

**HOWARD COUNTY**  
**Cresco, Iowa**

INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
June 30, 2006

**HOWARD COUNTY, IOWA**  
**Cresco, Iowa**

**TABLE OF CONTENTS**

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	<u>Page</u>
<b>OFFICIALS</b> .....	1
<b>INDEPENDENT AUDITORS' REPORT</b> .....	2-3
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....	4-10
<b>BASIC FINANCIAL STATEMENTS:</b>	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets .....	A ..... 11
Statement of Activities.....	B ..... 12
Governmental Fund Financial Statements:	
Balance Sheet .....	C ..... 13-14
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets .....	D ..... 15
Statement of Revenues, Expenditures and Changes in Fund Balances .....	E..... 16-17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities .....	F..... 18
Proprietary Fund Financial Statements:	
Statement of Net Assets .....	G ..... 19
Statement of Revenues, Expenses, and Changes in Fund Net Assets .....	H ..... 20
Statement of Cash Flows.....	I ..... 21
Fiduciary Fund Financial Statement:	
Statement of Fiduciary Assets and Liabilities – Agency Funds .....	J ..... 22
Notes to Financial Statements .....	23-37
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds .....	.....38
Budget to GAAP Reconciliation .....	.....39
Notes to Required Supplementary Information – Budgetary Reporting .....	40

# TABLE OF CONTENTS

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<b>OTHER SUPPLEMENTARY INFORMATION:</b>	<u>Schedule</u>	<u>Page</u>
Nonmajor Special Revenue Funds:		
Combining Balance Sheet.....	1.....	41-42
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances .....	2.....	43-44
Agency Funds:		
Combining Schedule of Fiduciary Assets and Liabilities .....	3.....	45-46
Combining Schedule of Changes in Fiduciary Assets and Liabilities .....	4.....	47-48
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds.....	5.....	49
 <b>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 <i>GOVERNMENT AUDITING STANDARDS</i> .....</b>		 50-51
<b>SCHEDULE OF FINDINGS .....</b>		52-54

**HOWARD COUNTY**  
**Cresco, Iowa**

**OFFICIALS**

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



## **Independent Auditors' Report**

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To the Officials of Howard County  
Cresco, Iowa

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Howard County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Howard County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Howard County at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2007 on our consideration of Howard County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Howard County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

March 12, 2007

*Gardiner Thomsen, P.C.*

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Management of Howard County provides this Management's Discussion and Analysis of Howard County's annual financial statements. This narrative overview and analysis of the financial activities of Howard County is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- Revenues of the County's governmental activities increased less than 1% or approximately \$16,419 from fiscal 2005 to fiscal 2006. Property and other County taxes increased approximately \$42,877, Operating & Capital Contributions & Restricted Interest decreased approximately \$311,485 and Charges for Service increased approximately \$77,551.
- Program expenses of the County's governmental activities were 6.2% or approximately \$429,121 more in fiscal 2006 than in fiscal 2005. Roads and Transportation expense increased approximately \$542,935.
- The county's net assets increased 1.6%; approximately \$135,247 from June 30, 2005 to June 30, 2006.

### **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 Howard 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 Howard 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 the County acts solely as an agent or custodian for the benefit of those outside of the government (Agency Funds).

Notes 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 which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, 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, interest on long-term debt and non-program activities. Property taxes and state and federal grants finance most of these activities.

### ***Fund Financial Statements***

The County has three kinds 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 Revenue Funds, such as Mental Health, Rural Services and Secondary Roads, 3) the Debt Service Fund, and 4) 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) Proprietary funds account for the County’s Internal Service, Employee Group Health Fund. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the County’s various functions.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) Fiduciary funds are used to report assets held in trust or agency capacity for others 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 few.

The required financial statement for fiduciary funds is 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. The County’s combined net assets increased from \$8,249,985 to \$8,385,232. The analysis below focuses on net assets and changes in net assets of governmental activities.

**Net Assets of Governmental Activities**  
(Expressed in Thousands)

	June 30	
	2006	2005
Current and Other Assets	\$6,641	\$6,256
Capital Assets	6,157	5,618
Total Assets	<u>12,798</u>	<u>11,874</u>
Long-Term Debt Outstanding	423	46
Other Liabilities	3,990	3,578
Total Liabilities	<u>4,413</u>	<u>3,624</u>
Net Assets:		
Invested in Capital Assets, Net of debt	6,139	5,582
Restricted	1,155	1,900
Unrestricted	1,091	768
Total Net Assets	<u><u>\$8,385</u></u>	<u><u>\$8,250</u></u>

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

Net assets of the County's governmental activities increased by approximately 1.6%, (from \$8.25 Million) the largest portion of the County's net assets is the Invested in Capital Assets (infrastructure, buildings and equipment), less the related debt. The debt related to the Investment in Capital Assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased from approximately \$768,107 at June 30, 2005 to approximately \$1,090,579 at the end of this year, an increase of 41.9%.

**Changes in Net Assets of Governmental Activities**

(Expressed in Thousands)

	Year Ended June 30,	
	2006	2005
Program Revenues:		
Charges for service and sales	\$745	\$668
Operating grants and contributions	2,580	2,395
Capital grants and contributions	170	665
Property taxes	3,226	3,003
Unrestricted investments earnings	129	71
Other general revenues	633	665
Total revenues	<u>7,483</u>	<u>7,467</u>
Program Expenses:		
Public safety and legal services	953	955
Physical health and social services	394	444
Mental health	1,092	1,002
County environment and education	624	864
Roads and transportation	3,139	2,596
Government services to residents	364	243
Administration or general government	733	777
Non-program	43	35
Interest on long-term debt	6	3
Total expenses	<u>7,348</u>	<u>6,919</u>
Increase in net assets	135	548
Net assets beginning of year	<u>8,250</u>	<u>7,702</u>
Net assets end of year	<u><u>\$8,385</u></u>	<u><u>\$8,250</u></u>

The County's revenue increased less than 1% (\$16,419). The total cost of programs and services increased 6.2%, (\$429,121), with no new programs added this year.

## **INDIVIDUAL MAJOR FUND ANALYSIS**

As Howard County completed the year, its governmental funds reported a combined fund balance of \$2.87 million, which is lower than last year's total by \$160,052. The \$2.87 million balance is 35% of the budgeted expenditures for the 2006 fiscal year. The following are the major reasons for the changes in fund balances from the prior year.

The combined ending fund balance of the General and General Supplemental funds increased by \$200,075 from 2005 to 2006. One primary reason for the increase is that the departments did not use all of the allocated budgets and the Health Insurance Fund repaid the inter-fund loan entered into during fiscal 2005.

The \$20,580 increase of balance in the Mental Health funds resulted from more intergovernmental revenue being generated.

The Rural Services fund expenditures and revenue were pretty similar to 2005, however, the departments did not use all of their budget appropriations and the balance was about \$60,378 higher in 2006 than in 2005.

The Secondary Road fund ended the year with a balance \$479,932 lower than in 2005. Expenditures were \$526,910 higher in 2006 than in 2005 with revenues decreasing \$167,469.

## **BUDGETARY HIGHLIGHTS**

The budget was amended on October 17, 2005 with an increase to revenues due to the Help America Vote Act grant and various other revenues and grants. There was an increase in expenditures due to purchasing voting equipment related to the HAVA grant, an increase in case management expenditures, new county shop expenditures and conservation special projects. On April 17, 2006, the budget was amended primarily to reflect the other financing sources and expenditures related to the new county shop. There were smaller adjustments for health and property insurance, case management and other various expenditures.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2006, the County had \$9.372 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This amount represents a net increase (including additions and deletions) of approximately \$823,000 or 9% over last year.

**CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)**

**Capital Assets at Year End of Governmental Activities**

(Expressed in Thousands)

	Year Ended June 30,	
	2006	2005
Land	\$1,336	\$1,336
Buildings and Improvements	1,446	1,298
Equipment	3,414	3,349
Infrastructure	2,539	2,539
Construction in Progress	637	26
Total	<u>\$9,372</u>	<u>\$8,548</u>

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

Conservation – Vernon Springs Projects	\$173
Conservation Vehicle	20
Secondary Roads Equipment	118
Secondary Roads Vehicle	20
	<u>\$331</u>

The County had depreciation expense of \$388,501 for the year ended June 30, 2006 and total accumulated depreciation as of June 30, 2006 of \$3,214,204.

**Debt Administration**

At year end, the County had \$684,927 in debt compared to \$313,250 in notes and other debt last year as shown below.

**Outstanding Debt at Year-End of Governmental Activities**

	(Expressed in Thousands)	
	2006	2005
Notes Payable	\$405	\$10
Installment Purchase Agreements	18	36
Compensated Absences	262	267
	<u>\$685</u>	<u>\$313</u>

The Constitution of the State of Iowa limits the amount of general obligation debt that counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. The County's outstanding general obligation debt is significantly below this \$15 million limit.

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

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The county begins the 2007 fiscal year with a balance of 28% when compared to expected expenditures. This balance indicates departments were utilizing more of their budgets and trying to be fiscally responsible. The debt would only be necessary to continue operation until fall property tax revenue was received. Increased expenses for 2007 will include a 5% increase in liability and property insurance, replacement and upgrading of computer equipment, attorney fees for litigation, increases in health insurance premiums, salary increases, and repair or replacement of worn out equipment and vehicles.

## **CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

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

**HOWARD COUNTY  
Cresco, Iowa**

**STATEMENT OF NET ASSETS  
June 30, 2006**

	Governmental Activities
<b>ASSETS</b>	
Cash & Pooled Investments	\$2,825,509
Receivables:	
Property Tax:	
Delinquent	1,899
Succeeding Year	3,006,380
Interest & Penalty On Property Tax	22
Accounts	43,713
Accrued Interest	20,387
Due From Other Governments	179,897
Notes Receivable	274,120
Inventories	229,855
Prepaid Insurance	59,130
Capital Assets (Net of Accumulated Depreciation)	6,157,420
<b>TOTAL ASSETS</b>	<b>12,798,332</b>
<b>LIABILITIES</b>	
Accounts Payable	527,229
Accrued Interest Payable	6,278
Salaries and Benefits Payable	95,659
Due to Other Governments	92,627
Deferred Revenue	
Succeeding Year Property Tax	3,006,380
Long Term Liabilities:	
Portion Due Or Payable Within One Year:	
Capital Lease Purchase Agreements	18,129
General Obligation Notes	33,873
Compensated Absences	262,049
Portion Due Or Payable After One Year:	
General Obligation Notes	370,876
<b>TOTAL LIABILITIES</b>	<b>4,413,100</b>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	6,139,292
Restricted For:	
Mental Health Purposes	60,909
Secondary Roads Purposes	519,396
Debt Service	1,343
Other Purposes	573,713
Unrestricted	1,090,579
<b>TOTAL NET ASSETS</b>	<b>\$8,385,232</b>

See Notes To Financial Statements

**HOWARD COUNTY  
Cresco, Iowa**

**STATEMENT OF ACTIVITIES  
Year Ended June 30, 2006**

<b>FUNCTIONS/PROGRAMS:</b>	Expenses	Program Revenues			Net (Expense) Revenue & Change In Net Assets
		Charges for Service	Operating Grants, Contributions, & Restricted Interest	Capital Grants and Contributions	
<b>GOVERNMENTAL ACTIVITIES:</b>					
Public Safety & Legal Services	\$952,731	\$166,251	\$6,505	\$7,000	\$(772,975)
Physical Health & Social Services	394,236	9,136	19,119	0	(365,981)
Mental Health	1,092,224	115,081	646,796	0	(330,347)
County Environment & Education	624,001	106,855	28,250	76,702	(412,194)
Roads & Transportation	3,138,992	20,730	1,876,662	85,807	(1,155,793)
Governmental Services to Residents	363,568	199,266	0	0	(164,302)
Administration	733,386	82,274	2,257	0	(648,855)
Non-program	42,889	45,767	0	0	2,878
Interest on Long-Term Debt	6,144	0	0	0	(6,144)
	<u>\$7,348,171</u>	<u>\$745,360</u>	<u>\$2,579,589</u>	<u>\$169,509</u>	<u>(3,853,713)</u>
<b>GENERAL REVENUES:</b>					
Property & Other County Tax Levied For:					
General Purposes					2,996,146
Debt Service					29
Penalty & Interest on Property Tax					31,947
State Tax Credits					198,336
Local Option Sales Tax					392,701
Unrestricted Investment Earnings					129,030
Miscellaneous					251,918
Loss on Disposal of Capital Assets					(11,147)
<b>TOTAL GENERAL REVENUES</b>					<u>3,988,960</u>
<b>CHANGE IN NET ASSETS</b>					135,247
<b>NET ASSETS, BEGINNING OF YEAR</b>					<u>8,249,985</u>
<b>NET ASSETS, END OF YEAR</b>					<u><u>\$8,385,232</u></u>

See Notes To Financial Statements

**HOWARD COUNTY**  
**Cresco, Iowa**

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2006

	General	Special Revenue	
		Mental Health	Rural Services
<b>ASSETS</b>			
Cash & Pooled Investments	\$876,496	\$191,266	\$471,878
Receivables:			
Property Tax:			
Delinquent	1,147	219	504
Succeeding Year	1,732,181	331,099	897,652
Interest & Penalty on Property Tax	22	0	0
Accounts	29,250	10,333	3,095
Accrued Interest	16,391	0	0
Due From Other Funds	5,137	0	0
Due From Other Governments	1,626	791	31,740
Note Receivable	274,120	0	0
Inventories	0	0	0
Prepaid Insurance	59,130	0	0
<b>TOTAL ASSETS</b>	<b>\$2,995,500</b>	<b>\$533,708</b>	<b>\$1,404,869</b>
<b>LIABILITIES &amp; FUND BALANCES</b>			
Liabilities:			
Accounts Payable	\$33,295	\$43,468	\$9,740
Salaries & Benefits Payable	43,022	5,605	6,580
Due To Other Governments	0	92,627	0
Deferred Revenue:			
Succeeding Year Property Tax	1,732,181	331,099	897,652
Other	1,132	216	503
<b>Total Liabilities</b>	<b>1,809,630</b>	<b>473,015</b>	<b>914,475</b>
Fund Balances:			
Reserved For:			
Inventories	0	0	0
Debt Service	0	0	0
Note Receivable	274,120	0	0
Unreserved, Reported In:			
General Fund	911,750	0	0
Special Revenue Funds	0	60,693	490,394
Capital Projects Fund	0	0	0
<b>Total Fund Balances</b>	<b>1,185,870</b>	<b>60,693</b>	<b>490,394</b>
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<b>\$2,995,500</b>	<b>\$533,708</b>	<b>\$1,404,869</b>

See Notes To Financial Statements

**Exhibit C**

<u>Special Revenue</u>				
Secondary Roads	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
\$536,926	\$1,314	\$426,187	\$259,703	\$2,763,770
0	29	0	0	1,899
0	45,448	0	0	3,006,380
0	0	0	0	22
0	0	0	604	43,282
103	0	1,828	1,981	20,303
0	0	0	0	5,137
145,740	0	0	0	179,897
0	0	0	0	274,120
229,855	0	0	0	229,855
0	0	0	0	59,130
<u>\$912,624</u>	<u>\$46,791</u>	<u>\$428,015</u>	<u>\$262,288</u>	<u>\$6,583,795</u>
\$227,017	\$ 0	\$207,487	\$ 0	\$521,007
40,452	0	0	0	95,659
0	0	0	0	92,627
0	45,448	0	0	3,006,380
0	29	0	0	1,880
<u>267,469</u>	<u>45,477</u>	<u>207,487</u>	<u>0</u>	<u>3,717,553</u>
229,855	0	0	0	229,855
0	1,314	0	0	1,314
0	0	0	0	274,120
0	0	0	0	911,750
415,300	0	0	262,288	1,228,675
0	0	220,528	0	220,528
<u>645,155</u>	<u>1,314</u>	<u>220,528</u>	<u>262,288</u>	<u>2,866,242</u>
<u>\$912,624</u>	<u>\$46,791</u>	<u>\$428,015</u>	<u>\$262,288</u>	<u>\$6,583,795</u>

**HOWARD COUNTY  
Cresco, Iowa**

**RECONCILIATION OF THE BALANCE SHEET  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
June 30, 2006**

**Total Governmental Fund Balances (pages 13-14)** \$2,866,242

*Amounts reported for governmental activities in the Statement of Net Assets are different because:*

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 \$9,371,624 and the accumulated depreciation is \$3,214,204. 6,157,420

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 1,880

The Internal Service Fund is used by management to charge the costs of self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. 50,895

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. (691,205)

**Net Assets of Governmental Activities (page 11)** \$8,385,232

See Notes to Financial Statements

**HOWARD COUNTY**  
**Cresco, Iowa**

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
**GOVERNMENTAL FUNDS**  
Year Ended June 30, 2006

	General	Special Revenue	
		Mental Health	Rural Services
<b>REVENUES:</b>			
Property & Other County Tax	\$1,755,018	\$341,711	\$1,291,962
Interest & Penalty on Property Tax	31,947	0	0
Intergovernmental	473,698	670,054	59,632
Licenses & Permits	7,689	0	0
Charges for Services	266,087	115,081	0
Use of Money & Property	157,665	0	0
Miscellaneous	254,107	524	3,827
Total Revenues	2,946,211	1,127,370	1,355,421
<b>EXPENDITURES:</b>			
Operating:			
Public Safety & Legal Services	730,088	0	217,804
Physical Health & Social Services	395,732	0	0
Mental Health	0	1,106,788	0
County Environment & Education	388,483	0	238,861
Roads & Transportation	0	0	0
Governmental Services to Residents	347,268	0	3,135
Administration	705,631	0	0
Non-program	451	0	0
Debt Service	0	0	0
Capital Projects	0	0	0
Total Expenditures	2,567,653	1,106,788	459,800
Excess (Deficiency) of Revenues Over (Under) Expenditures	378,558	20,582	895,621
Other Financing Sources (Uses):			
Sale of Capital Assets	653	0	1,600
Operating Transfers In	0	0	0
Operating Transfers Out	(50,180)	0	(836,843)
General Obligation Capital Loan Notes	0	0	0
Total Other Financing Sources (Uses)	(49,527)	0	(835,243)
Net Change in Fund Balances	329,031	20,582	60,378
Fund Balances – Beginning of Year	985,795	40,111	430,016
Decrease in Reserve For Notes Receivable	(128,956)	0	0
Increase in Reserve For Inventories	0	0	0
Fund Balances – End of Year	\$1,185,870	\$60,693	\$490,394

See Notes To Financial Statements

**Exhibit E**

Special Revenue			Nonmajor	
Secondary Roads	Debt Service	Capital Projects	Special Revenue	Total
\$ 0	\$ 0	\$ 0	\$68,417	\$3,457,108
0	0	0	0	31,947
1,893,026	0	0	5,333	3,101,743
905	0	0	0	8,594
670	0	0	8,779	390,617
900	0	6,786	9,281	174,632
49,067	1,314	0	12,113	320,952
1,944,568	1,314	6,786	103,923	7,485,593
0	0	0	11,309	959,201
0	0	0	0	395,732
0	0	0	0	1,106,788
0	0	0	139,369	766,713
3,007,255	0	0	0	3,007,255
0	0	0	19,809	370,212
0	0	0	47,888	753,519
0	0	0	5,437	5,888
0	0	0	0	0
219,125	0	353,889	0	573,014
3,226,380	0	353,889	223,812	7,938,322
(1,281,812)	1,314	(347,103)	(119,889)	(452,729)
0	0	0	7,500	9,753
790,000	0	46,843	50,180	887,023
0	0	0	0	(887,023)
0	0	400,000	0	400,000
790,000	0	446,843	57,680	409,753
(491,812)	1,314	99,740	(62,209)	(42,976)
1,125,087	0	120,788	324,497	3,026,294
0	0	0	0	(128,956)
11,880	0	0	0	11,880
\$645,155	\$1,314	\$220,528	\$262,288	\$2,866,242

**HOWARD COUNTY  
Cresco, Iowa**

**RECONCILIATION OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2006**

**Net Change in Fund Balances - Total Governmental Funds (page 16-17)** \$(160,052)

*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 outlay expenditures and contributed capital assets exceeded depreciation expense in the current year as follows:

Expenditures for Capital Assets	\$856,380	
Capital Assets Contributed by the Iowa Department of Transportation	85,807	
Capital Assets Contributed by the Iowa Department of Homeland Security	7,000	
Depreciation Expense	(388,501)	560,686

In the Statement of Activities, the loss on the disposal of capital assets is reported, whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (20,900)

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 Taxes	184	
Other	(1,568)	(1,384)

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 issuances exceeded repayments as follow:

Issued	(400,000)	
Repaid	22,785	(377,215)

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

Compensated Absences	5,538	
Interest on Long-Term Debt	(6,144)	(606)

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. 134,718

**Change in Net Assets of Governmental Funds (page 12)** \$135,247

See Notes to Financial Statements

**HOWARD COUNTY  
Cresco, Iowa**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
June 30, 2006**

	Internal Service Employee Group Health
<hr/>	
<b>ASSETS</b>	
Cash & Cash Equivalents	\$56,602
Receivables:	
Accounts	431
Accrued Interest	84
<b>TOTAL ASSETS</b>	<hr/> <b>\$57,117</b> <hr/>
<b>LIABILITIES</b>	
Accounts Payable	\$6,222
<b>TOTAL LIABILITIES</b>	<hr/> <b>6,222</b> <hr/>
<b>NET ASSETS</b>	
Unrestricted	<hr/> <b>\$50,895</b> <hr/>

See Notes To Financial Statements

**HOWARD COUNTY  
Cresco, Iowa**

**STATEMENT OF REVENUE, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
Year Ended June 30, 2006**

	Internal Service Employee Group Health
<b>OPERATING REVENUES:</b>	
Reimbursements From Operating Funds	\$617,781
Reimbursements From Employees	81,927
<b>Total Operating Revenues</b>	<b>699,708</b>
<b>OPERATING EXPENSES:</b>	
Medical Claims	32,539
Insurance Premiums	529,257
Administrative Fees	3,932
<b>Total Operating Expenses</b>	<b>565,728</b>
<b>Operating Income</b>	<b>133,980</b>
<b>NON-OPERATING REVENUES:</b>	
Interest on Investments	738
<b>Net Income</b>	<b>134,718</b>
Net Assets Beginning of Year	(83,823)
<b>Net Assets End of Year</b>	<b>\$50,895</b>

See Notes To Financial Statements

**HOWARD COUNTY  
Cresco, Iowa**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
Year Ended June 30, 2006**

	Internal Service Employee Group Health
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash Received From Operating Fund Reimbursements	\$617,781
Cash Received From Employees & Others	81,496
Cash Payments To Suppliers For Services	(563,278)
Net Cash Provided by Operating Activities	135,999
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest on Investments	687
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Repayments of Long-Term Debt	(101,667)
Net Increase in Cash & Cash Equivalents	35,019
Cash & Cash Equivalents at Beginning of Year	21,583
Cash & Cash Equivalents at End of Year	\$56,602
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating Income	\$133,980
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Increase in Accounts Receivable	(431)
Increase in Accounts Payable	2,450
Net Cash Provided by Operating Activities	\$135,999

See Notes To Financial Statements

**HOWARD COUNTY  
Cresco, Iowa**

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
June 30, 2006**

**ASSETS**

Cash & Pooled Investments:	
County Treasurer	\$675,153
Other County Officials	2,359
Receivables:	
Property Tax:	
Delinquent	100
Succeeding Year	7,693,985
Accounts	227
Accrued Interest	619
Due From Other Governments	7,732
<b>TOTAL ASSETS</b>	<b>8,380,175</b>

**LIABILITIES**

Accounts Payable	5,769
Salaries & Benefits Payable	6,736
Due To Other Governments	8,344,759
Trusts Payable	1,875
Compensated Absences	21,036
<b>TOTAL LIABILITIES</b>	<b>8,380,175</b>

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

**HOWARD COUNTY**  
**Cresco, Iowa**

**Notes to Financial Statements**

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**Note 1: Summary of Significant Accounting Policies**

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

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

**A. REPORTING ENTITY**

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

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

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

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

## Notes to Financial Statements (Continued)

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### Note 1: Summary of Significant Accounting Policies (Continued)

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

#### B. BASIS OF PRESENTATION

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

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

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

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

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

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

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

## Notes to Financial Statements (Continued)

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### Note 1: Summary of Significant Accounting Policies (Continued)

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

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

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

Additionally, the County reports the following funds:

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

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

### C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

## Notes to Financial Statements (Continued)

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### Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

## Notes to Financial Statements (Continued)

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### D. ASSETS, LIABILITIES AND FUND EQUITY

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

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

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

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

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

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2005.

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

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2006, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

## Notes to Financial Statements (Continued)

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### Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

## Notes to Financial Statements (Continued)

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absence liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

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

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

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

Net Assets – The net assets of the Employee Group Health Fund is designated for anticipated future catastrophic losses of the County.

#### E. BUDGETS AND BUDGETARY ACCOUNTING

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements did not exceed amounts budgeted, however, certain department disbursements exceeded the amounts appropriated.

### Note 2: Cash and Pooled Investments

The County's deposits in banks at June 30, 2006 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.

**Notes to Financial Statements (Continued)**

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**Note 2: Cash and Pooled Investments (Continued)**

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.

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

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

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

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

**Note 3: Due from and Due to Other Funds**

The detail of inter-fund receivables and payables at June 30, 2006 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Agency: Auto License and Use Tax	\$5,137

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

**Note 4 : Inter-fund Transfers**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General Basic	Special Revenue Conservation Special Projects	\$50,180
Special Revenue: New County Shop Secondary Roads	Special Revenue Rural Services Rural Services	46,843 790,000
Agency: County Assessor	Agency: Special Appraiser	<u>93,000</u>
Total		<u><u>\$980,023</u></u>

## Notes to Financial Statements (Continued)

### Note 4 : Inter-fund Transfers (Continued)

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

### Note 5: Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental Activities:</b>				
<b>Capital Assets, Not Being Depreciated</b>				
Land	\$1,336,210	\$ 0	\$ 0	\$1,336,210
Construction in Progress	26,313	610,266	0	636,579
<b>Total Capital Assets, Not Being Depreciated</b>	<b>1,362,523</b>	<b>610,266</b>	<b>0</b>	<b>1,972,789</b>
<b>Capital Assets, Being Depreciated:</b>				
Buildings	1,297,712	48,955	25,000	1,321,667
Improvements Other Than Buildings	0	124,019	0	124,019
Machinery & Equipment	3,348,756	165,947	101,000	3,413,703
Infrastructure	2,539,446	0	0	2,539,446
<b>Total Capital Assets, Being Depreciated</b>	<b>7,185,914</b>	<b>338,921</b>	<b>126,000</b>	<b>7,398,835</b>
<b>Less Accumulated Depreciation For:</b>				
Buildings	690,782	15,466	8,500	697,748
Improvements Other Than Buildings	0	2,480	0	2,480
Machinery & Equipment	2,051,744	207,122	96,600	2,162,266
Infrastructure	188,277	163,433	0	351,710
<b>Total Accumulated Depreciation</b>	<b>2,930,803</b>	<b>388,501</b>	<b>105,100</b>	<b>3,214,204</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>4,255,111</b>	<b>(49,580)</b>	<b>20,900</b>	<b>4,184,631</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$5,617,634</b>	<b>\$560,686</b>	<b>\$20,900</b>	<b>\$6,157,420</b>
<b>Depreciation expense was charged to the following functions:</b>				
Public Safety & Legal Services				\$18,688
Mental Health				2,590
County Environment & Education				42,403
Roads & Transportation				304,799
Administration				20,021
<b>Total Depreciation Expense – Governmental Activities</b>				<b>\$388,501</b>

## 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
Special Revenue:		
Mental Health	Services	\$92,627
Total for Governmental Funds		\$92,627
Agency:		
Agricultural Extension	Collections	\$104,892
Assessor		146,128
Schools		4,841,729
Community Colleges		213,691
Corporations		1,954,250
Auto License & Use Tax		150,222
All Others		933,847
Total for Agency Funds		\$8,344,759

### Note 7 : Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006, is as follows:

	Installment Purchase Agreements	Notes Payable	Compensated Absences	Capital Loan Notes	Total
Beginning Balance	\$35,878	\$9,785	\$267,587	\$ 0	\$313,250
Increases	0	0	0	400,000	400,000
Decreases	17,749	5,036	5,538	0	28,323
Ending Balance	\$18,129	\$4,749	\$262,049	\$400,000	\$684,927
Due Within One Year	\$18,129	\$4,749	\$262,049	\$29,124	\$314,051

## Notes to Financial Statements (Continued)

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

#### Installment Purchase Agreement

The County has entered into installment purchase agreements to purchase an AS400 and the related software. The following is a schedule of the future payments in effect at June 30, 2006:

	Year Ending June 30,	AS400	Software	Total
	2007	\$12,914	\$6,011	\$18,925
Total Installment Payments		12,914	6,011	18,925
Less Amount Representing Interest		(530)	(266)	(796)
Present Value of Payments		\$12,384	\$5,745	\$18,129

Payments under installment purchase agreement totaled \$18,925 for the year ended June 30, 2006.

#### Notes Payable

Howard County entered into a loan agreement with Cresco Union Savings Bank for a \$20,000 loan for the purchase of an air conditioner for the Howard Residential Care Facility. The following is a schedule of future payments in effect at June 30, 2006:

Year Ending June 30,	Principal	Interest	Total
2007	\$4,749	\$214	\$4,963

During the year ended June 30, 2006, the County issued \$400,000 of General Obligation Capital Loan Notes. The notes were issued to provide funds to pay costs of improvements at the Howard County Secondary Roads Shop. Semiannual payments, June 1 and December 1, commencing December 1, 2006 are required through June 1, 2016. Interest payments are semiannual at a fixed rate of 4.15% per annum. The following is a schedule of future payments in effect at June 30, 2006:

Year Ending June 30,	Principal	Interest	Total
2007	\$29,124	\$20,815	\$49,939
2008	34,653	15,286	49,939
2009	36,167	13,772	49,939
2010	37,704	12,235	49,939
2011	39,308	10,631	49,939
2012	40,955	8,984	49,939
2013	42,720	7,219	49,939
2014	44,537	5,402	49,939
2015	46,430	3,509	49,939
2016	48,402	1,537	49,939
	\$400,000	\$99,390	\$499,390

## **Notes to Financial Statements (Continued)**

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### **Note 8: Inter-fund Loan**

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

During the year ended June 30, 2006, the loan was paid in full.

### **Note 9: Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 3.70% of their covered salary and the County is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The County's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$143,639, \$137,061 and \$131,521, respectively, equal to the required contributions for each year.

### **Note 10: Risk Management**

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

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

## Notes to Financial Statements (Continued)

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### Note 10: Risk Management (Continued)

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

The County's property and casualty contribution to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2006 were \$79,875.

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

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk sharing protection provided by the member's risk sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such losses can be reasonably estimated. Accordingly, at June 30, 2006, no liability has been recorded in the County's financial statements. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

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

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

## **Notes to Financial Statements (Continued)**

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### **Note 11: Employee Health Insurance Plan**

The Internal Service, Employee Group Health Fund was established to account for the self-funding of deductibles of the County's health insurance benefit plan. This plan is funded by both employee and County contributions and is administered through a service agreement with Midwest Group Benefits.

Monthly payments of service fees and plan contributions to the Employee Group Health Fund are recorded as expenditures from the operating funds. Under the administrative service agreement, monthly payments of service fees and claims processed are paid to Midwest Group Benefits. from the Employee Group Health Fund. The County's contribution to the fund for the year ended June 30, 2006 were \$617,781.

Amounts payable from the Employee Group Health Fund at June 30, 2006 total \$6,222, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on the amounts necessary to pay prior-year and current-year claims, and to establish a reserve for catastrophic losses. That reserve had a balance of \$50,895 at June 30, 2006 and is reported as a designation of the Internal Service, Employee Group Health Fund retained earnings. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement Number 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

### **Note 12: Tax Increment Financing**

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

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

### **Note 13: Closure and Postclosure Care Cost**

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

## **Notes to Financial Statements (Continued)**

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### **Note 13: Closure and Postclosure Care Cost (Continued)**

State and Federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, state laws require the Agency to submit a closure and postclosure plan detailing the schedule for the methods by which the operator will meet the conditions for proper closure and postclosure. The Agency is in compliance with this requirement. On June 30, 2006, Howard County did not anticipate any additional assessment for closure and postclosure costs.

### **Note 14: Business Transactions**

Business transactions between the County and County officials or employees were noted.

**HOWARD COUNTY**  
**Cresco, Iowa**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,  
DISBURSEMENTS AND CHANGES IN BALANCES  
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION**  
Year Ended June 30, 2006

	Actual	Less Funds Not Required to Be Budgeted	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
<b>RECEIPTS:</b>						
Property & Other County Tax	\$3,457,436	\$ 0	\$3,457,436	\$3,375,297	\$3,436,384	\$21,052
Interest & Penalty on Property Tax	31,952	0	31,952	10,030	10,060	21,892
Intergovernmental	3,104,191	0	3,104,191	3,017,937	3,230,718	(126,527)
Licenses & Permits	8,694	0	8,694	2,500	2,500	6,194
Charges for Services	392,658	0	392,658	361,288	390,852	1,806
Use of Money & Property	168,494	0	168,494	95,650	95,650	72,844
Miscellaneous	317,559	5,326	312,233	179,408	240,667	71,566
<b>Total Receipts</b>	<b>7,480,984</b>	<b>5,326</b>	<b>7,475,658</b>	<b>7,042,110</b>	<b>7,406,831</b>	<b>68,827</b>
<b>DISBURSEMENTS:</b>						
Public Safety & Legal Services	954,705	0	954,705	971,920	1,031,191	76,486
Physical Health & Social Services	394,886	0	394,886	483,184	473,183	78,297
Mental Health	1,093,708	0	1,093,708	1,089,623	1,122,480	28,772
County Environment & Education	767,402	0	767,402	843,160	821,469	54,067
Roads & Transportation	2,908,298	0	2,908,298	2,606,010	2,919,094	10,796
Governmental Services to Residents	369,164	0	369,164	239,338	388,090	18,926
Administration	753,413	0	753,413	685,502	772,551	19,138
Non-program	5,888	5,437	451	1,000	1,000	549
Debt Service	0	0	0	30,408	0	0
Capital Projects	390,029	0	390,029	432,731	570,730	180,701
<b>Total Disbursements</b>	<b>7,637,493</b>	<b>5,437</b>	<b>7,632,056</b>	<b>7,382,876</b>	<b>8,099,788</b>	<b>467,732</b>
Excess (Deficiency) of Receipts Over (Under) Disbursements	(156,509)	(111)	(156,398)	(340,766)	(692,957)	536,559
Other Financing Sources, Net	409,753	0	409,753	0	400,000	9,753
Excess (Deficiency) of Receipts & Other Financing Sources Over (Under) Disbursements & Other Financing Uses	253,244	(111)	253,355	(340,766)	(292,957)	546,312
Balance Beginning of Year	2,510,526	11,249	2,499,277	2,499,350	2,499,350	(73)
Balance End of Year	\$2,763,770	\$11,138	\$2,752,632	\$2,158,584	\$2,206,393	\$546,239

See Accompanying Independent Auditors' Report

**HOWARD COUNTY**  
**Cresco, Iowa**

**BUDGET TO GAAP RECONCILIATION**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
Year Ended June 30, 2006

	Governmental Fund		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$7,480,984	\$4,609	\$7,485,593
Expenditures	7,637,493	300,829	7,938,322
Net	(156,509)	(296,220)	(452,729)
Other Financing Sources, Net	409,753	0	409,753
Beginning Fund Balances	2,510,526	515,768	3,026,294
Increase (Decrease) in Reserve For:			
Notes Receivable	0	(128,956)	(128,956)
Inventories	0	11,880	11,880
Ending Fund Balances	\$2,763,770	\$102,472	\$2,866,242

See Accompanying Independent Auditors' Report

**Howard County  
Cresco, Iowa**

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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

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

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund and capital projects funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$716,912. These budget amendments are reflected in the final budgeted amounts.

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

During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted in any function, however, disbursements in certain departments exceeded the amounts appropriated.

**HOWARD COUNTY**  
**Cresco, Iowa**

COMBINING BALANCE SHEET  
**NONMAJOR SPECIAL REVENUE FUNDS**  
 June 30, 2006

	County Recorder's Record Management	County Recorder's Electronic Transaction Fee	Tax Increment Financing
<b>ASSETS</b>			
Cash & Pooled Investments	\$22,657	\$607	\$10,574
Receivables:			
Accounts	227	0	0
Accrued Interest	92	2	0
<b>TOTAL ASSETS</b>	<b>\$22,976</b>	<b>\$609</b>	<b>\$10,574</b>
<b>FUND BALANCES</b>			
Fund Balances:			
Unreserved	\$22,976	\$609	\$10,574
<b>Total Fund Balances</b>	<b>\$22,976</b>	<b>\$609</b>	<b>\$10,574</b>

See Accompanying Independent Auditors' Report

**Schedule 1**

Resource Enhancement & Protection	Conservation Special Projects	Drainage District	Special Equipment	Conservation Land Acquisition Trust	Total
\$50,885	\$129,903	\$11,138	\$13,808	\$20,131	\$259,703
0	0	377	0	0	604
187	1,051	0	0	649	1,981
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
\$51,072	\$130,954	\$11,515	\$13,808	\$20,780	\$262,288
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
\$51,072	\$130,954	\$11,515	\$13,808	\$20,780	\$262,288
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
\$51,072	\$130,954	\$11,515	\$13,808	\$20,780	\$262,288

**HOWARD COUNTY**  
Cresco, Iowa

COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
**NONMAJOR SPECIAL REVENUE FUNDS**  
Year Ended June 30, 2006

	County Recorder's Record Management	County Recorder's Electronic Transaction Fee	Tax Increment Financing
<b>REVENUES:</b>			
Property & Other County Tax	\$ 0	\$ 0	\$68,417
Intergovernmental	0	0	0
Charges for Services	2,497	0	0
Use of Money & Property	876	190	0
Miscellaneous	0	0	0
Total Revenues	3,373	190	68,417
<b>EXPENDITURES:</b>			
Operating:			
Public Safety & Legal Services	0	0	0
County Environment & Education	0	0	27,659
Governmental Services to Residents	3,164	16,645	0
Administration	0	0	47,888
Non-program	0	0	0
Total Expenditures	3,164	16,645	75,547
Excess (Deficiency) of Revenues Over (Under) Expenditures	209	(16,455)	(7,130)
Other Financing Sources:			
Sale of Capital Assets	0	0	0
Operating Transfers In	0	0	0
	0	0	0
Excess (Deficiency) of Revenues and Other Financing Sources (Uses) Over Expenditures	209	(16,455)	(7,130)
Fund Balances – Beginning of Year	22,767	17,064	17,704
Fund Balances – End of Year	\$22,976	\$609	\$10,574

See Accompanying Independent Auditors' Report

**Schedule 2**

Resource Enhancement & Protection	Conservation Special Projects	Drainage District	Special Equipment	Conservation Land Acquisition Trust	Total
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$68,417
4,511	0	0	822	0	5,333
0	0	0	6,282	0	8,779
1,745	5,613	0	0	857	9,281
0	6,410	5,703	0	0	12,113
6,256	12,023	5,703	7,104	857	103,923
0	0	0	11,309	0	11,309
0	111,710	0	0	0	139,369
0	0	0	0	0	19,809
0	0	0	0	0	47,888
0	0	5,437	0	0	5,437
0	111,710	5,437	11,309	0	223,812
6,256	(99,687)	266	(4,205)	857	(119,889)
0	7,500	0	0	0	7,500
0	50,180	0	0	0	50,180
0	57,680	0	0	0	57,680
6,256	(42,007)	266	(4,205)	857	(62,209)
44,816	172,961	11,249	18,013	19,923	324,497
\$51,072	\$130,954	\$11,515	\$13,808	\$20,780	\$262,288

**HOWARD COUNTY**  
**Cresco, Iowa**

**COMBINING SCHEDULE OF FIDUCIARY  
ASSETS AND LIABILITIES  
AGENCY FUNDS  
June 30, 2006**

	County Offices	Agricultural Extension Education	County Assessor	Schools
<b>ASSETS</b>				
Cash & Pooled Investments:				
County Treasurer	\$ 0	\$1,961	\$62,628	\$90,048
Other County Officials	2,359	0	0	0
Receivables:				
Property Tax:				
Delinquent	0	1	1	44
Succeeding Year	0	102,930	109,525	4,751,637
Accounts	0	0	0	0
Accrued Interest	0	0	0	0
Due From Other Governments	0	0	0	0
<b>TOTAL ASSETS</b>	<b>\$2,359</b>	<b>\$104,892</b>	<b>\$172,154</b>	<b>\$4,841,729</b>
 <b>LIABILITIES</b>				
Accounts Payable	\$ 0	\$ 0	\$147	\$ 0
Salaries & Benefit Payable	0	0	5,780	0
Due to Other Governments	653	104,892	146,128	4,841,729
Trusts Payable	1,706	0	0	0
Compensated Absences	0	0	20,099	0
<b>TOTAL LIABILITIES</b>	<b>\$2,359</b>	<b>\$104,892</b>	<b>\$172,154</b>	<b>\$4,841,729</b>

See Accompanying Independent Auditors' Report

**Schedule 3**

Community Colleges	Corporations	Townships	City Special Assessments	Auto License & Use Tax	Other	Total
\$3,955	\$31,087	\$1,472	\$23	\$150,222	\$333,757	\$675,153
0	0	0	0	0	0	2,359
2	47	0	0	0	5	100
209,734	1,923,116	92,245	0	0	504,798	7,693,985
0	0	0	0	0	227	227
0	0	0	0	0	619	619
0	0	0	0	0	7,732	7,732
<u>\$213,691</u>	<u>\$1,954,250</u>	<u>\$93,717</u>	<u>\$23</u>	<u>\$150,222</u>	<u>\$847,138</u>	<u>\$8,380,175</u>
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$5,622	\$5,769
0	0	0	0	0	956	6,736
213,691	1,954,250	93,717	23	150,222	839,454	8,344,759
0	0	0	0	0	169	1,875
0	0	0	0	0	937	21,036
<u>\$213,691</u>	<u>\$1,954,250</u>	<u>\$93,717</u>	<u>\$23</u>	<u>\$150,222</u>	<u>\$847,138</u>	<u>\$8,380,175</u>

**HOWARD COUNTY**  
**Cresco, Iowa**

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

Year Ended June 30, 2006

<b>ASSETS AND LIABILITIES</b>	County Offices	Agricultural Extension Education	County Assessor	Schools
Balances – Beginning of Year	\$2,712	\$103,266	\$152,699	\$4,701,570
Additions:				
Property & Other County Tax	0	106,122	112,915	4,892,948
E911 Surcharge	0	0	0	0
State Tax Credits	0	7,105	7,544	324,969
Driver License Fees	0	0	0	0
Office Fees & Collections	216,794	0	0	0
Auto Licenses, Use Tax & Postage	0	0	0	0
Assessments	0	0	0	0
Trusts	155,982	0	0	0
Miscellaneous	0	0	3,913	0
Total Additions	372,776	113,227	124,372	5,217,917
Deductions:				
Agency Remittances:				
To County Funds	113,643	0	0	0
To Other Governments	102,898	111,601	197,917	5,077,758
Trusts Paid Out	156,588	0	0	0
Total Deductions	373,129	111,601	197,917	5,077,758
Other Financing Sources (Uses):				
Operating Transfers In (Out)	0	0	93,000	0
Balances – End of Year	\$2,359	\$104,892	\$172,154	\$4,841,729

See Accompanying Independent Auditors' Report

**Schedule 4**

Community Colleges	Corporations	Townships	City Special Assessments	Auto License & Use Tax	Other	Total
\$208,276	\$2,058,118	\$80,325	\$4,681	\$154,766	\$779,507	\$8,245,920
216,122	1,918,553	95,377	0	0	521,493	7,863,530
0	0	0	0	0	68,546	68,546
14,333	127,517	5,068	0	0	34,903	521,439
0	0	0	0	34,858	0	34,858
0	0	0	0	0	0	216,794
0	0	0	0	2,025,982	0	2,025,982
0	0	0	15,168	0	0	15,168
0	0	0	0	0	71,960	227,942
0	0	0	0	0	48,728	52,641
230,455	2,046,070	100,445	15,168	2,060,840	745,630	11,026,900
0	0	0	0	86,826	0	200,469
225,040	2,149,938	87,053	19,826	1,978,558	513,139	10,463,728
0	0	0	0	0	71,860	228,448
225,040	2,149,938	87,053	19,826	2,065,384	584,999	10,892,645
0	0	0	0	0	(93,000)	0
\$213,691	\$1,954,250	\$93,717	\$23	\$150,222	\$847,138	\$8,380,175

**HOWARD COUNTY**  
**Cresco, Iowa**

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

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
<b>Revenues:</b>				
Property & Other County Tax	\$3,457,108	\$3,347,766	\$3,327,392	\$3,126,425
Interest & Penalty On Property Tax	31,947	26,264	28,902	30,227
Intergovernmental	3,101,743	2,936,128	2,788,622	2,664,971
Licenses & Permits	8,594	5,280	3,895	4,733
Charges For Service	390,617	388,727	356,000	314,652
Use of Money & Property	174,632	351,573	64,405	94,381
Miscellaneous	320,952	133,960	193,443	182,480
<b>Total</b>	<b>\$7,485,593</b>	<b>\$7,189,698</b>	<b>\$6,762,659</b>	<b>\$6,417,869</b>
<b>Expenditures:</b>				
Operating:				
Public Safety & Legal Services	\$959,201	\$917,620	\$879,651	\$887,697
Physical Health & Social Services	395,732	443,218	450,526	465,631
Mental Health	1,106,788	996,192	1,099,206	1,004,410
County Environment & Education	766,713	1,066,753	641,948	641,870
Roads & Transportation	3,007,255	2,379,734	2,655,035	2,382,111
Governmental Services To Residents	370,212	230,791	211,876	214,051
Administration	753,519	772,808	696,011	579,142
Non-program	5,888	12,894	4,110	7,870
Debt Service	0	20,826	30,408	113,408
Capital Projects	573,014	346,049	29,817	124,409
<b>Total</b>	<b>\$7,938,322</b>	<b>\$7,186,885</b>	<b>\$6,698,588</b>	<b>\$6,420,599</b>

See Accompanying Independent Auditors' Report



## **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***

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To the Officials of Howard County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Howard County, Iowa, as of and for the year ended June 30, 2006 which collectively comprise the County's basic financial statements listed in the table of contents and have issued our report thereon dated March 8, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Howard County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Howard County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

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

## Compliance and Other Matters

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

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

March 8, 2007

*Gardiner Thomsen, P.C.*

HOWARD COUNTY  
Cresco, Iowa

SCHEDULE OF FINDINGS  
Year Ended June 30, 2006

**Findings Related to the Financial Statements**

**REPORTABLE CONDITIONS:**

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

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

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

***Conclusion*** – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**Other Findings Related to Required Statutory Reporting:**

- 1 **Certified Budget** – Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted, however, disbursements in certain departments exceeded the amounts appropriated.

***Recommendation*** – 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 appropriation of another office or department as long as the function budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation.

***Response*** – We will watch appropriations more closely.

***Conclusion*** – Response accepted.

- 2 **Questionable Expenditures** – We noted no expenditures that may not meet the requirements of public purpose as defined by an Attorney General's opinion dated April 25, 1979.

- 3 **Travel Expense** – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

**HOWARD COUNTY  
Cresco, Iowa  
SCHEDULE OF FINDINGS**

**Other Findings Related to Required Statutory Reporting: (Continued)**

- 4 **Business Transaction** - The following business transactions between the County and County officials or employees were noted:

Name and Title	Description	Amount
Bob Carroll – Road Foreman Owner of Carroll Construction	Road Maintenance Equipment Rental	\$1,238

The transactions with Carroll Construction do not appear to represent conflicts of interest since the total transactions were not in excess of \$1,500 for the fiscal year.

- 5 **Bond Coverage** – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of all bonds should be periodically reviewed to ensure that the coverage is adequate for current operations.
- 6 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not. However, it was noted the Board went into closed session December 21, 2005 without following the statutory procedures.

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

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

***Conclusion*** – Response accepted

- 7 **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.
- 8 **Resource Enhancement and Protection Certification** - The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- 9 **Economic Development** – During the year ended June 30, 2006, the County paid \$79,162 for Economic Development, which appears to be an appropriate expenditure of public funds since benefits to be derived have been clearly documented.
- 10 **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, 2006 for the County Extension Office did not exceed the amount budgeted.

**HOWARD COUNTY**  
**Cresco, Iowa**  
**SCHEDULE OF FINDINGS**

**Other Findings Related to Required Statutory Reporting: (Continued)**

- 11 **Credit Card Policy** – Several departments have credit cards for use by various employees while on County business. The County does not have a written policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. In addition, supporting documentation was not always available to support credit card charges.

***Recommendation*** – The County should adopt a formal written policy regulating the use of credit cards. The policy, at a minimum, should address who controls the cards, who is authorized to use the cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

***Response*** – A formal written policy is in process at this time.

***Conclusion*** – Response accepted

## News Release

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

The County had local tax revenue of \$12,004,128 for the year ended June 30, 2006, which included \$719,775 in tax credits from the State. The County forwarded \$8,266,843 of the local tax revenue to the townships, school districts, cities, and other taxing bodies in the County.

The County retained \$3,619,159 of the local tax revenue to finance county operations, a 1% increase from the prior year. Other revenues included charges for services of \$745,360, operating grants, contributions and restricted interest of \$2,579,589, unrestricted investment earnings of \$129,030 and other general revenues of \$251,918.

Expenses for County operations totaled \$7,348,171, a 6% increase from the prior year. Expenses included \$3,138,992 for Roads and Transportation, \$1,092,224 for Mental Health, and \$952,731 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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