

HOWARD COUNTY
Cresco, Iowa

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
June 30, 2015

HOWARD COUNTY, IOWA
Cresco, Iowa

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**HOWARD COUNTY
Cresco, Iowa**

OFFICIALS

(Before January 2015)

Don Burnikel.....Board of Supervisors January 2015
Janet McGovern.....Board of Supervisors January 2015
Mark Kubik.....Board of Supervisors January 2017

Julie Chapman..... County Auditor..... January 2017
Warren Steffen.....County Treasurer January 2015
Cherri Caffrey..... County Recorder January 2015
Morris Miner.....County Sheriff January 2017
Alex Koenigs..... County Attorney..... January 2015
Thomas Mullen..... County Assessor.....Appointed

(After January 2015)

Don Burnikel.....Board of Supervisors January 2019
Janet McGovern.....Board of Supervisors January 2019
Mark Kubik.....Board of Supervisors January 2017

Julie Chapman..... County Auditor..... January 2017
Warren Steffen.....County Treasurer January 2019
Cherri Caffrey..... County Recorder January 2019
Morris Miner.....County Sheriff January 2017
Kevin Schoeberl..... County Attorney..... January 2019
Thomas Mullen..... County Assessor.....Appointed



Gardiner Thomsen
Certified Public Accountants

Independent Auditor's Report

To the Officials of Howard County
Cresco, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Howard County, Iowa, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Howard County, Iowa as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 to the financial statements, Howard County, Iowa adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the County's Proportionate Share of the Net Pension Liability, the Schedule of County Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 – 12 and 55 – 62 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 auditing standards generally accepted in the United States of America, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Howard County, Iowa's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the two years ended June 30, 2014 (which are not presented herein) and the six years ended June 30, 2011 (which are not presented herein) and expressed unmodified opinions on those financial statements. The financial statements for the year ended June 30, 2012 (which are not presented herein) were audited by other auditors in accordance with the standards referred to in the third paragraph of this report who expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2016 on our consideration of Howard County, Iowa's internal control over financial reporting and 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* in considering Howard County, Iowa's internal control over financial reporting and compliance.

Gardiner Thomsen, P.C.

Charles City, Iowa

March 4, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Howard County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of Howard County is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities increased 11.82%, or approximately \$1,441,914 from fiscal 2014 to fiscal 2015. Property tax increased approximately \$144,232, operating grants, contributions and restricted interest decreased approximately \$352,399 and capital grants, contributions and restricted interest increased approximately \$1,293,480.
- Program expenses of the County's governmental activities were 1.49% or approximately \$164,102 less in fiscal 2015 than in fiscal 2014. Roads and Transportation expenses decreased approximately \$518,782.
- The County's net position increased 16.72%; or approximately \$2,755,311 from June 30, 2014 to June 30, 2015.

USING THIS ANNUAL REPORT

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

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

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

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year, the County's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

USING THIS ANNUAL REPORT (Continued)

Supplementary Information provides detailed information about the nonmajor governmental and the individual Agency Funds.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information which helps answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources 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 Position presents all of the County's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in the County's net position 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 position changed during the most recent fiscal year. All changes in net position 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 years.

The County's governmental activities are displayed in the Statement of Net Position 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, governmental services to residents, administration, interest on long-term debt and non-program activities. Property taxes and state and federal grants finance most of these activities.

Fund Financial Statements

The County has three kinds of funds:

- 1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads, 3) the Debt Service Fund, and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

Fund Financial Statements (Continued)

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

- 2) A proprietary fund accounts for the County's Internal Service, Employee Group Health Fund. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the County's various functions.

The required financial statements for proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

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

The required financial statement for fiduciary funds is a Statement of Fiduciary Assets and Liabilities.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. The County's combined net position increased from \$16,481,067 to \$19,236,378. The analysis below focuses on net position and changes in net position of governmental activities.

Net Position of Governmental Activities (Expressed in Thousands)

	June 30,	
	2015	2014 (Not Restated)
Current and Other Assets	\$15,178	\$18,228
Capital Assets	23,230	18,388
Total Assets	<u>38,408</u>	<u>36,616</u>
Deferred Outflows of Resources	335	0
Long-Term Debt Outstanding	11,763	11,630
Other Liabilities	579	375
Total Liabilities	<u>12,342</u>	<u>12,005</u>
Deferred Inflows of Resources	7,165	6,102
Net Position:		
Net Investment in Capital Assets	16,306	11,310
Restricted	2,830	4,839
Unrestricted	100	2,360
Total Net Position	<u>\$19,236</u>	<u>\$18,509</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Net position of the County’s governmental activities increased by approximately 16.72%, (from \$16,481,067 to \$19,236,378). The largest portion of the County’s net position is invested in capital assets (infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net position represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased from approximately \$2,360,245 at June 30, 2014 to approximately \$100,336 at the end of this year, a decrease of 95.75%.

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by \$2,028,007 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. Fiscal year 2013 and 2014 financial statement amounts for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

Changes in Net Position of Governmental Activities

(Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	2015	2014 (Not Restated)
Program Revenues:		
Charges for Service	\$ 972	\$ 926
Operating Grants and Contributions	3,042	3,395
Capital Grants and Contributions	2,276	982
General Revenues:		
Property Taxes	4,715	4,570
Penalty and Interest on Property Tax	36	36
State Tax Credits	394	242
Local Option Sales Tax	626	531
Tax Increment Financing	1,455	1,177
Unrestricted Investments Earnings	7	9
Loss on Sale of Capital Assets	(4)	(30)
Other General Revenues	120	359
Total Revenues	<u>13,639</u>	<u>12,197</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Changes in Net Position of Governmental Activities
(Expressed in Thousands)

	Year Ended June 30,	
	2015	2014 (Not Restated)
Program Expenses:		
Public Safety and Legal Services	\$ 1,476	\$ 1,334
Physical Health and Social Services	478	588
Mental Health	598	485
County Environment and Education	1,700	1,635
Roads and Transportation	4,940	5,459
Governmental Services to Residents	367	346
Administration	937	854
Non-Program	126	109
Interest on Long-Term Debt	262	238
Total Expenses	<u>10,884</u>	<u>11,048</u>
Increase in Net Position	2,755	1,149
Net Position Beginning of Year, as Restated	<u>16,481</u>	<u>17,360</u>
Net Position End of Year	<u>\$19,236</u>	<u>\$18,509</u>

The County's revenue increased 11.82% or \$1,441,914. The total cost of programs and services decreased 1.49%, or \$164,102, with no new programs added this year.

The cost of all governmental activities this year was approximately \$10,883,542 compared to approximately \$11,047,644 last year. However, as shown in the Statement of Activities, the amount taxpayers ultimately financed for these activities was \$4,593,487 because some of the cost was paid by those directly benefitted from the programs, (approximately \$971,837), or by other governments and organizations which subsidized certain programs with grants and contributions (approximately \$5,318,218). Overall, the County's governmental program revenues, including intergovernmental aid and charges for service, increased in fiscal 2015 from approximately \$5,303,626 to approximately \$6,290,055, principally due to receiving infrastructure contributions from the Department of Transportation in the current fiscal year.

INDIVIDUAL MAJOR FUND ANALYSIS

As Howard County completed the year, its governmental funds reported a combined fund balance of \$7,562,056, which is lower than last year's total by \$3,739,301. The following are the major reasons for the changes in fund balances from the prior year.

General fund revenues and expenditures decreased when compared to the prior year. The ending fund balance showed a decrease of \$235,567 to \$2,720,139.

The balance in the Mental Health Funds was lower than 2014 as the County continues to look for ways to effectively manage the cost of mental health services.

INDIVIDUAL MAJOR FUND ANALYSIS (Continued)

The Rural Services fund revenue and expenditures were higher than 2014, resulting in a slight increase in ending fund balance of \$11,607 to \$523,535.

The Secondary Road fund revenues were slightly lower in 2015 and expenditures were approximately \$494,714 lower. Ending fund balance increased \$499,612 to \$1,246,107.

The Wind Turbine Debt Service Fund collected tax increment revenues and made principal and interest payments during the fiscal year.

The Wind Turbine Capital Project Fund was established during the fiscal year ended June 30, 2011 to account for the roadway construction projects financed with wind turbine tax increment debt. The County issued \$6,300,000 General Obligation Bonds to finance additional projects during the prior fiscal year and spent \$3,841,279 during this fiscal year.

BUDGETARY HIGHLIGHTS

The budget was amended on August 18, 2014. There was an increase in expenditures due to grants, capital project dollars for projects and miscellaneous expenses.

The budget was amended on May 18, 2015 with an increase to revenues due to grant receipts. There was a decrease in expenditures due to capital projects and other miscellaneous expenses.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015, the County had \$32,308,192 invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This amount represents a net increase (including additions and deletions) of approximately \$6,007,778 or 22.84% over last year.

Capital Assets at Year End of Governmental Activities

(Expressed in Thousands)

	Year Ended June 30,	
	2015	2014
Land	\$ 2,298	\$ 2,087
Buildings and Improvements	4,154	3,997
Equipment	5,215	5,227
Infrastructure	18,373	14,626
Construction in Progress	2,268	363
Total	<u>\$32,308</u>	<u>\$26,300</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Capital Assets at Year End of Governmental Activities
(Expressed in Thousands)

	<u>Year Ended June 30,</u> <u>2015</u>
This year's major additions include (expressed in thousands)	
Infrastructure	\$3,747
Infrastructure – Construction in Progress	1,905
Secondary Roads Equipment	55
Conservation Land	211
Conservation Improvements	157
Sheriff Vehicles	31
	<u>\$6,106</u>

The County had depreciation expense of \$1,286,978 for the year ended June 30, 2015 and total accumulated depreciation as of June 30, 2015 of \$9,078,594.

The County's fiscal year 2015 capital budget included \$2,693,260 for capital projects, principally for the continuing upgrade of secondary roads and bridges and conservation projects. The County will use bond proceeds from last year and resources on hand in the County's fund balance. More detailed information about the County's capital assets is presented in Note 4 to the financial statements.

Debt Administration

At year end, the County had \$10,101,304 in debt compared to \$11,392,810 in notes and other debt last year as shown below.

Outstanding Debt at Year-End of Governmental Activities
(Expressed in Thousands)

	<u>2015</u>	<u>2014</u>
Bonds Payable	\$ 9,070	\$10,220
Notes Payable	600	760
Installments Purchases	23	23
Compensated Absences	408	390
	<u>\$10,101</u>	<u>\$11,393</u>

The Constitution of the State of Iowa limits the amount of general obligation debt that counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. The County's outstanding general obligation debt is significantly below this \$55.7 million limit.

Other obligations include accrued vacation pay and sick leave. More detailed information about the County's long-term liabilities is presented in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County begins 2016 fiscal year with a balance of 53% when compared to expected expenditures. This balance indicates that the Board has bonded for the infrastructure projects with Secondary Roads Department and Conservation Department and those projects are still in progress. Expenses remained fairly close to FY15 for FY16 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 FY16 budget for remaining infrastructure projects.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

HOWARD COUNTY
Cresco, Iowa

STATEMENT OF NET POSITION
June 30, 2015

	<u>Governmental Activities</u>
ASSETS	
Cash, Cash Equivalents and Pooled Investments	\$ 7,901,337
Receivables:	
Property Tax:	
Delinquent	1,638
Succeeding Year	6,363,625
Accounts	49,150
Accrued Interest	109
Due From Other Governments	453,181
Notes Receivable	106,073
Inventories	303,741
Capital Assets (Net of Accumulated Depreciation)	23,229,598
TOTAL ASSETS	<u>38,408,452</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Pension Related Deferred Outflows	<u>334,847</u>
 LIABILITIES	
Accounts Payable	453,386
Accrued Interest Payable	19,806
Salaries and Benefits Payable	99,415
Due to Other Governments	7,021
Long-Term Liabilities:	
Portion Due or Payable Within One Year:	
Installment Purchase	23,136
General Obligation Notes	144,074
General Obligation Bonds	1,170,000
Compensated Absences	407,844
Portion Due or Payable After One Year:	
General Obligation Notes	456,250
General Obligation Bonds	7,900,000
Net Pension Liability	1,368,428
Net OPEB Liability	293,027
TOTAL LIABILITIES	<u>12,342,387</u>

See Notes To Financial Statements

HOWARD COUNTY
Cresco, Iowa

STATEMENT OF NET POSITION
June 30, 2015

	<u>Governmental Activities</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable Property Tax Revenue	\$ 6,363,625
Pension Related Deferred Inflows	800,909
Total Deferred Inflows of Resources	<u>7,164,534</u>
NET POSITION	
Net Investment in Capital Assets	16,305,593
Restricted For:	
Supplemental Levy Purposes	663,749
Mental Health Purposes	88,401
Rural Services Purposes	523,774
Secondary Roads Purposes	1,157,091
Debt Service	130,077
Other Purposes	267,357
Unrestricted	<u>100,336</u>
TOTAL NET POSITION	<u><u>\$19,236,378</u></u>

See Notes To Financial Statements

**HOWARD COUNTY
Cresco, Iowa**

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2015**

	Program Revenues			Net (Expense) Revenue and Change in Net Position	
	Charges for Service Expenses	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest		
FUNCTIONS/PROGRAMS:					
Governmental Activities:					
Public Safety and Legal Services	\$ 1,476,112	\$187,994	\$ 9,351	\$ 0	\$ (1,278,767)
Physical Health and Social Services	478,061	89,555	92,252	0	(296,254)
Mental Health	597,507	0	174,237	0	(423,270)
County Environment and Education	1,700,391	210,261	203,297	0	(1,286,833)
Roads and Transportation	4,940,344	163,612	2,562,477	2,275,719	61,464
Governmental Services to Residents	366,627	80,810	0	0	(285,817)
Administration	936,945	101,936	0	0	(835,009)
Non-Program	126,253	137,669	885	0	12,301
Interest on Long-Term Debt	261,302	0	0	0	(261,302)
Total	\$10,883,542	\$971,837	\$3,042,499	\$2,275,719	(4,593,487)
GENERAL REVENUES:					
Property and Other County Tax Levied For:					
General Purposes					4,585,922
Debt Service					128,409
Penalty and Interest on Property Tax					36,099
State Tax Credits					393,530
Local Option Sales Tax					626,327
Unrestricted Investment Earnings					7,292
Miscellaneous					120,516
Tax Increment Financing Revenue					1,455,014
Loss on Disposal of Capital Assets					(4,311)
TOTAL GENERAL REVENUES					7,348,798
CHANGE IN NET POSITION					2,755,311
NET POSITION, BEGINNING OF YEAR, AS RESTATED					16,481,067
NET POSITION, END OF YEAR					\$19,236,378

See Notes To Financial Statements

HOWARD COUNTY
Cresco, Iowa

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

		Special Revenue	
	General	Mental Health	Rural Services
ASSETS			
Cash, Cash Equivalents and Pooled Investments	\$2,788,692	\$ 5,739	\$ 454,813
Receivables:			
Property Tax:			
Delinquent	1,213	138	242
Succeeding Year	2,910,569	328,633	1,371,904
Accounts	37,680	0	0
Accrued Interest	38	0	0
Due from Other Governments	11,722	92,496	100,300
Notes Receivable	0	0	0
Inventories	0	0	0
TOTAL ASSETS	\$5,749,914	\$427,006	\$1,927,259
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 65,224	\$ 3,993	\$ 25,425
Salaries and Benefits Payable	45,786	5,979	6,156
Due To Other Governments	6,987	0	0
Total Liabilities	117,997	9,972	31,581
Deferred Inflows of Resources:			
Unavailable Revenues:			
Succeeding Year Property Tax	2,910,569	328,633	1,371,904
Other	1,209	49,709	239
Total Deferred Inflows of Resources	2,911,778	378,342	1,372,143

See Notes To Financial Statements

<u>Special Revenue</u>				
<u>Secondary Roads</u>	<u>Wind Turbine Debt Service</u>	<u>Wind Turbine Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
\$ 865,858	\$ 123,908	\$2,769,458	\$358,895	\$ 7,367,363
0	0	0	45	1,638
0	1,627,813	0	124,706	6,363,625
11,302	0	0	168	49,150
1	0	26	1	66
244,813	0	0	3,850	453,181
106,073	0	0	0	106,073
303,741	0	0	0	303,741
<u>\$1,531,788</u>	<u>\$1,751,721</u>	<u>\$2,769,484</u>	<u>\$487,665</u>	<u>\$14,644,837</u>
\$ 127,971	\$ 0	\$ 111,668	\$111,055	\$ 445,336
41,494	0	0	0	99,415
34	0	0	0	7,021
<u>169,499</u>	<u>0</u>	<u>111,668</u>	<u>111,055</u>	<u>551,772</u>
0	1,627,813	0	124,706	6,363,625
116,182	0	0	45	167,384
<u>116,182</u>	<u>1,627,813</u>	<u>0</u>	<u>124,751</u>	<u>6,531,009</u>

HOWARD COUNTY
Cresco, Iowa

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

	Special Revenue		
	General	Mental Health	Rural Services
Fund Balances:			
Nonspendable:			
Inventories	\$ 0	\$ 0	\$ 0
Restricted For:			
Supplemental Levy Purposes	663,363	0	0
Mental Health Purposes	0	38,692	0
Rural Services Purposes	0	0	523,535
Secondary Roads Purposes	0	0	0
Drainage Purposes	0	0	0
Conservation Land Acquisition Purposes	25,153	0	0
Debt Service	0	0	0
Capital Projects	0	0	0
Other Purposes	0	0	0
Assigned for County Security	1,761	0	0
Assigned for Building Maintenance	100,000	0	0
Assigned for Community Betterment Fund	25,000	0	0
Assigned for Conservation Special Projects	983,115	0	0
Assigned for Pennies for Poverty	719	0	0
Assigned for Special Equipment	1,753	0	0
Assigned for Veterans Affairs	3,034	0	0
Assigned for Historical Building	750	0	0
Unassigned	915,491	0	0
Total Fund Balances	2,720,139	38,692	523,535
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$5,749,914	\$427,006	\$1,927,259

See Notes To Financial Statements

Exhibit C (Continued)

<u>Special Revenue</u>				
<u>Secondary Roads</u>	<u>Wind Turbine Debt Service</u>	<u>Wind Turbine Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
\$ 303,741	\$ 0	\$ 0	\$ 0	\$ 303,741
0	0	0	0	663,363
0	0	0	0	38,692
0	0	0	0	523,535
942,366	0	0	0	942,366
0	0	0	31,301	31,301
0	0	0	0	25,153
0	123,908	0	6,124	130,032
0	0	2,657,816	3,531	2,661,347
0	0	0	210,903	210,903
0	0	0	0	1,761
0	0	0	0	100,000
0	0	0	0	25,000
0	0	0	0	983,115
0	0	0	0	719
0	0	0	0	1,753
0	0	0	0	3,034
0	0	0	0	750
0	0	0	0	915,491
1,246,107	123,908	2,657,816	251,859	7,562,056
\$1,531,788	\$1,751,721	\$2,769,484	\$487,665	\$14,644,837

HOWARD COUNTY
Cresco, Iowa

RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2015

Total Governmental Fund Balances (Page 19) \$ 7,562,056

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of the assets is \$32,308,192 and the accumulated depreciation is \$9,078,594. 23,229,598

Other long-term assets are not available to pay current year expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds. 167,384

The Internal Service Fund is used by management to charge the costs of funding the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Position. 525,967

Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:

Deferred Outflows of Resources	\$ 334,847	
Deferred Inflows of Resources	<u>(800,909)</u>	(466,062)

Long-term liabilities, including notes payable, compensated absences payable, other postemployment benefits payable, net pension liability and accrued interest payable are not due and payable in the current period and, therefore, are not reported in the governmental funds. (11,782,565)

Net Position of Governmental Activities (Page 14) \$ 19,236,378

HOWARD COUNTY
Cresco, Iowa

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2015

	General	Special Revenue	
		Mental Health	Rural Services
REVENUES:			
Property and Other County Tax	\$2,883,578	\$ 342,267	\$ 1,360,969
Local Option Sales Tax	0	0	626,327
Interest and Penalty on Property Tax	36,099	0	0
Intergovernmental	540,817	149,759	93,830
Licenses and Permits	6,100	0	0
Charges for Services	457,848	0	0
Use of Money and Property	117,101	0	0
Miscellaneous	66,016	0	1,466
Total Revenues	<u>4,107,559</u>	<u>492,026</u>	<u>2,082,592</u>
EXPENDITURES:			
Operating:			
Public Safety and Legal Services	1,366,069	0	145,432
Physical Health and Social Services	476,035	0	0
Mental Health	0	602,441	0
County Environment and Education	948,561	0	281,614
Roads and Transportation	0	0	0
Governmental Services to Residents	350,846	0	2,780
Administration	927,861	0	0
Non-Program	0	0	0
Debt Service	50,184	0	0
Capital Projects	129,974	0	0
Total Expenditures	<u>4,249,530</u>	<u>602,441</u>	<u>429,826</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(141,971)</u>	<u>(110,415)</u>	<u>1,652,766</u>
Other Financing Sources (Uses):			
Sale of Capital Assets	0	0	0
Transfers In	0	0	0
Transfers Out	(93,596)	0	(1,641,159)
Total Other Financing Sources (Uses)	<u>(93,596)</u>	<u>0</u>	<u>(1,641,159)</u>
Change in Fund Balances	(235,567)	(110,415)	11,607
Fund Balances – Beginning of Year	2,955,706	149,107	511,928
Decrease in Reserve For Inventories	0	0	0
Fund Balances – End of Year	<u>\$2,720,139</u>	<u>\$ 38,692</u>	<u>\$ 523,535</u>

See Notes To Financial Statements

<u>Special Revenue</u>				
<u>Secondary Roads</u>	<u>Wind Turbine Debt Service</u>	<u>Wind Turbine Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
\$ 0	\$1,283,570	\$ 0	\$299,886	\$ 6,170,270
0	0	0	0	626,327
0	0	0	0	36,099
2,582,743	65,091	0	41,895	3,474,135
9,090	0	0	0	15,190
1	0	0	15,733	473,582
7	0	359	14	117,481
29,089	0	42,015	26,940	165,526
<u>2,620,930</u>	<u>1,348,661</u>	<u>42,374</u>	<u>384,468</u>	<u>11,078,610</u>
0	0	0	1,142	1,512,643
0	0	0	8,014	484,049
0	0	0	0	602,441
0	0	0	270,386	1,500,561
3,778,574	0	0	0	3,778,574
0	0	0	3,858	357,484
0	0	0	0	927,861
0	0	0	10,075	10,075
0	1,386,035	0	135,704	1,571,923
57,760	1,000	3,841,279	27,548	4,057,561
<u>3,836,334</u>	<u>1,387,035</u>	<u>3,841,279</u>	<u>456,727</u>	<u>14,803,172</u>
<u>(1,215,404)</u>	<u>(38,374)</u>	<u>(3,798,905)</u>	<u>(72,259)</u>	<u>(3,724,562)</u>
4,022	0	0	0	4,022
1,729,755	0	0	90,765	1,820,520
0	0	0	(85,765)	(1,820,520)
<u>1,733,777</u>	<u>0</u>	<u>0</u>	<u>5,000</u>	<u>4,022</u>
518,373	(38,374)	(3,798,905)	(67,259)	(3,720,540)
746,495	162,282	6,456,721	319,118	11,301,357
<u>(18,761)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(18,761)</u>
<u>\$ 1,246,107</u>	<u>\$ 123,908</u>	<u>\$ 2,657,816</u>	<u>\$251,859</u>	<u>\$ 7,562,056</u>

**HOWARD COUNTY
Cresco, Iowa**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2015**

Change in Fund Balances - Total Governmental Funds (Page – 22) \$(3,720,540)

Amounts reported for governmental activities in the Statement of Activities

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

Expenditures for Capital Assets	\$ 3,861,133	
Capital Assets Contributed by the Iowa Department of Transportation	2,275,361	
Depreciation Expense	<u>(1,286,978)</u>	4,849,516

In the Statements of Activities, the loss on the disposition of capital assets is reported whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (8,333)

Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are recognized as deferred inflows of resources in the governmental funds as follows:

Property Tax	(924)	
Other	<u>165,754</u>	164,830

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

Repaid		1,309,520
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The current year County employer share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as a deferred outflow of resources in the Statement of Net Position. 294,915

**HOWARD COUNTY
Cresco, Iowa**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2015**

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

Compensated Absences	\$ (18,014)	
Other Postemployment Benefits	(55,400)	
Pension Expense	(101,398)	
Interest on Long-Term Debt	<u>2,101</u>	\$ (172,711)

Inventories in the governmental funds have been recorded as expenditures when paid. However, the statement of activities will report these items as expenditures in the period that the corresponding net position is exhausted. (18,761)

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in net position of the Internal Service Fund is reported with governmental activities. 56,875

Change in Net Position of Governmental Activities (Page – 15) \$2,755,311

HOWARD COUNTY
Cresco, Iowa

STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2015

	<u>Internal Service Employee Group Health</u>
ASSETS	
Cash, Cash Equivalents and Pooled Investments	\$533,974
Receivables:	
Accrued Interest	<u>43</u>
TOTAL ASSETS	<u><u>\$534,017</u></u>
LIABILITIES	
Accounts Payable	<u>8,050</u>
NET POSITION	
Unrestricted	<u><u>\$525,967</u></u>

See Notes To Financial Statements

HOWARD COUNTY
Cresco, Iowa

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
Year Ended June 30, 2015

	<u>Internal Service Employee Group Health</u>
OPERATING REVENUES:	
Reimbursements From Operating Funds	\$774,273
Reimbursements From Employees	109,750
Insurance Reimbursements	24,952
Total Operating Revenues	<u>908,975</u>
OPERATING EXPENSES:	
Medical Claims	56,631
Insurance Premiums	785,660
Administrative Fees	6,677
Miscellaneous	3,635
Total Operating Expenses	<u>852,603</u>
Operating Income	<u>56,372</u>
NON-OPERATING REVENUES:	
Interest on Investments	<u>503</u>
Net Income	56,875
Net Position Beginning of Year	<u>469,092</u>
Net Position End of Year	<u><u>\$525,967</u></u>

See Notes To Financial Statements

HOWARD COUNTY
Cresco, Iowa

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2015

	<u>Internal Service Employee Group Health</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received From Operating Fund Reimbursements	\$ 774,273
Cash Received From Employees and Others	136,096
Cash Paid to Suppliers for Services	<u>(849,387)</u>
Net Cash Provided by Operating Activities	<u>60,982</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on Investments	<u>498</u>
Net Increase in Cash, Cash Equivalents and Pooled Investments	61,480
Cash, Cash Equivalents and Pooled Investments at Beginning of Year	<u>472,494</u>
Cash, Cash Equivalents and Pooled Investments at End of Year	<u><u>\$ 533,974</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	\$ 56,372
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Decrease in Accounts Receivable	1,394
Increase in Accounts Payable	<u>3,216</u>
Net Cash Provided by Operating Activities	<u><u>\$ 60,982</u></u>

See Notes To Financial Statements

**HOWARD COUNTY
Cresco, Iowa**

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2015**

ASSETS

Cash, Cash Equivalents and Pooled Investments:	
County Treasurer	\$ 995,539
Other County Officials	9,857
Receivables:	
Property Tax:	
Delinquent	9
Succeeding Year	9,884,710
Accounts	194
Accrued Interest	1
TOTAL ASSETS	<u>10,890,310</u>

LIABILITIES

Accounts Payable	28,586
Salaries and Benefits Payable	6,632
Due To Other Governments	10,802,137
Trusts Payable	15,685
Compensated Absences	37,270
TOTAL LIABILITIES	<u>10,890,310</u>
NET POSITION	<u>\$ 0</u>

See Notes To Financial Statements

HOWARD COUNTY
Cresco, Iowa

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

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

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

A. REPORTING ENTITY

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

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

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

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

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

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

B. BASIS OF PRESENTATION

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

The Statement of Net Position presents the County's nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Net position is reported in three categories.

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

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

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

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

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

The County reports the following major governmental funds:

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

Special Revenue:

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

The Wind Turbine Debt Service Fund is used to account for tax increment financing revenues to be used for the payment of interest and principal on the County's tax increment financing obligations.

The Wind Turbine Capital Project Fund is used to account for the roadway construction projects financed with wind turbine tax increment financing debt.

Additionally, the County reports the following funds:

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

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position 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 resources, the County's policy is to pay the expenditure from restricted fund balance and then from less-restricted classifications-committed, assigned and then unassigned fund balances.

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

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

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND EQUITY

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

Cash, Cash Equivalents, and Pooled 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.

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

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

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2013 assessed property valuations; is for the tax accrual period July 1, 2014 through June 30, 2015 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2014.

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

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2015, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND EQUITY (CONTINUED)

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

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

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

<u>Asset Class</u>	<u>Amount</u>
Infrastructure	\$50,000
Land, Buildings and Improvements	25,000
Intangibles	25,000
Equipment and Vehicles	5,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	40-65
Building Improvements	20-50
Infrastructure	30-50
Intangibles	5-20
Equipment	2-20
Vehicles	3-10

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employers' reporting period.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND EQUITY (CONTINUED)

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.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2015. The compensated absence liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

Long-term Liabilities – In the government-wide 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 Position. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent 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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected within sixty days after year-end.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND EQUITY (CONTINUED)

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax receivables that will not be recognized as revenue until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

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

Nonspendable – Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – 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 are imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the Board of Supervisors through ordinance or resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the Board of Supervisors removes or changes the specified use by taking the same action it employed to commit those amounts.

Assigned – Amounts the Board of Supervisors intend to use for specific purposes.

Unassigned – All amounts not included in other classifications.

Net Position – The net position of the Internal Service Employee Group Health Fund is designated for anticipated future catastrophic losses of the County.

E. BUDGETS AND BUDGETARY ACCOUNTING

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2015, disbursements exceeded amounts budgeted in the Debt Service function.

Note 2: Cash, Cash Equivalents and Pooled Investments

The County's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Notes to Financial Statements (Continued)

Note 2: Cash, Cash Equivalents and Pooled Investments (Continued)

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

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

Interest rate risk. The County's Investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) 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.

Note 3: Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

Transfer To	Transfer From	Amount
Special Revenue:		
Secondary Roads	General Basic	\$ 88,596
Secondary Roads	Special Revenue: Rural Services	1,641,159
Debt Service:		
Secondary Roads Debt Service \$400,000	Debt Service	49,743
Courthouse Repairs Debt Service	Debt Service	36,022
Capital Projects:		
New County Jail	General Basic	5,000
Total		<u>\$1,820,520</u>

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

Notes to Financial Statements (Continued)

Note 4: Capital Assets

Capital assets activity for the year ended June 30, 2015 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 2,087,006	\$ 211,301	\$ 0	\$ 2,298,307
Construction in Progress	363,020	1,917,686	12,901	2,267,805
Total Capital Assets, Not Being Depreciated	<u>2,450,026</u>	<u>2,128,987</u>	<u>12,901</u>	<u>4,566,112</u>
Capital Assets, Being Depreciated				
Buildings	2,398,433	0	0	2,398,433
Improvements Other Than Buildings	1,598,720	156,837	0	1,755,557
Machinery and Equipment	5,227,328	116,100	128,716	5,214,712
Infrastructure	14,625,907	3,747,471	0	18,373,378
Total Capital Assets, Being Depreciated	<u>23,850,388</u>	<u>4,020,408</u>	<u>128,716</u>	<u>27,742,080</u>
Less Accumulated Depreciation For:				
Buildings	953,982	41,823	0	995,805
Improvements Other Than Buildings	334,294	80,011	0	414,305
Machinery and Equipment	2,700,245	317,988	120,383	2,897,850
Infrastructure	3,923,478	847,156	0	4,770,634
Total Accumulated Depreciation	<u>7,911,999</u>	<u>1,286,978</u>	<u>120,383</u>	<u>9,078,594</u>
Total Capital Assets Being Depreciated, Net	<u>15,938,389</u>	<u>2,733,430</u>	<u>8,333</u>	<u>18,663,486</u>
Governmental Activities Capital Assets, Net	<u>\$18,388,415</u>	<u>\$4,862,417</u>	<u>\$ 21,234</u>	<u>\$23,229,598</u>
Depreciation expense was charged to the following functions:				
Public Safety and Legal Services				\$ 51,246
Physical Health and Social Services				4,360
County Environment and Education				126,887
Roads and Transportation				1,076,418
Governmental Services to Residents				15,776
Administration				<u>12,291</u>
Total Depreciation Expense -- Governmental Activities				<u>\$ 1,286,978</u>

Notes to Financial Statements (Continued)

Note 5: Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments at June 30, 2015 is as follows:

Fund	Description	Amount
General	Services	\$ 6,987
Special Revenue:		
Secondary Roads	Services	34
		<u>\$ 7,021</u>
Agency:		
Agricultural Extension	Collections	\$ 150,397
Assessor		691,948
Schools		5,862,621
Community Colleges		486,994
Corporations		2,446,033
Auto License and Use Tax		213,585
All Others		<u>950,559</u>
	Total for Agency Funds	<u>\$10,802,137</u>

Note 6: Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2015, is as follows:

	Installment Purchase	Compensated Absences	Capital Loan Notes	General Obligation Bonds	Net Pension Liability	Net OPEB Liability	Total
Beginning Balance, as Restated	\$23,136	\$389,830	\$759,844	\$10,220,000	\$2,312,405	\$237,627	\$13,942,842
Increases	0	407,844	0	0	0	57,860	465,704
Decreases	0	389,830	159,520	1,150,000	943,977	2,460	2,645,787
Ending Balance	<u>\$23,136</u>	<u>\$407,844</u>	<u>\$600,324</u>	<u>\$ 9,070,000</u>	<u>\$1,368,428</u>	<u>\$293,027</u>	<u>\$11,762,759</u>
Due Within One Year	<u>\$23,136</u>	<u>\$407,844</u>	<u>\$144,074</u>	<u>\$ 1,170,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,745,054</u>

Notes to Financial Statements (Continued)

Note 6: Changes in Long-Term Liabilities (Continued)

Notes Payable

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. Semiannual payments, June 1 and December 1, commencing December 1, 2006 are required through June 1, 2016. Interest payments are semiannual at a fixed rate of 4.15% per annum. The following is a schedule of future payments in effect at June 30, 2015:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$47,324	\$1,468	\$48,792

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. Semiannual 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. The following is a schedule of future payments in effect at June 30, 2015:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$27,000	\$ 4,270	\$ 31,270
2017	28,500	3,285	31,785
2018	29,500	2,245	31,745
2019	12,000	1,168	13,168
	<u>\$97,000</u>	<u>\$10,968</u>	<u>\$107,968</u>

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 costs of acquisition of a snow plow truck for the Secondary Road Department. Semiannual 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. The following is a schedule of future payments in effect at June 30, 2015:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$10,750	\$1,716	\$12,466
2017	11,500	1,323	12,823
2018	12,000	903	12,903
2019	12,750	465	13,215
	<u>\$47,000</u>	<u>\$4,407</u>	<u>\$51,407</u>

Notes to Financial Statements (Continued)

Note 6: Changes in Long-Term Liabilities (Continued)

During the year ended June 30, 2010, the County issued three \$100,000 General Obligation Capital Loan Notes for the purpose of paying costs of the acquisition of road maintenance trucks for the Lime Springs area, the Cresco area and the Elma area. Semiannual interest payments are due commencing June 1, 2010 at rates of 3.0% to 3.9% over the duration of the notes. Annual principal payments are due commencing June 1, 2011, maturing on June 1, 2020. The following is a schedule of future payments in effect at June 30, 2015 for the three notes combined:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 30,000	\$ 6,642	\$ 36,642
2017	33,000	5,577	38,577
2018	36,000	4,374	40,374
2019	37,500	3,024	40,524
2020	40,500	1,578	42,078
	<u>\$177,000</u>	<u>\$21,195</u>	<u>\$198,195</u>

During the year ended June 30, 2011, the County issued \$300,000 General Obligation Capital Loan Notes for the purpose of renovating the courthouse. Semiannual interest payments are due commencing December 1, 2011 at 1.20% to 3.00% over the duration of the notes. Annual principal payments are due commencing June 1, 2015, maturing on June 1, 2022. The following is a schedule of future payments in effect at June 30, 2015:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 29,000	\$ 7,447	\$ 36,447
2017	30,000	6,751	36,751
2018	32,000	5,942	37,942
2019	33,000	4,982	37,982
2020	35,000	3,909	38,909
2021 – 2022	73,000	4,089	77,089
	<u>\$232,000</u>	<u>\$33,120</u>	<u>\$265,120</u>

Bonds Payable

During the year ended June 30, 2011, the County issued \$5,100,000 General Obligation bonds for the purpose of paying costs of construction, reconstruction, improvements and repairs of roads, bridges and culverts. Semiannual interest payments are due commencing June 1, 2011 at rates of 1.20% to 3.00% over the duration of the bonds. Annual principal payments are due commencing June 1, 2013, maturing on June 1, 2020. The following is a schedule of future payments in effect at June 30, 2015:

Notes to Financial Statements (Continued)

Note 6: Changes in Long-Term Liabilities (Continued)

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 660,000	\$ 85,560	\$ 745,560
2017	675,000	73,020	748,020
2018	690,000	58,170	748,170
2019	710,000	40,920	750,920
2020	725,000	21,750	746,750
	<u>\$3,460,000</u>	<u>\$279,420</u>	<u>\$3,739,420</u>

During the year ended June 30, 2014, the County issued \$6,300,000 General Obligation Capital Loan Notes 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, 2014 at rates of 2.00% to 2.75% over the duration of the notes. Annual principal payments are due commencing June 1, 2014, maturing on June 1, 2025. The following is a schedule of future payments in effect at June 30, 2015:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 510,000	\$130,075	\$ 640,075
2017	520,000	119,875	639,875
2018	530,000	109,475	639,475
2019	540,000	98,875	638,875
2020	550,000	88,075	638,075
2021 - 2025	2,960,000	239,613	3,199,613
	<u>\$5,610,000</u>	<u>\$785,988</u>	<u>\$6,395,988</u>

Installment Purchase

During the year ended June 30, 2013, the County entered into an agreement to purchase voting equipment for \$80,136. This is an interest free obligation. The following is a schedule of future payments in effect at June 30, 2015.

<u>Year Ending June 30,</u>	<u>Principal</u>
2016	<u>\$23,136</u>

Township Tax Revenue Bonds

During the year ended June 30, 2010, the County issued \$32,700 and \$29,700 of Limited Tax Anticipation Bonds on behalf of Vernon Springs Township and Howard Center, respectively. The bonds were issued for the purpose of paying costs of the purchase of new fire equipment. The bonds represent liabilities of the County, however payments will be made with township tax revenue. Semiannual interest payments are due commencing December 1, 2009 at a rate of 4.25%, annual principal payments commence June 1, 2010, maturing on June 1, 2016 and June 1, 2019, respectively. The following is a schedule of future payments in effect at June 30, 2015:

Notes to Financial Statements (Continued)

Note 6: Changes in Long-Term Liabilities (Continued)

Year Ending June 30	Vernon Springs Township Bond			Howard County Township Bond		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$5,100	\$217	\$5,317	\$ 2,900	\$ 523	\$ 3,423
2017	0	0	0	2,900	400	3,300
2018	0	0	0	2,900	276	3,176
2019	0	0	0	3,600	153	3,753
	\$5,100	\$217	\$5,317	\$12,300	\$1,352	\$13,652

Note 7: Pension Plan

Plan Description – IPERS membership is mandatory for employees of the County, except for those covered by another retirement system. Employees of the County are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees’ Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9147 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member’s years of service plus the member’s age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member’s first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a regular member’s monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member’s highest five-year average salary. (for members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

Sheriff and deputy and protection occupation members may retire at normal retirement age which is generally at age 55. Sheriff and deputy and protection occupation members may retire any time after reaching age 50 with 22 or more year of covered employment.

The formula used to calculate a sheriff and deputy and protection occupation members’ monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member’s highest three-year average salary.

Notes to Financial Statements (Continued)

Note 7: Pension Plan (Continued)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the County contributed 8.93 percent for a total rate of 14.88 percent. Sheriff and deputy members and the County both contributed 9.88 percent of pay for a total rate of 19.76 percent. Protection occupation members contributed 6.76 percent of pay and the County contributed 10.14 percent for a total rate of 16.90 percent.

The County's contributions to IPERS for the year ended June 30, 2015 were \$294,915.

Notes to Financial Statements (Continued)

Note 7: Pension Plan (Continued)

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the County reported a liability of \$1,368,428 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the County's collective proportion was 0.0345048, which was a decrease of 0.005769 from its collective proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the County recognized pension expense of \$101,398. At June 30, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 15,832	\$ 21,679
Changes of assumptions	64,291	18,356
Net difference between projected and actual earnings on pension plan investments	0	760,874
Changes in proportion and differences between County contributions and proportionate share of contributions	(40,191)	0
Count contributions subsequent to the measurement date	294,915	0
Total	\$334,847	\$800,909

\$294,915 reported as deferred outflows of resources related to pensions resulting from the County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Notes to Financial Statements (Continued)

Note 7: Pension Plan (Continued)

Year	Total
2016	\$(190,242)
2017	(190,242)
2018	(190,242)
2019	(190,242)
2020	(7)
	<u>\$(760,975)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all period included in the measurement.

Rate of inflation (effective June 30, 2014)	3.00 percent per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Notes to Financial Statements (Continued)

Note 7: Pension Plan (Continued)

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the County will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the County’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the County’s proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the County’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
County’s Proportionate Share of the Net Pension Liability:	\$3,103,429	\$1,368,428	\$(94,642)

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS’ website at www.ipers.org.

Payable to the Pension Plan – At June 30, 2015, the County reported no payables to the defined benefit pension plan for legally required employer contributions or for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

Notes to Financial Statements (Continued)

Note 8: Risk Management

Howard County is a member of 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 727 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, 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 casualty 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 estimated for the fiscal 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 at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal 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, 2015 were \$106,365.

The Pool uses reinsurance and excess risk sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the County's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the County's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss, or series of claims or losses exceeds the amount of risk sharing protection provided by the County's risk sharing certificate, or in the event that a casualty claim, property loss or series of claims or losses exhaust the Pool's funds and any risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claims was made or the loss incurred.

Notes to Financial Statements (Continued)

Note 8: Risk Management (Continued)

The County does not report a liability for losses in excess of reinsurance or excess risk sharing recoveries unless it is deemed probable such losses have occurred and the amount of such losses can be reasonably estimated. Accordingly, at June 30, 2015, no liability has been recorded in the County's financial statements. As of June 30, 2015, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported under prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

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

Note 9: Employee Health Insurance Plan

The Internal Service, Employee Group Health Fund was established to account for the 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, 2015 were \$774,273.

Amounts payable from the Employee Group Health Fund at June 30, 2015 total \$8,050, which is for incurred but not reported (IBNR) and reported but not paid claims \$(7,904) and administrative fees \$(146) not paid. 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 \$525,967 at June 30, 2015 and is reported as a designation of the Internal Service, Employee Group Health Fund retained earnings. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement Number 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in any of the past three years.

Notes to Financial Statements (Continued)

Note 9: Employee Health Insurance Plan (Continued)

A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid Claims – Beginning of Year	\$ 4,833
Incurred Claims	56,631
Payments on Claims	<u>53,560</u>
Unpaid Claims – End of Year	<u>\$ 7,904</u>

Note 10: Other Postemployment Benefits (OPEB)

Plan Description The County operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 83 active and 1 retired member in the plan. Employees must be age 55 or older at retirement.

The medical/prescription drug benefits, which is a premium based medical plan, is administered by Midwest Group Benefits. Retirees under age 65 pay the same medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

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 which, 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 table shows the components of the County's annual OPEB cost for June 30, 2015, the amount actually contributed to the plan and the changes in the County's net OPEB obligation:

Annual Required Contribution	\$ 64,623
Interest on Net OPEB Obligation	5,941
Adjustment to Annual Required Contribution	<u>(12,704)</u>
Annual OPEB Cost	57,860
Contributions Made	<u>(2,460)</u>
Increase in Net OPEB Obligation	55,400
Net OPEB Obligation – Beginning of Year	<u>237,627</u>
Net OPEB Obligation – End of the Year	<u>\$293,027</u>

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 plan's actual contributions for the year ended June 30, 2015.

Notes to Financial Statements (Continued)

Note 10: Other Postemployment Benefits (OPEB) (Continued)

For the fiscal year 2015, the County contributed \$2,460 to the medical plan. Plan members receiving benefits contributed \$18,177, or 88.04% of the premium costs.

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, 2015 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$52,182	2.95%	\$186,925
2014	59,494	3.41	237,627
2015	57,860	3.81	293,027

Funded Status and Funding Progress As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2015, the actuarial accrued liability was \$445,496 with no actuarial value of assets, resulting in an unfunded actuarial liability (UAAL) of \$445,496. The covered payroll (annual payroll of active employees covered by the plan) was \$3,515,503, and the ratio of the UAAL to the covered payroll was 12.67%. As of June 30, 2015, 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 assumption about future employment, mortality, and the healthcare 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 benefit costs between employer and plan members to that point. The actuarial methods 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 the long-term perspective of the calculations.

As of the July 1, 2012 actuarial 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%. An inflation rate of 0% is assumed for the purpose of this computation.

Mortality rates are from the RP2000 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, 2010 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2010.

Notes to Financial Statements (Continued)

Note 10: Other Postemployment Benefits (OPEB) (Continued)

Projected claim costs of the medical plan are \$500 per month for retirees. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 11: Closure and Postclosure Care Cost

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

State and Federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, state laws require the Agency to submit a closure and postclosure plan detailing the schedule for the methods by which the operator will meet the conditions for proper closure and postclosure. The Agency is in compliance with this requirement. On June 30, 2015, Howard County did not anticipate any additional assessment for closure and postclosure costs.

Note 12: Business Transactions

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

Note 13: Construction Commitment

The County has entered into contracts totaling \$2,325,936 for roadway construction and improvements. As of June 30, 2015, costs of \$2,267,805 have been incurred. The balance of \$58,131 remaining on the contract will be paid as work progresses.

Note 14: Howard County Financial Information Included in the County Social Services Mental Health Region

County Social Services, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa which became effective July 10, 2014, includes the following member counties: Allamakee County, Black Hawk County, Butler County, Cerro Gordo County, Chickasaw County, Clayton County, Emmet County, Fayette County, Floyd County, Grundy County, Hancock County, Howard County, Humboldt County, Kossuth County, Mitchell County, Pocahontas County, Tama County, Webster County, Winnebago County, Winneshiek County, Worth County and Wright County. The financial activity of Howard County's Special Revenue, Mental Health Fund is included in the County Social Services for the year ended June 30, 2015 as follows:

Notes to Financial Statements (Continued)

Note 14: Howard County Financial Information Included in the County Social Services Mental Health Region (Continued)

Revenues:		
Property and Other County Tax		\$ 342,267
Intergovernmental Revenues:		
State Tax Credits	\$ 25,093	
Other Intergovernmental Revenues	124,666	149,759
Total Revenues		<u>492,026</u>
Expenditures:		
Services to Persons With:		
Mental Illness		81,478
General Administration		
Direct Administration	88,370	
Purchased Administration	16	
Distribution to Regional Fiscal Agent	425,000	513,386
County Provided Case Management		7,577
Total Expenditures		<u>602,441</u>
Deficiency of Revenues Under Expenditures		(110,415)
Fund Balance, Beginning of Year		<u>149,107</u>
Fund Balance, End of Year		<u>\$ 38,692</u>

Note 15: Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pension. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for governmental activities was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

Notes to Financial Statements (Continued)

Note 15: Accounting Change/Restatement (Continued)

	<u>Governmental Activities</u>
Net Position June 30, 2014, as Previously Reported	\$18,509,074
Net Pension Liability at June 30, 2014	(2,312,405)
Deferred Outflows of Resources Related to Prior Year Contributions Made After the June 30, 2013 Measurement Date	<u>284,398</u>
Net Position July 1, 2014, as Restated	<u><u>\$16,481,067</u></u>

Note 16: Subsequent Events

Management evaluated subsequent events through March 4, 2016, the date the financial statements were available to be issued.

HOWARD COUNTY
Cresco, Iowa

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2015**

	Actual	Less Funds Not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
RECEIPTS:						
Property and Other County Tax	\$ 6,798,760	\$ 0	\$ 6,798,760	\$ 6,864,923	\$ 6,804,348	\$ (5,588)
Interest and Penalty on Property Tax	36,200	0	36,200	0	6,079	30,121
Intergovernmental	3,568,393	0	3,568,393	3,517,730	3,820,946	(252,553)
Licenses and Permits	15,315	0	15,315	7,000	7,000	8,315
Charges for Services	519,919	13,809	506,110	581,171	582,839	(76,729)
Use of Money and Property	118,304	0	118,304	125,284	125,284	(6,980)
Miscellaneous	226,478	0	226,478	226,187	266,643	(40,165)
Total Receipts	11,283,369	13,809	11,269,560	11,322,295	11,613,139	(343,579)
DISBURSEMENTS:						
Public Safety and Legal Services	1,519,391	0	1,519,391	1,560,508	1,594,516	75,125
Physical Health and Social Services	511,853	0	511,853	754,394	712,650	200,797
Mental Health	595,220	0	595,220	628,554	612,635	17,415
County Environment and Education	1,384,535	0	1,384,535	1,566,712	1,584,264	199,729
Roads and Transportation	3,804,934	0	3,804,934	3,976,858	3,976,858	171,924
Governmental Services to Residents	332,739	0	332,739	427,295	420,236	87,497
Administration	920,669	0	920,669	1,079,710	1,110,091	189,422
Non-Program	10,075	10,075	0	10,000	10,000	10,000
Debt Service	1,571,923	0	1,571,923	1,551,925	1,551,925	(19,998)
Capital Projects	1,391,094	0	1,391,094	102,281	2,693,260	1,302,166
Total Disbursements	12,042,433	10,075	12,032,358	11,658,237	14,266,435	2,234,077
Excess (Deficiency) of Receipts Under Disbursements	(759,064)	3,734	(762,798)	(335,942)	(2,653,296)	1,890,498
Other Financing Sources, Net	4,022	0	4,022	0	0	4,022
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(755,042)	3,734	(758,776)	(335,942)	(2,653,296)	1,894,520
Balance Beginning of Year	8,122,405	27,567	8,094,838	3,642,348	8,094,839	(1)
Balance End of Year	\$ 7,367,363	\$ 31,301	\$ 7,336,062	\$ 3,306,406	\$ 5,441,543	\$ 1,894,519

See Accompanying Independent Auditor's Report

HOWARD COUNTY
Cresco, Iowa

BUDGETARY COMPARISON SCHEDULE – BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2015

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$11,283,369	\$ (204,759)	\$11,078,610
Expenditures	12,042,433	2,760,739	14,803,172
Net	(759,064)	(2,965,498)	(3,724,562)
Other Financing Sources, Net	4,022	0	4,022
Beginning Fund Balances	8,122,405	3,178,952	11,301,357
Decrease in Reserve For Inventories	0	(18,761)	(18,761)
Ending Fund Balances	<u>\$ 7,367,363</u>	<u>\$ 194,693</u>	<u>\$ 7,562,056</u>

See Accompanying Independent Auditor's Report

HOWARD COUNTY
Cresco, Iowa

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2015

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

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

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$2,608,198. 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 E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the Debt Service function.

HOWARD COUNTY
Cresco, Iowa

SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST FISCAL YEAR*
(In Thousands)

Required Supplementary Information

	2015
County's Collective Proportion of the Net Pension Liability (Asset)	0.0345048%
County's Collective Proportionate Share of the Net Pension Liability (Asset)	\$1,368
County's Covered-Employee Payroll	\$3,220
County's Collective Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	42.84%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.61%

- The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the County will present information for those years for which information is available.

See Accompanying Independent Auditor's Report.

HOWARD COUNTY
Cresco, Iowa

SCHEDULE OF COUNTY'S CONTRIBUTIONS
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
Last 10 Fiscal Years
(In Thousands)

Required Supplementary Information

	2015	2014	2013	2012
Statutorily Required Contribution	\$ 295	\$ 284	\$ 272	\$ 246
Contributions in Relation to the Statutorily Required Contributions	(295)	(284)	(272)	(246)
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0
County's Covered-Employee Payroll	\$3,223	\$3,220	\$3,059	\$2,983
Contributions as a Percentage of Covered-Employee Payroll	9.15%	8.83%	8.90%	8.25%

See Accompanying Independent Auditor's Report

2011	2010	2009	2008	2007	2006
\$ 221	\$ 195	\$ 180	\$ 165	\$ 150	\$ 144
(221)	(195)	(180)	(165)	(150)	(144)
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
\$2,913	\$2,822	\$2,895	\$2,680	\$2,601	\$2,377
7.60%	6.91%	6.21%	6.17%	5.78%	6.04%

HOWARD COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY

Year Ended June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four group – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of each service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

HOWARD COUNTY
Cresco, Iowa

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for the Retiree Health Plan (In Thousands)

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	\$0	\$381	\$381	0%	\$2,366	16.10%
2011	July 1, 2009	0	381	381	0%	2,525	15.09%
2012	July 1, 2009	0	381	381	0%	2,953	12.90%
2013	July 1, 2012	0	468	468	0%	3,058	16.01%
2014	July 1, 2012	0	468	468	0%	3,136	14.20%
2015	July 1, 2012	0	468	468	0%	3,516	12.67%

See Note 10 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB costs and Net OPEB Obligation, and the funded status and funding progress.

See Accompanying Independent Auditor's Report

HOWARD COUNTY
Cresco, Iowa

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2015

	Special Revenue				
	County Recorder's Record Management	Tax Increment Financing	Resource Enhancement and Protection	Wapsi Great Western Trail	Webster's Additions LMI
ASSETS					
Cash, Cash Equivalents and Pooled Investments	\$9,535	\$17,801	\$51,487	\$81,165	\$141,977
Receivables:					
Property Tax:					
Delinquent	0	0	0	0	0
Succeeding Year	0	0	0	0	0
Accounts	168	0	0	0	0
Accrued Interest	0	0	0	1	0
Due From Other Governments	0	0	0	0	0
Total Assets	\$9,703	\$17,801	\$51,487	\$81,166	\$141,977
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0	\$110,887
Deferred Inflows of Resources:					
Unavailable Revenues:					
Succeeding Year Property Tax	0	0	0	0	0
Other	0	0	0	0	0
Total Deferred Inflows of Resources	0	0	0	0	0
Fund Balances:					
Restricted For:					
Drainage	0	0	0	0	0
Debt Service	0	0	0	0	0
Capital Projects	0	0	0	0	0
Other Purposes	9,703	17,801	51,487	81,166	31,090
Total Fund Balances	9,703	17,801	51,487	81,166	31,090
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$9,703	\$17,801	\$51,487	\$81,166	\$141,977

See Accompanying Independent Auditor's Report

Schedule 1

<u>Special Revenue</u>						
Well Program	Drainage Districts	Debt Service	Secondary Roads Debt Service \$400,000	Secondary Roads Debt Service \$25,000	County Jail Capital Projects	Total
\$15,974	\$31,301	\$ 5,949	\$143	\$32	\$3,531	\$358,895
0	0	45	0	0	0	45
0	0	124,706	0	0	0	124,706
0	0	0	0	0	0	168
0	0	0	0	0	0	1
3,850	0	0	0	0	0	3,850
<u>\$19,824</u>	<u>\$31,301</u>	<u>\$130,700</u>	<u>\$143</u>	<u>\$32</u>	<u>\$3,531</u>	<u>\$487,665</u>
\$ 168	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$111,055
0	0	124,706	0	0	0	124,706
0	0	45	0	0	0	45
0	0	124,751	0	0	0	124,751
0	31,301	0	0	0	0	31,301
0	0	5,949	143	32	0	6,124
0	0	0	0	0	3,531	3,531
19,656	0	0	0	0	0	210,903
<u>19,656</u>	<u>31,301</u>	<u>5,949</u>	<u>143</u>	<u>32</u>	<u>3,531</u>	<u>251,859</u>
<u>\$19,824</u>	<u>\$31,301</u>	<u>\$130,700</u>	<u>\$143</u>	<u>\$32</u>	<u>\$3,531</u>	<u>\$487,665</u>

HOWARD COUNTY
Cresco, Iowa

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2015**

	Special Revenue					
	County Recorder's Record Management	Forfeiture Fund	Tax Increment Financing	Resource Enhancement and Protection	Wapsi Great Western Trail	Webster's Additions LMI
REVENUES:						
Property and Other County Tax	\$ 0	\$ 0	\$171,445	\$ 0	\$ 0	\$ 0
Intergovernmental	0	0	5,855	12,628	0	0
Charges for Services	1,924	0	0	0	0	0
Use of Money and Property	1	0	0	5	8	0
Miscellaneous	0	0	0	0	0	26,940
Total Revenues	1,925	0	177,300	12,633	8	26,940
EXPENDITURES:						
Operating:						
Public Safety and Legal Services	0	1,142	0	0	0	0
Physical Health and Social Services	0	0	0	0	0	0
County Environment and Education	0	0	159,499	0	0	110,887
Governmental Services to Residents	3,858	0	0	0	0	0
Non-program	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0
Capital Projects	0	0	0	0	0	0
Total Expenditures	3,858	1,142	159,499	0	0	110,887
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,933)	(1,142)	17,801	12,633	8	(83,947)
Other Financing Sources (Uses):						
Transfers In	0	0	0	0	0	0
Transfers Out	0	0	0	0	0	0
	0	0	0	0	0	0
Change in Fund Balances	(1,933)	(1,142)	17,801	12,633	8	(83,947)
Fund Balances – Beginning of Year	11,636	1,142	0	38,854	81,158	115,037
Fund Balances -- End of Year	\$ 9,703	\$ 0	\$ 17,801	\$51,487	\$81,166	\$ 31,090

See Accompanying Independent Auditor's Report

Schedule 2

Special Revenue								
Well Program	Drainage Districts	Debt Service	Secondary Roads Debt Service \$400,000	Secondary Roads Debt Service \$25,000	Courthouse Repairs Debt Service	Courthouse Repairs Capital Projects	County Jail Capital Projects	Total
\$ 0	\$ 0	\$128,441	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$299,886
14,373	0	9,039	0	0	0	0	0	41,895
0	13,809	0	0	0	0	0	0	15,733
0	0	0	0	0	0	0	0	14
0	0	0	0	0	0	0	0	26,940
14,373	13,809	137,480	0	0	0	0	0	384,468
0	0	0	0	0	0	0	0	1,142
8,014	0	0	0	0	0	0	0	8,014
0	0	0	0	0	0	0	0	270,386
0	0	0	0	0	0	0	0	3,858
0	10,075	0	0	0	0	0	0	10,075
0	0	49,939	49,743	0	36,022	0	0	135,704
0	0	0	0	0	0	22,548	5,000	27,548
8,014	10,075	49,939	49,743	0	36,022	22,548	5,000	456,727
6,359	3,734	87,541	(49,743)	0	(36,022)	(22,548)	(5,000)	(72,259)
0	0	0	49,743	0	36,022	0	5,000	90,765
0	0	(85,765)	0	0	0	0	0	(85,765)
0	0	(85,765)	49,743	0	36,022	0	5,000	5,000
6,359	3,734	1,776	0	0	0	(22,548)	0	(67,259)
13,297	27,567	4,173	143	32	0	22,548	3,531	319,118
\$19,656	\$31,301	\$ 5,949	\$ 143	\$32	\$ 0	\$ 0	\$ 3,531	\$251,859

HOWARD COUNTY
Cresco, Iowa

**COMBINING SCHEDULE OF FIDUCIARY
ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2015**

	County Offices	Agricultural Extension Education	County Assessor	Schools
ASSETS				
Cash, Cash Equivalents and Pooled Investments:				
County Treasurer	\$ 0	\$ 1,937	\$395,614	\$ 77,583
Other County Officials	9,857	0	0	0
Receivables:				
Property Tax:				
Delinquent	0	0	1	7
Succeeding Year	0	148,460	336,265	5,785,031
Accounts	26	0	0	0
Accrued Interest	0	0	0	0
TOTAL ASSETS	\$ 9,883	\$150,397	\$731,880	\$5,862,621
LIABILITIES				
Accounts Payable	\$ 0	\$ 0	\$ 3,824	\$ 0
Salaries and Benefit Payable	0	0	5,580	0
Due to Other Governments	(523)	150,397	691,948	5,862,621
Trusts Payable	10,406	0	0	0
Compensated Absences	0	0	30,528	0
TOTAL LIABILITIES	\$ 9,883	\$150,397	\$731,880	\$5,862,621

See Accompanying Independent Auditor's Report

Schedule 3

Community Colleges	Corporations	Townships	City Special Assessments	Auto License and Use Tax	Other	Total
\$ 6,156	\$ 27,854	\$ 2,388	\$1,336	\$213,585	\$269,086	\$ 995,539
0	0	0	0	0	0	9,857
1	0	0	0	0	0	9
480,837	2,418,179	174,956	0	0	540,982	9,884,710
0	0	0	0	0	168	194
0	0	0	0	0	1	1
<u>\$486,994</u>	<u>\$2,446,033</u>	<u>\$177,344</u>	<u>\$1,336</u>	<u>\$213,585</u>	<u>\$810,237</u>	<u>\$10,890,310</u>
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 24,762	\$ 28,586
0	0	0	0	0	1,052	6,632
486,994	2,446,033	177,344	1,336	213,585	772,402	10,802,137
0	0	0	0	0	5,279	15,685
0	0	0	0	0	6,742	37,270
<u>\$486,994</u>	<u>\$2,446,033</u>	<u>\$177,344</u>	<u>\$1,336</u>	<u>\$213,585</u>	<u>\$810,237</u>	<u>\$10,890,310</u>

HOWARD COUNTY
Cresco, Iowa

**COMBINING SCHEDULE OF CHANGES IN FIDUCIARY
ASSETS AND LIABILITIES – AGENCY FUNDS**
Year Ended June 30, 2015

ASSETS AND LIABILITIES	County Offices	Agricultural Extension Education	County Assessor	Schools
Balances – Beginning of Year	\$ 9,095	\$143,220	\$723,174	\$5,725,020
Additions:				
Property and Other County Tax	0	148,211	335,679	5,768,792
E911 Surcharge	0	0	0	0
State Tax Credits	0	10,335	24,417	422,775
Office Fees and Collections	220,470	0	0	0
Auto Licenses, Use Tax and Postage Assessments	0	0	0	0
Trusts	112,572	0	0	0
Miscellaneous	0	0	141	0
Total Additions	333,042	158,546	360,237	6,191,567
Deductions:				
Agency Remittances:				
To Other Funds	94,587	0	0	0
To Other Governments	126,813	151,369	351,531	6,053,966
Trusts Paid Out	110,854	0	0	0
Total Deductions	332,254	151,369	351,531	6,053,966
Balances – End of Year	\$ 9,883	\$150,397	\$731,880	\$5,862,621

See Accompanying Independent Auditor's Report

Schedule 4

Community Colleges	Corporations	Townships	City Special Assessments	Auto License and Use Tax	Other	Total
\$478,345	\$2,258,915	\$166,488	\$ 1,098	\$ 199,691	\$791,085	\$10,496,131
481,129	2,373,082	175,410	0	0	539,976	9,822,279
0	0	0	0	0	199,850	199,850
34,076	251,521	9,825	0	0	39,344	792,293
0	0	0	0	0	0	220,470
0	0	0	0	2,909,682	0	2,909,682
0	0	0	14,188	0	0	14,188
0	0	0	0	353	148,391	261,316
0	0	0	0	0	60,962	61,103
515,205	2,624,603	185,235	14,188	2,910,035	988,523	14,281,181
0	0	0	0	89,265	0	183,852
506,556	2,437,485	174,379	13,950	2,806,523	825,225	13,447,797
0	0	0	0	353	144,146	255,353
506,556	2,437,485	174,379	13,950	2,896,141	969,371	13,887,002
\$486,994	\$2,446,033	\$177,344	\$ 1,336	\$ 213,585	\$810,237	\$10,890,310

HOWARD COUNTY
Cresco, Iowa

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

For the Last Ten Years

	2015	2014	2013	2012
Revenues:				
Property and Other County Tax	\$ 6,170,270	\$ 5,747,257	\$ 5,120,352	\$ 4,374,391
Local Option Sales Tax	626,327	531,451	547,111	528,931
Interest and Penalty On Property Tax	36,099	36,477	33,091	46,290
Intergovernmental	3,474,135	3,793,687	3,514,890	3,752,485
Licenses and Permits	15,190	12,896	11,950	8,812
Charges for Service	473,582	528,943	497,050	504,972
Use of Money and Property	117,481	83,365	165,894	94,490
Miscellaneous	165,526	298,224	228,553	1,306,491
Total	\$11,078,610	\$11,032,300	\$10,118,891	\$10,616,862
Expenditures:				
Operating:				
Public Safety and Legal Services	\$ 1,512,643	\$ 1,364,156	\$ 1,358,844	\$ 1,281,143
Physical Health and Social Services	484,049	566,949	589,320	450,229
Mental Health	602,441	495,169	541,589	1,359,347
County Environment and Education	1,500,561	1,181,859	1,437,150	1,069,653
Roads and Transportation	3,778,574	4,358,197	3,697,869	3,360,477
Governmental Services To Residents	357,484	332,379	365,859	323,411
Administration	927,861	875,039	1,164,255	941,271
Non-Program	10,075	1,093	3,358	26,578
Debt Service	1,571,923	1,171,753	612,610	250,077
Capital Projects	4,057,561	1,635,236	2,411,961	560,161
Total	\$14,803,172	\$11,981,830	\$12,182,815	\$ 9,622,347

See Accompanying Independent Auditor's Report

Modified Accrual Basis					
2011	2010	2009	2008	2007	2006
\$ 4,004,308	\$3,662,011	\$3,340,785	\$3,250,683	\$3,271,573	\$3,064,407
523,426	477,110	522,505	423,390	439,631	392,701
52,610	38,044	43,081	32,898	28,481	31,947
4,485,985	4,275,852	4,316,869	3,382,725	3,192,694	3,101,743
6,455	15,707	9,455	20,501	6,330	8,594
435,029	452,535	453,109	441,531	400,128	390,617
130,804	90,992	121,691	189,486	217,954	174,632
232,743	607,263	247,576	207,084	295,069	320,952
<u>\$ 9,871,360</u>	<u>\$9,619,514</u>	<u>\$9,055,071</u>	<u>\$7,948,298</u>	<u>\$7,851,860</u>	<u>\$7,485,593</u>
\$ 1,124,463	\$1,147,307	\$1,085,111	\$1,178,257	\$1,035,867	\$ 959,201
437,706	422,537	396,894	397,860	336,340	395,732
1,299,362	1,106,707	1,249,311	1,252,692	1,304,049	1,106,788
1,254,461	1,702,186	894,678	799,801	866,273	766,713
3,740,812	3,936,790	3,379,695	3,305,054	3,176,661	3,007,255
306,361	298,951	313,020	266,112	251,107	370,212
932,209	837,436	864,774	788,090	802,558	753,519
3,781	1,924	3,251	5,767	1,461	5,888
207,961	87,407	49,939	49,939	49,939	0
2,577,834	295,940	42,222	34,061	504,084	573,014
<u>\$11,884,950</u>	<u>\$9,837,185</u>	<u>\$8,278,895</u>	<u>\$8,077,633</u>	<u>\$8,328,339</u>	<u>\$7,938,322</u>



Gardiner Thomsen
Certified Public Accountants

**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 Officials of Howard County:
Cresco, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Howard County, Iowa, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Howard County, Iowa's basic financial statements and have issued our report thereon dated March 4, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Howard County, Iowa's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Iowa's internal control. Accordingly, we do not express an opinion on the effectiveness of Howard County, Iowa's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items A, and B to be material weaknesses.

A *significant deficiency* is a deficiency, or 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. We consider the deficiency described in the accompanying Schedule of Findings as item C to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Howard County, Iowa'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Howard County, Iowa's Response to Findings

Howard County, Iowa's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Howard County, Iowa's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gardiner Thomsen, P.C.

Gardiner Thomsen, P.C.
Charles City, Iowa

March 4, 2016

HOWARD COUNTY
Cresco, Iowa

SCHEDULE OF FINDINGS

Year Ended June 30, 2015

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

A Segregation of Duties

Finding – During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County’s financial statements. We noted that various functions of the County are performed by the same person.

Criteria – A good internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition – Various functions of the Auditor, Treasurer, Recorder and Sheriff Offices are performed by the same person.

Effect – Transaction errors could occur and not be detected in a timely manner.

Cause – Limited staff available to segregate duties.

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

Response and Corrective Action Planned – We have reviewed procedures as suggested. We are in the process of cross training employees to further segregate duties.

B Financial Reporting

Finding – During the audit, we identified material amounts of accounts payable and capital assets not recorded or incorrectly recorded in the County’s financial statements.

Criteria – A good financial reporting system to record accounts payable and capital assets, including infrastructure and the related depreciation calculations.

HOWARD COUNTY
Cresco, Iowa

SCHEDULE OF FINDINGS (Continued)
Year Ended June 30, 2015

Findings Related to the Financial Statements (Continued):

B Financial Reporting (Continued)

Condition – Disbursements in July and August following year end were not always coded as a disbursement for goods or services received prior to June 30 to be included in the accounts payable listing. Capital assets additions were not always included in the capital asset listing as the proper acquisition value.

Effect – The accounts payable listing was understated. The capital asset listing was not correct.

Cause – Limited Staff

Recommendation – The County should implement procedures to ensure all accounts payable and capital assets, infrastructure and related depreciation are recorded correctly in the financial statements.

Response and Corrective Action Planned – We will adjust our financial statements to properly include these amounts and will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

C Preparation of Full Disclosure Financial Statements

Finding – During the audit, we noted that Howard County does not have the internal resources to prepare full disclosure financial statements required by U.S. Generally Accepted Accounting Principles (GAAP) for external reporting.

Criteria – Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements for external reporting in conformity with GAAP.

Condition – Management requested that Gardiner Thomsen, P.C. assist in preparing the draft of the financial statements, including the related footnote disclosures.

Effect – Although Gardiner Thomsen, P.C. assists in the preparation of the full disclosure financial statements, the management of the County thoroughly reviews them and accepts responsibility for their completeness and accuracy.

Cause – The County does not have the internal resources to prepare the full disclosure financial statements required by GAAP for external reporting.

HOWARD COUNTY
Cresco, Iowa

SCHEDULE OF FINDINGS (Continued)
Year Ended June 30, 2015

Findings Related to the Financial Statements (Continued):

C Preparation of Full Disclosure Financial Statements (Continued)

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

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

INSTANCES OF NON-COMPLIANCE

No matters were noted.

Other Findings Related to Required Statutory Reporting:

1. Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the Debt Service function.

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

Response – We will amend the budget when required.

Conclusion – Response accepted.

2. Questionable Expenditures – We noted no expenditures that may not meet the requirements of public purpose as defined by an Attorney General's opinion dated April 25, 1979.
3. Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

HOWARD COUNTY
Cresco, Iowa

SCHEDULE OF FINDINGS (Continued)
Year Ended June 30, 2015

Other Findings Related to the Financial Statements (Continued):

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

<u>Name, Title, and Business Relationship</u>	<u>Description</u>	<u>Amount</u>
Lori Kerian – Assessor’s Office		
Culligan Water Conditioning – Owned	Water Refills and Equipment Rental	\$5,059
Joseph “Rock” Tuchek – Assessor’s Office		
Midwest Group Benefits – Owned by Joseph “Rock” Tuchek	Flex Saving Account Management	1,713
Mark Kubik – Board of Supervisors		
Kubik Plumbing, Heating and A/C Owned by Mark Kubik	Water Saver Kit	16

In accordance with Chapter 331.342 of the Code of Iowa, the transactions with Kubik Plumbing, Heating and A/C do not appear to represent conflicts of interest since total transactions were less than \$1,500 during the fiscal year.

In accordance with Chapter 331.342 of the Code of Iowa, the transactions over \$1,500 with Culligan Water Conditioning and Midwest Group Benefits do not appear to represent conflicts of interest since Lori Kerian and Joseph Tuchek do not appear to participate in acquiring the above services.

5. **Bond Coverage** – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of all bonds should be periodically reviewed to ensure that the coverage is adequate for current operations.
6. **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not. However, the Board went into closed session on December 5, 2014 to discuss matters relating to the County. The minutes record does not document the vote of each member on the question of holding the closed session as required by Chapter 21 of the Code of Iowa.

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

Response – This was an oversight. We usually record the roll call vote as required and will do so in the future.

Conclusion – Response accepted.

HOWARD COUNTY
Cresco, Iowa

SCHEDULE OF FINDINGS (Continued)
Year Ended June 30, 2015

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

7. **Deposits and Investments** – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the County’s investment policy were noted.
8. **Resource Enhancement and Protection Certification** – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
9. **Economic Development** – During the year ended June 30, 2015, the County paid \$297,675 for Economic Development, which appears to be an appropriate expenditure of public funds since benefits to be derived have been clearly documented.
10. **County Extension Office** – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2015 for the County Extension Office did not exceed the amount budgeted.

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

Recommendation – As required by the credit card policy, all claims for purchase by credit card should be supported by detailed invoices or other appropriate supporting documentation before payment.

Response – We will maintain detailed invoices for credit card claims before payment.

Conclusion – Response accepted.

12. **E911 Service Board Budget** – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted for the E911 Service Board Budget.

Recommendation – The budget should have been amended in accordance with Chapter 24 before disbursements were allowed to exceed the budget.

HOWARD COUNTY
Cresco, Iowa

SCHEDULE OF FINDINGS (Continued)
Year Ended June 30, 2015

Other Findings Related to Required Statutory Reporting (Continued):

Response – The budget was amended on March 9, 2015 to reflect the additional disbursements. In the future, we will amend the budget before disbursements exceed amounts budgeted.

Conclusion – Response accepted.

13. **Urban Renewal Annual Report** – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.
14. **Tax Increment Financing** – For the year ended June 30, 2015, the County Auditor prepared reconciliations for each City reconciling TIF receipts with total outstanding TIF debt.
15. **County Assessor – Questionable Expenditures** – Certain expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public purpose to be derived have not been clearly documented were noted. These expenditures are detailed as follows:

<u>Paid To</u>	<u>Purpose</u>	<u>Amount</u>
Thomas Mullen	Alcoholic Beverages	\$9

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

Recommendation – The County Assessor’s Conference Board should determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the County Assessor’s Conference Board should establish written policies and procedures, including requirements for proper documentation.

Response – We will document this in the future.

Conclusion – Response accepted.