed the year, its governmental funds reported a combined fund balance of \$2,805,268, which is \$108,108 above last year's total of \$2,697,160. The following are the major reasons for the changes in fund balances from the prior year.

General Basic – The ending fund balance of General Basic funds decreased by \$68,477, due to unexpected courthouse repairs.

Mental Health – The ending fund balance of Mental Health decreased by \$138,312, due to an increase in expenses.

Rural Services – The ending fund balance of Rural Basic decreased by \$19,214, due to a new compactor for county disposal and an increase in funding for the libraries.

Secondary Roads – Secondary Roads Fund balance increased \$108,108, due to anticipated paving not being completed.

BUDGETARY HIGHLIGHTS

Budgetary highlights include purchase of lots for a new county services building, to be completed in calendar year 2006. Unanticipated repairs were necessary to the courthouse roof. Both health and property insurance took a substantial increase during this fiscal year.

Economic Factors – Over the course of the year, Mitchell County amended its budget one time. The amendment was made in April 2005. The fund balance decreased by \$36,347, due to increased food costs, wages and custodial expenses of \$88,964 for the jail, \$35,848 more was needed for home health, county conservation purchased some land which was not budgeted for and our insurance premiums were larger than anticipated by \$99,712. These increases were due to liability, worker's comp and increases in values of County owned buildings. Mitchell County had flood damage of \$200,000, of which FEMA paid \$169,542.

State and federal grants to General Basic increased \$316,136, and land rent and donations added another \$12,184 to general basic.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, Mitchell County had approximately \$6.05 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This is a net increase (including additions and deletions) of approximately \$729,759 or 13.71% over last year.

Capital Assets of Governmental Activities at Year End

(Expressed in Thousands)

	June 30	
	2005	2004
Land	\$780	\$748
Buildings and Improvements	2,693	2,771
Equipment and vehicles	1,097	1,211
Construction in progress	26	0
Infrastructure	1,454	590
Total	\$6,050	\$5,320

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

Capital assets contributed by the Iowa Department of Transportation	\$861
Secondary Roads Vehicles and Equipment	55
Land for County Services Building	32
Conservation Vehicle	17
Sheriff Vehicle	21
Total	\$986

The County had depreciation expense of \$354,243 for the year ended June 30, 2005 and total accumulated depreciation as of June 30, 2005 of \$4,283,655.

The County's fiscal year 2005 capital expenditures totaled \$174,489, principally for the continued upgrading of secondary roads and bridges and the start of the County Services Building.

Debt Administration

At June 30, 2005, the County had approximately \$2,360,824 in general obligation bonds and other debt outstanding compared to approximately \$2,601,387 at June 30, 2004, as shown below.

Outstanding Debt of Governmental Activities at Year-End

(Expressed in Thousands)

	June 30	
	2005	2004
LOSST Bonds	\$1,560	\$1,680
Loan Agreements	611	740
Drainage Improvement Certificates	24	43
Compensated Absences	166	138
Total	\$2,361	\$2,601

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. Mitchell County's outstanding general obligation debt is significantly below its constitutional debt limit of \$22 million. Other obligations include accrued vacation pay. More detail 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

Fiscal year 2006 began with a beginning fund balance of \$2,216,534 which equals a 20.95% balance compared to expenditures. Projected expenses for fiscal year 2006 included:

McIntire Sewer Project	\$375,000
County Services Building	595,000
Payment for building	129,325
New Voting Equipment	40,000

The McIntire Sewer Project resulted from a request by the City of McIntire for Mitchell County to serve as Responsible Management Entity (RME). As RME, Mitchell County will provide oversight for the project to address DNR requirements for improved sewer facilities in McIntire. At the time of budget preparation, our best estimates for costs of this project were \$375,000 which included application and receipt of Community Development Block Grant funds to offset these expenses.

At that time, with these included expenses there was a need to increase the General Basic levy to the limit of \$3.50 in addition to General Supplemental levy rate of \$1.44648. General Supplemental included costs for health insurance, liability insurance, FICA, IPERS, substance abuse, and payroll taxes. The County Services Building was built to address a gap in services for Mitchell County residents. It was the goal to provide a one-stop shop for residents to access mental health, home health/public health, DHS, case management for mental retardation/mental illness, General Relief office, substance abuse, vocational rehabilitation, and crisis intervention, to name a few. The County Services Building is the answer to this gap. In addition to the full expense for the County Services Building, it was anticipated that the first payment for the building would be made from General Basic fund.

HAVA, Help America Vote Act (federal mandate), required our County to invest in new voting equipment for all precincts. This equipment had to meet mandated requirements for those that are disabled, over-vote issues, and accuracy of counts.

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, 508 State Street, Osage, Iowa.

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MITCHELL COUNTY
Osage, Iowa
STATEMENT OF NET ASSETS
 June 30, 2005

	Governmental Activities
<hr/>	
ASSETS	
Cash & Pooled Investments	\$2,697,991
Receivables	
Property Tax	
Delinquent	26,210
Succeeding Year	3,548,210
Interest & Penalty On Property Tax	33
Accounts	99,449
Accrued Interest	7,795
Drainage Assessments	23,803
Due From Other Governments	252,356
Inventories	226,713
Capital Assets (Net of Accumulated Depreciation)	6,049,788
TOTAL ASSETS	12,932,348
 LIABILITIES	
Accounts Payable	296,470
Accrued Interest Payable	28,661
Salaries & Benefits Payable	38,205
Due To Other Governments	135,849
Deferred Revenue	
Succeeding Year Property Tax	3,548,210
Long Term Liabilities	
Portion Due Or Payable Within One Year	
General Obligation Notes	238,341
Compensated Absences	151,673
Portion Due Or Payable After One Year	
General Obligation Notes	1,932,490
Drainage Improvement Certificates Payable	23,646
TOTAL LIABILITIES	6,393,545
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	3,878,957
Restricted For:	
Mental Health Purposes	334,078
Secondary Roads Purposes	1,246,762
Capital Projects	(10,482)
Other Purposes	580,242
Unrestricted	509,246
TOTAL NET ASSETS	\$6,538,803

See Notes To Financial Statements

**MITCHELL COUNTY
Osage, Iowa**

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

FUNCTIONS/PROGRAMS:	Expenses	Program Revenues			Net (Expense) Revenue & Changes in Net Assets
		Charges for Service	Contributions, & Restricted Interest	Operating Grants, Capital Grants, Contributions, & Restricted Interest	
GOVERNMENTAL ACTIVITIES:					
Public Safety & Legal Services	\$1,230,581	\$329,884	\$250	\$0	\$(900,447)
Physical Health & Social Services	696,999	268,530	423,647	0	(4,822)
Mental Health	1,357,603	113,943	542,181	0	(701,479)
County Environment & Education	556,593	193,570	9,238	0	(353,785)
Roads & Transportation	2,705,032	44,937	2,116,769	861,468	318,142
Governmental Services to Residents	239,052	190,441	0	0	(48,611)
Administration	764,990	68,834	0	0	(696,156)
Nonprogram	26,763	21,171	0	0	(5,592)
Interest on Long-Term Debt	84,455	0	0	0	(84,455)
TOTAL	\$7,662,068	\$1,231,310	\$3,092,085	\$861,468	(2,477,205)
GENERAL REVENUES:					
Property & Other County Tax Levied For:					
General Purposes					2,917,958
Penalties & Interest on Property Tax					22,511
State Tax Credits					189,577
Local Option Sales Tax					353,540
Unrestricted Investment Earnings					61,754
Miscellaneous					32,346
Loss on Disposal of Capital Assets					(2,971)
TOTAL GENERAL REVENUES					3,574,715
CHANGE IN NET ASSETS					1,097,510
NET ASSETS, BEGINNING OF YEAR					5,441,293
NET ASSETS END OF YEAR					\$6,538,803

See Notes To Financial Statements

MITCHELL COUNTY
Osage, Iowa

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General	Special Revenue	
		Mental Health	Rural Services
ASSETS			
Cash & Pooled Investments	\$501,352	\$444,487	\$226,321
Receivables			
Property Tax			
Delinquent	14,078	3,972	8,160
Succeeding Year	2,000,708	564,561	982,941
Interest & Penalty on Property Tax	33	0	0
Accounts	70,758	20,596	129
Accrued Interest	7,266	0	0
Drainage Assessments	0	0	0
Due From Other Funds	5,678	0	0
Due From Other Governments	82,450	0	0
Inventories	0	0	0
TOTAL ASSETS	\$2,682,323	\$1,033,616	\$1,217,551
LIABILITIES & FUND BALANCES			
Liabilities			
Accounts Payable	\$42,575	\$38,705	\$1,131
Salaries & Benefits Payable	19,771	3,323	0
Due To Other Governments	1,500	92,949	0
Deferred Revenue			
Succeeding Year Property Tax	2,000,708	564,561	982,941
Other	23,571	3,688	7,527
Total Liabilities	2,088,125	703,226	991,599
Fund Balances			
Reserved For:			
Inventories	0	0	0
Unreserved, Reported In:			
General Fund	594,198	0	0
Special Revenue Funds	0	330,390	225,952
Capital Projects Fund	0	0	0
Total Fund Balances	594,198	330,390	225,952
TOTAL LIABILITIES & FUND BALANCES	\$2,682,323	\$1,033,616	\$1,217,551

See Notes To Financial Statements

Exhibit C

<u>Special Revenue</u> Secondary Roads	Capital Projects	Non-major Special Revenue	Total
\$1,190,724	\$32	\$329,397	\$2,692,313
0	0	0	26,210
0	0	0	3,548,210
0	0	0	33
3,850	0	4,116	99,449
0	0	529	7,795
0	0	23,803	23,803
0	0	0	5,678
149,815	0	20,091	252,356
226,713	0	0	226,713
<u>\$1,571,102</u>	<u>\$32</u>	<u>\$377,936</u>	<u>\$6,882,560</u>
\$203,545	\$10,514	\$0	\$296,470
15,111	0	0	38,205
41,400	0	0	135,849
0	0	0	3,548,210
0	0	23,772	58,558
<u>260,056</u>	<u>10,514</u>	<u>23,772</u>	<u>4,077,292</u>
226,713	0	0	226,713
0	0	0	594,198
1,084,333	0	354,164	1,994,839
0	(10,482)	0	(10,482)
<u>1,311,046</u>	<u>(10,482)</u>	<u>354,164</u>	<u>2,805,268</u>
<u>\$1,571,102</u>	<u>\$32</u>	<u>\$377,936</u>	<u>\$6,882,560</u>

**MITCHELL COUNTY
Osage, Iowa**

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

Total Governmental Fund Balances (page 12-13)	\$2,805,268
<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 \$10,333,443 and the accumulated depreciation is \$4,283,655.	6,049,788
Other long term assets are not available to pay current period expenditures and, therefore, are deferred in the funds	58,558
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>(2,374,811)</u>
Net assets of Governmental Activities (page 10)	<u><u>\$6,538,803</u></u>

See Notes to Financial Statements.

MITCHELL COUNTY
Osage, 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	\$1,505,074	\$514,183	\$992,764
Interest & Penalty on Property Tax	22,511	0	0
Intergovernmental	764,431	630,616	59,368
Licenses & Permits	3,525	0	0
Charges for Services	728,135	59,930	7,790
Use of Money & Property	67,580	583	0
Miscellaneous	12,374	4,505	145
Total Revenues	3,103,630	1,209,817	1,060,067
EXPENDITURES			
Current:			
Public Safety & Legal Services	1,169,792	0	7,280
Physical Health & Social Services	694,403	0	0
Mental Health	0	1,344,854	0
County Environment & Education	379,830	0	144,020
Roads & Transportation	0	0	0
Governmental Services to Residents	208,749	0	0
Administrative Services	745,282	0	0
Non-program	0	0	0
Debt Service	0	0	0
Capital Projects	0	0	0
Total Expenditures	3,198,056	1,344,854	151,300
Excess (Deficiency) of Revenues Over (Under) Expenditures	(94,426)	(135,037)	908,767
Other Financing Sources (Uses)			
Sale of Capital Assets	0	0	0
Operating Transfers In	103,276	0	0
Operating Transfers Out	(78,000)	(18,276)	(929,000)
Total Other Financing Sources (Uses)	25,276	(18,276)	(929,000)
Excess (Deficiency) of Revenues and Other Financing Sources			
Over (Under) Expenditures and Other Financing Uses	(69,150)	(153,313)	(20,233)
Fund Balances – Beginning of Year	663,348	483,703	246,185
Increase in Reserve For Inventories	0	0	0
Fund Balances – End of Year	\$594,198	\$330,390	\$225,952

See Notes To Financial Statements

Exhibit E

<u>Special Revenue</u> Secondary Roads	Capital Projects	Non-major Special Revenue	Total
\$0	\$0	\$247,478	\$3,259,499
0	0	0	22,511
2,116,769	0	9,703	3,580,887
1,440	0	0	4,965
32,839	0	18,948	847,642
4,115	0	37,056	109,334
10,865	0	28,866	56,755
<u>2,166,028</u>	<u>0</u>	<u>342,051</u>	<u>7,881,593</u>
0	0	1,216	1,178,288
0	0	416	694,819
0	0	0	1,344,854
0	0	53,576	577,426
2,659,391	0	0	2,659,391
0	0	24,173	232,922
0	0	0	745,282
0	0	26,763	26,763
0	0	208,365	208,365
104,007	70,482	0	174,489
<u>2,763,398</u>	<u>70,482</u>	<u>314,509</u>	<u>7,842,599</u>
(597,370)	(70,482)	27,542	38,994
429	0	0	429
929,000	60,000	18,000	1,110,276
0	0	(85,000)	(1,110,276)
<u>929,429</u>	<u>60,000</u>	<u>(67,000)</u>	<u>429</u>
332,059	(10,482)	(39,458)	39,423
910,302	0	393,622	2,697,160
<u>68,685</u>	<u>0</u>	<u>0</u>	<u>68,685</u>
<u>\$1,311,046</u>	<u>\$(10,482)</u>	<u>\$354,164</u>	<u>\$2,805,268</u>

**MITCHELL COUNTY
Osage, 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 15-16) \$108,108

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	\$225,934	
Capital Assets contributed by the Iowa Department of Transportation	861,468	
Depreciation Expense	(354,243)	733,159

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas in the governmental funds, the proceeds from the sale as an increases in financial resources. (3,400)

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 as follows:

Property tax	11,999	
Other	(11,503)	496

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 are as follows:

Repaid		268,990
--------	--	---------

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	(13,753)	
Interest on long-term debt	3,910	(9,843)

Change in Net Assets of Governmental Activities (page 11) \$1,097,510

See Notes to Financial Statements

**MITCHELL COUNTY
Osage, Iowa**

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

ASSETS

Cash & Pooled Investments	
County Treasurer	\$552,363
Other County Officials	19,793
Receivables	
Property Tax	
Delinquent	3,255
Succeeding Year	8,090,589
Accounts	13,293
Accrued Interest	23
Due From Other Governments	0
TOTAL ASSETS	<u>8,679,316</u>

LIABILITIES

Accounts Payable	2,881
Salaries & Benefits Payable	3,468
Due To Other Governments	8,589,613
Trusts Payable	68,680
Compensated Absences	14,674
TOTAL LIABILITIES	<u>8,679,316</u>

NET ASSETS	<u><u>\$0</u></u>
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See Notes To Financial Statements

MITCHELL COUNTY
Osage, Iowa

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Mitchell 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 presented in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. REPORTING ENTITY

For financial reporting purposes, Mitchell 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 Mitchell 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 which 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.

Eight 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 Mitchell County Board of Supervisors. The drainage districts are reported as a Special Revenue Fund. Financial information of these drainage districts can be obtained from the Mitchell County Auditor's office.

Jointly Governed Organizations – The County 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 Mitchell County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Mitchell County Assessor's Conference Board, Mitchell County Emergency Management Commission, and Mitchell 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.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

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 that are imposed by management, but 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 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.

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.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

B. BASIS OF PRESENTATION (CONTINUED)

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 the secondary road construction and maintenance.

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 followings funds:

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 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.

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 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 the cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

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.

D. ASSETS, LIABILITIES AND FUND EQUITY

The following accounting policies are followed in preparing the combined 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 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.

Drainage Assessment Receivable – Drainage assessments receivable represent amounts assessed to individuals for work done on drainage districts which benefit their property. These assessments are payable by individuals in not less than 10 nor more than 20 annual installments. Each annual installment with interest on the unpaid balance is September 30 and is subject to the same interest and penalties as other taxes. Delinquent drainage assessments receivable represent assessments which are due and payable but have not been collected. Succeeding year drainage assessments receivable represents remaining assessments which are payable but not yet due.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent that 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.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

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.

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 repair 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.

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	20-50
Infrastructure	30-50
Equipment	2-20

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 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 delinquent property tax receivables and other receivables not collected within sixty days after year-end.

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.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

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 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 and Secondary Roads Funds.

Long-term Liabilities – In the government-wide financial statements, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities. 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 exceeded amounts budgeted in the Debt Service function.

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.

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.

Concentration of Credit Risk – The County places no limit on the amount that may be invested in any one issuer.

Notes to Financial Statements (Continued)

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	Agency: Auto License and Use Tax	\$5,678

These balances result 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	Mental Health	\$18,276
General Basic	Local Option Sales Tax Bond Sinking Fund	85,000
Special Revenue		
Secondary Roads	Rural Services	929,000
Conservation Land Acquisition	General Basic	18,000
Capital Projects	General Basic	60,000
County Assessor	Special Appraiser	49,439
		<u>49,439</u>
Total		<u><u>\$1,159,715</u></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	\$747,550	\$32,000	\$0	\$779,550
Construction in progress	0	25,988	0	25,988
Total capital assets not being depreciated	<u>747,550</u>	<u>57,988</u>	<u>0</u>	<u>805,538</u>
Capital assets being depreciated:				
Buildings	4,362,176	0	0	4,362,176
Improvements other than buildings	201,071	0	0	201,071
Machinery and equipment	3,380,955	102,776	65,349	3,418,382
Infrastructure	619,638	926,638	0	1,546,276
Total capital assets being depreciated	<u>8,563,840</u>	<u>1,029,414</u>	<u>65,349</u>	<u>9,527,905</u>
Less accumulated depreciation for:				
Buildings	1,748,296	69,763	0	1,818,059
Improvements other than buildings	43,616	8,043	0	51,659
Machinery and equipment	2,170,241	213,432	61,949	2,321,724
Infrastructure	29,208	63,005	0	92,213
Total accumulated depreciation	<u>3,991,361</u>	<u>354,243</u>	<u>61,949</u>	<u>4,283,655</u>
Total capital assets being depreciated, net	<u>4,572,479</u>	<u>675,171</u>	<u>3,400</u>	<u>5,244,250</u>
Governmental activities capital assets, net	<u>\$5,320,029</u>	<u>\$733,159</u>	<u>\$3,400</u>	<u>\$6,049,788</u>

Depreciation expense was charged to the following functions

Public Safety and Legal Services	\$63,983
Physical Health and Social Services	2,323
Mental Health	13,871
County Environment and Education	12,891
Roads and Transportation	238,778
Governmental services to residents	6,296
Administration	16,101
Total depreciation expense – governmental activities	<u>\$354,243</u>

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	\$1,500
Special Revenue		
Mental Health	Services	92,949
Secondary Roads	Services	41,400
Total for governmental funds		<u>\$135,849</u>
Agency:		
Agricultural Extension	Collections	\$123,156
Assessor		165,066
Schools		5,142,049
Community Colleges		255,175
Corporations		1,887,988
Auto License & Use Tax		169,858
All Others		846,321
Total for agency funds		<u>\$8,589,613</u>

Note 7: Changes in Long-Term Liabilities

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

	LOSST Bonds	Loan Agreements	Drainage Improvement Certificates	Compensated Absences	Total
Beginning Balance	\$1,680,000	\$740,829	\$42,638	\$137,920	\$2,601,387
Increases	0	0	0	28,427	28,427
Decreases	120,000	129,998	18,992	0	268,990
Ending Balance	<u>\$1,560,000</u>	<u>\$610,831</u>	<u>\$23,646</u>	<u>\$166,347</u>	<u>\$2,360,824</u>
Due Within One Year	<u>\$125,000</u>	<u>\$113,341</u>	<u>\$0</u>	<u>\$166,347</u>	<u>\$404,688</u>
Due in More Than One Year	<u>\$1,435,000</u>	<u>\$497,490</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,932,490</u>

Notes to Financial Statements (Continued)

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

Bonds Payable

In April of 2000, the County issued \$2,100,000 of Local Option Sales and Service Tax Revenue bonds for the construction of and purchase of equipment for a County Law Enforcement Center. The bonds will be repaid from Local Option Sales and Service Tax revenues. Interest is due semi-annually with rates of 5.00% to 5.40%, payable on November 1 and May 1 of each year. Principal payments are due annually on May 1. The bonds mature on May 1, 2015. Details on the bond agreement are as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$125,000	\$81,965	\$206,965
2007	130,000	75,590	205,590
2008	135,000	68,960	203,960
2009	140,000	61,940	201,940
2010	150,000	54,660	204,660
2011	160,000	46,860	206,860
2012	165,000	38,540	203,540
2013	175,000	29,795	204,795
2014	185,000	20,520	205,520
2015	195,000	10,530	205,530
	<u>\$1,560,000</u>	<u>\$489,362</u>	<u>\$2,049,362</u>

During the year ended June 30, 2005, the County retired \$120,000 of bonds.

Loan Agreements

On November 1, 1998, the County entered into a loan agreement for \$78,000 with First Citizens National Bank to finance the construction of new offices, shop and nature center for the Conservation Department. The loan is to be repaid at a rate of \$9,981 annually with the final payment due on November 1, 2008. The payment includes interest at a rate of 4.75% on the unpaid balance. This loan was paid in full during the fiscal year ended June 30, 2005.

On January 29, 1999, the County entered into a loan agreement for \$91,000 with First Citizens National Bank to finance repairs and improvements to the Mitchell Mill Dam and Building. The loan is to be repaid at a rate of \$12,279 annually with final payment due January 29, 2009. The payment includes interest at a rate of 5.85% on the unpaid balance. This loan was paid in full during the fiscal year ended June 30, 2005.

On October 31, 2002, the County issued \$825,370 of General Obligation Capital Loan Notes, Series 2002, to finance the purchase of six motorgraders. Principal and interest payments are due annually commencing on October 31, 2003. The notes include interest at a rate of 3.75% per year on the unpaid balance. Details on the note agreement are as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$113,341	\$22,906	\$136,247
2007	117,591	18,656	136,247
2008	122,001	14,246	136,247
2009	126,576	9,671	136,247
2010	131,322	4,925	136,247
	<u>\$610,831</u>	<u>\$70,404</u>	<u>\$681,235</u>

Notes to Financial Statements (Continued)

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

Drainage Improvement Certificates Payable

Drainage improvement certificates payable represent amounts due to purchasers of drainage improvement certificates. Drainage improvement certificates are waivers that provide for a landowner to pay an improvement assessment in installment payments over a designated number of years with interest at a designated interest rate. The improvement certificates representing those assessments or installments due from the landowner are sold for cash as interest bearing certificates. Funds received from the sale of certificates are used to pay outstanding registered warrants issued to contractors who perform work on drainage district improvements and registered warrants issued for other related costs. Drainage improvement certificates are redeemed and interest paid to the bearer of the certificate upon receipt of the installment payment plus interest, from the landowner.

Drainage improvement certificates are paid from the Special Fund solely from drainage assessments against benefited properties.

Note 8: Township Fire Equipment

In June 1999, the County entered into a loan agreement for \$53,000 for the purchase of township fire equipment. The loan is payable from the continuing annual levy of taxes against all the taxable property within the certain townships. The loan is to be repaid at an amount of \$7,043 annually, with a final payment due June 15, 2009. The payment includes interest at a rate of 5.75% on the unpaid balance. Details of the loan agreement are as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$6,474	\$569	\$7,043
2007	5,015	191	5,206
	<u>\$11,473</u>	<u>\$760</u>	<u>\$12,233</u>

In January 1999, the County entered into a lease agreement for a township fire truck totaling \$129,946. The lease purchase is payable from a continuing annual levy of taxes against all taxable property within certain townships. The agreement requires annual payments of \$17,350, which includes 5.63% per annum interest on the unpaid balance with final payment due April 15, 2009. Minimum future obligations on the lease obligations in effect at June 30, 2005 are as follows:

Year Ending June 30,	
2006	\$17,350
2007	17,350
2008	17,350
2009	17,350
	<u>69,400</u>
Less: Amount Representing Interest	<u>8,376</u>
	<u>\$61,024</u>

Notes to Financial Statements (Continued)

Note 9: Closure and Postclosure Care Costs

Mitchell County is a member of the Floyd-Mitchell-Chickasaw Solid Waste Management Agency. The agency is an inter-governmental agency, established in accordance with the provisions of Chapter 28E of the State Code of Iowa (Inter-governmental Cooperation Agreement). The purpose of the Agency is to provide for the economic disposal or collection and disposal of all solid waste produced or generated with each member city, town, and the unincorporated portion of Floyd, Mitchell and Chickasaw Counties, comprising the municipalities. 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 an 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 and the methods by which the operator will meet the conditions for proper closure and postclosure. The Agency is in compliance with this requirement.

Note 10: 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, in which case the percentages for the year ended June 30, 2005 are 8.535% and 8.535%, 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. Contribution requirements are established by state statute. The County's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$164,796, \$163,320, and \$157,681, respectively, equal to the required contributions for each year.

Note 11: Risk Management

Mitchell County is a member in the Heartland Insurance Risk Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Heartland Insurance Risk Pool (Pool) is a local government risk-sharing pool whose 10 members include various governmental entities throughout the State of Iowa. The Pool was formed July 1, 1987 for the purpose of providing a voluntary self-insured program to counties in the State of Iowa. The program is designed to provide members a greatly improved loss control program whose purpose is to reduce claims and accidents; aid through sound and equitable claim management practices to reduce costs; and provide the required and/or desired reinsurance at a discount, based on volume and lower risk exposure. The Pool provides coverage and protection in the following categories: workers' compensation, automobile liability, automobile physical damage and crime lines of business on an occurrence basis. General liability coverage is written on a claims-made basis. 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, claims expenses and reinsurance expenses due and payable in the current year, plus all of any portion of any deficiency in capital.

Notes to Financial Statements (Continued)

Note 11: Risk Management (Continued)

The Pool also provides property, inland marine, boiler, public officials errors and omissions, law enforcement liability and business income and extra expense 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 insufficient, 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 \$178,243.

The Pool uses reinsurance and excess sharing agreements to reduce its exposure to large losses. The Pool retains automobile and general liability risks in excess of \$250,000 up to \$2,000,000 per claim. The Pool retains workers' compensation risks in excess of \$350,000 up to \$2,000,000 per claim. Automobile and general liability claims exceeding \$1,000,000 are reinsured in an amount not to exceed \$3,000,000 per claim. Workers' compensation claims exceeding \$1,000,000 are reinsured in an amount not to exceed \$2,000,000. Crime lines of business risks are retained by the Pool up to \$25,000 per occurrence. Automobile physical damage risks are retained by the Pool up to the replacement cost of the vehicle. All property, inland marine, boiler, public officials errors and omissions, business income and expense, and law enforcement liability risks are also 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 the 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 statement. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance company coverage in any of the past three fiscal years.

Members agree to continue membership in the Pool for a period of not less than three full years. Subsequent to this initial term, the member may withdraw at the end of the third fiscal year of any three year term, only after at least 60 days prior written notice. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, the member is refunded 100 percent of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution, which the withdrawing member would have made for the one year period following withdrawal and the member's proportionate share of any capital deficiency.

Note 12: Related Party Transactions

Business transactions between the County and County officials or employees were noted. Some transactions appear to be conflicts of interest as they were over \$1,500 for the year.

Notes to Financial Statements (Continued)

Note 13: Budget Overexpenditures

Per the Code of Iowa, disbursements may not legally exceed amount budgeted by function or amounts appropriated by department. During the year ended June 30, 2005, disbursements exceeded the amount budgeted in the Debt Service Functions and the REAP department.

Note 14: Deficit Fund Balance

The Capital Projects Fund has a deficit fund balance of \$10,482 at June 30, 2005.

Note 15: Subsequent Events

On July 19, 2005, the County authorized the issuance of \$1,690,000 Local Option Sales and Services Tax Revenue Refunding Bonds, Series 2005B.

On August 9, 2005, the County accepted a bid from Point Builders for the construction of a County Services Building.

On September 13, 2005, the County approved the issuance of \$800,000 GO Capital Loan Notes, Series 2005B and levying tax to pay the notes.

MITCHELL COUNTY
Osage, 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	Final	
RECEIPTS						
Property & Other County Tax	\$3,252,821	\$0	\$3,252,821	\$3,261,346	\$3,261,346	\$(8,525)
Interest & Penalty on Property Tax	22,614	0	22,614	18,900	18,900	3,714
Intergovernmental	3,630,248	0	3,630,248	3,238,314	3,551,450	78,798
Licenses & Permits	5,085	0	5,085	3,050	3,050	2,035
Charges for Services	836,290	0	836,290	633,121	802,663	33,627
Use of Money & Property	110,972	0	110,972	106,965	116,499	(5,527)
Miscellaneous	53,381	21,045	32,336	10,500	13,114	19,222
Total Receipts	7,911,411	21,045	7,890,366	7,272,196	7,767,022	123,344
DISBURSEMENTS						
Public Safety & Legal Services	1,176,282	0	1,176,282	1,115,712	1,204,676	28,394
Physical Health & Social Services	690,778	0	690,778	733,056	768,904	78,126
Mental Health	1,366,737	0	1,366,737	1,523,799	1,523,799	157,062
County Environment & Education	573,338	0	573,338	566,737	618,364	45,026
Roads & Transportation	2,586,153	0	2,586,153	2,510,000	2,710,000	123,847
Governmental Services to Residents	243,789	0	243,789	254,989	250,011	6,222
Administrative Services	750,385	0	750,385	691,026	790,738	40,353
Nonprogram	26,763	26,763	0	500	500	500
Debt Service	208,365	0	208,365	208,265	208,265	(100)
Capital Projects	174,721	0	174,721	150,000	210,000	35,279
Total Disbursements	7,797,311	26,763	7,770,548	7,754,084	8,285,257	514,709
Excess (Deficiency) of Receipts Over (Under) Disbursements	114,100	(5,718)	119,818	(481,888)	(518,235)	638,053
Other Financing Sources, Net	429	0	429	6,000	6,000	(5,571)
Excess (Deficiency) of Receipts & Other Financing Sources Over (Under) Disbursements & Other Financing Uses	114,529	(5,718)	120,247	(475,888)	(512,235)	632,482
Balance Beginning of Year	2,577,784	16,556	2,561,228	2,137,710	2,137,710	423,518
Balance End of Year	\$2,692,313	\$10,838	\$2,681,475	\$1,661,822	\$1,625,475	\$1,056,000

See Accompanying Independent Auditors' Report

MITCHELL COUNTY
Osage, Iowa

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

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$7,911,411	\$(29,818)	\$7,881,593
Expenditures	7,797,311	45,288	7,842,599
Net	114,100	(75,106)	38,994
Other Financing Sources (Uses)	429	0	429
Beginning Fund Balances	2,577,784	119,376	2,697,160
Increase (Decrease) in Reserve For: Inventories	0	68,685	68,685
Ending Fund Balances	\$2,692,313	\$112,955	\$2,805,268

See Accompanying Independent Auditors' Report

Mitchell County
Osage, 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 appropriation 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, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds and Capital Project Fund. 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, one budget amendment increased budgeted disbursements by \$531,173. The budget amendment is 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.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the Debt Service functions and the REAP department.

MITCHELL COUNTY
Osage, Iowa

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
June 30, 2005

	County Disposal Closure	Local Option Sales Tax Bond Sinking Fund	Senior Health Clinic	Home Health Capital Improvement
ASSETS				
Cash & Pooled Investments	\$3,963	\$185,927	\$8,183	\$36,403
Receivables				
Accounts	0	0	0	25
Accrued Interest	9	343	0	78
Drainage Assessments	0	0	0	0
Due From Other Governments	0	20,091	0	0
TOTAL ASSETS	\$3,972	\$206,361	\$8,183	\$36,506
LIABILITIES & FUND EQUITY				
Liabilities				
Deferred Revenue	\$ 0	\$ 0	\$ 0	\$ 0
Fund Equity				
Fund Balance				
Unreserved	3,972	206,361	8,183	36,506
TOTAL LIABILITIES & FUND EQUITY	\$3,972	\$206,361	\$8,183	\$36,506

See Accompanying Independent Auditors' Report

Schedule 1

Drug Enforcement	Resource Enhancement & Protection	County Recorder's Electronic Transaction Fee	County Recorder's Records Management	Drainage Districts	Conservation Land Acquisition Trust	Total
\$16,799	\$5	\$6	\$3,494	\$10,838	\$63,779	\$329,397
0	0	0	619	0	3,472	4,116
38	8	0	3	0	50	529
0	0	0	0	23,803	0	23,803
0	0	0	0	0	0	20,091
<u>\$16,837</u>	<u>\$13</u>	<u>\$6</u>	<u>\$4,116</u>	<u>\$34,641</u>	<u>\$67,301</u>	<u>\$377,936</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$23,772</u>	<u>\$ 0</u>	<u>\$23,772</u>
<u>16,837</u>	<u>13</u>	<u>6</u>	<u>4,116</u>	<u>10,869</u>	<u>67,301</u>	<u>354,164</u>
<u>\$16,837</u>	<u>\$13</u>	<u>\$6</u>	<u>\$4,116</u>	<u>\$34,641</u>	<u>\$67,301</u>	<u>\$377,936</u>

MITCHELL COUNTY
Osage, Iowa

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

	County Disposal Closure	Local Option Sales Tax Bond Sinking Fund	Senior Health Clinic	Home Health Capital Improvement
REVENUES				
Property & Other County Tax	\$0	\$247,478	\$0	\$0
Intergovernmental	0	0	215	0
Charges for Services	0	0	0	0
Use of Money & Property	75	6,156	0	675
Miscellaneous	0	0	0	2,903
Total Revenues	75	253,634	215	3,578
EXPENDITURES				
Operating:				
Public Safety & Legal Services	0	0	0	0
Physical Health & Social Services	0	0	360	56
County Environment & Education	0	0	0	0
Governmental Services to Residents	0	0	0	0
Nonprogram	0	0	0	0
Debt Service	0	208,365	0	0
Total Expenditures	0	208,365	360	56
Excess (Deficiency) of Revenues Over (Under) Expenditures	75	45,269	(145)	3,522
Other Financing Sources (Uses)				
Operating Transfers In	0	0	0	0
Operating Transfers Out	0	(85,000)	0	0
	0	(85,000)	0	0
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures	75	(39,731)	(145)	3,522
Fund Balances – Beginning of Year	3,897	246,092	8,328	32,984
Fund Balances – End of Year	\$3,972	\$206,361	\$8,183	\$36,506

See Accompanying Independent Auditors' Report

Schedule 2

Drug Enforcement	Resource Enhancement & Protection	County Recorder's Electronic Transaction Fee	County Recorder's Records Management	Drainage Districts	Conservation Land Acquisition Trust	Total
\$0	\$0	\$0	\$0	\$0	\$0	\$247,478
250	9,238	0	0	0	0	9,703
164	0	14,196	2,427	0	2,161	18,948
339	27	224	23	0	29,537	37,056
0	0	0	0	21,076	4,887	28,866
753	9,265	14,420	2,450	21,076	36,585	342,051
1,216	0	0	0	0	0	1,216
0	0	0	0	0	0	416
0	10,132	0	0	0	43,444	53,576
0	0	24,173	0	0	0	24,173
0	0	0	0	26,763	0	26,763
0	0	0	0	0	0	208,365
1,216	10,132	24,173	0	26,763	43,444	314,509
(463)	(867)	(9,753)	2,450	(5,687)	(6,859)	27,542
0	0	0	0	0	18,000	18,000
0	0	0	0	0	0	(85,000)
0	0	0	0	0	18,000	(67,000)
(463)	(867)	(9,753)	2,450	(5,687)	11,141	(39,458)
17,300	880	9,759	1,666	16,556	56,160	393,622
\$16,837	\$13	\$6	\$4,116	\$10,869	\$67,301	\$354,164

MITCHELL COUNTY
Osage, 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	\$1,974	\$60,615	\$79,757
Other County Officials	19,793	0	0	0
Receivables				
Property Tax				
Delinquent	0	62	60	2,547
Succeeding Year	0	121,120	118,834	5,059,745
Accounts	424	0	0	0
Accrued Interest	0	0	0	0
TOTAL ASSETS	\$20,217	\$123,156	\$179,509	\$5,142,049
LIABILITIES				
Liabilities				
Accounts Payable	\$0	\$0	\$51	\$0
Salaries & Benefit Payable	0	0	2,345	0
Due to Other Governments	209	123,156	165,066	5,142,049
Trusts Payable	20,008	0	0	0
Compensated Absences	0	0	12,047	0
TOTAL LIABILITIES	\$20,217	\$123,156	\$179,509	\$5,142,049

See Accompanying Independent Auditors' Report

Schedule 3

Community Colleges	Corporation	Townships	City Special Assessments	Auto Licenses & Use Tax	Other	Total
\$4,092 0	\$24,025 0	\$1,755 0	\$1,804 0	\$169,858 0	\$208,483 0	\$552,363 19,793
127 250,956 0 0	88 1,863,875 0 0	92 98,774 0 0	0 0 0 0	0 0 0 0	279 577,285 12,869 23	3,255 8,090,589 13,293 23
<u>\$255,175</u>	<u>\$1,887,988</u>	<u>\$100,621</u>	<u>\$1,804</u>	<u>\$169,858</u>	<u>\$798,939</u>	<u>\$8,679,316</u>
\$0 0 255,175 0 0	\$0 0 1,887,988 0 0	\$0 0 100,621 0 0	\$0 0 1,804 0 0	\$0 0 169,858 0 0	\$2,830 1,123 743,687 48,672 2,627	\$2,881 3,468 8,589,613 68,680 14,674
<u>\$255,175</u>	<u>\$1,887,988</u>	<u>\$100,621</u>	<u>\$1,804</u>	<u>\$169,858</u>	<u>\$798,939</u>	<u>\$8,679,316</u>

MITCHELL COUNTY
Osage, 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	\$19,971	\$118,661	\$180,707	\$4,784,275
Additions				
Property & Other County Tax	0	124,146	121,792	5,181,639
E911 Surcharge	0	0	0	0
State Tax Credits	0	8,158	7,982	329,297
Driver License Fees	0	0	0	0
Office Fees & Collections	575,783	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	55,483	0	0	0
Miscellaneous	0	0	61	0
Total Additions	631,266	132,304	129,835	5,510,936
Deductions				
Agency Remittances				
To County Funds	390,298	0	0	0
To Other Governments	122,334	127,809	180,472	5,153,162
Trusts Paid Out	118,388	0	0	0
Total Deductions	631,020	127,809	180,472	5,153,162
Other Financing Sources (Uses)				
Operating Transfers In (Out)	0	0	49,439	0
Balances – End of Year	\$20,217	\$123,156	\$179,509	\$5,142,049

See Accompanying Independent Auditors' Report

Schedule 4

Community Colleges	Corporations	Townships	City Special Assessments	Auto License & Use Tax	Other	Total
\$245,982	\$1,899,371	\$99,686	\$2,792	\$188,740	\$750,254	\$8,290,439
257,198	1,900,627	101,885	0	0	592,113	8,279,400
0	0	0	0	0	60,465	60,465
16,929	125,965	6,365	0	0	39,026	533,722
0	0	0	0	55,820	0	55,820
0	0	0	0	0	0	575,783
0	0	0	0	0	1,279	1,279
0	0	0	0	2,325,578	0	2,325,578
0	0	0	74,086	0	0	74,086
0	0	0	0	0	216,118	271,601
0	0	0	0	0	96,521	96,582
274,127	2,026,592	108,250	74,086	2,381,398	1,005,522	12,274,316
0	0	0	0	99,916	0	490,214
264,934	2,037,975	107,315	75,074	2,300,364	719,509	11,088,948
0	0	0	0	0	187,889	306,277
264,934	2,037,975	107,315	75,074	2,400,280	907,398	11,885,439
0	0	0	0	0	(49,439)	0
\$255,175	\$1,887,988	\$100,621	\$1,804	\$169,858	\$798,939	\$8,679,316

**MITCHELL COUNTY
Osage, 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	\$3,259,499	\$3,375,423	\$3,481,525
Interest & Penalty On Property Tax	22,511	20,380	22,043
Intergovernmental	3,580,887	3,431,000	3,442,863
Licenses & Permits	4,965	4,445	4,698
Charges For Service	847,642	695,362	832,773
Use of Money & Property	109,334	82,143	103,358
Miscellaneous	56,755	40,424	101,679
Total	<u>\$7,881,593</u>	<u>\$7,649,177</u>	<u>\$7,968,939</u>
Expenditures:			
Current:			
Public Safety & Legal Services	\$1,178,288	\$1,124,200	\$1,081,302
Physical Health & Social Services	694,819	717,634	611,694
Mental Health	1,344,854	1,525,248	1,449,681
County Environment & Education	577,426	608,744	686,286
Roads & Transportation	2,659,391	2,269,216	2,982,794
Government Services To Residents	232,922	240,475	211,603
Administrative Services	745,282	702,140	89,244
Nonprogram	26,763	43,329	106,104
Debt Service	208,365	203,765	204,015
Capital Projects	174,489	644,901	237,359
Total	<u>\$7,842,599</u>	<u>\$8,079,652</u>	<u>\$7,660,082</u>

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 Mitchell County
Osage, Iowa

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mitchell County, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the basic financial statements listed in the table of contents and have issued our report thereon dated March 20, 2006. 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 Mitchell 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 Mitchell 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 weaknesses. However, of the reportable conditions described above, we believe item (A) is a material weakness. Prior year reportable conditions have been resolved except for items (A), (B) and (C).

Compliance

As part of obtaining reasonable assurance about whether Mitchell County's financial statements are free of material misstatement, 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.

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)

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. Prior year statutory comments have been resolved, except for items (2), (5), (7), (12), and (13).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Mitchell County and other parties to whom Mitchell 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 Mitchell 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.

March 20, 2006

Gardiner Thomsen, P.C.

MITCHELL COUNTY
Osage, Iowa

SCHEDULE OF FINDINGS
Year Ended June 30, 2005

Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were noted.

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. Specifically, the custody, record-keeping and reconciling function currently performed by each office will be separate and spread among the County Official, Deputy and Clerk.

Conclusion – Response accepted.

- (B) **Bank Accounts Maintained** – Separate bank accounts were maintained for the collections and expenditures of the Special Law Enforcement Proceeds from Forfeited Property. The collections and expenditures were not reflected in the County’s accounting system and have not been included in the County’s annual budget or financial report.

Recommendation – All collections for the Special Law Enforcement Proceeds from Forfeited Property should be remitted to the County Treasurer and all expenditures should be reflected in the County’s accounting system, annual budget, and financial report. Additionally, all expenditures should be presented to the Board of Supervisors for approval and charged against the budget.

Response – I am continuing to give serious consideration to this matter.

Conclusion – Recommendation stands.

- (C) **Information Systems** – During our review of internal control, the existing control activities in the County’s computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the County’s computer based systems were noted:

The County does not have written policies:

- Requiring password changes because software does not require the user to change log-ins/passwords periodically.

Schedule of Findings (Continued)

(C) Information Systems (Continued)

Recommendation – The County should consider developing written policies addressing the above items in order to improve the County’s control over computer based systems.

Response – The County will consider developing these policies.

Conclusion – Response accepted.

Other Findings Related to Required Statutory Reporting:

- 1 **Official Depositories** – A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year.
- 2 **Certified Budget** – Disbursements during the year ended June 30, 2005, exceeded the amounts budgeted in the Debt Service function by \$100. Disbursements in the REAP department exceeded the amount appropriated by \$132 at June 30, 2005.

Recommendation – The budget should have been in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.

Chapter 331.434(6) of the Code of Iowa authorizes the Board of Supervisors, by resolution, to increase or decrease appropriations of one office or department by increasing or decreasing the appropriations of another office or department as long as the function budget is not increased.

Response – We will amend the budget when required and appropriations will be watched more closely by the departments.

Conclusion – Response accepted.

- 3 **Questionable Expenditures** – Certain expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These expenditures are detailed as follows :

<u>Paid To</u>	<u>Purpose</u>	<u>Amount</u>
Larsen’s Food Pride	Refreshments	\$631
Ray Huftalin	Refreshments	13
See & Sew	Clothing	564
Fleming’s Clothing	Clothing	22
Donna Marreel	Refreshments	10
Debra Freeman	Liquid Soap	51

According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – The Board of Supervisors should continue to work with departments and Boards involved to determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the County should establish written policies and procedures, including requirements for proper documentation.

Schedule of Findings (Continued)

Response – The Board of Supervisors will continue to work with the departments and Boards involved to determine and document public purpose before authorizing further payments.

Conclusion – Response accepted.

- 4 **Travel Expense** – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- 5 **Business Transactions** – The following business transactions between the County and County Officials or employees were noted.

<u>Name, Title and Business Connection</u>	<u>Transaction</u>	<u>Amount</u>
Brian Rogers, Dispatch Owner of Roger's Electronics	Electronic Repair & Installation	\$212
Thelma Scharper, Homemaker Husband Owns Scharper Services	Services	\$2,396

In accordance with Chapter 331.342(10) of the Code of Iowa, the transactions with Scharper Services appear to represent conflicts of interest as the total transactions were in excess of \$1,500 during the fiscal year. The transactions with Roger's Electronics do not appear to represent a conflict of interest as the total transactions were not in excess of \$1,500 during the fiscal year.

Recommendation – The County should refrain from conducting business with related parties. Transactions in excess of \$1,500 per year should be competitively bid.

Response – We will refrain from conducting business with related parties when possible. We will continue to follow protocol.

Conclusion – Response accepted.

- 6 **Bond Coverage** – Surety bond coverage of County officials and employees is in accordance with statutory provisions.
- 7 **Board Minutes** – The Board went into closed session on December 28, 2004 to discuss matters relating to the County. The minutes did not document the vote of each member on the question of holding the closed session as required by Chapter 21.5(2) of the Code of Iowa. Also, the minutes did not document final action taken in open session as required by Chapter 21.5(3) of the Code of Iowa.

Board minutes were not published in accordance with Chapter 349.18 of the Code of Iowa.

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

Chapter 349.18 of the Code of Iowa and Attorney General's Opinions dated 12/10/85, 12/31/86 and 5/2/89 require that the County Auditor provide a copy of the proceedings to be published within one week following the adjournment of the board. The Auditor should take additional measures to ensure compliance with this requirement.

Schedule of Findings (Continued)

Response – This was an oversight. We usually record the vote and the final action take as required and will do so in the future. As of January 2005, we publish the approved minutes. These are usually made available to the media the same day as the approval, thus meeting the publication requirement.

Conclusion – Response accepted.

- 8 **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.
- 9 **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).
- 10 **Economic Development** – During the year ended June 30, 2005, the County paid \$39,958 for economic development, which appears to be appropriate expenditures of public funds since the public 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 **Home Health** – Homemakers submitting claims for mileage reimbursements are not including detail for miles traveled, only a total of miles to be reimbursed.

Recommendation – All claims for mileage reimbursement should include a log of miles traveled.

Response – We will submit the required documentation in the future.

Conclusion – Response accepted.

- 13 **Auditor Quarterly Reports** – The Auditor is not submitting quarterly reports to the Board of Supervisors.

Recommendation – Chapter 331.902 of the Code of Iowa requires the Auditor to make quarterly reports of fees collected to the Board of Supervisors.

Response – The Auditor will be in compliance for the fiscal year ended June 30, 2006.

Conclusion – Response accepted.

Schedule of Findings (Continued)

- 14 **Financial Condition** – The Capital Projects Fund has a deficit fund balance of \$10,482 at June 30, 2005.

Recommendation – The County should investigate ways to eliminate this deficit.

Response – The County incurred expenses during the fiscal year for the construction of a new County Services Building. Funds were transferred from the General Basic Fund to cover these cash basis disbursements. However, there were accounts payable at the end of the fiscal year that caused this fund to have a deficit balance on the modified accrual basis of accounting. This deficit will be eliminated during the next fiscal year.

Conclusion – Response accepted.

- 15 **Code of Ordinances** – The County has not compiled a code of ordinances containing all of the County ordinances in effect as required by Chapter 331.302(9) of the Code of Iowa.

Recommendation – Chapter 331.302(9) of the Code of Iowa requires counties to compile a code of ordinances by prescribed procedures at least every five years.

Response – The County will be in compliance with this requirement for the fiscal year ended June 30, 2006.

Conclusion – Response accepted.

News Release

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

The County had local tax revenue of \$12,296,708 for the year ended June 30, 2005, which included \$723,299 in tax credits from the State. The County then forwarded \$8,463,589 of the local tax revenue to the townships, school districts, cities, and other taxing bodies in the County.

The County retained \$3,833,119 of the local tax revenue to finance county operations, a 27% increase from the prior year. Other revenues included charges for service of \$1,231,310, operating grants, contributions and restricted interest of \$3,092,085, unrestricted investment earnings of \$61,754 and other general revenues of \$32,346.

Expenses for the County operations totaled \$7,662,068, a 5% decrease from the prior year. Expenses included \$2,705,032 for Roads and Transportation, \$1,357,603 for Mental Health, and \$1,230,581 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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