



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE _____ December 24, 2003 _____

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Auditor of State David A. Vaudt today released an audit report on Muscatine County, Iowa.

The County has implemented new reporting standards for the year ended June 30, 2003, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities, which provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Also included is Management's Discussion and Analysis of the County's financial statements.

The County had local tax revenue of \$47,759,662 for the year ended June 30, 2003, which included \$3,418,846 in tax credits from the state. The County forwarded \$37,479,595 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$10,280,067 of the local tax revenue to finance County operations, a 5 percent increase from the prior year. Other revenues included charges for service of \$1,659,044, operating grants and contributions of \$5,966,131, capital grants and contributions of \$1,353,038, local option sales tax of \$1,310,286, interest on investments of \$351,955 and other general revenues of \$766,313.

Expenses for County operations totaled \$18,909,440. Expenses included \$5,396,121 for public safety and legal services, \$4,409,546 for mental health and \$3,771,065 for roads and transportation.

A copy of the audit report is available for review in the Office of Auditor of State and the County Auditor's office.

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MUSCATINE COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2003

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Muscatine County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2003)		
Ester Dean	Board of Supervisors	Jan 2003
Roger Eichelberger	Board of Supervisors	Jan 2003
John Oberhaus	Board of Supervisors	Jan 2003
Richard Marr	Board of Supervisors	Jan 2005
David Watkins	Board of Supervisors	Jan 2005
Leslie Soule	County Auditor	Jan 2005
Jerry Coffman	County Treasurer	Jan 2003
Dorothy Fitchner	County Recorder	Jan 2003
R. Greg Orr	County Sheriff	Jan 2005
Richard Phillips	County Attorney	Jan 2003
Dale McCrea	County Assessor	Jan 2004
(After January 2003)		
Richard Marr	Board of Supervisors	Jan 2005
David Watkins	Board of Supervisors	Jan 2005
John Oberhaus	Board of Supervisors	Jan 2007
Esther Dean	Board of Supervisors	Jan 2007
Lewis Morrison	Board of Supervisors	Jan 2007
Leslie Soule	County Auditor	Jan 2005
Jerry Coffman	County Treasurer	Jan 2007
Dorothy Fitchner	County Recorder	Jan 2007
R. Greg Orr	County Sheriff	Jan 2005
Gary Allison	County Attorney	Jan 2007
Dale McCrea	County Assessor	Jan 2004

Muscatine County



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Independent Auditor's Report

To the Officials of Muscatine County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Muscatine County, Iowa, as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of Muscatine County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Muscatine County at June 30, 2003, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 15 to the financial statements, during the year ended June 30, 2003, Muscatine County adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated September 24, 2003 on our consideration of Muscatine County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 42 through 45, respectively, are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Muscatine County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2002 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 24, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Muscatine County provides this Management's Discussion and Analysis of Muscatine County's annual financial statements. This narrative overview and analysis of the financial activities of Muscatine County is for the fiscal year ended June 30, 2003. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

Because Muscatine County is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the County's financial position and results of operations.

FINANCIAL HIGHLIGHTS

- Governmental revenue decreased 1%, or approximately \$149,000, from fiscal year (FY)2002 to FY2003. Property tax increased approximately \$216,000 and grants and contributions decreased approximately \$94,000.
- Governmental fund expenditures increased 1%, or approximately \$69,000, from FY2002 to FY2003.
- Muscatine County's net assets increased approximately \$2.8 million from FY2002.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as 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.

Government-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of Muscatine County as a whole and represent an overall view of the County's finances.

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 Muscatine County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which Muscatine County acts solely as an agent or custodian for the benefit of those outside of the government (Agency Funds).

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The statements are followed by a section of Required Supplementary Information that further explains and supports the financial statements with a comparison of the County's budget for the year.

Supplementary Information provides detailed information about the non-major special revenue funds and the individual internal service and agency funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various Federal programs benefiting the County.

REPORTING THE COUNTY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The statement of net assets and the statement of activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement of net assets presents all of the County's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The County's governmental activities are presented in the statement of net assets and the statement of activities. Governmental activities include public safety and legal services, physical health and social services, mental health services, county environment and education, roads and transportation, government services to residents, administration, long term debt, capital projects and non-program activities. Property tax and state and federal grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide detailed information about individual significant funds – not the County as a whole. Some funds are required to be established by Iowa law. However, the County establishes many other funds to help control and manage money for particular purposes.

The County has three kinds of funds:

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

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

2) Proprietary funds account for the County's internal service funds for health insurance and county insurance. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions.

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

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

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

A summary reconciliation between the government-wide financial statements and the fund financial statements follows the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position.

<u>Net Assets of Governmental Activities</u>	
	<u>June 30, 2003</u>
Current and other assets	\$ 20,408,512
Capital assets	16,775,120
Total assets	<u>37,183,632</u>
Long-term debt outstanding	5,205,885
Other liabilities	10,948,803
Total liabilities	<u>16,154,688</u>
Net assets:	
Invested in capital assets, net of related debt	11,500,971
Restricted	5,508,036
Unrestricted	<u>4,019,937</u>
Total net assets	<u><u>\$ 21,028,944</u></u>

Muscatine County's total net assets increased by approximately \$2,800,000 from 2002 to 2003. The largest portion of the County's net assets is the invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements is approximately \$4 million.

Changes in Net Assets of Governmental Activities

	Year Ended June 30, 2003
Revenues:	
Program revenues:	
Charges for service and sales	\$ 1,659,044
Operating grants and contributions	5,966,131
Capital grants and contributions	1,353,038
General revenues:	
Property tax	9,359,645
Penalty and interest on property tax	120,425
State tax credits	920,422
Local option sales and service tax	1,310,286
Grants and contributions not restricted to specific purposes	328,459
Unrestricted investment earnings	351,955
Gain on sale of capital assets	100,076
Other general revenues	217,353
Total revenues	21,686,834
Program expenses:	
Public safety and legal services	5,396,121
Physical health and social services	1,357,866
Mental health	4,409,546
County environment and education	738,083
Roads and transportation	3,771,065
Government services to residents	636,980
Administration services	2,011,278
Non-program	329,638
Interest on long-term debt	258,863
Total expenses	18,909,440
Increase in net assets	2,777,394
Net assets July 1	18,251,550
Net assets June 30	\$ 21,028,944

Muscatine County increased property tax rates \$.06 in FY03. There was a decrease in rural taxable property valuation of \$1,697,216 and an increase in countywide taxable property valuation of \$12,114,258. Revenues from the State of Iowa in the form of Mental Health funding decreased by \$123,000 and local option sales tax increased by \$72,000 during the fiscal year.

INDIVIDUAL MAJOR FUND ANALYSIS

As Muscatine County completed the year, its governmental funds reported a combined fund balance of approximately \$10 million, which is higher than the approximately \$8 million combined fund balance at the end of FY02. The increase is due in part to the Carver Trust donation to the Discovery Center and the cost savings due to privatizing the County Care Facility, both of which are accounted for in the Special Revenue Funds.

The General Fund, the operating fund for Muscatine County, ended FY03 with a fund balance of more than \$4 million. This was an improvement over FY02's ending balance of \$3.8 million. Fiscal year 2003 saw an increase in property valuation from \$1,267,103,180 in FY02 to \$1,279,217,438 in FY03. The supplemental levy rate for the General Fund increased \$.08 in FY03.

Muscatine County has continued to look for ways to effectively manage the cost of mental health services in the Mental Health Fund. FY03 ended with a \$1.4 million balance, whereas FY02 ended with a \$770,000 balance. Although the levy rate decreased \$.01 from FY02 to FY03, the increased fund balance is directly related to the privatization of services at the County Care Facility in May of 2001, which allowed residents access to Medicaid funding.

The Rural Services Fund ended FY03 with an \$85,000 balance compared to the prior year ending balance of \$130,000. Although the property tax levy rate for the Rural Services Fund remained the same from FY02 to FY03, the taxable valuation decrease of \$1.6 million reduced the amount of property tax collected by approximately \$3,000. FY03 expenditures and transfers exceeded revenues by approximately \$45,000, thereby reducing the fund balance.

The Secondary Roads Fund ended FY03 with a \$2.7 million balance, compared to the prior year ending balance of \$2.2 million. Capital project expenditures in the fund in FY03 decreased approximately \$239,000 from FY02. Roads and transportation expenditures in the fund increased from FY02 by approximately \$290,000. Intergovernmental revenue and local option sales tax revenue increased \$339,000. The FY03 expenditures in the fund increased \$51,000, but the FY03 revenues and transfers over expenditures increased \$258,000 from FY02. Along with the construction of a salt/sand mix building, the County purchased two motor graders in FY03. Muscatine County maintained 415 miles of gravel, 21 miles of dirt, 43 miles of seal coated, 129 miles of paved roads and 110 bridges with the resources of this fund.

The Debt Service Fund ended FY03 with a \$189,000 balance compared to the prior year ending balance of \$148,000. Capital lease purchase agreement payments remained approximately the same at \$730,000 in FY03.

The Capital Projects Fund ended FY03 with a \$234,000 balance compared to the prior year balance of \$580,000. The fund balance decreased in FY03, in part, due to the transfer of \$300,000 to the Conservation Land Acquisition Trust Fund for the construction of the Discovery Learning Center.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Supervisors annually adopts a budget following required public notice and hearing for all funds, except agency funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function(service area) level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The County budget is prepared on the cash basis. Over the course of the year, Muscatine County amended the operating budget twice. The first amendment was made in October 2002 to adjust salaries for positions that were re-graded after the certification of the FY03 budget. The second amendment was made in May 2003 to finance the additional expenses associated with the operation of the jail and the medical examiner.

None of the amendments made during the 2003 fiscal year should have any impact on the fiscal year 2004 budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of FY03, Muscatine County had approximately \$16.8 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This is a net increase of approximately \$807,000 from FY02. Muscatine County had depreciation expense of \$800,000 in FY03 and total accumulated depreciation of \$9,040,000 at June 30, 2003.

Debt

At the end of FY03, Muscatine County had \$5,274,000 in lease purchase agreements outstanding, compared to \$5,634,000 at the end of FY02.

Outstanding debt decreased as a result of the lease purchase payments for the Muscatine County Jail and vehicle leases. Muscatine County's general obligation bond rating continues to carry the A1 rating assigned by Moody's Investors Service, a national rating agency. 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. Muscatine County's outstanding general obligation debt is significantly below its constitutional debt limit of \$104 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Muscatine County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2004 budget, tax rates. In an ongoing effort to maintain County services without raising tax levies, the Muscatine County Board of Supervisors is committed to limiting expenditure increases and using excess fund balances to provide services.

Amounts available for appropriation in the FY04 operating budget are approximately \$23.4 million, an increase of 10% over the final 2003 budget. Muscatine County will spend down fund balances to finance programs currently offered due to the effect inflation has on program costs. Increased wage adjustments for pay-plan employees represent the largest portion of the increased expenses. Muscatine County has added no major programs to the 2004 budget, but will begin construction of the new Discovery Center to be paid from the Conservation Land Acquisition Trust Fund.

If these estimates are realized, Muscatine County's operating fund balances are expected to decrease from \$9.5 million to approximately \$8 million by the close of 2004.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Muscatine 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 Sherry Seright at the Muscatine County Budget Coordinator's Office, 401 East 3rd Street, Muscatine, Iowa, 52761.

Muscatine County

Exhibit A

Muscatine County
Statement of Net Assets
June 30, 2003

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 10,046,298
Receivables:	
Property tax:	
Delinquent	107,803
Succeeding year	8,780,000
Interest and penalty on property tax	213,373
Accounts	17,886
Accrued interest	71,872
Loan (note 11)	15,625
Due from other governments	880,040
Inventories	139,092
Prepaid insurance	136,523
Capital assets (net of accumulated depreciation) (note 5)	16,775,120
	<u>37,183,632</u>
Liabilities	
Accounts payable	940,507
Accrued interest payable	25,240
Salaries and benefits payable	97,391
Due to other governments	174,844
Deferred revenue:	
Succeeding year property tax	8,780,000
Long-term liabilities (note 7):	
Portion due or payable within one year:	
Capital lease purchase agreements	529,909
Compensated absences	400,912
Portion due or payable after one year:	
Capital lease purchase agreements	4,744,240
Compensated absences	461,645
	<u>16,154,688</u>
Net Assets	
Invested in capital assets, net of related debt	11,500,971
Restricted for:	
Supplemental levy purposes	162,980
Mental health purposes	1,336,153
Secondary roads purposes	2,520,896
Debt service	170,511
Other purposes	1,317,496
Unrestricted	4,019,937
	<u>\$ 21,028,944</u>

See notes to financial statements.

Muscatine County
Statement of Activities
Year ended June 30, 2003

	<u>Program Revenues</u>				Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	
Functions / Programs:					
Governmental activities:					
Public safety and legal services	\$ 5,396,121	230,461	1,376,594	-	(3,789,066)
Physical health and social services	1,357,866	23,184	301,984	-	(1,032,698)
Mental health	4,409,546	6,947	2,330,051	-	(2,072,548)
County environment and education	738,083	64,749	13,070	520	(659,744)
Roads and transportation	3,771,065	357,497	1,839,040	782,749	(791,779)
Governmental services to residents	636,980	843,701	13,068	-	219,789
Administrative services	2,011,278	6,233	92,324	-	(1,912,721)
Non-program	329,638	126,272	-	569,769	366,403
Interest on long-term debt	258,863	-	-	-	(258,863)
Total	\$ 18,909,440	1,659,044	5,966,131	1,353,038	(9,931,227)
General Revenues:					
Property and other county tax levied for:					
General purposes					8,641,546
Debt service					718,099
Penalty and interest on property tax					120,425
State tax credits					920,422
Local option sales tax					1,310,286
Grants and contributions not restricted to specific purpose					328,459
Unrestricted investment earnings					351,955
Gain on disposal of capital assets					100,076
Miscellaneous					217,353
Total general revenues					12,708,621
Change in net assets					2,777,394
Net assets beginning of year, as restated (note 15)					18,251,550
Net assets end of year					\$ 21,028,944

See notes to financial statements.

Muscatine County
Balance Sheet
Governmental Funds

June 30, 2003

	General	Special Revenue	
		Mental Health	Rural Services
Assets			
Cash and pooled investments	\$ 3,927,858	1,810,256	84,718
Receivables:			
Property tax:			
Delinquent	62,119	21,538	17,188
Succeeding year	5,413,000	1,885,000	812,000
Interest and penalty on property tax	213,373	-	-
Accounts	7,938	4,656	1,555
Accrued interest	71,872	-	-
Loan (note 11)	-	-	-
Due from other funds	225	-	-
Due from other governments	337,327	105,053	-
Inventories	-	-	-
Prepaid insurance	136,523	-	-
Total assets	\$ 10,170,235	3,826,503	915,461
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 389,955	282,824	912
Salaries and benefits payable	36,983	29,358	342
Due to other funds	2,951	225	-
Due to other governments	2,498	161,233	-
Deferred revenue:			
Succeeding year property tax	5,413,000	1,885,000	812,000
Other	271,201	30,428	16,729
Total liabilities	6,116,588	2,389,068	829,983
Fund balances:			
Reserved for:			
Inventories	-	-	-
Prepaid insurance	136,523	-	-
Supplemental levy purposes	96,614	-	-
Debt service	-	-	-
Resource enhancement and protection	-	-	-
Unreserved, reported in:			
General fund	3,820,510	-	-
Special revenue funds	-	1,437,435	85,478
Capital projects fund	-	-	-
Total fund balances	4,053,647	1,437,435	85,478
Total liabilities and fund balances	\$ 10,170,235	3,826,503	915,461

See notes to financial statements.

Secondary Roads	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
2,231,288	188,793	233,515	1,332,494	9,808,922
-	6,958	-	-	107,803
-	670,000	-	-	8,780,000
-	-	-	-	213,373
-	-	-	3,389	17,538
-	-	-	-	71,872
-	-	-	15,625	15,625
2,951	-	-	-	3,176
408,562	-	-	29,098	880,040
139,092	-	-	-	139,092
-	-	-	-	136,523
2,781,893	865,751	233,515	1,380,606	20,173,964
35,890	-	-	59,575	769,156
27,173	-	-	3,535	97,391
-	-	-	-	3,176
11,113	-	-	-	174,844
-	670,000	-	-	8,780,000
-	6,773	-	15,625	340,756
74,176	676,773	-	78,735	10,165,323
139,092	-	-	-	139,092
-	-	-	-	136,523
-	-	-	-	96,614
-	188,978	-	-	188,978
-	-	-	-	-
-	-	-	-	3,820,510
2,568,625	-	-	1,301,871	5,393,409
-	-	233,515	-	233,515
2,707,717	188,978	233,515	1,301,871	10,008,641
2,781,893	865,751	233,515	1,380,606	20,173,964

Muscatine County

Muscatine County

Reconciliation of the Balance Sheet-
Governmental Funds to the Statement of Net Assets

June 30, 2003

Total governmental fund balances (page 17) \$ 10,008,641

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$25,815,798 and the accumulated depreciation is \$9,040,678. 16,775,120

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 340,756

The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. 66,373

Long-term liabilities, including bonds payable, accrued interest payable and compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds. (6,161,946)

Net assets of governmental activities (page 15) \$ 21,028,944

See notes to financial statements.

Muscatine County

Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds

Year ended June 30, 2003

	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 5,722,577	1,975,547	876,295	1,310,286
Interest and penalty on property tax	144,830	-	-	-
Intergovernmental	2,541,429	2,805,137	110,866	2,191,146
Licenses and permits	188	-	14,524	860
Charges for service	857,283	73,942	-	4,532
Use of money and property	358,514	58,892	-	170
Miscellaneous	85,020	17,496	-	20,438
Total revenues	<u>9,709,841</u>	<u>4,931,014</u>	<u>1,001,685</u>	<u>3,527,432</u>
Expenditures:				
Operating:				
Public safety and legal services	4,900,412	-	-	-
Physical health and social services	1,296,617	-	63,856	-
Mental health	-	4,263,211	-	-
County environment and education services	479,155	-	173,868	-
Roads and transportation	-	-	-	3,774,979
Governmental services to residents	606,298	-	3,016	-
Administrative services	1,898,196	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	104,215
Total expenditures	<u>9,180,678</u>	<u>4,263,211</u>	<u>240,740</u>	<u>3,879,194</u>
Excess (deficiency) of revenues over (under) expenditures	<u>529,163</u>	<u>667,803</u>	<u>760,945</u>	<u>(351,762)</u>
Other financing sources (uses):				
Sale of capital assets	2,845	-	-	627
Operating transfers in	-	-	-	800,000
Operating transfers out	(305,750)	-	(805,750)	-
Total other financing sources (uses)	<u>(302,905)</u>	<u>-</u>	<u>(805,750)</u>	<u>800,627</u>
Net change in fund balances	226,258	667,803	(44,805)	448,865
Fund balances beginning of year, as restated (note 15)	3,844,443	769,632	130,283	2,235,683
Increase (decrease) in reserve for:				
Inventories	-	-	-	23,169
Prepaid insurance	(17,054)	-	-	-
Prepaid expenditures	-	-	-	-
Fund balances end of year	<u>\$ 4,053,647</u>	<u>1,437,435</u>	<u>85,478</u>	<u>2,707,717</u>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor Special Revenue	Total
717,458	-	-	10,602,163
-	-	-	144,830
54,165	57,436	167,097	7,927,276
-	-	-	15,572
-	1,950	77,226	1,014,933
-	678	108,871	527,125
-	520	435,917	559,391
<u>771,623</u>	<u>60,584</u>	<u>789,111</u>	<u>20,791,290</u>
-	-	119,831	5,020,243
-	-	-	1,360,473
-	-	100,832	4,364,043
-	-	29,355	682,378
-	-	-	3,774,979
-	-	15,890	625,204
-	-	-	1,898,196
730,347	-	-	730,347
-	135,318	200,486	440,019
<u>730,347</u>	<u>135,318</u>	<u>466,394</u>	<u>18,895,882</u>
41,276	(74,734)	322,717	1,895,408
-	-	-	3,472
-	307,500	556,253	1,663,753
-	(552,253)	-	(1,663,753)
-	(244,753)	556,253	3,472
41,276	(319,487)	878,970	1,898,880
147,702	580,056	422,901	8,130,700
-	-	-	23,169
-	-	-	(17,054)
-	(27,054)	-	(27,054)
<u>188,978</u>	<u>233,515</u>	<u>1,301,871</u>	<u>10,008,641</u>

Muscatine County

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds to the Statement
of Activities

Year ended June 30, 2003

Net change in fund balances - Total governmental funds (page 21) \$ 1,898,880

Amounts reported for governmental activities in the statement of activities are different because:

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

Expenditures for capital assets	\$ 826,176	
Capital assets contributed by the Iowa Department of Transportation	782,749	
Depreciation expense	<u>(800,065)</u>	808,860

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. (1,857)

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

Property tax	(9,570)	
Other	<u>(106,003)</u>	(115,573)

Execution of a capital lease provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year debt repayments exceeded debt issuance as follows:

Loss on refunding of Veterans' Plaza Authority capital lease purchase agreement	(95,000)	
Principal payments	<u>455,416</u>	360,416

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	(72,555)	
Interest on long-term debt	<u>21,485</u>	(51,070)

Prepaid expenses and inventories in the governmental funds have been recorded as expenditures when paid. However, the Statement of Activities reports these items as expenditures in the period the corresponding net asset is exhausted. (20,940)

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. (101,322)

Change in net assets of governmental activities (page 15) \$ 2,777,394

See notes to financial statements.

Muscatine County
Statement of Net Assets
Proprietary Fund
June 30, 2003

	<u>Internal Service</u>
Assets	
Cash and cash equivalents	\$ 237,376
Accounts receivable	<u>348</u>
Total assets	237,724
Liabilities	
Accounts payable	<u>171,351</u>
Net Assets	
Unrestricted	<u><u>\$ 66,373</u></u>

See notes to financial statements.

Exhibit H

Muscatine County
Statement of Revenues, Expenses, and Changes
in Fund Net Assets

Proprietary Fund

Year ended June 30, 2003

		<u>Internal Service</u>
Operating revenues:		
Reimbursements from operating funds		\$ 1,001,085
Reimbursements from others		25,680
Miscellaneous		500
Total operating revenues		<u>1,027,265</u>
Operating expenses:		
Health claims and administrative services	\$ 1,097,438	
Loss contingencies and deductibles	33,238	
Miscellaneous	<u>1,050</u>	<u>1,131,726</u>
Operating loss		(104,461)
Nonoperating revenues:		
Interest on investments		<u>3,139</u>
Net loss		(101,322)
Net assets beginning of year		<u>167,695</u>
Net assets end of year		<u><u>\$ 66,373</u></u>

See notes to financial statements.

Muscatine County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2003

	Internal Service
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 1,000,738
Cash received from employees and others	26,180
Cash payments to suppliers for services	(1,134,650)
Net cash used for operating activities	(107,732)
Cash flows from investing activities:	
Interest on investments	3,632
Net decrease in cash and cash equivalents	(104,100)
Cash and cash equivalents beginning of year	341,476
Cash and cash equivalents end of year	\$ 237,376
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (104,461)
Adjustments to reconcile operating loss to net cash used for operating activities:	
(Increase) in accounts receivable	(347)
(Decrease) in accounts payable	(2,924)
Net cash used for operating activities	\$ (107,732)

See notes to financial statements

Muscatine County
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2003

Assets

Cash and pooled investments:	
County Treasurer	\$ 2,458,392
Other county officials	535,363
Receivables:	
Property tax:	
Delinquent	266,227
Succeeding year	33,546,000
Accounts	33,091
Drainage assessments:	
Delinquent	26,530
Succeeding year	595,494
Due from other governments	20,770
Total assets	<u>37,481,867</u>

Liabilities

Accounts payable	7,863
Salaries and benefits payable	171
Due to other governments	36,678,222
Trusts payable	739,839
Compensated absences	55,772
Total liabilities	<u>37,481,867</u>

Net assets \$ -

See notes to financial statements.

Muscatine County

Notes to Financial Statements

June 30, 2003

(1) Summary of Significant Accounting Policies

Muscatine 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, Muscatine 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. Muscatine County has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Muscatine County Assessor's Conference Board, Muscatine County Emergency Management Commission, Muscatine County Joint E911 Service Board and Muscatine County Empowerment 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 an Agency Fund of the County.

The County also participates in several jointly governed organizations established pursuant to Chapter 28E of the Code of Iowa: Veterans' Plaza Authority, Bi-State Regional Planning Commission, Muscatine County Solid Waste Management Agency, Great River Bend Area Agency on Aging, Muscatine Area Geographic Information Consortium and Job Training Partnership Act Quality Jobs Program.

B. Basis of Presentation

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

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

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

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

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

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

Fund Financial Statements – Separate financial statements are provided for governmental funds, 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.

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 receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

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

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

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

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

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

Additionally, the County reports the following 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.

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgements 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 expenditures are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 nonoperating 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.

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become 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, 2001 assessed property valuations; is for the tax accrual period July 1, 2002 through June 30, 2003 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2002.

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

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

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2003, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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 in the governmental fund financial statements are equally offset by a fund balance reserve which indicates that they are not available to liquidate current obligations.

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

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

Property and equipment of the County is depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful lives (In Years)</u>
Buildings	20 – 50
Building improvements	20 – 50
Infrastructure	10 – 65
Equipment	2 – 20
Vehicles	3 – 10

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

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

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

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2003. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

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

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

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2003, disbursements in a department exceeded the amount appropriated.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2003 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The County's investments are categorized to give an indication of the level of risk assumed by the County at year end. The County's investments are all Category 1, which means that the investments are insured or registered or the securities are held by the County or its agent in the County's name.

Investments are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

The County's investments at June 30, 2003 are as follows:

Type	Fair Value
U.S. government securities	<u>\$4,060,779</u>

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2003 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue: Mental Health	\$ 225
Special Revenue: Secondary Roads	General	<u>2,951</u>
Total		<u>\$ 3,176</u>

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

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2003 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: Secondary Roads	Special Revenue: Rural Services	\$ 800,000
Conservation Land Acquisition Trust	General	4,000
	Capital Projects	552,253
Capital Projects	General	301,750
	Special Revenue: Rural Services	<u>5,750</u>
Total		<u>\$ 1,663,753</u>

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

(5) Capital Assets

Capital assets activity for the year ended June 30, 2003 was as follows:

	Balance Beginning of Year (as restated, note 15)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,011,835	-	-	2,011,835
Construction in progress	-	86,207	-	86,207
Total capital assets not being depreciated	2,011,835	86,207	-	2,098,042
Capital assets being depreciated:				
Buildings	17,414,808	54,985	-	17,469,793
Machinery and equipment	4,719,929	643,241	(383,922)	4,979,248
Infrastructure, road network	-	763,308	-	763,308
Infrastructure, other	444,223	61,184	-	505,407
Total capital assets being depreciated	22,578,960	1,522,718	(383,922)	23,717,756
Less accumulated depreciation for:				
Buildings	5,787,608	287,097	-	6,074,705
Machinery and equipment	2,817,642	485,249	(382,065)	2,920,826
Infrastructure, road network	-	9,067	-	9,067
Infrastructure, other	17,428	18,652	-	36,080
Total accumulated depreciation	8,622,678	800,065	(382,065)	9,040,678
Total capital assets being depreciated, net	13,956,282	722,653	(1,857)	14,677,078
Governmental activities capital assets, net	\$ 15,968,117	808,860	(1,857)	16,775,120

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:	
Public safety and legal services	\$ 292,784
Physical health and social services	2,261
Mental health	27,443
County environment and education	17,034
Roads and transportation	390,239
Governmental services to residents	8,887
Administrative services	13,280
Nonprogram	48,137
Total depreciation expense - governmental activities	\$ 800,065

As permitted by U.S. generally accepted accounting principles, the County will add prior year road infrastructure during the next four years.

(6) Due to Other Governments

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

Fund	Description	Amount
General	Services	\$ 2,498
Special Revenue:		
Mental Health	Services	161,233
Secondary Roads	Services	11,113
		<u>172,346</u>
Total for governmental funds		<u>\$ 174,844</u>
Agency:		
County Assessor	Collections	\$ 903,532
Schools		18,481,417
Community Colleges		781,226
Corporations		11,617,972
Auto License and Use Tax		693,771
All other		4,200,304
Total for agency funds		<u>\$ 36,678,222</u>

(7) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2003 is as follows:

	Capital Lease Purchase Agreements	Compen-sated Absences	Total
Balance beginning of year, as restated (note 15)	\$ 5,634,565	790,002	6,424,567
Increases	95,000	537,619	632,619
Decreases	455,416	465,064	920,480
Balance end of year	<u>\$ 5,274,149</u>	<u>862,557</u>	<u>6,136,706</u>
Due within one year	<u>\$ 529,909</u>	<u>400,912</u>	<u>930,821</u>

(8) Capital Lease Purchase Agreement with Veterans' Plaza Authority

The County entered into a capital lease purchase agreement, dated December 1, 1991 with the Veterans' Plaza Authority (Authority), a jointly governed organization, for the purpose of leasing a new correctional facility to the County which the Authority agreed to construct. The lease payments correspond in timing and amount with the debt service obligations of the Authority for bonds the Authority issued to fund construction of the correctional facility. Muscatine County has an annual Debt Service Fund levy for which collections have been pledged to the Authority for the purpose of paying the Authority's bond and interest amounts due. The lease term continues until all bonds are retired or a purchase option is exercised by the County, which requires a payment from the County to the Authority sufficient to retire all remaining outstanding bonds and interest. At the end of the lease term, the Authority surrenders ownership rights in the property to Muscatine County. The County makes lease payments directly to the Authority's Trustee pursuant to an Indenture of Trust which the Authority established to retire bonds and interest.

In May 2003, the capital lease agreement was amended and changed the lease payments to correspond in timing and amount with the debt service obligations of the Authority for refunding bonds which were issued at that time. The refunding transaction resulted in a \$95,000 loss and \$95,000 in additional principal added to achieve an interest rate reduction from a range of 5.00% to 6.40% down to a range of 2.50% to 3.40% per annum. The schedule of the future minimum lease payments and the present value of net minimum lease payments under the agreement in effect at June 30, 2003 are included in note 9.

(9) Capital Lease Purchase Agreements

The County has entered into capital lease purchase agreements to lease a correctional facility and a vehicle for the Sheriff's Office. The following is a schedule of the future minimum lease payments, including interest ranging from 2.50% to 3.40% per annum for the correctional facility and 5.00% for the Sheriff's vehicle, and the present value of net minimum lease payments under the agreements in effect at June 30, 2003:

Year ending June 30,	Correctional Facility	Sheriff's Vehicle	Total
2004	\$ 676,443	6,005	682,448
2005	673,318	19,900	693,218
2006	674,943	-	674,943
2007	676,193	-	676,193
2008	672,068	-	672,068
2009	679,818	-	679,818
2010	671,818	-	671,818
2011	677,908	-	677,908
2012	677,270	-	677,270
Total minimum lease payments	6,079,779	25,905	6,105,684
Less amount representing interest	(829,779)	(1,755)	(831,534)
Present value of net minimum lease payments	\$ 5,250,000	24,150	5,274,150

Payments under capital lease purchase agreements for the year ended June 30, 2003 totaled \$737,102.

(10) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll, except for law enforcement employees, in which case the percentages are 5.37% and 8.05%, respectively. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2003, 2002, and 2001 were \$391,391, \$387,994, and \$456,956, respectively, equal to the required contributions for each year.

(11) Turkey Growers Community Development Block Grant Fund

During the year ended June 30, 2001, the County was awarded a grant totaling \$125,000 for economic development from the Iowa Department of Economic Development. The County subsequently loaned \$125,000 to Iowa Turkey Growers Cooperative. This interest free loan is to be amortized over a five year period with quarterly payments of \$7,813. The first payment was due January 1, 2001. A Turkey Growers Community Development Block Grant Fund has been established and a receivable has been recorded in a Special Revenue Fund with the revenues deferred. A liability has not been recorded for this loan since the County's only obligation is to credit the payments received from Iowa Turkey Growers Cooperative to the Turkey Growers Community Development Block Grant Fund. The County intends to use these funds to establish a revolving loan fund for a housing development program. Loan payments of \$31,250 were received by the County during the year ended June 30, 2003, and the outstanding balance of the loan at June 30, 2003 was \$15,625.

(12) E911 Loan

The Muscatine County Joint E911 Service Board entered into a line of credit with the West Liberty State Bank. The amount borrowed as of June 30, 2003 was \$100,000 with interest at 6% per annum, due August 1, 2005. The balance at June 30, 2003 was \$71,355.

(13) Risk Management

Muscatine County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 400 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

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

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any 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 contributions 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, 2003 were \$137,155.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks are also reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2003, no liability has been recorded in the County's financial statements. As of June 30, 2003, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

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

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation, boiler and machinery and employee blanket bond in the amount of \$5,000,000, \$11,000,000 and \$50,000 (\$250,000 for certain employees), respectively. 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.

(14) Employee Health Insurance Plan

The Health Insurance Trust Fund was established to account for the partial self funding of the County's health insurance benefit plan. The plan is funded by both employee and County contributions and is administered through a service agreement with Wellmark. The agreement is subject to automatic renewal provisions. The County assumes liability for claims up to the individual stop loss limitation of \$20,000. Claims in excess of coverage are insured through purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Health Insurance Trust Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Wellmark from the Health Insurance Trust Fund. The County records the plan assets and related liabilities of the Muscatine County Health Insurance Trust Fund as an Internal Service Fund. The County's contribution to the fund for the year ended June 30, 2003 was \$981,051.

Amounts payable from the Health Insurance Trust Fund at June 30, 2003 total \$171,351, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on actuarial estimates of the amounts necessary to pay prior-year and current-year claims and to establish a reserve for catastrophic losses. That reserve was \$25,241 at June 30, 2003 and is reported as a designation of the Health Insurance Trust Net Assets. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement No. 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. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid claims at July 1, 2002	\$ 174,274
Incurred claims (including claims incurred but not reported at June 30, 2003):	1,094,515
Payment on claims during the fiscal year	<u>(1,097,438)</u>
Unpaid claims at June 30, 2003	<u><u>\$ 171,351</u></u>

(15) Accounting Change

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2003. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statements Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences were implemented during the year ended June 30, 2003. The statements create new basic financial statements for reporting the County’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor special revenue funds are presented in total in one column.

The government-wide financial statements report the County’s governmental activities. Beginning net assets for governmental activities has been restated to include capital assets, the Internal Service Fund and the changes in assets and liabilities at July 1, 2002 resulting from the conversion to the accrual basis of accounting.

	<u>Total</u>
Net assets, June 30, 2002, as previously reported	\$ 8,019,867
GASB Interpretation 6 adjustments	110,833
Net assets, July 1, 2002, as restated for governmental funds	<u>8,130,700</u>
GASB 34 adjustments:	
Capital assets, net of accumulated depreciation of \$8,622,678	15,968,117
Internal Service Fund	167,695
Change in long-term liabilities	(6,471,292)
Change in deferral of long-term assets	456,330
Net assets, July 1, 2002, as restated	<u><u>\$ 18,251,550</u></u>

Required Supplementary Information

Muscatine County
 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, 2003

	Actual	Budgeted Original
Receipts:		
Property and other county tax	\$ 10,516,119	10,534,271
Interest and penalty on property tax	144,974	95,500
Intergovernmental	8,037,979	7,830,293
Licenses and permits	14,467	14,650
Charges for service	1,129,068	765,000
Use of money and property	595,463	320,900
Miscellaneous	522,808	56,600
Total receipts	<u>20,960,878</u>	<u>19,617,214</u>
Disbursements:		
Public safety and legal services	\$ 4,982,644	4,873,799
Physical health and social services	1,295,167	1,617,031
Mental health	4,318,067	4,864,806
County environment	681,478	696,014
Roads and transportation	3,852,386	3,855,000
Governmental services to residents	618,272	634,505
Administrative services	1,778,407	1,862,346
Non-program	-	50,000
Debt service	730,348	740,240
Capital projects	413,302	895,872
Total disbursements	<u>18,670,071</u>	<u>20,089,613</u>
Excess (deficiency) of receipts over (under) disbursements	2,290,807	(472,399)
Other financing sources, net	<u>6,097</u>	<u>14,000</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	2,296,904	(458,399)
Balance beginning of year	<u>7,512,018</u>	<u>5,223,000</u>
Balance end of year	<u>\$ 9,808,922</u>	<u>4,764,601</u>

See accompanying independent auditor's report.

Amounts Final	Final to Actual Variance
10,534,271	(18,152)
95,500	49,474
8,159,631	(121,652)
14,650	(183)
780,000	349,068
345,900	249,563
71,600	451,208
<u>20,001,552</u>	<u>959,326</u>
5,254,053	271,409
1,541,795	246,628
4,965,641	647,574
715,162	33,684
3,855,000	2,614
643,244	24,972
1,929,943	151,536
50,000	50,000
740,240	9,892
<u>1,225,979</u>	<u>812,677</u>
<u>20,921,057</u>	<u>2,250,986</u>
(919,505)	3,210,312
<u>14,000</u>	<u>(7,903)</u>
(905,505)	3,202,409
<u>7,461,236</u>	<u>50,782</u>
<u>6,555,731</u>	<u>3,253,191</u>

Muscatine County
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2003

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 20,960,878	(169,588)	20,791,290
Expenditures	18,670,071	225,811	18,895,882
Net	2,290,807	(395,399)	1,895,408
Other financing sources (uses)	6,097	(2,625)	3,472
Beginning fund balances	7,512,018	618,682	8,130,700
Increase (decrease) in reserve for:			
Inventories	-	23,169	23,169
Prepaid insurance	-	(17,054)	(17,054)
Prepaid expenditures	-	-	(27,054)
Ending fund balances	\$ 9,808,922	226,773	10,035,695

See accompanying independent auditor's report.

Muscatine County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2003

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

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administrative services, 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 at the fund or fund type level. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$831,444. 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, 2003, disbursements in a department exceeded the amount appropriated.

Muscatine County

Other Supplementary Information

Muscatine County
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2003

	County Recorder's Records Management	Resource Enhance- ment	Conservation Land Acquisition Trust	Jail Commissary
Assets				
Cash and pooled investments	\$ 42,024	57,733	1,044,810	45,625
Receivables:				
Accounts	-	-	1,241	2,148
Loan	-	-	-	-
Due from other governments	-	-	-	-
Total assets	\$ 42,024	57,733	1,046,051	47,773
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ 3,704	-	2,500	30,269
Salaries and benefits payable	-	-	3,535	-
Deferred revenue	-	-	-	-
Total liabilities	3,704	-	6,035	30,269
Fund equity:				
Unreserved fund balances	38,320	57,733	1,040,016	17,504
Total liabilities and fund equity	\$ 42,024	57,733	1,046,051	47,773

See accompanying independent auditor's report.

County Sheriff's Canine	County Sheriff's Forfeiture	Community Policing	Emergency Medical Services Training	Turkey Growers Community Development Block Grant	Montpelier Community Development Block Grant	Total
370	20,961	1,318	10,278	109,375	-	1,332,494
-	-	-	-	-	-	3,389
-	-	-	-	15,625	-	15,625
-	1,345	-	4,651	-	23,102	29,098
370	22,306	1,318	14,929	125,000	23,102	1,380,606
-	-	-	-	-	23,102	59,575
-	-	-	-	-	-	3,535
-	-	-	-	15,625	-	15,625
-	-	-	-	15,625	23,102	78,735
370	22,306	1,318	14,929	109,375	-	1,301,871
370	22,306	1,318	14,929	125,000	23,102	1,380,606

Muscatine County
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2003

	County Recorder's Records Management	Resource Enhance- ment	Conservation Land Acquisition Trust	Jail Commissary	County Sheriff's Canine
Revenues:					
Intergovernmental	\$ -	345	-	-	-
Charges for service	12,477	-	64,749	-	-
Use of money and property	545	804	12,062	95,812	-
Miscellaneous	-	-	375,481	-	-
Total revenues	<u>13,022</u>	<u>1,149</u>	<u>452,292</u>	<u>95,812</u>	<u>-</u>
Expenditures:					
Operating:					
Public safety and legal services	-	-	-	96,585	72
Mental health	-	-	-	-	-
County environment and education services	-	-	29,355	-	-
Governmental services to residents	15,890	-	-	-	-
Capital projects	-	-	47,702	-	-
Total expenditures	<u>15,890</u>	<u>-</u>	<u>77,057</u>	<u>96,585</u>	<u>72</u>
Excess (deficiency) of revenues over (under) expenditures	(2,868)	1,149	375,235	(773)	(72)
Other financing sources:					
Operating transfers in	-	-	556,253	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(2,868)	1,149	931,488	(773)	(72)
Fund balances beginning of year	<u>41,188</u>	<u>56,584</u>	<u>108,528</u>	<u>18,277</u>	<u>442</u>
Fund balances end of year	<u>\$ 38,320</u>	<u>57,733</u>	<u>1,040,016</u>	<u>17,504</u>	<u>370</u>

See accompanying independent auditor's report.

County Sheriff's Forfeiture	Community Policing	Emergency Medical Services Training	Turkey Growers Community Development Block Grant	Montpelier Community Development Block Grant	Millett Trust	Total
-	174	17,001	-	149,577	-	167,097
-	-	-	-	-	-	77,226
-	-	-	-	-	(352)	108,871
28,293	168	725	31,250	-	-	435,917
28,293	342	17,726	31,250	149,577	(352)	789,111
17,345	321	5,508	-	-	-	119,831
-	-	-	-	-	100,832	100,832
-	-	-	-	-	-	29,355
-	-	-	-	-	-	15,890
-	-	-	-	152,784	-	200,486
17,345	321	5,508	-	152,784	100,832	466,394
10,948	21	12,218	31,250	(3,207)	(101,184)	322,717
-	-	-	-	-	-	556,253
10,948	21	12,218	31,250	(3,207)	(101,184)	878,970
11,358	1,297	2,711	78,125	3,207	101,184	422,901
22,306	1,318	14,929	109,375	-	-	1,301,871

Schedule 3

Muscatine County
Combining Statement of Net Assets
Internal Service Funds
June 30, 2003

	Health Insurance Trust	County Insurance Trust	Total
Assets			
Cash and pooled investments	\$ 196,244	41,132	237,376
Accounts receivable	348	-	348
Total assets	196,592	41,132	237,724
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	171,351	-	171,351
Net Assets			
Unrestricted	\$ 25,241	41,132	66,373

See accompanying independent auditor's report.

Muscatine County
Combining Statement of Revenues, Expenses,
and Changes in Fund Net Assets

Internal Service Funds

Year Ended June 30, 2003

	Health Insurance Trust	County Insurance Trust	Total
Operating revenues:			
Reimbursements from operating funds	\$ 981,051	20,034	1,001,085
Reimbursements from others	-	25,680	25,680
Miscellaneous	-	500	500
Total operating revenues	<u>981,051</u>	<u>46,214</u>	<u>1,027,265</u>
Operating expenses:			
Health claims and administrative services	1,097,438	-	1,097,438
Loss contingencies and deductibles	-	33,238	33,238
Miscellaneous	1,050	-	1,050
Total operating expenses	<u>1,098,488</u>	<u>33,238</u>	<u>1,131,726</u>
Operating income (loss)	(117,437)	12,976	(104,461)
Nonoperating revenues:			
Interest on investments	3,139	-	3,139
Change in net assets	(114,298)	12,976	(101,322)
Net assets beginning of the year	<u>139,539</u>	<u>28,156</u>	<u>167,695</u>
Net assets end of year	<u>\$ 25,241</u>	<u>41,132</u>	<u>66,373</u>

See accompanying independent auditor's report.

Schedule 5

Muscatine County
Combining Statement of Cash Flows
Internal Service Funds
Year Ended June 30, 2003

	Health Insurance Trust	County Insurance Trust	Total
Cash flows from operating activities:			
Cash received from operating funds	\$ 980,704	20,034	1,000,738
Cash received from others	-	26,180	26,180
Cash paid to suppliers for services	(1,101,412)	(33,238)	(1,134,650)
Net cash provided by (used for) operating activities	(120,708)	12,976	(107,732)
Cash flows from investing activities:			
Interest on investments	3,632	-	3,632
Net increase (decrease) in cash and cash equivalents	(117,076)	12,976	(104,100)
Cash and cash equivalents beginning of year	313,320	28,156	341,476
Cash and cash equivalents end of year	\$ 196,244	41,132	237,376
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ (117,437)	12,976	(104,461)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
(Increase) in accounts receivable	(347)	-	(347)
(Decrease) in accounts payable	(2,924)	-	(2,924)
Net cash provided by (used for) operating activities	\$ (120,708)	12,976	(107,732)

See accompanying independent auditor's report.

Muscatine County

Muscatine County

Combining Schedule of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2003

	County Offices			Agricultural Extension Education
	County Conservator	County Recorder	County Sheriff	
Assets				
Cash and pooled investments:				
County Treasurer	\$ -	-	-	2,006
Other county officials	421,148	49,319	64,896	-
Receivables:				
Property tax:				
Delinquent	-	-	-	1,823
Succeeding year	-	-	-	168,000
Accounts	-	2,207	-	-
Drainage assessments:				
Delinquent	-	-	-	-
Subsequent years	-	-	-	-
Due from other governments	-	-	-	-
Total assets	\$ 421,148	51,526	64,896	171,829
Liabilities				
Accounts payable	\$ -	-	-	-
Salaries and benefits payable	-	-	-	-
Due to other governments	-	51,526	139	171,829
Trusts payable	421,148	-	64,757	-
Compensated absences	-	-	-	-
Total liabilities	\$ 421,148	51,526	64,896	171,829

County Assessor	Schools	Community Colleges	Corporations	Townships	City Special Assessments
598,721	217,730	9,549	114,658	3,880	2,820
-	-	-	-	-	-
5,056	193,687	8,677	51,314	5,093	-
346,000	18,070,000	763,000	11,452,000	271,000	-
91	-	-	-	-	-
-	-	-	-	-	26,232
-	-	-	-	-	443,171
-	-	-	-	-	-
949,868	18,481,417	781,226	11,617,972	279,973	472,223
855	-	-	-	-	-
-	-	-	-	-	-
903,532	18,481,417	781,226	11,617,972	279,973	472,223
-	-	-	-	-	-
45,481	-	-	-	-	-
949,868	18,481,417	781,226	11,617,972	279,973	472,223

Muscatine County
Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2003

	Auto License and Use Tax	Drainage Districts	E911	Emergency Management Services
Assets				
Cash and pooled investments:				
County Treasurer	693,771	550,791	8,512	293
Other county officials	-	-	-	-
Receivables:				
Property tax:				
Delinquent	-	-	-	-
Succeeding year	-	-	-	-
Accounts	-	-	30,793	-
Drainage assessments:				
Delinquent	-	298	-	-
Subsequent years	-	152,323	-	-
Due from other governments	-	-	-	10,333
Total assets	693,771	703,412	39,305	10,626
Liabilities				
Accounts payable	-	-	6,844	164
Salaries and benefits payable	-	-	-	171
Due to other governments	693,771	703,412	32,461	-
Trusts payable	-	-	-	-
Compensated absences	-	-	-	10,291
Total liabilities	693,771	703,412	39,305	10,626

See accompanying independent auditor's report.

Fire Districts	Tuberculosis and Brucellosis Eradication	Advanced Taxes	Drug Task Force	IPSCO TIF	Total
283	1,444	253,934	-	-	2,458,392
-	-	-	-	-	535,363
522	55	-	-	-	266,227
15,000	5,000	-	-	2,456,000	33,546,000
-	-	-	-	-	33,091
-	-	-	-	-	26,530
-	-	-	-	-	595,494
-	-	-	10,437	-	20,770
15,805	6,499	253,934	10,437	2,456,000	37,481,867
-	-	-	-	-	7,863
-	-	-	-	-	171
15,805	6,499	-	10,437	2,456,000	36,678,222
-	-	253,934	-	-	739,839
-	-	-	-	-	55,772
15,805	6,499	253,934	10,437	2,456,000	37,481,867

Muscatine County

Combining Schedule of Changes in Fiduciary Assets and Liabilities

Agency Funds

Year ended June 30, 2003

	County Offices				
	County Conservator	County Attorney	Community Services	County Auditor	County Recorder
Assets and Liabilities					
Balances beginning of year	\$ 459,009	469,428	661	50	95,318
Additions:					
Property and other County tax	-	-	-	-	-
E911 surcharge	-	-	-	-	-
State tax credits	-	-	-	-	-
Office fees and collections	-	-	-	2,736	649,632
Auto licenses, use tax and postage	-	-	-	-	-
Assessments	-	-	-	-	-
Trusts	1,528,100	129,325	-	-	-
Miscellaneous	-	-	22,578	-	-
Total additions	1,528,100	129,325	22,578	2,736	649,632
Deductions:					
Agency Remittances:					
To other funds	-	55,411	663	2,786	436,925
To other governments	-	-	22,576	-	256,499
Trusts paid out	1,565,961	543,342	-	-	-
Total deductions	1,565,961	598,753	23,239	2,786	693,424
Balances end of year	\$ 421,148	-	-	-	51,526

County Sheriff	Agricultural Extension Education	County Assessor	Schools	Community Colleges	Corporations	Townships	City Special Assessments
58,767	162,524	977,114	17,749,180	789,687	11,277,466	259,725	492,694
-	175,818	371,171	19,147,666	797,453	11,715,039	295,687	-
-	-	-	-	-	-	-	-
-	12,459	34,562	1,412,270	59,310	946,201	32,275	-
113,003	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	71,586
1,202,505	-	-	-	-	-	-	-
-	80	19,731	44,299	383	9,560	274	-
1,315,508	188,357	425,464	20,604,235	857,146	12,670,800	328,236	71,586
129,152	-	-	-	-	-	-	-
1,153	179,052	452,710	19,871,998	865,607	12,330,294	307,988	92,057
1,179,074	-	-	-	-	-	-	-
1,309,379	179,052	452,710	19,871,998	865,607	12,330,294	307,988	92,057
64,896	171,829	949,868	18,481,417	781,226	11,617,972	279,973	472,223

Muscatine County

Combining Schedule of Changes in Fiduciary Assets and Liabilities

Agency Funds

Year ended June 30, 2003

	Auto License and Use Tax	Drainage Districts	E911	Emergency Management Services	Fire Districts
Assets and Liabilities					
Balances beginning of year	645,382	722,735	99,317	18,758	14,670
Additions:					
Property and other County tax	-	-	-	-	15,495
E911 surcharge	-	-	204,261	-	-
State tax credits	-	-	-	-	854
Office fees and collections	-	-	-	-	-
Auto licenses, use tax and postage	8,349,402	-	-	-	-
Assessments	-	88,973	-	-	-
Trusts	-	-	-	-	-
Miscellaneous	-	63,967	-	43,816	-
Total additions	8,349,402	152,940	204,261	43,816	16,349
Deductions:					
Agency Remittances:					
To other funds	284,026	-	-	-	-
To other governments	8,016,987	172,263	264,273	51,948	15,214
Trusts paid out	-	-	-	-	-
Total deductions	8,301,013	172,263	264,273	51,948	15,214
Balances end of year	693,771	703,412	39,305	10,626	15,805

See accompanying independent auditor's report.

Tuberculosis and Brucellosis Eradication	Advanced Taxes	Drug Task Force	IPSCO TIF	Tax Sale Redemption	Annuity Payout	Credit Union Monies & Credits	Total
6,178	238,012	23,091	2,906,000	-	6,524	-	37,472,290
5,057	-	-	2,457,785	-	-	-	34,981,171
-	-	-	-	-	-	-	204,261
379	-	-	114	-	-	-	2,498,424
-	-	-	-	-	-	-	765,371
-	-	-	-	-	-	-	8,349,402
-	-	-	-	-	-	-	160,559
-	-	-	-	541,476	-	-	3,401,406
2	890,745	107,045	-	-	12,349	2,898	1,217,727
5,438	890,745	107,045	2,457,899	541,476	12,349	2,898	51,578,321
-	-	25,052	-	-	-	-	934,015
5,117	874,823	94,647	2,907,899	541,476	18,873	2,898	47,346,352
-	-	-	-	-	-	-	3,288,377
5,117	874,823	119,699	2,907,899	541,476	18,873	2,898	51,568,744
6,499	253,934	10,437	2,456,000	-	-	-	37,481,867

Muscatine County

Muscatine County
 Schedule of Revenues by Source and Expenditures by Function-
 All Governmental Fund Types
 For the Last Four Years

	Modified Accrual Basis			
	2003	2002	2001	2000
Revenues:				
Property and other County tax	\$ 10,602,163	10,314,082	10,145,051	9,552,283
Interest and penalty on property tax	144,830	212,979	104,846	99,212
Intergovernmental	7,927,276	8,021,297	8,353,920	8,114,059
Licenses and permits	15,572	13,029	14,213	14,806
Charges for service	1,014,933	949,760	1,483,781	1,814,754
Use of money and property	527,125	993,777	677,912	606,122
Miscellaneous	559,391	435,417	171,515	168,653
Total	\$ 20,791,290	20,940,341	20,951,238	20,369,889
Expenditures:				
Operating:				
Public safety and legal services	\$ 5,020,243	4,813,687	4,694,131	4,162,511
Physical health and social services	1,360,473	1,465,092	1,500,002	1,486,294
Mental health	4,364,043	4,251,095	6,718,152	6,329,168
County environment and education services	682,378	648,066	667,141	656,566
Roads and transportation	3,774,979	3,485,159	3,054,161	3,136,423
Governmental services to residents	625,204	584,730	597,979	626,249
Administrative services	1,898,196	1,968,484	1,883,392	1,618,822
Non-program	-	55,881	43,410	11,484
Debt service	730,347	730,128	728,578	754,810
Capital projects	440,019	824,947	2,730,522	995,811
Total	\$ 18,895,882	18,827,269	22,617,468	19,778,138

Schedule 9

Muscatine County

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
Office of National Drug Control Policy:			
High Intensity Drug Trafficking Area	07.XXX	I2PMWP563	\$ 31,121
High Intensity Drug Trafficking Area	07.XXX	I3PMWP563	29,525
			<u>60,646</u>
Federal Emergency Management Agency:			
Emergency Food and Shelter National Board Program	83.523	21-2992-00	<u>2,399</u>
Total direct			<u>63,045</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Human Services:			
State Administrative Matching Grants for Food Stamp Program	10.561		<u>18,661</u>
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	01-WS-012	<u>147,152</u>
U.S. Department of Justice:			
Iowa Department of Human Rights:			
Juvenile Accountability Incentive Block Grants	16.523	JJYD-S02-33	<u>9,738</u>
Governor's Alliance on Substance Abuse:			
Byrne Formula Grant Program	16.579	01LE-0130	<u>1,513</u>
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	02A-0217	<u>132,098</u>
City of Muscatine:			
Violence Against Women Formula Grants	16.588	VW-02-0220	<u>1,541</u>
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	BROS C070(23)-5F-70	<u>34,996</u>
Iowa Department of Public Safety:			
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	02-164 Task 49	10,128
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	03-410 Task 29	14,971
			<u>25,099</u>
Iowa Association of Chiefs of Police and Peace Officers:			
Occupant Protection	20.602	DTMH22-00-H-15163	<u>242</u>

Muscatine County
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2003

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect (continued):			
Federal Emergency Management Agency:			
Iowa Department of Public Defense:			
Emergency Management Performance Grants	83.552		18,735
U.S. Department of Education:			
Iowa Department of Education:			
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	02-CSPE-01	11,634
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	03-CSPE-01	9,239
			20,873
U.S. Department of Health and Human Services:			
Iowa Department of Human Services:			
Block Grants for Community Mental Health Services	93.958		33,286
Human Services Administrative Reimbursements:			
Temporary Assistance for Needy Families Refugee and Entrant Assistance - State Administered Programs	93.558		27,621
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.566		80
Foster Care - Title IV-E	93.596		5,318
Adoption Assistance	93.658		9,423
Medical Assistance Program	93.659		3,107
Social Services Block Grant	93.778		26,884
Social Services Block Grant	93.667		18,133
Social Services Block Grant	93.667		189,641
			207,774
Total indirect			724,141
Total			\$ 787,186

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Muscatine County and is presented on the modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Muscatine County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Officials of Muscatine County:

We have audited the financial statements of Muscatine County, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated September 24, 2003. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2003 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items IV-B-03 and IV-K-03.

Internal Control Over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses. Prior year reportable conditions have been resolved except for items II-A-03, II-B-03, II-C-03 and II-D-03.

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

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

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 24, 2003

**Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance**

Muscatine County



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance

To the Officials of Muscatine County:

Compliance

We have audited the compliance of Muscatine County, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Muscatine County's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Muscatine County's management. Our responsibility is to express an opinion on Muscatine County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Muscatine County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Muscatine County's compliance with those requirements.

In our opinion, Muscatine County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Muscatine County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Muscatine County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Muscatine County and other parties to whom Muscatine County may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 24, 2003

Muscatine County
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, none of which were considered to be material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 14.228 – Community Development Block Grants/State's Program
 - CFDA Number 93.667 – Social Services Block Grant
 - CFDA Number 93.958 – Block Grants for Community Mental Health Services
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Muscatine County did qualify as a low-risk auditee.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-03 Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County's financial statements. Generally one or two individuals in the County Recorder's Office may have control over the following area for which no compensating controls exist:

- Checks are not signed by an individual who does not otherwise participate in preparing checks, approving disbursements or recording disbursements. After signing, the checks are not mailed without allowing them to return to individuals who prepare the checks or approve payment.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the County Recorder should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances. The official should utilize current personnel to provide additional control through review of financial transactions, reconciliations and reports.

Response and Corrective Action Planned –

County Recorder – I will review the segregation of duties and operating procedures to try to reach a solution to the preparing and signing of checks.

Conclusion – Response accepted.

II-B-03 County Attorney – Forfeiture and Confiscated Property Collections – The County Attorney received forfeited and confiscated property collections. These collections were not reflected in the County's accounting system and have not been included in the County's annual budget or monthly financial reports.

Recommendation – This activity should be included in the County's annual budget and financial statements in a separate Special Revenue Fund. Proceeds are accepted by the County with the understanding they are for additional law enforcement efforts. This means monies so designated are not to replace those already budgeted. All proceeds disbursed should be charged to the appropriate expenditure account in accordance with the Uniform Chart of Accounts for County Governments in Iowa.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Response – The County Attorney maintains a separate account for forfeiture proceeds because it is required by Iowa statutory and administrative law, ethical guidelines for prosecutors and federal grant requirements. A separate account is also necessary to facilitate undercover law enforcement operations.

When a forfeiture action results in a court order of forfeiture, by law the property, including cash, is titled to the State of Iowa. Pursuant to statute and by administrative rule, the State's property is then allocated to law enforcement agencies (including the County Attorney) based on revenue sharing agreements. This property does not go to the County, it goes to the agency.

Current regulations provide that in most cases the Department of Justice will retain 10 percent of cash forfeitures and will allow law enforcement agencies to retain other property such as vehicles for law enforcement uses. Iowa Administrative Code 61-33.5(2) states "The department will retain 10 percent (10%) of forfeited cash. The balance of forfeited cash, ninety percent (90%), will be given to the *seizing agency* for its use or for division among law enforcement agencies and prosecutors pursuant to agreement." (emphasis added)

Iowa Code § 809A.17(3) also provides, "(f)orfeited property may be used by the department of justice in the enforcement of the criminal law. The department may give, sell, or trade property to any other state agency or to any other law enforcement in the state, if, in the opinion of the attorney general, it will enhance law enforcement in the state." In short, this property does not belong to the County, it belongs to the respective law enforcement agencies.

The recommendation also states that expenditures of forfeiture funds from the budget will require amendment to the budget. Presumably this will be under the direction of the board of supervisors. The recommendation fails to explain how the forfeiture funds will be given to the law enforcement agency, but that agency will have no control over the funds, that control being given to the County.

The audit recommendation is also fundamentally inconsistent with Federal guidelines which must be obeyed as a condition for receiving funds under the Governor's Office of Drug Control Policy guidelines. We are required under these guidelines to maintain forfeiture funds in separate fund or account. ODCP guidelines also place the supervision and control responsibilities on the law enforcement agency, not the County. We cannot simultaneously certify our compliance with ODCP procedure and place the forfeiture funds in account which we do not supervise and control.

The audit recommendation includes the comment that the forfeiture funds should be included in the annual budget and financial statements of the county. However, a comment to one of the ODCP forfeiture guidelines provides, "Forfeited property retained for law enforcement use should increase rather than supplant the resources of the agency. Adding resources to law

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

enforcement benefits the public. Budgeting decisions based on anticipated forfeiture revenues expose the budgetary process to unhealthy pressure and unpredictability.” Although the recommendation states that forfeiture moneys should not supplant already budgeted funds there is no explanation as to how this will be accomplished.

Placing money in the County’s general budget means it is inevitably part of the whole budget decision. The current arrangement protects against the forbidden supplantation of regular expenditures with forfeiture money. The proposed system will be an open invitation for a violation of the terms of our ODCP grant (a grant program under which the county receives approximately \$90,000 this year). We must be particularly careful not to violate Point II of the ODCP guidelines, “No sworn law enforcement officer’s employment or salary shall be made to depend upon the level of seizures or forfeitures he/she achieves.” WE cannot place forfeiture funds in the County’ s budget without running a real risk of violating this provision.

Our continued compliance with ODCP regulations concerning the control and use of forfeiture funds is necessary to legitimately receive grant reimbursement and to make future applications for renewal of the grant. The audit recommendations offers no reason why that ability should be jeopardized.

The operations benefit of the current procedure is that it allows undercover law enforcement activities to be funded without risk of compromising a pending investigation. If such expenditures had to go through the normal budget process, many investigations simply could not occur. In our efforts to combat drugs and drug trafficking, we cannot afford to diminish the tools at our disposal.

For the forgoing reasons, I must decline to follow the auditor’s recommendation.

Conclusion – Response acknowledged. However, the forfeiture and confiscated property collections should be properly accounted for in the County’s records. This accountability will not reduce the law enforcement agency’s ability to control these funds. Since these funds would be budgeted in a separate Special Revenue Fund not associated with the operating expenditures of the County’s law enforcement agencies, the funds would continue to be used for expenditures over and above the County’s budget for such activities.

II-C-03 Information System – The following weaknesses in the County’s computer based systems were noted:

The County does not have written policies for:

- Procedures to trace and correct input errors, including procedures for correction identification and recording in such a manner that duplicate correction will not occur.
- A written disaster recovery plan.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Recommendation – The County should review its control activities and policies in its information system to determine that appropriate controls or policies are implemented for each item presented above.

Response – The budget coordinator has drafted procedures to trace and correct input errors that are currently being reviewed by the County Auditor. We will work with the Disaster Services Director to develop a written disaster recovery plan.

Conclusion – Response accepted.

II-D-03 County Sheriff's Office –

Inmate Trust/Commissary Account – The book balance was not reconciled to the bank balance in fiscal year 2003. The actual book balance is not maintained and the list of outstanding checks is not accurate.

Sheriff's Trust Account – The cash book balance was not correctly reconciled to the bank balance. There was a variance in every month in fiscal year 2003.

Recommendation –

Inmate Trust/Commissary Account – The book balance should be reconciled to the bank balance at the end of each month. The actual book balance should be maintained and the list of outstanding checks should be accurate.

Sheriff's Trust Account – The cash book balance should be correctly reconciled to bank balance at the end of each month.

Response – The Inmate Trust/Commissary Account problems were due to software problems. New software has since been installed and we are now able to reconcile with the bank statements. Our list of outstanding checks will be now accurate. We will make every effort to correctly reconcile the Sheriff's Trust Account cash book to the bank valance every month. The cash book was taken to a zero balance at the end of October 2003 to accomplish this.

Conclusion – Response accepted.

Muscatine County
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Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over major programs were noted.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-03 Official Depositories – A resolution naming official depositories has been adopted by the Board of Supervisors. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2003.

IV-B-03 Certified Budget – Disbursements during the year ended June 30, 2003 did not exceed the amounts budgeted. Disbursements in a department exceeded the amount appropriated.

Recommendation – Chapter 331.434(6) of the Code of Iowa authorizes the Board of Supervisors, by resolution, to increase or decrease appropriations of one office or department by increasing or decreasing the appropriation of another office or department as long as the functional area budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation.

Response – We will make every effort to monitor expenditures so no departmental appropriations are exceeded before a budget amendment.

Conclusion – Response accepted.

IV-C-03 Questionable Expenditures – No expenditures that we believe may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979 were noted.

IV-D-03 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

IV-E-03 Business Transactions – No business transactions between the County and County officials or employees were noted.

IV-F-03 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of surety bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-03 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-H-03 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.

IV-I-03 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).

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

IV-J-03 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, 2003 for the County Extension Office did not exceed the amount budgeted.

IV-K-03 County Ordinances – The County Board of Supervisors has not completed a compilation of County ordinances.

Recommendation – A compilation of County ordinances should be prepared and published at least once every five years as required by Chapter 331.302(9) of the Code of Iowa.

Response – All County ordinances will be compiled in accordance with the Code of Iowa.

Conclusion – Response accepted.

Muscatine County

Staff

This audit was performed by:

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