

**HOWARD COUNTY
CRESCO, IOWA**

FINANCIAL REPORT

JUNE 30, 2012

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HOWARD COUNTY

OFFICIALS

Name	Title	Term Expires
Adolph Gamez	Board of Supervisors	January 2013
Don Burnikel	Board of Supervisors	January 2015
Jan McGovern	Board of Supervisors	January 2015
Julie Chapman	County Auditor	January 2013
Warren Steffen	County Treasurer	January 2015
Cherri Caffrey	County Recorder	January 2015
Morris Miner	County Sheriff	January 2013
Alex Koeings	County Attorney	January 2013
Tom Mullen	County Assessor	Appointed

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

**To the Board of Supervisors
Howard County
Cresco, Iowa**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Howard County as of and for the year ended June 30, 2012, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Howard County as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof 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 February 9, 2013, on our consideration of Howard County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis, budgetary comparison information, and funding progress for the retiree health plan on page 4 and pages 36 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
February 9, 2013

**HOWARD COUNTY
CRESCO, IOWA**

**Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2012**

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 is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities increased 4.91%, or approximately \$504,000, from fiscal 2011 to fiscal 2012. Charge for service increased approximately \$3,000 and operating grants decreased approximately \$318,000, while general revenues increased approximately \$243,000.
- Program expenses were 4.03%, or approximately \$382,000, more in fiscal 2012 than in fiscal 2011. Public health and social services expenses decreased approximately \$67,000, roads and transportation expenses decreased approximately \$351,000 and non-program expenses increased approximately \$648,000.
- The County's net assets increased 6.26%, or approximately \$905,000, from June 30, 2011 to June 30, 2012.

USING THE BASIC FINANCIAL STATEMENTS

The annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Howard County as a financial whole, or as an entire operating entity.

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 and a longer-term view of those 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 with all other nonmajor funds presented in total in a single column. For Howard County, the general fund, mental health-special revenue fund, rural services-special revenue fund, secondary roads-special revenue fund and wind turbine-capital project fund are the most significant funds. The remaining statements provide financial information about activities for which Howard County acts solely as an agent or custodian for the benefit of those outside of the government.

The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the County's budget for the year. Supplementary information provides detailed information about the nonmajor special revenue and the individual fiduciary funds.

REPORTING THE COUNTY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The statement of net assets and the statement of activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements 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 other non-program activities. Property tax, state tax credits and state and federal grants finance most of these activities.

REPORTING THE COUNTY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Fund financial reports provide detailed information about the County's major funds. The County uses different funds in accordance with the Uniform Financial Accounting for Iowa County Governments to record its financial transactions. However, these fund financial statements focus on the County's most significant funds. The County's major governmental funds are the general fund, MH/DD-special revenue fund, rural services-special revenue fund, secondary roads-special revenue fund, and wind turbine-capital project fund.

Governmental Funds

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. These governmental funds includes: 1) the general fund, 2) the special revenue funds such as mental health, rural service, and secondary roads, and 3) the capital project funds. 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 statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

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

REPORTING THE COUNTY’S MOST SIGNIFICANT FUNDS (Continued)

Proprietary Fund

Proprietary fund accounts for the employee group health insurance-internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County’s various functions.

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

Fiduciary Funds

Fiduciary funds are used to report assets held in a trust or agency capacity for others and cannot be used to support the County’s own programs. These fiduciary funds include agency funds that account for emergency management services, the County assessor and E-911 service board, to name a few.

The fiduciary funds required financial statements include a statement of fiduciary net assets.

A summary reconciliation between the government-wide financial statements and the fund financial statements follows 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 analysis that follows focuses on the changes in the net assets.

Condensed Statement of Net Assets (Expressed in Thousands)			
	2012	2011	Percent Change
Current and other assets	\$ 13,214	\$ 11,648	13.44%
Capital assets	13,887	14,067	-1.28%
Total assets	27,101	25,715	5.39%
Long-term debt outstanding	6,570	6,642	-1.08%
Other liabilities	5,172	4,619	11.97%
Total liabilities	11,742	11,261	4.27%
Net assets			
Invested in capital assets	10,395	10,694	-2.80%
Restricted	4,210	2,855	47.46%
Unrestricted	754	905	-16.69%
Total net assets	\$ 15,359	\$ 14,454	6.26%

Howard County’s net assets for the governmental activities increased from fiscal 2011 to fiscal 2012. The largest portion of the County’s net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment). Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets-the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements decreased for the governmental activities approximately \$151,000 or 16.69%.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following analysis shows the change in net assets for the years ending June 30, 2012 and 2011:

	Changes in Net Assets of Governmental Activities (Expressed in Thousands)		
	2012	2011	Percent Change
Revenues:			
Program revenue			
Charges for service	\$ 816	\$ 813	0.37%
Operating grants	3,713	4,193	-11.45%
Capital grants	11	295	-96.27%
General revenue			
Property taxes	4,382	3,899	12.39%
Local option sales tax	529	53	898.11%
Penalty and interest on property taxes	46	170	-72.94%
State tax credits	168	523	-67.88%
Rents	70	93	-24.73%
Unrestricted investment earnings	14	39	-64.10%
Loss on sale of capital assets	(4)		100.00%
Other	1,022	185	452.43%
Total revenues	10,767	10,263	4.91%
Program expenses:			
Public safety and legal services	1,254	1,186	5.73%
Physical health and social services	408	421	-3.09%
Mental health	1,363	1,306	4.36%
County environment and education	854	919	-7.07%
Roads and transportation	3,832	4,183	-8.39%
Government services to residents	340	326	4.29%
Administration or general government	947	943	0.42%
Non-program	716	68	952.94%
Interest	148	128	15.63%
Total expenses	9,862	9,480	4.03%
Increase in net assets	905	783	15.58%
Net assets beginning of year	14,454	13,671	5.73%
Net assets end of year	\$ 15,359	\$ 14,454	6.26%

INDIVIDUAL MAJOR FUND ANALYSIS

As the County completed the year, its governmental funds reported a combined fund balance of \$7,740,266, approximately \$995,265 increase from the 2011 fiscal year end balance of \$6,745,001.

- The general fund revenues decreased 9.99% from the prior year, and the expenditures decreased by 2.18% from the prior year. The ending fund balance showed an increase of 25.89% from the prior year of \$1,985,548 to \$2,499,680.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, revenues increased 2.89% and expenditures increased 4.62% from the prior year. The mental health fund balance at year end decreased by \$137,325 from the prior year.
- The rural service fund revenues increased approximately \$66,806 over the prior year. For the year, expenditures totaled \$840,134, an increase of \$211,838. The rural service fund balance at year end decreased by \$119,142, or 21.38%.

INDIVIDUAL MAJOR FUND ANALYSIS (Continued)

- The secondary roads fund revenues decreased 4.95% from the prior year, and the expenditures also decreased by 14.01% from the prior year. The ending fund balance for the secondary roads fund increased by \$206,951 or 25.22% over the prior year.
- The wind turbine fund revenues increased \$1,055,539 from the prior year, and the expenditures decreased \$2,280,676 from the prior year. The ending fund balance for the wind turbine fund increased by \$713,704 or 30.12% over the prior year.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Supervisors annually adopts a budget following required public notice and hearing for all funds, except agency funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The County budget is prepared on the cash basis. Over the course of the year, the County amended its budget three times. The amendments were made in August, October and May and resulted in an increase in budgeted revenues and an increase in budgeted disbursements. However, this did not require an increase in taxes as the County received more miscellaneous revenues than originally projected.

The amendment made during the 2012 fiscal year should have no impact on the 2013 fiscal year’s budget. During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the mental health and debt service functions.

The following chart shows the original and amended budget for fiscal 2012 as well as the actual revenue and expenditures for the year:

	Budgetary Comparison Schedule			
	(Expressed in Thousands)			
	Budget Basis	Budget Amounts		Variance
	Original	Final		
REVENUES				
Property and other county tax	\$ 4,900	\$ 4,822	\$ 4,896	\$ 4
Interest and penalty on property tax	46	-	12	34
Intergovernmental	3,876	4,051	4,134	(258)
Licenses and permits	9	4	4	5
Charges for service	470	455	463	7
Use of money and property	96	94	167	(71)
Miscellaneous	1,479	212	1,372	107
Total revenues	\$ 10,876	\$ 9,638	\$ 11,048	\$ (172)
EXPENDITURES				
Public safety and legal services	\$ 1,291	\$ 1,391	\$ 1,446	\$ 155
Physical health and social services	436	501	539	103
Mental health	1,384	1,226	1,360	(24)
County environment and education services	1,031	1,516	1,701	670
Roads and transportation	3,466	3,518	3,726	260
Governmental services to residents	326	395	397	71
Administrative services	944	1,029	1,124	180
Non-program	22	1	31	9
Debt service	250	224	233	(17)
Capital projects	559	22	2,736	2,177
Total expenditures	\$ 9,709	\$ 9,823	\$ 13,293	\$ 3,584

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012, Howard County had \$20,072,274 invested in a broad range of capital assets, including large road equipment, infrastructure and construction in progress for the governmental activities.

The County had depreciation expense of \$1,030,960 for fiscal year 2012 and total accumulated depreciation of \$6,185,220 as of June 30, 2012 for the governmental activities. More detailed information about the County's capital assets is presented in Note 4 to the financial statements.

Long-term Liabilities

At June 30, 2012, Howard County has approximately \$6,116,644 in general obligation bonds and capital loan notes compared to \$6,218,371 for fiscal year 2011. More detailed information about the County's debt is presented in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Howard County's elected and appointed officials and citizens have always considered many factors while setting each fiscal year's budget, tax rates, and the fees that will be charged for various County activities, with one of the largest considerations being the economy. The County's economy and tax base remains heavily dependent on the agriculture industry.

The County begins 2013 fiscal year with a balance of 69% when compared to expected expenditures. This balance indicates departments were utilizing more of their budgets, it also indicates that the Board had bonded for infrastructure projects with the secondary road department, conservation department and courthouse maintenance. Expenses remained fairly close to FY12 for FY13, as the Board did not allow an increase in expenses, with the exception of wages and benefits and only specific projects that each department cleared with the Board. The Board will be amending their FY13 budget to account for the infrastructure bonding that was done in FY12.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Howard 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, Howard County, 137 N Elm St., Cresco, IA 52136 or go to our website at www.co.howard.ia.us.

HOWARD COUNTY
STATEMENT OF NET ASSETS
June 30, 2012

EXHIBIT A

	Governmental Activities
ASSETS	
Cash and pooled investments	\$ 7,830,566
Receivables	
Property tax	
Delinquent	9,744
Succeeding year	4,484,601
Accounts	89,393
Accrued interest	1,581
Due from other governments	303,993
Notes receivable	76,259
Inventories	277,122
Prepaid expenses	140,339
Nondepreciable assets	1,478,179
Capital assets, net of accumulated depreciation	12,408,875
 Total assets	 \$ 27,100,652
LIABILITIES AND NET ASSETS	
Accounts payable	\$ 445,050
Salaries and benefits payable	60,379
Accrued interest payable	11,697
Due to other governments	168,706
Deferred revenue	
Succeeding year property tax	4,484,601
Long-term liabilities	
Portion due within one year	
General obligation bonds	350,000
General obligation notes	118,270
Compensated absences	318,100
Portion due after one year	
General obligation bonds	4,750,000
General obligation notes	898,374
Net OPEB obligation	136,386
 Total liabilities	 11,741,563
NET ASSETS	
Invested in capital assets	10,394,974
Restricted for	
Mental health	178,636
Rural service	435,137
Secondary roads	1,009,834
Capital projects	649,412
Other special revenue	259,264
Debt service	60,068
Other purposes	1,617,855
Unrestricted	753,909
 Total net assets	 15,359,089
 Total liabilities and net assets	 \$ 27,100,652

See Notes to Financial Statements.

HOWARD COUNTY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Functions and Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants	Capital Grants	
Governmental activities					
Public safety and legal services	\$ 1,253,445	\$ 208,661	\$ 3,518		\$ (1,041,266)
Physical health and social services	408,399		547,236		138,837
Mental health	1,363,038		860,705		(502,333)
County environment and education	854,149	169,494	11,589		(673,066)
Roads and transportation	3,832,443	112,428	2,246,269	\$ 10,169	(1,463,577)
Government services to residents	340,340	188,931	43,475	758	(107,176)
Administration or general government	946,732				(946,732)
Non-program	716,106	136,188			(579,918)
Long-term debt interest	147,619				(147,619)
Total governmental activities	\$ 9,862,271	\$ 815,702	\$ 3,712,792	\$ 10,927	(5,322,850)
General revenues					
Property taxes levied for					
General purposes					4,381,712
Local option sales tax					528,931
Penalty and interest on property taxes					46,290
State tax credits					168,463
Rents					70,765
Unrestricted investment earnings					13,905
Loss on sale of capital assets					(4,194)
Miscellaneous					1,021,719
Total general revenues					6,227,591
Change in net assets					904,741
Net assets, beginning of year					14,454,348
Net assets, end of year					\$ 15,359,089

See Notes to Financial Statements.

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HOWARD COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	ASSETS	Special Revenue		
		General	Mental Health	Rural Services
Cash and pooled investments		\$ 2,443,615	\$ 331,640	\$ 375,838
Receivables				
Property tax				
Delinquent		8,939	260	463
Succeeding year		2,777,602	359,135	1,225,882
Accounts		44,592	39,214	
Accrued interest		1,530		
Due from other governments		66,973		84,552
Notes receivable		66,090		
Inventories				
Prepaid insurance		105,779	3,217	3,559
Total assets		<u>\$ 5,515,120</u>	<u>\$ 733,466</u>	<u>\$ 1,690,294</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable		\$ 134,701	\$ 19,779	\$ 21,693
Salaries and benefits payable		28,150	3,993	4,023
Due to other governments			168,706	
Deferred revenue				
Succeeding year property tax		2,777,602	359,135	1,225,882
Other		74,987	257	463
Total liabilities		<u>3,015,440</u>	<u>551,870</u>	<u>1,252,061</u>
Fund balances				
Nonspendable				
Inventories				
Prepaid expenditures		105,779	3,217	3,559
Restricted for				
Mental health purposes			178,379	
Rural services purposes				434,674
Secondary roads purposes				
Other special revenue purposes				
Capital projects				
Debt service				
Other purposes		1,260,493		
Unassigned		1,133,408		
Total fund balances		<u>2,499,680</u>	<u>181,596</u>	<u>438,233</u>
Total liabilities and fund balances		<u>\$ 5,515,120</u>	<u>\$ 733,466</u>	<u>\$ 1,690,294</u>

See Notes to Financial Statements.

EXHIBIT C

<u>Special Revenue</u>	<u>Capital Project</u>	<u>Nonmajor</u>	<u>Total</u>
<u>Secondary</u>	<u>Wind Turbine</u>	<u>Governmental</u>	<u>Governmental</u>
<u>Roads</u>		<u>Funds</u>	<u>Funds</u>
\$ 727,082	\$ 3,140,962	\$ 506,915	\$ 7,526,052
		82	9,744
		121,982	4,484,601
		5,560	89,366
1	27	2	1,560
152,468			303,993
10,169			76,259
277,122			277,122
27,784			140,339
<u>\$ 1,194,626</u>	<u>\$ 3,140,989</u>	<u>\$ 634,541</u>	<u>\$ 12,909,036</u>
\$ 132,795	\$ 57,659	\$ 2,500	\$ 369,127
24,213			60,379
			168,706
		121,982	4,484,601
10,169		81	85,957
<u>167,177</u>	<u>57,659</u>	<u>124,563</u>	<u>5,168,770</u>
277,122			277,122
27,784			140,339
			178,379
			434,674
722,543			722,543
		259,264	259,264
	3,083,330	190,646	3,273,976
		60,068	60,068
			1,260,493
			1,133,408
<u>1,027,449</u>	<u>3,083,330</u>	<u>509,978</u>	<u>7,740,266</u>
<u>\$ 1,194,626</u>	<u>\$ 3,140,989</u>	<u>\$ 634,541</u>	<u>\$ 12,909,036</u>

HOWARD COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

Reconciliation of governmental fund balances to net assets	
Total governmental fund balances	\$ 7,740,266
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds, net of accumulated depreciation of \$ 6,185,220	13,887,054
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds	85,957
Internal service funds are used by management to charge the costs of self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets	228,639
Other liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported as liabilities in the funds	
Bonds payable	(5,100,000)
Notes payable	(1,016,644)
Accrued interest	(11,697)
Compensated absences	(318,100)
Net OPEB obligation	<u>(136,386)</u>
Net assets of governmental activities	<u>\$ 15,359,089</u>

See Notes to Financial Statements.

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HOWARD COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	Special Revenue		
	General	Mental Health	Rural Services
REVENUES			
Property and other County tax	\$ 2,559,701	\$ 346,845	\$ 1,075,151
Local option sales tax			528,931
Interest and penalty on property tax	46,290		
Intergovernmental	683,137	698,900	44,922
Licenses and permits	4,667		
Charges for service	340,349	159,455	
Use of money and property	93,896		
Miscellaneous	184,870	16,822	758
Total revenues	3,912,910	1,222,022	1,649,762
EXPENDITURES			
Current			
Public safety and legal services	1,019,797		261,346
Physical health and social services	433,127		
Mental health		1,359,347	
County environment and education services	658,888		274,022
Roads and transportation			302,652
Governmental services to residents	317,675		2,114
Administrative services	941,271		
Non-program	22,699		
Debt service	30,238		
Capital project	3,008		
Total expenditures	3,426,703	1,359,347	840,134
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	486,207	(137,325)	809,628
OTHER FINANCING SOURCES (USES)			
Transfers in	125,890		
Proceeds from disposal of capital assets	750		
Transfers out	(98,715)		(928,770)
	27,925	-	(928,770)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	514,132	(137,325)	(119,142)
FUND BALANCES, beginning of year	1,985,548	318,921	557,375
FUND BALANCES, end of year	\$ 2,499,680	\$ 181,596	\$ 438,233

See Notes to Financial Statements.

EXHIBIT D

<u>Special Revenue</u>	<u>Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Secondary Roads</u>	<u>Wind Turbine</u>		
		\$ 392,694	\$ 4,374,391
			528,931
			46,290
\$ 2,293,735		31,791	3,752,485
4,145			8,812
16		5,152	504,972
12	\$ 550	32	94,490
<u>60,817</u>	<u>1,021,719</u>	<u>21,505</u>	<u>1,306,491</u>
<u>2,358,725</u>	<u>1,022,269</u>	<u>451,174</u>	<u>10,616,862</u>
			1,281,143
		17,102	450,229
			1,359,347
		136,743	1,069,653
3,057,825			3,360,477
		3,622	323,411
			941,271
		3,879	26,578
		219,839	250,077
<u>22,719</u>	<u>308,565</u>	<u>225,869</u>	<u>560,161</u>
<u>3,080,544</u>	<u>308,565</u>	<u>607,054</u>	<u>9,622,347</u>
<u>(721,819)</u>	<u>713,704</u>	<u>(155,880)</u>	<u>994,515</u>
928,770		60,784	1,115,444
			750
		<u>(87,959)</u>	<u>(1,115,444)</u>
<u>928,770</u>	<u>-</u>	<u>(27,175)</u>	<u>750</u>
206,951	713,704	(183,055)	995,265
<u>820,498</u>	<u>2,369,626</u>	<u>693,033</u>	<u>6,745,001</u>
<u>\$ 1,027,449</u>	<u>\$ 3,083,330</u>	<u>\$ 509,978</u>	<u>\$ 7,740,266</u>

HOWARD COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities		
Net change in fund balances - total governmental funds	\$	995,265
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period		
Capital outlays	\$	855,484
Depreciation		<u>(1,030,960)</u>
		(175,476)
Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds		
Property tax		17,490
The net effect of disposal of capital assets		(4,944)
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities		101,727
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due		731
The internal service fund is used by management to charge the costs of employee health benefits to individual funds. The net revenue of the internal service fund is reported with governmental activities		827
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		
Compensated absences		18,462
Net OPEB obligation		<u>(49,341)</u>
Change in net assets of governmental activities	\$	<u>904,741</u>

See Notes to Financial Statements.

HOWARD COUNTY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2012

	Internal Service	
ASSETS		
Cash and pooled investments	\$ 304,514	
Accrued interest receivable	48	
Total assets	\$ 304,562	
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 4,033	
Deferred revenue	71,890	
Total liabilities	75,923	
Net assets		
Unrestricted	228,639	
Total liabilities and net assets	\$ 304,562	

See Notes to Financial Statements.

HOWARD COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
For the Year Ended June 30, 2012

EXHIBIT F

	Internal Service
OPERATING REVENUES	
Charges for service	\$ 784,748
OPERATING EXPENSES	
Insurance claims paid	708,521
Administrative fees	76,066
Total operating expenses	784,587
Operating income	161
NONOPERATING REVENUES (EXPENSES)	
Interest income	666
Change in net assets	827
NET ASSETS, beginning of year	227,812
NET ASSETS, end of year	\$ 228,639

See Notes to Financial Statements.

HOWARD COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2012

	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from interfund services provided	\$ 856,659
Cash payments to suppliers for services	<u>(794,312)</u>
Net cash provided by operating activities	<u>62,347</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>666</u>
Net increase in cash and cash equivalents	63,013
CASH and CASH EQUIVALENTS, beginning of year	<u>241,501</u>
CASH and CASH EQUIVALENTS, end of year	<u>\$ 304,514</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 161
Adjustments to reconcile operating income to net cash provided by operating activities	
Increase in accrued interest	11
(Decrease) in accounts payable	(9,715)
Increase in deferred revenue	<u>71,890</u>
Net cash provided by operating activities	<u>\$ 62,347</u>

See Notes to Financial Statements.

HOWARD COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
June 30, 2012

ASSETS	
Cash and pooled investments	
County Treasurer	\$ 762,262
Other County officials	25,055
Receivables	
Property tax	
Delinquent	9,123
Succeeding year	10,201,071
Accounts	17,170
Accrued interest	
Due from other governments	<u>235</u>
Total assets	<u>11,014,916</u>
LIABILITIES	
Accounts payable	476
Salaries and benefits payable	4,232
Due to other governments	10,973,266
Trusts payable	8,228
Compensated absences	<u>28,714</u>
Total liabilities	<u>11,014,916</u>
NET ASSETS	<u>\$ None</u>

See Notes to Financial Statements.

HOWARD COUNTY

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

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.

b. Significant Accounting Policies

Scope of Reporting Entity

For financial reporting purposes, Howard County has included all funds, organizations, account groups, 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; or the organization is fiscally dependent on the primary government.

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.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Jointly Governed Organizations

The County participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The 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 E-911 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 agency funds of the County.

Government-wide Financial Statements

The statement of net assets and the statement of activities report information on all of the non-fiduciary activities of the County and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other non-exchange transactions.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation/amortization 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 or segments 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 that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental, proprietary, 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. The internal service fund is presented in a single column on the face of the proprietary fund statements.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

The major funds of the financial reporting entity are described below:

Governmental

General Fund

The general fund accounts for all the financial resources of the County, except for those required to be accounted for by other funds. The revenues of the general fund are primarily derived from general property taxes, charges for services, licenses and permits, and certain revenues from state and federal sources. The expenditures of the general fund primarily relate to general administration, public safety and legal services, physical health and social services, county environment and education services, governmental services to residents and administrative services.

Special Revenue Funds

The special revenue funds are used to account for revenues derived from specific sources which are usually required by law or regulation to be accounted for in separate funds. The funds in this category are rural services, secondary roads, and mental health services.

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

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

The secondary roads fund is used to account for the road use tax allocation from the State of Iowa, required transfers from the general and the special revenue, rural services funds and other revenues to be used for secondary road construction and maintenance.

Capital Projects Fund

The capital projects funds are used to account for all resources used in the acquisition and construction of capital facilities and other capital assets. The major fund in this category is Wind Turbine capital projects, finances roadway construction projects with wind turbine tax increment financing debt.

Proprietary Fund Types

Internal Service Fund

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.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

Fiduciary Fund Types

Agency Funds

The 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. Agency funds are custodial in nature, assets equal liabilities, and do not involve measurement of results of operations.

Measurement Focus

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. On the government-wide statement of net assets and the statement of activities, governmental activities are presented using the “economic resources” measurement focus as defined below in item b. In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental fund financial statements are accounted for on current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of “available spendable resources.” Governmental fund operating statements present increases, revenues and other financing sources, and decreases, expenditures and other financing uses in fund balances. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.
- b. The proprietary funds statements are accounted for on economic resources measurement focus. This means that all assets and all liabilities, whether current or non-current, associated with their activity are included on their statement of net assets. In reporting the financial activity on the proprietary fund statements, the County applies all applicable GASB pronouncements. As allowed in Section P80 of GASB’s Codification of Governmental Accounting and Financial Reporting Standards, the County has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide and proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized as earned, and expenses are recognized when incurred. Property tax is recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they become both measurable and available. Available means collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures are recorded when the liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due. Disbursements for the purchase of assets providing future benefits are recorded as expenditures at time of purchase.

Revenues susceptible to accrual under the modified accrual basis of accounting are property tax, intergovernmental revenue (shared revenues, grants and reimbursements from other governments), and charges for service and interest revenue. Revenues from licenses and permits, fines and forfeitures, refunds and reimbursements and other miscellaneous sources are generally recognized when received in cash as they are generally not measurable until actually received.

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.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted fund balance and then from less-restrictive classifications – committed, assigned and then unassigned fund balance.

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

Assets, Liabilities and Fund Equity

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

Cash Management, Cash Equivalents and Investments

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.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

Property Tax Receivable

Property taxes in the governmental funds are 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 taxes 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.

Interfund Transactions

During the course of its operations, the County has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2012, balances of interfund amounts receivable or payable have been recorded in the fund financial statements. Most of the interfund transactions have been eliminated on the government-wide 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.

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. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Reported inventories in the governmental fund financial statements are equally offset by a fund balance reserve which indicates that they are not available to liquidate current obligations.

Prepaid Expenditures

Payments made for insurance for a future period beyond June 30, 2012 are recorded as prepaid insurance. The fund balances in the governmental fund types have been reserved for the prepaid expenditures recorded in those funds. This reflects the amount of net assets not currently available for expenditure.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

Capital Assets

Capital assets, which include property, equipment and vehicles, intangibles and infrastructure assets acquired after July 1, 2003 (e.g., roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the County), are reported in the governmental column in the government-wide statement of net assets. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Infrastructure	\$	50,000
Land, buildings and improvements		25,000
Equipment and vehicles		5,000
Intangibles		25,000

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

Buildings	40-65
Building improvements	20-50
Infrastructure	30-50
Equipment	2-20
Intangibles	5-20
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.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

Deferred Revenue

In the fund financial statements certain revenues are measurable, however 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 property tax receivable and other receivables not collected within sixty days after year end. Deferred revenue on the statement of net assets consist of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences

County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2012. The compensated absence liability attributable to the governmental activities will be paid primarily by the general, mental health, rural services and secondary road funds.

Long-term Liabilities

In the government-wide 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.

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 Balance

In the governmental fund financial statements, fund balances are classified as follows:

Restricted fund balances are amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned fund balances are amounts the Board of Supervisors intend to use for specific purposes.

Unassigned fund balance is the remaining fund balance which is not included in other spendable classifications.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Fund Equity (Continued)

Net Assets

Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consists of net assets with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted net assets are used first when an expense is incurred for purposes for both restricted and unrestricted net assets.

Unrestricted net assets represent the difference between assets and liabilities that are not restricted and can be used for future obligations of the County.

Revenues, Expenditures and Expenses

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, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2011.

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

Federal and state grants, primarily capital grants, are recorded as revenue when the expenditures for the purpose of the grant have been incurred. Substantially all other shared revenues are recorded during the period when received from the collecting authority, the State of Iowa.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as required supplementary information. During the year ended June 30, 2012, expenditures exceeded the amounts budgeted in the mental health and debt service functions.

Management Estimates

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

NOTES TO FINANCIAL STATEMENTS

2. Deposits and Investments

The County's deposits in banks at June 30, 2012 were not entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa (see management letter). This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

Investments are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. In addition, the County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$5,000, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk

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

Credit Risk

The investment in Iowa Public Agency Investment Trust is unrated.

3. Due from Other Governments

Due from other governments consist of the following at June 30, 2012:

Governmental	
General fund, other	\$ 66,973
Special revenue	
Rural service fund	
Local option sales tax	84,552
Secondary roads fund	
Road use tax	152,468
Total governmental	\$ 303,993

NOTES TO FINANCIAL STATEMENTS

4. Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Governmental activities				
Land	\$ 1,336,210	\$ 141,969		\$ 1,478,179
Construction in progress	3,160,419	195,678	\$ 3,356,097	None
Total non-depreciable assets	4,496,629	337,647	3,356,097	1,478,179
Capital assets being depreciated				
Buildings	2,142,050	256,234		2,398,284
Improvements other than buildings	358,536	1,290,014		1,648,550
Machinery and equipment	4,672,772	211,773	215,240	4,669,305
Infrastructure	7,762,043	2,115,913		9,877,956
Total capital assets being depreciated	14,935,401	3,873,934	215,240	18,594,095
Less accumulated depreciation				
Buildings	854,525	40,176		894,701
Improvements other than buildings	112,187	76,527		188,714
Machinery and equipment	2,610,884	306,798	210,296	2,707,386
Infrastructure	1,786,960	607,459		2,394,419
Total accumulated depreciation	5,364,556	1,030,960	210,296	6,185,220
Total capital assets being depreciated, net	9,570,845	2,842,974	4,944	12,408,875
Governmental activities				
Capital assets, net	\$ 14,067,474	\$ 3,180,621	\$ 3,361,041	\$ 13,887,054

Depreciation expense was charged to functions of the primary government for the year ended June 30, 2012 as follows:

Governmental activities	
Public safety and legal services	\$ 51,985
Physical health and social services	6,852
Mental health	6,458
County environment and education	131,944
Roads and transportation	800,609
Governmental services to residents	16,892
Administrative services	16,220
	\$ 1,030,960

NOTES TO FINANCIAL STATEMENTS

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. The agency fund collections also include accruals of property tax for the succeeding year. The tax collections are remitted to those governments in the month following collection.

A summary of amounts due to other governments for the year ended June 30, 2012 is as follows:

<p>Governmental Special revenue fund Mental health</p>	<p>Services</p>	<p style="text-align: right;">\$ 168,706</p> <hr style="width: 100%;"/>
<p>Fiduciary Agency</p>		
<p>County offices Agricultural extension Assessor Schools Area schools Corporations Townships City special assessment Auto license and use tax Other</p>	<p>Collections</p>	<p style="text-align: right;">\$ 16,827 144,856 246,401 6,275,762 475,779 2,460,105 157,745 1,106 195,736 998,949</p> <hr style="width: 100%;"/>
<p>Total for agency funds</p>		<p style="text-align: right;">\$ 10,973,266</p> <hr style="width: 100%;"/>

6. 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 5.38%, 4.50%, and 4.30% of their annual covered salary and the County is required to contribute 8.07%, 6.95%, and 6.65% of annual covered salary for the years ended June 30, 2012, 2011, and 2010 respectively. 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, 2012, 2011, and 2010 were \$246,001 \$221,432, and \$195,071, respectively, equal to the required contributions for each year.

7. Construction, Purchase and Other Commitments

At June 30, 2012, the total outstanding construction and purchase commitments of the County amount to \$2,009,629. Of these commitments, \$325,085 will be funded by state and federal grants.

NOTES TO FINANCIAL STATEMENTS

8. Long-term Debt Obligations

Long-term liability activity for the year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Governmental activities					
Bonds					
General obligation	\$ 5,100,000			\$ 5,100,000	\$ 350,000
Capital loan notes	1,118,371		\$ 101,727	1,016,644	118,270
Total bonds	6,218,371		101,727	6,116,644	468,270
Other liabilities					
Compensated absences	336,562	\$ 318,100	336,562	318,100	318,100
Total other liabilities	336,562	318,100	336,562	318,100	318,100
Governmental activities					
Long-term liabilities	\$ 6,554,933	\$ 318,100	\$ 438,289	\$ 6,434,744	\$ 786,370

Bond Indebtedness

During the fiscal year ended June 30, 2007 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. Semi-annual payments, June 1 and December 1, commencing December 1, 2006 are required through June 1, 2016. Interest payments are semi-annual at a fixed rate of 4.15% per annum.

During the fiscal year ended June 30, 2009, the County issued \$250,000 of General Obligation Capital Loan Notes, series 2009A. The notes were issued to pay the costs of construction of a new bridge serving Lake Hendrichs Park with an 8 foot pedestrian crossing. Semi-annual payments, June 1 and December 1, commencing June 1, 2010 are required through June 1, 2019 for interest at a rate of 3.65%. Annual principal payments are due on June 1, 2010 through June 1, 2019.

During the year ended June 30, 2009, the County issued \$100,000 of General Obligation Capital Loan Notes, series 2009B. The notes were issued for the purpose of paying the cost of acquisition of a snow plow truck for the Secondary Road Department. Semi-annual payments, June 1 and December 1, commencing June 1, 2010 are required through June 1, 2019 for interest at a rate of 3.65%. Annual principal payments are due on June 1, 2011 through June 1, 2019.

During the year ended June 30, 2009, the County issued \$25,000 of General Obligation Capital Loan Notes, series 2009C. The notes were issued for the purpose of paying the cost of acquisition of a pickup truck for the Secondary Road Department. Semi-annual payments, June 1 and December 1, commencing June 1, 2010 are required through June 1, 2014 for interest at a rate of 3.25%. Annual principal payments are due on June 1, 2011 through June 1, 2014.

NOTES TO FINANCIAL STATEMENTS

8. Long-term Debt Obligations (Continued)

Bond Indebtedness (Continued)

During the year ended June 30, 2010, the County issued three \$100,000 General Obligation Capital Loan Notes for the purpose of paying the cost of acquisition of road maintenance trucks for the Lime Springs, Cresco and Elma areas. Semi-annual interest payments are due commencing, June 1, 2010 at rates of 3.1% to 3.9% over the duration of the notes. Annual principal payments are due commencing on June 1, 2011, maturing on June 1, 2020.

During the year ended June 30, 2011, the County issued \$300,000 of General Obligation Capital Loan Notes for the purpose of renovating the courthouse. Semi-annual interest payments are due commencing, December 1, 2011 at rates of 1.20% to 3.00% over the duration of the notes. Annual principal payments are due commencing June 1, 2013, maturing on June 1, 2022.

During the year ended June 30, 2011, the County issued \$5,100,000 of General Obligation Bonds for the purpose of paying costs of construction, reconstruction, improvements and repairs of roads, bridges and culverts. Semi-annual interest payments are due commencing, June 1, 2011 at rates of 1.20% to 3.00% over the duration of the notes. Annual principal payments are due commencing June 1, 2013, maturing on June 1, 2020.

Township Tax Revenue Bonds

In 2009, the County participated in Limited Tax Anticipation Bonds on behalf of Vernon Springs Township and Howard Center Township issued for the purpose of paying costs of the purchases of new fire equipment. The bonds are secured by the property financed and are payable solely from revenues generated by the township tax revenue. The County or any political subdivision thereof, is not obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2012 the balances outstanding were \$18,900 and \$21,000 for Vernon Springs Township and Howard Center Township, respectively.

Interest costs incurred and charged to expenses was \$147,619 for the year ended June 30, 2012. A summary of the bond principal and interest maturities is as follows:

Year Ending June 30,	Governmental Activities					
	General Obligation Capital Loan Notes		General Obligation Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 118,270	\$ 30,803	\$ 350,000	\$ 109,120	\$ 468,270	\$ 139,923
2014	138,286	29,842	640,000	104,920	778,286	134,762
2015	139,431	27,127	650,000	95,960	789,431	123,087
2016	144,407	25,563	660,000	85,560	804,407	111,123
2017	103,000	24,318	675,000	73,020	778,000	97,338
2018-2022	373,250	49,742	2,125,000	120,840	2,498,250	170,582
Total	\$ 1,016,644	\$ 187,395	\$ 5,100,000	\$ 589,420	\$ 6,116,644	\$ 776,815

NOTES TO FINANCIAL STATEMENTS

8. Long-term Debt Obligations (Continued)

The County complied with all of the revenue bond provisions during the year ended June 30, 2012. The required reserve account was established by the County and no transfers were made to the sinking account.

At June 30, 2012, the debt issued by the County did not exceed its legal debt margin compiled as follows:

Total assessed valuation	\$ 467,746,340
Debt limit – 5% of total assessed valuation	\$ 23,387,317
Debt applicable to debt limit	
General obligation	
Capital loan notes	(1,016,644)
Bonded debt outstanding	(5,100,000)
Legal debt margin	\$ 17,270,673

9. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

	Transfers In	Transfers Out
General fund	\$ 125,890	\$ 98,715
Special revenue		
Rural services		928,770
Secondary roads	928,770	
Nonmajor governmental	60,784	87,959
Total	\$ 1,115,444	\$ 1,115,444

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

10. Other Postemployment Benefits (OPEB)

Plan Description

The County operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 67 active and 1 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

NOTES TO FINANCIAL STATEMENTS

10. Other Postemployment Benefits (OPEB) (Continued)

Funding Policy

The contribution requirements of plan members are established and may be amended by the County. The County currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost is calculated based on the annual required contribution (ARC) of the County, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the County's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the County's net OPEB obligation:

Annual required contribution	\$	51,939
Interest on net OPEB obligation		2,176
Adjustment to annual required contribution		(4,460)
Annual OPEB cost		49,655
Contributions made		(314)
Increase in net OPEB obligation		49,341
Net OPEB obligation beginning of year		87,045
Net OPEB obligation end of year	\$	136,386

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the County contributed \$314 to the medical plan. Plan members eligible for benefits contributed \$None of the premium costs for the OPEB obligation.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 44,499	3.12%	\$ 43,149
June 30, 2011	\$ 45,534	3.60%	\$ 87,045
June 30, 2012	\$ 49,655	0.63%	\$ 136,386

10. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$381,458, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$381,458. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,952,730 and the ratio of the UAAL to covered payroll was 12.9%. As of June 30, 2012, there were no trust fund assets.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial method and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations.

As of July 1, 2009, actuarial valuation date, the Frozen Entry Age Actuarial Cost method was used. The actuarial assumptions included a 2.5% discount rate based on the County's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS actuarial valuation report as of June 30, 2007 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are \$431 for single and \$1,024 for family per month for retirees less than age 65 and there is no coverage for retirees whom have attained age 65. The salary increase rate was assumed to be 0% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

11. Contingent Liabilities

The County participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the County may be required to reimburse the grantor government. As of June 30, 2012 significant amounts of grant expenditures have not been audited by granting authorities but the County believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the County.

12. 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 663 members include various governmental entities throughout the State of Iowa. The pool was formed 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, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rate or to comply with the requirements of any applicable regulatory authority having jurisdiction over the pool.

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

The County's property and casualty contribution to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the pool for the year ended June 30, 2012 were \$98,274.

The pool uses reinsurance agreements to reduce its exposure to large losses. The pool retains general automobile, police professional, and public officials' liability up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

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 certificates, 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 recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2012, no liability has been recorded in the County's financial statements. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance company coverage in any of the past fiscal years.

12. 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 whom 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 contribution. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating 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.

13. Employee Health Insurance Plan

The Internal Service, Employee Group Health Fund was established to account for the partial 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, 2012 was \$741,803.

Amounts payable from the Employee Group Health Fund at June 30, 2012 total \$18,704 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 \$228,639 at June 30, 2012 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. An analysis of claims activity in the internal service fund follows:

	2012	2011
Beginning liability	\$ 13,748	\$ 1,403
Claims and changes in estimates	770,696	781,734
Claim payments	(780,411)	(769,389)
Ending liability	\$ 4,033	\$ 13,748

14. 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 twenty year period starting repaying in June 1996, using the incremental tax revenues generated by property taxes on the new facilities. The balance at June 30, 2012 and 2011 was \$66,090 and \$107,197, respectively.

15. Joint Venture

The County is a participant in the Winneshiek County Area Solid Waste Agency. The County has agreed to guarantee revenue to the agency from county residents. The guarantee equals base year usage by county residents as a percentage of all base year usage sufficient to fund \$2,000,000 of bonded indebtedness amortized over 12 years. The guarantee was in effect until 2003. The County appoints a member to the agency board and is guaranteed access to the landfill so long as it is a member. The agency board sets tonnage fee rates which are charged to contracted haulers who are responsible for garbage collection and billing and collecting from local residents. Audited financial statements of Winneshiek County Area Solid Waste Agency are available from the Agency at 2000 140th Avenue, Decorah, Iowa.

16. Secondary Road Notes Receivable

In April 2007 the County entered into a 28E agreement with the City of Chester for a HMA resurfacing project. The agreement states that the City of Chester will be fiscally responsible for one half of the Division V project costs to be remitted from Howard County's Farm to market account. The City shall reimburse Howard County over a period not to exceed 5 years. The HMA resurfacing project was completed during the fiscal year ended June 30, 2008 and a repayment schedule was established in October 2008.

In April 2007 the County entered into a 28E agreement with the City of Lime Springs for a HMA resurfacing project. The agreement states that the City of Lime Springs will be fiscally responsible for one half of the Division V project costs to be remitted from Howard County's Farm to market account. The City shall reimburse Howard County over a period not to exceed 5 years. The HMA resurfacing project was completed during the fiscal year ended June 30, 2008 and a repayment schedule was established in October 2008.

17. Commitments

The total outstanding construction and other commitments of the County at June 30, 2012 amounted to \$2,009,629 of this \$325,085 will be reimbursed to the County.

18. Related Party Transaction

During the year ended June 30, 2012, the County entered into business transactions with a County employee, Rock Tuchek. The transactions consisted of insurance policies with total payments to Midwest Group Benefits, Inc. of \$5,725.

19. New Governmental Accounting Standards Board (GASB) Standards

The Governmental Accounting Standards Board (GASB) has issued six statements not yet implemented by the County. The statements which might impact the County are as follows:

Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*; issued November 2010, will be effective for the fiscal year ending June 30, 2013. The objective of this statement is to improve financial reporting for a governmental financial reporting entity.

19. New Governmental Accounting Standards Board (GASB) Standards (Continued)

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; issued December 2010, will be effective for the fiscal year ending June 30, 2013. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued June 2011, will be effective for the fiscal year ending June 30, 2013. This statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement 65, *Items Previously Classified as Assets and Liabilities*, issued March 2012, will be effective for the fiscal year ending June 30, 2014. This statement reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflow of resources, and recognizes as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

GASB Statement 66, *Technical Corrections – 2012*, an amendment of GASB Statements 10 and 62, issued March 2012, effective for the fiscal year ending June 30, 2014. The objective of this statement is to improve accounting and financial reporting for governmental entities by resolving conflicting guidance in GASB Statements 54 and 62, on risk financing activities and operating leases.

GASB Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, issued June 2012, will be effective for the fiscal year ended June 30, 2015. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions which are provided by other entities.

The County's management has not yet determined the effect these statements will have on the County's financial statements.

20. Subsequent Event

At the December 17, 2012 board meeting the Supervisors approved the sale of the County Home (including buildings, lagoon system, and machinery and equipment) to HRCF, Inc. for \$130,000 to be paid to the County over a four year period.

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HOWARD COUNTY
 BUDGETARY COMPARISON SCHEDULE
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCE -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
 June 30, 2012

	<u>Actual/Budget</u>	<u>Less Amounts not Budgeted</u>	<u>Budget Basis</u>
RECEIPTS			
Property and other County tax	\$ 4,899,685		\$ 4,899,685
Interest and penalty on property tax	46,269		46,269
Intergovernmental	3,875,839		3,875,839
Licenses and permits	9,462		9,462
Charges for service	472,539	\$ 2,837	469,702
Use of money and property	95,990		95,990
Miscellaneous	<u>1,478,629</u>		<u>1,478,629</u>
Total receipts	<u>10,878,413</u>	<u>2,837</u>	<u>10,875,576</u>
DISBURSEMENTS			
Public safety and legal services	1,291,233		1,291,233
Physical health and social services	435,858		435,858
Mental health	1,383,603		1,383,603
County environment and education services	1,031,114		1,031,114
Roads and transportation	3,465,472		3,465,472
Governmental services to residents	325,889		325,889
Administrative services	944,071		944,071
Non-program	26,220	3,879	22,341
Debt service	250,080		250,080
Capital project	<u>559,101</u>		<u>559,101</u>
Total disbursements	<u>9,712,641</u>	<u>3,879</u>	<u>9,708,762</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>1,165,772</u>	<u>(1,042)</u>	<u>1,166,814</u>
OTHER FINANCING SOURCES, NET			
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	<u>1,165,772</u>	<u>(1,042)</u>	<u>1,166,814</u>
BALANCE, beginning of year	<u>6,360,280</u>	<u>20,962</u>	<u>6,339,318</u>
BALANCE, end of year	<u>\$ 7,526,052</u>	<u>\$ 19,920</u>	<u>\$ 7,506,132</u>

See Notes to Required Supplementary Information.

Budget Amounts		Final to Actual Variance- Positive (Negative)
Original	Final	
\$ 4,822,364	\$ 4,896,296	\$ 3,389
70	12,517	33,752
4,050,712	4,134,335	(258,496)
4,050	4,050	5,412
454,980	462,616	7,086
93,799	166,799	(70,809)
211,575	1,371,720	106,909
9,637,550	11,048,333	(172,757)
1,390,817	1,445,562	154,329
500,510	539,006	103,148
1,225,800	1,359,582	(24,021)
1,516,418	1,701,175	670,061
3,518,118	3,726,386	260,914
395,252	396,757	70,868
1,029,040	1,123,708	179,637
1,000	31,000	8,659
224,411	233,379	(16,701)
21,901	2,736,081	2,176,980
9,823,267	13,292,636	3,583,874
(185,717)	(2,244,303)	3,411,117
30	30	(30)
(185,687)	(2,244,273)	3,411,087
6,339,319	6,339,319	(1)
\$ 6,153,632	\$ 4,095,046	\$ 3,411,086

HOWARD COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 BUDGET TO GAAP RECONCILIATION
 For the Year Ended June 30, 2012

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 10,878,413	\$ (261,551)	\$ 10,616,862
Expenditures	9,712,641	(90,294)	9,622,347
Net	1,165,772	(171,257)	994,515
Other financing sources, net		750	750
Beginning fund balance	6,360,280	384,721	6,745,001
Ending fund balance	<u>\$ 7,526,052</u>	<u>\$ 214,214</u>	<u>\$ 7,740,266</u>

See Notes to Required Supplementary Information.

HOWARD COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2012

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 agency funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the general fund, special revenue fund, debt service fund and capital projects fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, three budget amendments increased budgeted revenues by \$1,410,783 and increased budgeted disbursements by \$3,469,369. The 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 E-911 System by the Joint E-911 Service Board; and for Emergency Management Services by the County Emergency Management Commission.

Included in the amounts not budgeted is the drainage district account.

During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the mental health and debt service functions.

HOWARD COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS FOR THE
 RETIREE HEALTH PLAN
 (in thousands)

Fiscal Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	-	\$ 381	\$ 381	0.0%	\$ 2,366	16.10%
2011	July 1, 2009	-	\$ 381	\$ 381	0.0%	\$ 2,525	15.09%
2012	July 1, 2009	-	\$ 381	\$ 381	0.0%	\$ 2,953	12.90%

See Note 10 in the accompanying notes to financial statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

INDEPENDENT AUDITOR'S REPORT
ON THE SUPPLEMENTARY INFORMATION

To the Board of Supervisors
Howard County
Cresco, Iowa

We have audited the financial statements of Howard County as of and for the year ended June 30, 2012, and our report thereon dated February 9, 2013, which expressed an unqualified opinion on the financial statements, appears on pages 2 through 3. Our audit was performed for the purpose of forming opinions on such financial statements as a whole. The supplementary information on Schedules 1 through 11 for 2012 is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information on Schedules 1 through 11 for 2012 are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The financial statements of Howard County for the years ended June 30, 2003 through 2011 (none of which are presented herein), were audited by other auditors whose report dated March 19, 2012, expressed an unqualified opinion on those financial statements. Their report, as of the same date, on the supplemental information for 2003 through 2011 presented on page 51 stated in their opinion, such information was fairly stated in all material respects in relation to the financial statements for which it has been derived.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
February 9, 2013

HOWARD COUNTY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2012

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and pooled investments	\$ 254,731	\$ 60,067	\$ 192,117	\$ 506,915
Receivables				
Property tax				
Delinquent		82		82
Succeeding year		121,982		121,982
Accounts	5,560			5,560
Accrued interest	2			2
	<u>260,293</u>	<u>182,131</u>	<u>192,117</u>	<u>634,541</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 1,029		\$ 1,471	\$ 2,500
Deferred revenue				
Succeeding year property tax		\$ 121,982		121,982
Other		81		81
	<u>1,029</u>	<u>122,063</u>	<u>1,471</u>	<u>124,563</u>
Fund balances				
Restricted for:				
REAP grant	86,718			86,718
Capital projects			190,646	190,646
Debt service		60,068		60,068
Other purposes	172,546			172,546
	<u>259,264</u>	<u>60,068</u>	<u>190,646</u>	<u>509,978</u>
Total liabilities and fund balances	<u>\$ 260,293</u>	<u>\$ 182,131</u>	<u>\$ 192,117</u>	<u>\$ 634,541</u>

See Independent Auditor's Report on the Supplementary Information.

HOWARD COUNTY
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2012

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
REVENUES				
Property and other County tax	\$ 129,672	\$ 263,022		\$ 392,694
Intergovernmental	27,814	3,977		31,791
Charges for service	5,146		\$ 6	5,152
Use of money and property	32			32
Miscellaneous	21,505			21,505
Total revenues	184,169	266,999	6	451,174
EXPENDITURES				
Operating				
Physical health and social services	17,102			17,102
County environment and education	136,743			136,743
Government services to residence	3,622			3,622
Non-program	3,879			3,879
Debt service		219,839		219,839
Capital projects			225,869	225,869
Total expenditures	161,346	219,839	225,869	607,054
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	22,823	47,160	(225,863)	(155,880)
OTHER FINANCING SOURCES				
Operating transfers in		60,784		60,784
Operating transfers out		(51,816)	(36,143)	(87,959)
	-	8,968	(36,143)	(27,175)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	22,823	56,128	(262,006)	(183,055)
FUND BALANCES, beginning of year	236,441	3,940	452,652	693,033
FUND BALANCES, end of year	\$ 259,264	\$ 60,068	190,646	\$ 509,978

See Independent Auditor's Report on the Supplementary Information.

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HOWARD COUNTY
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2012

	Recorder's Records Management	Forfeiture Account Fund	Tax Increment Financing	Webster's Additions LMI
ASSETS				
Cash and pooled investments	\$ 6,743	\$ 1,142		\$ 57,661
Receivables				
Accounts	235			
Accrued interest				
Total assets	<u>\$ 6,978</u>	<u>\$ 1,142</u>	<u>\$ -</u>	<u>\$ 57,661</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable				
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balances				
Restricted for:				
REAP grant				
Other purposes	<u>6,978</u>	<u>1,142</u>	<u>-</u>	<u>57,661</u>
Total fund balances	<u>6,978</u>	<u>1,142</u>	<u>-</u>	<u>57,661</u>
Total liabilities and fund balances	<u>\$ 6,978</u>	<u>\$ 1,142</u>	<u>\$ -</u>	<u>\$ 57,661</u>

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 3

<u>REAP Grant</u>	<u>Wapsie Great Western Trail</u>	<u>Warrants to Counties Well Program</u>	<u>Drainage Districts</u>	<u>Total Special Revenue</u>
\$ 86,717	\$ 81,141	\$ 1,407	\$ 19,920	\$ 254,731
		5,325		5,560
<u>1</u>	<u>1</u>			<u>2</u>
<u>\$ 86,718</u>	<u>\$ 81,142</u>	<u>\$ 6,732</u>	<u>\$ 19,920</u>	<u>\$ 260,293</u>
		\$ 1,029		\$ 1,029
\$ -	\$ -	1,029	\$ -	1,029
86,718	81,142	5,703	19,920	86,718 172,546
<u>86,718</u>	<u>81,142</u>	<u>5,703</u>	<u>19,920</u>	<u>259,264</u>
<u>\$ 86,718</u>	<u>\$ 81,142</u>	<u>\$ 6,732</u>	<u>\$ 19,920</u>	<u>\$ 260,293</u>

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HOWARD COUNTY
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 For the Year Ended June 30, 2012

	<u>Recorder's Records Management</u>	<u>Forfeiture Account Fund</u>	<u>Tax Increment Financing</u>	<u>Webster's Additions LMI</u>
REVENUES				
Property and other County tax			\$ 77,221	\$ 52,451
Intergovernmental				
Charges for service	\$ 2,309			
Use of money and property	2			
Miscellaneous				21,505
Total revenues	<u>2,311</u>	<u>\$ -</u>	<u>77,221</u>	<u>73,956</u>
EXPENDITURES				
Operating				
Physical health and social services			3,997	
County environment and education			84,292	52,451
Government services to residence	3,622			
Non-program				
Total expenditures	<u>3,622</u>	<u>-</u>	<u>88,289</u>	<u>52,451</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,311)</u>	<u>-</u>	<u>(11,068)</u>	<u>21,505</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	<u>(1,311)</u>	<u>-</u>	<u>(11,068)</u>	<u>21,505</u>
FUND BALANCES, beginning of year	<u>8,289</u>	<u>1,142</u>	<u>11,068</u>	<u>36,156</u>
FUND BALANCES, end of year	<u>\$ 6,978</u>	<u>\$ 1,142</u>	<u>\$ -</u>	<u>\$ 57,661</u>

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 4

<u>REAP Grant</u>	<u>Wapsie Great Western Trail</u>	<u>Warrants to Counties Well Program</u>	<u>Drainage Districts</u>	<u>Total Special Revenue</u>
\$ 9,889		\$ 17,925		\$ 129,672
15	\$ 15		\$ 2,837	27,814
				5,146
				32
				21,505
<u>9,904</u>	<u>15</u>	<u>17,925</u>	<u>2,837</u>	<u>184,169</u>
		13,105		17,102
				136,743
				3,622
			3,879	3,879
-	-	13,105	3,879	161,346
<u>9,904</u>	<u>15</u>	<u>4,820</u>	<u>(1,042)</u>	<u>22,823</u>
9,904	15	4,820	(1,042)	22,823
<u>76,814</u>	<u>81,127</u>	<u>883</u>	<u>20,962</u>	<u>236,441</u>
<u>\$ 86,718</u>	<u>\$ 81,142</u>	<u>\$ 5,703</u>	<u>\$ 19,920</u>	<u>\$ 259,264</u>

HOWARD COUNTY
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
June 30, 2012

	<u>Courthouse Repairs Fund</u>	<u>Wind Turbine Interest</u>	<u>County Jail Capital Project</u>	<u>Total Capital Projects</u>
ASSETS				
Cash and pooled investments	\$ 81,032	\$ 107,554	\$ 3,531	\$ 192,117
Total assets	<u>\$ 81,032</u>	<u>\$ 107,554</u>	<u>\$ 3,531</u>	<u>\$ 192,117</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 1,471			\$ 1,471
Total liabilities	<u>1,471</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,471</u>
Fund balances				
Restricted for Capital projects	<u>79,561</u>	<u>107,554</u>	<u>3,531</u>	<u>190,646</u>
Total fund balances	<u>79,561</u>	<u>107,554</u>	<u>3,531</u>	<u>190,646</u>
Total liabilities and fund balances	<u>\$ 81,032</u>	<u>\$ 107,554</u>	<u>\$ 3,531</u>	<u>\$ 192,117</u>

See Independent Auditor's Report on the Supplementary Information.

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HOWARD COUNTY
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECTS FUNDS
 For the Year Ended June 30, 2012

	Lake Hendricks Bridge	Courthouse Repairs Fund	Wind Turbine Interest
REVENUES			
Use of money and property	\$ 6		
Total revenues	<u>6</u>	\$ -	\$ -
EXPENDITURES			
Capital projects	5,430	220,439	
Total expenditures	<u>5,430</u>	<u>220,439</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(5,424)</u>	<u>(220,439)</u>	<u>-</u>
OTHER FINANCING SOURCES			
Transfers (out)	(36,143)		
	<u>(36,143)</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	<u>(41,567)</u>	<u>(220,439)</u>	<u>-</u>
FUND BALANCES, beginning of year	<u>41,567</u>	<u>300,000</u>	<u>107,554</u>
FUND BALANCES, end of year	<u>\$ -</u>	<u>\$ 79,561</u>	<u>\$ 107,554</u>

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 6

<u>County Jail Capital Project</u>	<u>Total Capital Projects</u>
	<u>\$ 6</u>
<u>\$ -</u>	<u>6</u>
	<u>225,869</u>
<u>-</u>	<u>225,869</u>
<u>-</u>	<u>(225,863)</u>
	<u>(36,143)</u>
<u>-</u>	<u>(36,143)</u>
<u>-</u>	<u>(262,006)</u>
<u>3,531</u>	<u>452,652</u>
<u>\$ 3,531</u>	<u>\$ 190,646</u>

HOWARD COUNTY
COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
June 30, 2012

	Debt Service	Secondary Roads DS - \$400,000	Secondary Roads DS - \$25,000	Wind Turbine Debt Service	Total Debt Service
ASSETS					
Cash and pooled investments	\$ 4,007	\$ 143	\$ 32	\$ 55,885	\$ 60,067
Receivables					
Property tax					
Delinquent	82				82
Succeeding year	<u>121,982</u>				<u>121,982</u>
Total assets	<u>\$ 126,071</u>	<u>\$ 143</u>	<u>\$ 32</u>	<u>\$ 55,885</u>	<u>\$ 182,131</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Deferred revenue					
Succeeding year property taxes	\$ 121,982				\$ 121,982
Other	<u>81</u>				<u>81</u>
Total liabilities	<u>122,063</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>122,063</u>
Fund balances					
Restricted for Debt service	<u>4,008</u>	<u>143</u>	<u>32</u>	<u>55,885</u>	<u>60,068</u>
Total fund balances	<u>4,008</u>	<u>143</u>	<u>32</u>	<u>55,885</u>	<u>60,068</u>
Total liabilities and fund balances	<u>\$ 126,071</u>	<u>\$ 143</u>	<u>\$ 32</u>	<u>\$ 55,885</u>	<u>\$ 182,131</u>

See Independent Auditor's Report on the Supplementary Information.

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HOWARD COUNTY
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR DEBT SERVICE FUNDS
 For the Year Ended June 30, 2012

	Debt Service	Secondary Roads DS - \$400,000	Secondary Roads DS - \$25,000
REVENUES			
Property and other County tax	\$ 98,018		
Intergovernmental	3,977		
Total revenues	<u>101,995</u>	<u>\$ -</u>	<u>\$ -</u>
EXPENDITURES			
Debt service	<u>49,935</u>	<u>46,198</u>	<u>5,618</u>
Total expenditures	<u>49,935</u>	<u>46,198</u>	<u>5,618</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>52,060</u>	<u>(46,198)</u>	<u>(5,618)</u>
OTHER FINANCING SOURCES			
Transfers in		46,199	5,617
Transfers (out)	<u>(51,816)</u>		
	<u>(51,816)</u>	<u>46,199</u>	<u>5,617</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	244	1	(1)
FUND BALANCES, beginning of year	<u>3,764</u>	<u>142</u>	<u>33</u>
FUND BALANCES, end of year	<u>\$ 4,008</u>	<u>\$ 143</u>	<u>\$ 32</u>

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 8

Wind Turbine Debt Service	County Jail Debt Service	Total Debt Service
\$ 165,004		\$ 263,022 3,977
165,004	\$ -	266,999
109,120	8,968	219,839
109,120	8,968	219,839
55,884	(8,968)	47,160
	8,968	60,784 (51,816)
-	8,968	8,968
55,884	-	56,128
1	-	3,940
\$ 55,885	\$ -	\$ 60,068

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HOWARD COUNTY
 COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUNDS
 For the Year Ended June 30, 2012

	County Offices	Agricultural Extension Education	County Assessor	Schools
ASSETS				
Cash and pooled investments				
County Treasurer		\$ 1,972	\$ 143,039	\$ 86,304
Other County Officials	\$ 25,055			
Receivables				
Property Tax				
Delinquent		103	232	4,823
Succeeding year		142,781	128,503	6,184,635
Accounts				
Due from other governments				
Total assets	<u>\$ 25,055</u>	<u>\$ 144,856</u>	<u>\$ 271,774</u>	<u>\$ 6,275,762</u>
LIABILITIES				
Accounts payable			\$ 45	
Salaries and benefits payable			3,562	
Due to other governments	\$ 16,827	\$ 144,856	246,401	\$ 6,275,762
Trusts payable	8,228			
Compensated absences			21,766	
Total liabilities	<u>\$ 25,055</u>	<u>\$ 144,856</u>	<u>\$ 271,774</u>	<u>\$ 6,275,762</u>

See Independent Auditor's Report on the Supplementary Information.

<u>Area Schools</u>	<u>Corporations</u>	<u>Townships</u>	<u>City Special Assessment</u>	<u>Auto License and Use Tax</u>	<u>Other</u>	<u>Total</u>
\$ 7,088	\$ 42,718	\$ 1,841	\$ 1,106	\$ 195,736	\$ 282,458	\$ 762,262 25,055
337 468,354	3,178 2,414,209	79 155,825			371 706,764 17,170 235	9,123 10,201,071 17,170 235
<u>\$ 475,779</u>	<u>\$ 2,460,105</u>	<u>\$ 157,745</u>	<u>\$ 1,106</u>	<u>\$ 195,736</u>	<u>\$ 1,006,998</u>	<u>\$ 11,014,916</u>
					\$ 431 670	\$ 476 4,232
\$ 475,779	\$ 2,460,105	\$ 157,745	\$ 1,106	\$ 195,736	998,949	10,973,266 8,228
					6,948	28,714
<u>\$ 475,779</u>	<u>\$ 2,460,105</u>	<u>\$ 157,745</u>	<u>\$ 1,106</u>	<u>\$ 195,736</u>	<u>\$ 1,006,998</u>	<u>\$ 11,014,916</u>

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HOWARD COUNTY
 COMBINING SCHEDULE OF CHANGES IN FIDUCIARY
 ASSETS AND LIABILITIES - AGENCY FUNDS
 For the Year Ended June 30, 2012

	County Offices	Agricultural Extension Education	County Assessor	Schools
ASSETS AND LIABILITIES				
Balances beginning of year	\$ 11,493	\$ 130,850	\$ 263,493	\$ 5,684,095
Additions				
Property tax		144,883	130,906	6,276,299
E-911 surcharge				
State tax credits		5,471	5,948	239,257
Office fees and collections	251,176			
Auto licenses, use tax and postage				
Trusts	105,290			
Miscellaneous	39,813		9	
Total additions	396,279	150,354	136,863	6,515,556
Deductions				
Agency remittances				
To other funds	97,080			
To other governments	133,808	136,348		5,923,889
Miscellaneous	53,474		128,582	
Trusts paid out	98,355			
Total deductions	382,717	136,348	128,582	5,923,889
Balances end of year	\$ 25,055	\$ 144,856	\$ 271,774	\$ 6,275,762

See Independent Auditor's Report on the Supplementary Information.

<u>Area Schools</u>	<u>Corporations</u>	<u>Townships</u>	<u>City Special Assessment</u>	<u>Auto License and Use Tax</u>	<u>Other</u>	<u>Total</u>
\$ 473,173	\$ 2,611,756	\$ 138,067	\$ 30,717	\$ 200,332	\$ 1,055,706	\$ 10,599,682
476,034	2,170,607	157,617			715,665	10,072,011
19,598	100,163	5,682			87,377	87,377
					27,138	403,257
					7,284	258,460
				2,708,976	48,667	2,757,643
					48,251	153,541
			(21,709)		91,872	109,985
495,632	2,270,770	163,299	(21,709)	2,708,976	1,026,254	13,842,274
493,026	2,422,421	143,621		2,713,572	932,656	97,080
			7,902		142,306	12,899,341
						332,264
						98,355
493,026	2,422,421	143,621	7,902	2,713,572	1,074,962	13,427,040
\$ 475,779	\$ 2,460,105	\$ 157,745	\$ 1,106	\$ 195,736	\$ 1,006,998	\$ 11,014,916

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HOWARD COUNTY
 COMPARATIVE SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 All GOVERNMENTAL FUND TYPES
 Years Ended June 30,

	Modified Accrual			
	2012	2011	2010	2009
REVENUES				
Property and other County tax	\$ 4,374,391	\$ 4,004,308	\$ 3,662,011	\$ 3,340,785
Local option sales tax	528,931	523,426	477,110	522,505
Interest and penalty on property tax	46,290	52,610	38,044	43,081
Intergovernmental	3,752,485	4,485,985	4,275,852	4,316,869
Licenses and permits	8,812	6,455	15,707	9,455
Charges for service	504,972	435,029	452,535	453,109
Use of money and property	94,490	130,804	90,992	121,691
Miscellaneous	1,306,491	232,743	607,263	247,576
Total revenues	\$ 10,616,862	\$ 9,871,360	\$ 9,619,514	\$ 9,055,071
EXPENDITURES				
Current				
Public safety and legal services	\$ 1,281,143	\$ 1,124,463	\$ 1,147,307	\$ 1,085,111
Physical health and social services	450,229	437,706	422,537	396,894
Mental health	1,359,347	1,299,362	1,106,707	1,249,311
County environment and education services	1,069,653	1,254,461	1,702,186	894,678
Roads and transportation	3,360,477	3,740,812	3,936,790	3,379,695
Governmental services to residents	323,411	306,361	298,951	313,020
Administrative services	941,271	932,209	837,436	864,774
Non-program	26,578	3,781	1,924	3,251
Debt service	250,077	207,961	87,407	49,939
Capital project	560,161	2,577,834	295,940	42,222
Total expenditures	\$ 9,622,347	\$ 11,884,950	\$ 9,837,185	\$ 8,278,895

See Independent Auditor's Report on the Supplementary Information.

						Modified Accrual					
2008		2007		2006		2005		2004		2003	
\$	3,250,683	\$	3,271,573	\$	3,064,407	\$	3,003,306	\$	2,996,847	\$	2,808,593
	423,390		439,631		392,701		344,460		330,545		317,832
	32,898		28,481		31,947		26,264		28,902		30,227
	3,382,725		3,192,694		3,101,743		2,936,128		2,788,622		2,664,971
	20,501		6,330		8,594		5,280		3,895		4,733
	441,531		400,128		390,617		388,727		356,000		314,652
	189,486		217,954		174,632		351,573		64,405		94,381
	207,084		295,069		320,952		133,960		193,443		182,480
<u>\$</u>	<u>7,948,298</u>	<u>\$</u>	<u>7,851,860</u>	<u>\$</u>	<u>7,485,593</u>	<u>\$</u>	<u>7,189,698</u>	<u>\$</u>	<u>6,762,659</u>	<u>\$</u>	<u>6,417,869</u>
\$	1,178,257	\$	1,035,867	\$	959,201	\$	917,620	\$	879,651	\$	887,697
	397,860		336,340		395,732		443,218		450,526		465,631
	1,252,692		1,304,049		1,106,788		996,192		1,099,206		1,004,410
	799,801		866,273		766,713		1,066,753		641,948		641,870
	3,305,054		3,176,661		3,007,255		2,379,734		2,655,035		2,382,111
	266,112		251,107		370,212		230,791		211,876		214,051
	788,090		802,558		753,519		772,808		696,011		579,142
	5,767		1,461		5,888		12,894		4,110		7,870
	49,939		49,939				20,826		30,408		113,408
	34,061		504,084		573,014		346,049		29,817		124,409
<u>\$</u>	<u>8,077,633</u>	<u>\$</u>	<u>8,328,339</u>	<u>\$</u>	<u>7,938,322</u>	<u>\$</u>	<u>7,186,885</u>	<u>\$</u>	<u>6,698,588</u>	<u>\$</u>	<u>6,420,599</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Supervisors
Howard County
Cresco, Iowa

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Howard County as of and for the year ended June 30, 2012, which collectively comprise Howard County's basic financial statements and have issued our report thereon dated February 9, 2013. 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

Management of Howard County is responsible for establishing and maintaining effective internal control over financial planning. 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 an 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, as discussed below that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

1. Financial Report Preparation

Reporting financial data reliably in accordance with generally accepted accounting principles requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Obtaining additional generally accepted accounting principles knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in their ability to prepare and take responsibility for reliable generally accepted accounting principles financial statements.

Recommendation

The County Auditor office personnel should continue to obtain training in governmental accounting and reporting when possible.

Response and Corrective Action Planned

Management is cognizant of this limitation.

Conclusion

Response accepted.

2. Segregation of Duties

The County's offices are not large enough to permit an adequate segregation of duties for effective internal controls. The concentration of closely related duties and responsibilities such as the recording and processing of cash receipts, preparing grant expenditure reports, preparing financial information for posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records. While we do recognize that the County is not large enough to permit a segregation of duties for effective internal controls, we believe it is important the Board be aware that this condition does exist.

Recommendation

While we do recognize the County offices are not large enough to permit a segregation of duties for an effective internal control, we believe it is important the Board be aware that this condition does exist.

Response and Corrective Action Planned

We segregate duties in our offices as much as possible, and will strive to improve internal controls where possible.

Conclusion

Response accepted.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Howard County in a separate letter dated February 9, 2013.

Howard County's responses to the findings identified in our audit are described above. We did not audit Howard County's responses and, accordingly, we express no opinion on them.

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

Hacker, Nelson & Co., P.C.

Decorah, Iowa
February 9, 2013

MANAGEMENT LETTER

To the Board of Supervisors
Howard County
Cresco, Iowa

In planning and performing our audit of the financial statements of Howard County for the year ended June 30, 2012, we considered the County's internal control to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on internal control.

In accordance with Chapter 11 of the Code of Iowa, we are required to report on the County's compliance with certain sections of the Iowa Code, Attorney General's Opinions and other matters. Items 1 through 10 below are compliance comments required by the Iowa Auditor of State. A separate report dated February 9, 2013, contains our report on significant deficiencies in the County's internal control. This letter does not affect our report dated February 9, 2013 on the financial statements of Howard County. Comment 1 is unresolved from the prior year. All other prior year statutory comments have been resolved. These comments are not intended to and do not constitute legal opinions. We did not audit the County's responses and, accordingly, we express no opinion on them.

1. Certified Budget

The County exceeded the amounts budgeted in the mental health and debt service functions. Disbursements in the non-departmental and County mental health departments exceeded the amounts appropriated.

Recommendation

Budgets should be amended in accordance with Chapter 331.435 of the Code of Iowa before expenditures were allowed to exceed the budget. This Code also 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 amend the budget when required.

Conclusion

Response accepted.

2. Questionable Expenditures

We noted no expenditures that did not meet the requirements of public purpose as defined in 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 and/or employees were noted.

4. Business Transactions

The following business transactions between the County and County officials or employees were noted.

Name/Title	Description	Amount
Rock Tuchek/GIS Tech Midwest Group Benefits, Inc., sole shareholder	Insurance policies	\$ 5,725

5. Bond Coverage

Surety bond coverage of County officials and employees is in accordance with statutory provisions.

6. Board Minutes

No transactions were found that we believe should have been approved in the Board minutes but were not. The minutes were published as required by Chapter 349.18 of the Code of Iowa and Attorney General's opinions dated December 10, 1985, December 31, 1986 and May 2, 1989.

7. Deposits and Investments

Bank balances were over depository resolution limits at C US Bank for April and June, 2012.

Recommendation

The County should monitor account balances to insure balances are kept below depository resolution limits and should consider increasing depository resolution in the future.

Response

We will take the appropriate corrective action.

Conclusion

Response accepted.

8. Resource Enhancement and Protection Certification

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

9. 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 through D.

Disbursements during the year ended June 30, 2012 for the County Extension Office did not exceed the amount budgeted.

The surety bond covering the Treasurer of the County Extension Council was in compliance with statutory provisions.

10. Financial Assurance

The County is required to demonstrate financial assurance for postclosure care costs for the landfill. The County has chosen local government dedicated fund as provided in Chapter 567-111.6(8) of the Iowa Administrative Code. The County is in compliance with the Code.

11. Credit Card Use

We noted five nights of hotel internet services charged by an employee to the County's credit card, this expenditure is not permitted by the County.

Recommendation

We recommend each credit card statement be inspected and reviewed for all charges to see that they are reasonable. We also recommend that an itinerary be established to show dates individuals are going to be gone.

Response

This was an oversight and will be monitored and corrected in the future.

Conclusion

Response accepted.

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

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of Howard County during the course of our examination.

Should you have any questions concerning these or other matters, we shall be pleased to discuss them with you at your convenience.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
February 9, 2013