

HOWARD COUNTY

Cresco, Iowa

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2007

HOWARD COUNTY, IOWA
Cresco, Iowa

TABLE OF CONTENTS

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITORS' REPORT	2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-10
BASIC FINANCIAL STATEMENTS:	<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.....	23-36
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds 37
Budget to GAAP Reconciliation 38
Notes to Required Supplementary Information – Budgetary Reporting 39

TABLE OF CONTENTS

OTHER SUPPLEMENTARY INFORMATION:	<u>Schedule</u>	<u>Page</u>
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	40-41
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	42-43
Agency Funds:		
Combining Schedule of Fiduciary Assets and Liabilities	3	44-45
Combining Schedule of Changes in Fiduciary Assets and Liabilities	4	46-47
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	5	48
 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>		 49-50
SCHEDULE OF FINDINGS		51-54

**HOWARD COUNTY
Cresco, Iowa**

OFFICIALS

(Before January 2007)

<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 Grinhaug.....	County Sheriff.....	January 2009
Joseph Haskovec	County Attorney.....	January 2007
Thomas Mullen	County Assessor.....	Appointed

(After January 2007)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Don Burnikel*.....	Board of Supervisors	January 2011
Janet McGovern	Board of Supervisors	January 2011
Mary Jo Wilhelm.....	Board of Supervisors	January 2009
Mick Gamez.....	County Auditor.....	January 2009
Warren Steffen.....	County Treasurer	January 2011
Cherri Caffrey.....	County Recorder	January 2011
Mark Grinhaug.....	County Sheriff.....	January 2009
Joseph Haskovec	County Attorney.....	January 2011
Thomas Mullen	County Assessor.....	Appointed

*Dale Fenske resigned effective July 16, 2007, and Don Burnikel was appointed.



Gardiner Thomsen
Certified Public Accountants

Independent Auditors' Report

To the Officials of Howard County
Cresco, Iowa

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Howard County, Iowa, as of and for the year ended June 30, 2007, 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, 2007, 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 10, 2008 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 37 - 39 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 four years ended June 30, 2006 (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 10, 2008

Gardiner Throusen, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Howard County provides this Management's Discussion and Analysis of Howard County's annual financial statements. This narrative overview and analysis of the financial activities of Howard County is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities increased approximately 10% or approximately \$807,392 from fiscal 2006 to fiscal 2007. Property and other County taxes increased approximately \$259,600, Operating & Capital Grants Contributions & Restricted Interest increased approximately \$504,415 and Charges for Service decreased approximately \$74,949.
- Program expenses of the County's governmental activities were 10% or approximately \$784,335 more in fiscal 2007 than in fiscal 2006. Roads and Transportation expense increased approximately \$360,538 and Mental Health expenses increased approximately \$214,669.
- The county's net assets increased 1.7%; approximately \$144,929 from June 30, 2006 to June 30, 2007.

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.

USING THIS ANNUAL REPORT (Continued)

Other Supplementary Information provides detailed information about the nonmajor governmental 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.

Fund Financial Statements (Continued)

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 \$8,385,232 to \$8,530,161. 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	
	2007	2006
Current and Other Assets	\$6,393	\$6,641
Capital Assets	6,718	6,157
Total Assets	13,111	12,798
Long-Term Debt Outstanding	371	423
Other Liabilities	4,210	3,990
Total Liabilities	4,581	4,413
Net Assets:		
Invested in Capital Assets, Net of debt	6,347	6,139
Restricted	1,076	1,155
Unrestricted	1,107	1,091
Total Net Assets	\$8,530	\$8,385

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Net assets of the County's governmental activities increased by approximately 1.7%, (from \$8.34 to \$8.53 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 \$1,090,579 at June 30, 2006 to approximately \$1,107,411 at the end of this year, an increase of 1.5%.

Changes in Net Assets of Governmental Activities

(Expressed in Thousands)

	Year Ended June 30,	
	2007	2006
Program Revenues:		
Charges for service and sales	\$670	\$745
Operating grants and contributions	2,739	4,580
Capital grants and contributions	514	170
Property taxes	3,509	3,226
Unrestricted investments earnings	172	129
Other general revenues	673	633
Total revenues	<u>8,277</u>	<u>7,483</u>
Program Expenses:		
Public safety and legal services	999	953
Physical health and social services	336	394
Mental health	1,307	1,092
County environment and education	873	624
Roads and transportation	3,499	3,139
Government services to residents	250	364
Administration or general government	798	733
Non-program	54	43
Interest on long-term debt	16	6
Total expenses	<u>8,132</u>	<u>7,348</u>
Increase in net assets	145	135
Net assets beginning of year	<u>8,385</u>	<u>8,250</u>
Net assets end of year	<u>\$8,530</u>	<u>\$8,385</u>

The County's revenue increased approximately 10% (\$807,392). The total cost of programs and services increased 10%, (\$784,335), 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 \$2.37 million, which is lower than last year's total by \$493,152. The \$2.37 million balance is 36% of the budgeted expenditures for the 2007 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 stayed about the same. One primary reason for this is that the departments used all of the allocated budgets.

The \$96,534 decrease of balance in the Mental Health funds resulted from more expenditures and less revenue.

The Rural Services fund expenditures and revenue were slightly higher than 2006, however, the departments did not use all of their budget appropriations and the balance was about \$37,752 higher.

The Secondary Road fund ended the year with a balance \$233,424 lower than in 2006. We started 2007 with a higher beginning balance and our expenditures were more than our revenue.

The Capital Projects Fund was paid considerably down, as the new county shop was completed in 2007, which left us with a \$183 balance compared to \$220,528 in 2006.

The Debt Service fund was set up to pay the loan from the Cresco Union Bank for the New County Shop. This fund runs fairly consistent year to year, being it is for a loan payment.

BUDGETARY HIGHLIGHTS

The budget was amended on October 12, 2006 with an increase to revenues due to grants. There was an increase in expenditures due to grants, TIF's, unemployment compensation and new County shop. On May 21, 2007, the budget was amended for an increase in revenues due to miscellaneous grants, TIF revenue, local option sales tax. The expenditures were also increased due to grants, wages, jail expenses, mental health expenditures, local option sales tax and TIF's, increase in road maintenance and courthouse repairs. On June 25, 2007, the budget was amended for an increase in mental health expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2007, the County had \$10,284 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 \$912,000 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,	
	2007	2006
Land	\$1,336	\$1,336
Buildings and Improvements	2,234	1,446
Equipment	3,438	3,414
Infrastructure	3,276	2,539
Construction in Progress	0	637
Total	<u>\$10,284</u>	<u>\$9,372</u>

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

Conservation Equipment	\$40,504
Infrastructure	737,058
Secondary Roads Shop	788,033
	<u>\$1,565,595</u>

The County had depreciation expense of \$425,650 for the year ended June 30, 2007 and total accumulated depreciation as of June 30, 2007 of \$3,566,231.

Debt Administration

At year end, the County had \$682,554 in debt compared to \$684,927 in notes and other debt last year as shown below.

Outstanding Debt at Year-End of Governmental Activities

	(Expressed in Thousands)	
	2007	2006
Notes Payable	\$371	\$405
Installment Purchase Agreements	0	18
Compensated Absences	312	262
	<u>\$683</u>	<u>\$685</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 \$16 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 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The county begins the 2008 fiscal year with a balance of 24% when compared to expected expenditures. This balance indicates departments were utilizing more of their budgets and trying to be fiscally responsible. Increased expenses for 2008 will include a 16% increase in workman's compensation insurance, increases in health insurance premiums, salary increases, and debt payment for new county shop and beginning replacement costs of Conservation Bridge.

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, 2007**

	Governmental Activities
ASSETS	
Cash & Pooled Investments	\$2,291,151
Receivables:	
Property Tax:	
Delinquent	1,726
Succeeding Year	3,093,353
Interest & Penalty On Property Tax	107
Accounts	34,166
Accrued Interest	20,424
Due From Other Governments	405,914
Notes Receivable	244,514
Inventories	239,563
Prepaid Insurance	62,922
Capital Assets (Net of Accumulated Depreciation)	6,717,702
TOTAL ASSETS	13,111,542
LIABILITIES	
Accounts Payable	572,444
Accrued Interest Payable	1,234
Salaries and Benefits Payable	106,358
Due to Other Governments	125,438
Deferred Revenue:	
Succeeding Year Property Tax	3,093,353
Long Term Liabilities:	
Portion Due Or Payable Within One Year:	
General Obligation Notes	34,672
Compensated Absences	311,688
Portion Due Or Payable After One Year:	
General Obligation Notes	336,194
TOTAL LIABILITIES	4,581,381
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	6,346,836
Restricted For:	
Secondary Roads Purposes	299,866
Debt Service	3,076
Capital Projects	183
Other Purposes	808,436
Unrestricted	1,071,764
TOTAL NET ASSETS	\$8,530,161

See Notes To Financial Statements

**HOWARD COUNTY
Cresco, Iowa**

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2007**

FUNCTIONS/PROGRAMS:	Expenses	Program Revenues			Net (Expense) Revenue & Change In Net Assets
		Charges for Service	Operating Grants, Contributions, & Restricted Interest	Capital Grants and Contributions	
GOVERNMENTAL ACTIVITIES:					
Public Safety & Legal Services	\$999,552	\$182,237	\$49,850	\$0	\$(767,465)
Physical Health & Social Services	336,261	7,689	27,402	0	(301,170)
Mental Health	1,306,893	149,591	680,011	0	(477,291)
County Environment & Education	873,316	88,227	78,015	0	(707,074)
Roads & Transportation	3,499,530	18,585	1,904,090	514,145	(1,062,710)
Governmental Services to Residents	250,006	92,847	0	0	(157,159)
Administration	797,602	73,458	0	0	(724,144)
Non-program	53,584	57,777	0	0	4,193
Interest on Long-Term Debt	15,762	0	0	0	(15,762)
	<u>\$8,132,506</u>	<u>\$670,411</u>	<u>\$2,739,368</u>	<u>\$514,145</u>	<u>(4,208,582)</u>
GENERAL REVENUES:					
Property & Other County Tax Levied For:					
General Purposes					3,154,883
Debt Service					46,889
Penalty & Interest on Property Tax					28,481
State Tax Credits					208,875
Local Option Sales Tax					439,631
Unrestricted Investment Earnings					171,986
Miscellaneous					257,759
Tax Increment Financing Revenue					69,529
Loss on Disposal of Capital Assets					(24,522)
TOTAL GENERAL REVENUES					<u>4,353,511</u>
CHANGE IN NET ASSETS					144,929
NET ASSETS, BEGINNING OF YEAR					<u>8,385,232</u>
NET ASSETS, END OF YEAR					<u><u>\$8,530,161</u></u>

See Notes To Financial Statements

HOWARD COUNTY
Cresco, Iowa

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	General	Special Revenue	
		Mental Health	Rural Services
ASSETS			
Cash & Pooled Investments	\$896,877	\$173,352	\$504,352
Receivables:			
Property Tax:			
Delinquent	1,138	208	352
Succeeding Year	1,822,006	333,908	891,632
Interest & Penalty on Property Tax	107	0	0
Accounts	33,952	0	0
Accrued Interest	17,318	0	0
Due From Other Governments	56,495	12,102	40,071
Note Receivable	244,514	0	0
Inventories	0	0	0
Prepaid Insurance	62,922	0	0
TOTAL ASSETS	\$3,135,329	\$519,570	\$1,436,407
LIABILITIES & FUND BALANCES			
Liabilities:			
Accounts Payable	\$77,884	\$88,561	\$9,228
Salaries & Benefits Payable	46,757	7,310	7,058
Due To Other Governments	0	125,438	0
Deferred Revenue:			
Succeeding Year Property Tax	1,822,006	333,908	891,632
Other	2,808	194	343
Total Liabilities	1,949,455	555,411	908,261
Fund Balances:			
Reserved For:			
Inventories	0	0	0
Debt Service	0	0	0
Note Receivable	244,514	0	0
Unreserved, Reported In:			
General Fund	941,360	0	0
Special Revenue Funds	0	(35,841)	528,146
Capital Projects Fund	0	0	0
Total Fund Balances	1,185,874	(35,841)	528,146
TOTAL LIABILITIES & FUND BALANCES	\$3,135,329	\$519,570	\$1,436,407

See Notes To Financial Statements

Exhibit C

<u>Special Revenue</u>				
<u>Secondary Roads</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
\$351,583	\$1,389	\$0	\$272,586	\$2,200,139
0	28	0	0	1,726
0	45,807	0	0	3,093,353
0	0	0	0	107
0	0	0	214	34,166
147	0	183	2,632	20,280
289,287	1,659	0	6,300	405,914
0	0	0	0	244,514
239,563	0	0	0	239,563
0	0	0	0	62,922
<u>\$880,580</u>	<u>\$48,883</u>	<u>\$183</u>	<u>\$281,732</u>	<u>\$6,302,684</u>
\$379,833	\$0	\$0	\$1,785	\$557,291
45,233	0	0	0	106,358
0	0	0	0	125,438
0	45,807	0	0	3,093,353
43,783	26	0	0	47,154
<u>468,849</u>	<u>45,833</u>	<u>0</u>	<u>1,785</u>	<u>3,929,594</u>
239,563	0	0	0	239,563
0	3,050	0	0	3,050
0	0	0	0	244,514
0	0	0	0	941,360
172,168	0	0	279,947	944,420
0	0	183	0	183
<u>411,731</u>	<u>3,050</u>	<u>183</u>	<u>279,947</u>	<u>2,373,090</u>
<u>\$880,580</u>	<u>\$48,883</u>	<u>\$183</u>	<u>\$281,732</u>	<u>\$6,302,684</u>

HOWARD COUNTY
Cresco, Iowa

**RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS**
June 30, 2007

Total Governmental Fund Balances (pages 13-14)	\$2,373,090
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of the assets is \$10,283,933 and the accumulated depreciation is \$3,566,231.	6,717,702
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	47,154
The Internal Service Fund is used by management to charge the costs of funding 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.	76,003
Long-term liabilities, including notes payable, accrued interest payable and compensated absences payable are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(683,788)</u>
Net Assets of Governmental Activities (page 11)	<u><u>\$8,530,161</u></u>

See Notes to Financial Statements

HOWARD COUNTY
Cresco, Iowa

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2007

	General	Special Revenue	
		Mental Health	Rural Services
REVENUES:			
Property & Other County Tax	\$1,838,966	\$351,504	\$1,404,298
Interest & Penalty on Property Tax	28,481	0	0
Intergovernmental	381,439	703,335	62,769
Licenses & Permits	5,450	0	0
Charges for Services	246,639	149,591	0
Use of Money & Property	199,433	0	0
Miscellaneous	63,376	3,085	9,920
Total Revenues	<u>2,763,784</u>	<u>1,207,515</u>	<u>1,476,987</u>
EXPENDITURES:			
Operating:			
Public Safety & Legal Services	790,858	0	239,495
Physical Health & Social Services	319,425	0	0
Mental Health	0	1,304,049	0
County Environment & Education	517,107	0	248,031
Roads & Transportation	0	0	43,227
Governmental Services to Residents	248,212	0	2,895
Administration	750,604	0	3,239
Non-Program	458	0	0
Debt Service	0	0	0
Capital Projects	0	0	0
Total Expenditures	<u>2,626,664</u>	<u>1,304,049</u>	<u>536,887</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>137,120</u>	<u>(96,534)</u>	<u>940,100</u>
Other Financing Sources (Uses):			
Sale of Capital Assets	1,058	0	658
Operating Transfers In	0	0	0
Operating Transfers Out	(108,568)	0	(903,006)
Total Other Financing Sources (Uses)	<u>(107,510)</u>	<u>0</u>	<u>(902,348)</u>
Net Change in Fund Balances	29,610	(96,534)	37,752
Fund Balances – Beginning of Year	1,185,870	60,693	490,394
Decrease in Reserve For Notes Receivable	(29,606)	0	0
Increase in Reserve For Inventories	0	0	0
Fund Balances – End of Year	<u>\$1,185,874</u>	<u>\$(35,841)</u>	<u>\$528,146</u>

See Notes To Financial Statements

Exhibit E

<u>Special Revenue</u>				
<u>Secondary Roads</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
\$0	\$46,907	\$0	\$69,529	\$3,711,204
0	0	0	0	28,481
2,009,048	3,109	0	32,994	3,192,694
880	0	0	0	6,330
197	0	0	3,701	400,128
1,614	0	4,990	11,917	217,954
107,750	1,659	82,436	26,843	295,069
2,119,489	51,675	87,426	144,984	7,851,860
0	0	0	5,514	1,035,867
0	0	0	16,915	336,340
0	0	0	0	1,304,049
0	0	0	101,135	866,273
3,133,434	0	0	0	3,176,661
0	0	0	0	251,107
0	0	0	48,715	802,558
0	0	0	1,003	1,461
0	49,939	0	0	49,939
111,313	0	392,771	0	504,084
3,244,747	49,939	392,771	173,282	8,328,339
(1,125,258)	1,736	(305,345)	(28,298)	(476,479)
432	0	0	1,077	3,225
881,694	1,314	85,000	44,880	1,012,888
0	(1,314)	0	0	(1,012,888)
882,126	0	85,000	45,957	3,225
(243,132)	1,736	(220,345)	17,659	(473,254)
645,155	1,314	220,528	262,288	2,866,242
0	0	0	0	(29,606)
9,708	0	0	0	9,708
\$411,731	\$3,050	\$183	\$279,947	\$2,373,090

**HOWARD COUNTY
Cresco, Iowa**

**RECONCILIATION OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2007**

Net Change in Fund Balances - Total Governmental Funds (page – 17) \$(493,152)

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	\$633,024	
Capital Assets Contributed by the Iowa Department of Transportation	380,655	
Depreciation Expense	<u>(425,650)</u>	588,029

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. (27,747)

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	(256)	
Other	<u>45,530</u>	45,274

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:

Repaid		52,012
--------	--	--------

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	(49,639)	
Interest on Long-Term Debt	<u>5,044</u>	(44,595)

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. 25,108

Change in Net Assets of Governmental Funds (page – 17) \$144,929

See Notes to Financial Statements

HOWARD COUNTY
Cresco, Iowa

STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2007

	Internal Service Employee Group Health
<hr/>	
ASSETS	
Cash & Cash Equivalents	\$91,012
Receivables:	
Accrued Interest	144
TOTAL ASSETS	<hr/> \$91,156 <hr/>
LIABILITIES	
Accounts Payable	\$15,153
TOTAL LIABILITIES	<hr/> 15,153 <hr/>
NET ASSETS	
Unrestricted	<hr/> \$76,003 <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, 2007

	Internal Service Employee Group Health
OPERATING REVENUES:	
Reimbursements From Operating Funds	\$546,995
Reimbursements From Employees	85,540
Insurance Reimbursements	565
Total Operating Revenues	633,100
OPERATING EXPENSES:	
Medical Claims	87,911
Insurance Premiums	513,629
Administrative Fees	7,571
Miscellaneous	340
Total Operating Expenses	609,451
Operating Income	23,649
NON-OPERATING REVENUES:	
Interest on Investments	1,459
Net Income	25,108
Net Assets Beginning of Year	50,895
Net Assets End of Year	\$76,003

See Notes To Financial Statements

**HOWARD COUNTY
Cresco, Iowa**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2007**

	Internal Service Employee Group Health
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received From Operating Fund Reimbursements	\$546,995
Cash Received From Employees & Others	86,537
Cash Payments To Suppliers For Services	(600,520)
Net Cash Provided by Operating Activities	33,012
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on Investments	1,398
Net Increase in Cash & Cash Equivalents	34,410
Cash & Cash Equivalents at Beginning of Year	56,602
Cash & Cash Equivalents at End of Year	\$91,012
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	\$23,649
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Decrease in Accounts Receivable	432
Increase in Accounts Payable	8,931
Net Cash Provided by Operating Activities	\$33,012

See Notes To Financial Statements

HOWARD COUNTY
Cresco, Iowa

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2007

ASSETS

Cash & Pooled Investments:	
County Treasurer	\$727,636
Other County Officials	2,077
Receivables:	
Property Tax:	
Delinquent	480
Succeeding Year	8,351,723
Accounts	443
Accrued Interest	962
Due From Other Governments	4,765
TOTAL ASSETS	9,088,086

LIABILITIES

Accounts Payable	2,218
Salaries & Benefits Payable	7,039
Due To Other Governments	9,052,933
Trusts Payable	1,847
Compensated Absences	24,049
TOTAL LIABILITIES	9,088,086

NET ASSETS **\$0**

See Notes To Financial Statements

HOWARD COUNTY
Cresco, Iowa

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

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

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

A. REPORTING ENTITY

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

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

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

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

Notes to Financial Statements (Continued)

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 not meeting 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, contributions and interest 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)

Note 1: Summary of Significant Accounting Policies (Continued)

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

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

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

Additionally, the County reports the following funds:

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

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY

The following accounting policies are followed in preparing the financial statements:

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, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2006.

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, 2007, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. 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, 2007, disbursements exceeded amounts budgeted, in the Mental Health and Roads and Transportation functions and disbursements in certain department exceeded the amounts appropriated.

Note 2: Cash and Pooled Investments

The County's deposits in banks at June 30, 2007 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)

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.

Note 3 : Inter-fund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General Basic	Special Revenue	
	Conservation Special Projects	\$44,880
Special Revenue:		
New County Shop	Rural Services	85,000
Secondary Roads	General Basic	63,688
Secondary Roads	Rural Services	818,006
Agency:	Agency:	
County Assessor	Special Appraiser	<u>95,000</u>
Total		<u>\$1,106,574</u>

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

Notes to Financial Statements (Continued)

Note 4: Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$1,336,210	\$0	\$0	\$1,336,210
Construction in Progress	636,579	0	636,579	0
Total Capital Assets, Not Being Depreciated	1,972,789	0	636,579	1,336,210
Capital Assets, Being Depreciated:				
Buildings	1,321,667	788,033	0	2,109,700
Improvements Other Than Buildings	124,019	0	0	124,019
Machinery & Equipment	3,413,703	125,167	101,370	3,437,500
Infrastructure	2,539,446	737,058	0	3,276,504
Total Capital Assets, Being Depreciated	7,398,835	1,650,258	101,370	8,947,723
Less Accumulated Depreciation For:				
Buildings	697,748	31,226	0	728,974
Improvements Other Than Buildings	2,480	2,481	0	4,961
Machinery & Equipment	2,162,266	209,498	73,623	2,298,141
Infrastructure	351,710	182,445	0	534,155
Total Accumulated Depreciation	3,214,204	425,650	73,623	3,566,231
Total Capital Assets being Depreciated, Net	4,184,631	1,224,608	27,747	5,381,492
Governmental Activities Capital Assets, Net	\$6,157,420	\$1,224,608	\$664,326	\$6,717,702
Depreciation expense was charged to the following functions:				
Public Safety & Legal Services				\$32,082
Mental Health				2,590
County Environment & Education				44,408
Roads & Transportation				326,549
Administration				20,021
Total Depreciation Expense – Governmental Activities				\$425,650

Notes to Financial Statements (Continued)

Note 5 : 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	\$125,438
Total for Governmental Funds		<u>\$125,438</u>
Agency:		
Agricultural Extension	Collections	\$112,225
Assessor		159,047
Schools		5,357,969
Community Colleges		229,190
Corporations		2,023,545
Auto License & Use Tax		163,033
All Others		<u>1,007,924</u>
Total for Agency Funds		<u>\$9,052,933</u>

Note 6 : Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007, is as follows:

	Installment Purchase Agreements	Notes Payable	Compensated Absences	Capital Loan Notes	Total
Beginning Balance	\$18,129	\$4,749	\$262,049	\$400,000	\$684,927
Increases	0	0	49,639	0	49,639
Decreases	18,129	4,749	0	29,134	52,012
Ending Balance	<u>\$0</u>	<u>\$0</u>	<u>\$311,688</u>	<u>\$370,866</u>	<u>\$682,554</u>
Due Within One Year	<u>\$0</u>	<u>\$0</u>	<u>\$311,688</u>	<u>\$34,672</u>	<u>\$346,360</u>

Notes to Financial Statements (Continued)

Note 6 : 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.

Payments under installment purchase agreement totaled \$18,925 for the year ended June 30, 2007. The agreement was paid in full in fiscal 2007.

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. Payment of \$4,963 paid the note in full during the year ended June 30, 2007.

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, 2007:

Year Ending June 30,	Principal	Interest	Total
2008	\$34,672	\$15,267	\$49,939
2009	36,168	13,771	49,939
2010	37,706	12,233	49,939
2011	39,309	10,630	49,939
2012	40,957	8,982	49,939
2013 -2016	182,054	17,659	199,713
	<u>\$370,866</u>	<u>\$78,542</u>	<u>\$449,408</u>

Note 7: 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 annual 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, 2007, 2006, and 2005 were \$150,389, \$143,639 and \$137,061, respectively, equal to the required contributions for each year.

Notes to Financial Statements (Continued)

Note 8: 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 whose 556 members include 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.

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 an 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, 2007 were \$84,730.

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 \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 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, 2007, no liability has been recorded in the County's financial statements. As of June 30, 2007, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Notes to Financial Statements (Continued)

Note 8: Risk Management (Continued)

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.

Note 9: 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, 2007 were \$546,995.

Amounts payable from the Employee Group Health Fund at June 30, 2007 total \$15,153, 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 \$76,003 at June 30, 2007 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.

Notes to Financial Statements (Continued)

Note 10: 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.

Note 11: Closure and Postclosure Care Cost

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

State and Federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, state laws require the Agency to submit a closure and postclosure plan detailing the schedule for the methods by which the operator will meet the conditions for proper closure and postclosure. The Agency is in compliance with this requirement. On June 30, 2007, Howard County did not anticipate any additional assessment for closure and postclosure costs.

Note 12: Business Transactions

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

Note 13: Deficit Fund Balance

The Mental Health Fund had an ending deficit fund balance at June 30, 2007.

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, 2007

	Actual	Less Funds Not Required to Be Budgeted	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
RECEIPTS:						
Property & Other County Tax	\$3,712,188	\$0	\$3,712,188	\$3,555,108	\$3,674,476	\$37,712
Interest & Penalty on Property Tax	28,396	0	28,396	10,050	25,050	3,346
Intergovernmental	3,035,700	0	3,035,700	3,166,428	3,332,187	(296,487)
Licenses & Permits	6,330	0	6,330	3,000	3,000	3,330
Charges for Services	401,236	0	401,236	411,975	420,205	(18,969)
Use of Money & Property	217,977	0	217,977	132,291	132,291	85,686
Miscellaneous	283,654	5,839	277,815	301,850	310,954	(33,139)
Total Receipts	7,685,481	5,839	7,679,642	7,580,702	7,898,163	(218,521)
DISBURSEMENTS:						
Public Safety & Legal Services	989,598	0	989,598	1,023,032	1,209,395	219,797
Physical Health & Social Services	333,908	0	333,908	395,851	396,246	62,338
Mental Health	1,224,440	0	1,224,440	1,042,178	1,253,328	28,888
County Environment & Education	869,712	0	869,712	1,001,259	1,041,786	172,074
Roads & Transportation	3,019,064	0	3,019,064	2,917,826	2,992,826	(26,238)
Governmental Services to Residents	249,633	0	249,633	261,376	262,526	12,893
Administration Services	803,011	0	803,011	801,737	836,302	33,291
Non-program	1,461	1,003	458	1,000	1,000	542
Debt Service	49,939	0	49,939	49,939	49,939	0
Capital Projects	711,571	0	711,571	594,404	750,495	38,924
Total Disbursements	8,252,337	1,003	8,251,334	8,088,602	8,793,843	542,509
Excess (Deficiency) of Receipts Over (Under) Disbursements	(566,856)	4,836	(571,692)	(507,900)	(895,680)	323,988
Other Financing Sources, Net	3,225	0	3,225	0	0	3,225
Excess (Deficiency) of Receipts & Other Financing Sources Over (Under) Disbursements & Other Financing Uses	(563,631)	4,836	(568,467)	(507,900)	(895,680)	327,213
Balance Beginning of Year	2,763,770	11,138	2,752,632	2,314,595	2,752,636	(4)
Balance End of Year	\$2,200,139	\$15,974	\$2,184,165	\$1,806,695	\$1,856,956	\$327,209

See Accompanying Independent Auditors' Report

HOWARD COUNTY
Cresco, Iowa

BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2007

	Governmental Fund		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$7,685,481	\$166,379	\$7,851,860
Expenditures	8,252,337	76,002	8,328,339
Net	(566,856)	90,377	(476,479)
Other Financing Sources, Net	3,225	0	3,225
Beginning Fund Balances	2,763,770	102,472	2,866,242
Increase (Decrease) in Reserve For:			
Notes Receivable	0	(29,606)	(29,606)
Inventories	0	9,708	9,708
Ending Fund Balances	\$2,200,139	\$172,951	\$2,373,090

See Accompanying Independent Auditors' Report

**Howard County
Cresco, Iowa**

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

The 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. 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, three budget amendments increased budgeted disbursements by \$705,241. 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, 2007, disbursements exceeded the amounts budgeted in the Roads and Transportation function, and disbursements in certain departments exceeded the amounts appropriated.

HOWARD COUNTY
Cresco, Iowa

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2007

	County Recorder's Record Management	County Recorder's Electronic Transaction Fee	Tax Increment Financing	Resource Enhancement & Protection
ASSETS				
Cash & Pooled Investments	\$26,108	\$637	\$10,703	\$65,248
Receivables:				
Accounts	214	0	0	0
Accrued Interest	105	3	0	262
Due From Other Governments	0	0	0	0
TOTAL ASSETS	\$26,427	\$640	\$10,703	\$65,510
LIABILITIES and FUND BALANCES				
Liabilities:				
Accounts Payable	\$0	\$0	\$0	\$0
Fund Balances:				
Unreserved	26,427	640	10,703	65,510
Total Liabilities and Fund Balances	\$26,427	\$640	\$10,703	\$65,510

See Accompanying Independent Auditors' Report

Schedule 1

Conservation Special Projects	Well Program	Drainage Districts	Special Equipment	Conservation Land Acquisition	Pennies For Poverty	Total
\$122,781	\$49	\$15,974	\$9,740	\$20,977	\$369	\$272,586
0	0	0	0	0	0	214
1,506	0	0	0	756	0	2,632
0	6,300	0	0	0	0	6,300
<u>\$124,287</u>	<u>\$6,349</u>	<u>\$15,974</u>	<u>\$9,740</u>	<u>\$21,733</u>	<u>\$369</u>	<u>\$281,732</u>
\$0	\$1,785	\$0	\$0	\$0	\$0	\$1,785
124,287	4,564	15,974	9,740	21,733	369	279,947
<u>\$124,287</u>	<u>\$6,349</u>	<u>\$15,974</u>	<u>\$9,740</u>	<u>\$21,733</u>	<u>\$369</u>	<u>\$281,732</u>

HOWARD COUNTY
Cresco, Iowa

COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2007

	County Recorder's Record Management	County Recorder's Electronic Transaction Fee	Tax Increment Financing	Resource Enhancement & Protection
REVENUES:				
Property & Other County Tax	\$0	\$0	\$69,529	\$0
Intergovernmental	0	0	0	11,515
Charges for Services	2,255	0	0	0
Use of Money & Property	1,196	31	0	2,923
Miscellaneous	0	0	0	0
Total Revenues	3,451	31	69,529	14,438
EXPENDITURES:				
Operating:				
Public Safety & Legal Services	0	0	0	0
Physical Health and Social Services	0	0	0	0
County Environment & Education	0	0	20,685	0
Administration	0	0	48,715	0
Non-program	0	0	0	0
Total Expenditures	0	0	69,400	0
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,451	31	129	14,438
Other Financing Sources:				
Sale of Capital Assets	0	0	0	0
Operating Transfers In	0	0	0	0
	0	0	0	0
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures	3,451	31	129	14,438
Fund Balances – Beginning of Year	22,976	609	10,574	51,072
Fund Balances – End of Year	\$26,427	\$640	\$10,703	\$65,510

See Accompanying Independent Auditors' Report

Schedule 2

Conservation Special Projects	Well Program	Drainage Districts	Special Equipment	Conservation Land Acquisition	Pennies For Poverty	Total
\$0	\$0	\$0	\$0	\$0	\$0	\$69,529
0	21,479	0	0	0	0	32,994
0	0	0	1,446	0	0	3,701
6,814	0	0	0	953	0	11,917
21,012	0	5,462	0	0	369	26,843
<u>27,826</u>	<u>21,479</u>	<u>5,462</u>	<u>1,446</u>	<u>953</u>	<u>369</u>	<u>144,984</u>
0	0	0	5,514	0	0	5,514
0	16,915	0	0	0	0	16,915
80,450	0	0	0	0	0	101,135
0	0	0	0	0	0	48,715
0	0	1,003	0	0	0	1,003
<u>80,450</u>	<u>16,915</u>	<u>1,003</u>	<u>5,514</u>	<u>0</u>	<u>0</u>	<u>173,282</u>
(52,624)	4,564	4,459	(4,068)	953	369	(28,298)
1,077	0	0	0	0	0	1,077
44,880	0	0	0	0	0	44,880
<u>45,957</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>45,957</u>
(6,667)	4,564	4,459	(4,068)	953	369	17,659
130,954	0	11,515	13,808	20,780	0	262,288
<u>\$124,287</u>	<u>\$4,564</u>	<u>\$15,974</u>	<u>\$9,740</u>	<u>\$21,733</u>	<u>\$369</u>	<u>\$279,947</u>

HOWARD COUNTY
Cresco, Iowa

COMBINING SCHEDULE OF FIDUCIARY
ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2007

	County Offices	Agricultural Extension Education	County Assessor	Schools
ASSETS				
Cash & Pooled Investments:				
County Treasurer	\$0	\$1,973	\$78,716	\$91,590
Other County Officials	2,077	0	0	0
Receivables:				
Property Tax:				
Delinquent	0	5	4	218
Succeeding Year	0	110,247	108,170	5,266,161
Accounts	229	0	0	0
Accrued Interest	0	0	0	0
Due From Other Governments	0	0	0	0
TOTAL ASSETS	\$2,306	\$112,225	\$186,890	\$5,357,969
LIABILITIES				
Accounts Payable	\$0	\$0	\$148	\$0
Salaries & Benefit Payable	0	0	6,049	0
Due to Other Governments	459	112,225	159,047	5,357,969
Trusts Payable	1,847	0	0	0
Compensated Absences	0	0	21,646	0
TOTAL LIABILITIES	\$2,306	\$112,225	\$186,890	\$5,357,969

See Accompanying Independent Auditors' Report

Schedule 3

Community Colleges	Corporations	Townships	Auto License & Use Tax	Other	Total
\$4,020	\$27,664	\$1,907	\$163,033	\$358,733	\$727,636
0	0	0	0	0	2,077
10	220	1	0	22	480
225,160	1,995,661	98,195	0	548,129	8,351,723
0	0	0	0	214	443
0	0	0	0	962	962
0	0	0	0	4,765	4,765
<u>\$229,190</u>	<u>\$2,023,545</u>	<u>\$100,103</u>	<u>\$163,033</u>	<u>\$912,825</u>	<u>\$9,088,086</u>
\$0	\$0	\$0	\$0	\$2,070	\$2,218
0	0	0	0	990	7,039
229,190	2,023,545	100,103	163,033	907,362	9,052,933
0	0	0	0	0	1,847
0	0	0	0	2,403	24,049
<u>\$229,190</u>	<u>\$2,023,545</u>	<u>\$100,103</u>	<u>\$163,033</u>	<u>\$912,825</u>	<u>\$9,088,086</u>

HOWARD COUNTY
Cresco, Iowa

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

Year Ended June 30, 2007

ASSETS AND LIABILITIES	County Offices	Agricultural Extension Education	County Assessor	Schools
Balances – Beginning of Year	\$2,359	\$104,892	\$172,154	\$4,841,729
Additions:				
Property & Other County Tax	0	116,590	114,918	5,531,882
E911 Surcharge	0	0	0	0
State Tax Credits	0	7,251	7,715	336,396
Driver License Fees	0	0	0	0
Office Fees & Collections	230,732	0	0	0
Auto Licenses, Use Tax & Postage	0	0	0	0
Assessments	0	0	0	0
Trusts	98,053	0	0	0
Miscellaneous	0	0	3,655	0
Total Additions	328,785	123,841	126,288	5,868,278
Deductions:				
Agency Remittances:				
To Other Funds	110,976	0	0	0
To Other Governments	119,950	116,508	206,552	5,352,038
Trusts Paid Out	97,912	0	0	0
Total Deductions	328,838	116,508	206,552	5,352,038
Operating Transfers In (Out)	0	0	95,000	0
Balances – End of Year	\$2,306	\$112,225	\$186,890	\$5,357,969

See Accompanying Independent Auditors' Report

Schedule 4

Community Colleges	Corporations	Townships	City Special Assessments	Auto License & Use Tax	Other	Total
\$213,691	\$1,954,250	\$93,717	\$23	\$150,222	\$846,969	\$8,380,006
238,096	1,997,154	104,275	0	0	579,184	8,682,099
0	0	0	0	0	100,746	100,746
14,775	120,501	6,370	0	0	35,578	528,586
0	0	0	0	17,342	0	17,342
0	0	0	0	0	0	230,732
0	0	0	0	2,106,369	0	2,106,369
0	0	0	4,326	0	0	4,326
0	0	0	0	0	105,303	203,356
0	0	0	0	0	43,715	47,370
252,871	2,117,655	110,645	4,326	2,123,711	864,526	11,920,926
0	0	0	0	78,158	0	189,134
237,372	2,048,360	104,259	4,349	2,032,742	598,367	10,820,497
0	0	0	0	0	105,303	203,215
237,372	2,048,360	104,259	4,349	2,110,900	703,670	11,212,846
0	0	0	0	0	(95,000)	0
\$229,190	\$2,023,545	\$100,103	\$0	\$163,033	\$912,825	\$9,088,086

HOWARD COUNTY
Cresco, Iowa

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

For the Last Five Years

	Modified Accrual Basis				
	2007	2006	2005	2004	2003
Revenues:					
Property & Other County Tax	\$3,711,204	\$3,457,108	\$3,347,766	\$3,327,392	\$3,126,425
Interest & Penalty On Property Tax	28,481	31,947	26,264	28,902	30,227
Intergovernmental	3,192,694	3,101,743	2,936,128	2,788,622	2,664,971
Licenses & Permits	6,330	8,594	5,280	3,895	4,733
Charges For Service	400,128	390,617	388,727	356,000	314,652
Use of Money & Property	217,954	174,632	351,573	64,405	94,381
Miscellaneous	295,069	320,952	133,960	193,443	182,480
Total	\$7,851,860	\$7,485,593	\$7,189,698	\$6,762,659	\$6,417,869
Expenditures:					
Operating:					
Public Safety & Legal Services	\$1,035,867	\$959,201	\$917,620	\$879,651	\$887,697
Physical Health & Social Services	336,340	395,732	443,218	450,526	465,631
Mental Health	1,304,049	1,106,788	996,192	1,099,206	1,004,410
County Environment & Education	866,273	766,713	1,066,753	641,948	641,870
Roads & Transportation	3,176,661	3,007,255	2,379,734	2,655,035	2,382,111
Governmental Services To Residents	251,107	370,212	230,791	211,876	214,051
Administration Services	802,558	753,519	772,808	696,011	579,142
Non-program	1,461	5,888	12,894	4,110	7,870
Debt Service	49,939	0	20,826	30,408	113,408
Capital Projects	504,084	573,014	346,049	29,817	124,409
Total	\$8,328,339	\$7,938,322	\$7,186,885	\$6,698,588	\$6,420,599

See Accompanying Independent Auditors' Report



Gardiner Thomsen
Certified Public Accountants

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Officials of Howard County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Howard County, Iowa, as of and for the year ended June 30, 2007 which collectively comprise the County's basic financial statements listed in the table of contents and have issued our report thereon dated March 10, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Howard County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Howard County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Howard County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Howard County's financial statements that is more than inconsequential will not be prevented or detected by Howard County's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Howard County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items A, B, and C are material weaknesses.

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, 2007 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.

Howard County's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the County's responses, we did not audit Howard County's responses and, accordingly, we express no opinion on them.

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 10, 2008

Gaudin Thomsen, P.C.

HOWARD COUNTY
Cresco, Iowa

SCHEDULE OF FINDINGS
Year Ended June 30, 2007

Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

- (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.

- (B) **Financial Reporting** – During the audit, we identified material amounts of receivables, payables and capital asset additions not recorded in the County's financial statements. Adjustments were subsequently made by the County to properly include these amounts in the financial statements.

Recommendation – The County should implement procedures to ensure all receivables, payable and capital asset additions are identified and included in the County's financial statements.

Response – We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion – Response accepted.

- (C) **Preparation of Full Disclosure Financial Statements** – Internal controls over financial reporting include the actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by generally accepted accounting principles. Howard County does not have the internal resources to prepare the full-disclosure financial statements required by GAAP for external reporting. While this circumstance is not uncommon for most governmental entities, it is the responsibility of management and those charged with governance, to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

HOWARD COUNTY
Cresco, Iowa

SCHEDULE OF FINDINGS (Continued)
Year Ended June 30, 2007

Recommendation – We recognize that with a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles and preparing full disclosure financial statements for external reporting purposes is difficult. However, we recommend that County officials continue to review operating procedures and obtain the internal expertise needed to handle all aspects of external financial reporting, rather than rely on external assistance.

Response – We recognize our limitations, however, it is not fiscally responsible to add additional staff at this time.

Conclusion – Response acknowledged.

INSTANCE OF NON-COMPLIANCE:

No matters were reported

Other Findings Related to Required Statutory Reporting:

- (1) **Certified Budget** – Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the Roads and Transportation function; and, disbursements in certain departments exceeded the amounts appropriated.

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

Chapter 331.434(6) of the Code of Iowa authorizes the Board of Supervisors, by resolution, to increase or decrease appropriations of one office or department by increasing or decreasing the 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 (Continued)
Year Ended June 30, 2007

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:

<u>Name and Title</u>	<u>Description</u>	<u>Amount</u>
Bob Carroll – Road Foreman	Road Maintenance	
Owner of Carroll Construction	Equipment Rental	\$1,614

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

- (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 August 28, 2006 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, 2007, the County paid \$88,140 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, 2007 for the County Extension Office did not exceed the amount budgeted.

HOWARD COUNTY
Cresco, Iowa

SCHEDULE OF FINDINGS (Continued)
Year Ended June 30, 2007

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

- (12) **Financial Position** – The Mental Health Fund had an ending deficit fund balance at June 30, 2007.

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

Response – The deficit should be eliminated through receipt of tax dollars and other State funds during the next fiscal year.

Conclusion – Response accepted.

News Release

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

The County had local tax revenue of \$13,158,973 for the year ended June 30, 2007, which included \$737,461 in tax credits from the State. The County forwarded \$8,580,825 of the local tax revenue to the townships, school districts, cities, and other taxing bodies in the County.

The County retained \$3,948,288 of the local tax revenue to finance county operations, a 9% increase from the prior year. Other revenues included charges for services of \$670,411, operating grants, contributions and restricted interest of \$2,739,368, unrestricted investment earnings of \$171,986 and other general revenues of \$257,759.

Expenses for County operations totaled \$8,132,506, a 10% increase from the prior year. Expenses included \$3,499,530 for Roads and Transportation, \$1,306,893 for Mental Health, and \$999,552 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.

#####