



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

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NEWS RELEASE

FOR RELEASE

January 31, 2013

Contact: Andy Nielsen  
515/281-5834

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

The County had local tax revenue of \$62,070,866 for the year ended June 30, 2012, which included \$1,461,632 in tax credits from the state. The County forwarded \$47,188,943 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$14,881,923 of the local tax revenue to finance County operations, a 2.7% increase over the prior year. Other revenues included charges for service of \$2,956,972, operating grants, contributions and restricted interest of \$10,109,782, capital grants, contributions and restricted interest of \$2,978,303, tax increment financing of \$2,646,694, local option sales tax of \$1,660,363, unrestricted investment earnings of \$53,133 and other general revenues of \$667,979.

Expenses for County operations totaled \$29,110,080, a 13.4% increase over the prior year. Expenses included \$9,457,782 for public safety and legal services, \$6,200,196 for mental health and \$6,146,482 for roads and transportation.

The increase in expenses is due primarily to increased costs associated with jail operations, mental health services and repair and maintenance of County roads.

A copy of the audit report is available for review in the County Auditor's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1210-0070-B00F.pdf>.

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**MUSCATINE COUNTY**

**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2012**

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**Muscatine County**

**Officials**

| <u>Name</u>    | <u>Title</u>         | <u>Term Expires</u> |
|----------------|----------------------|---------------------|
| Kas Kelly      | Board of Supervisors | Jan 2013            |
| David Watkins  | Board of Supervisors | Jan 2013            |
| Tom Furlong    | Board of Supervisors | Jan 2015            |
| Robert Howard  | Board of Supervisors | Jan 2015            |
| Jeff Sorensen  | Board of Supervisors | Jan 2015            |
| Leslie Soule   | County Auditor       | Jan 2013            |
| Jerry Coffman  | County Treasurer     | Jan 2015            |
| Cindy Gray     | County Recorder      | Jan 2015            |
| David White    | County Sheriff       | Jan 2013            |
| Alan Ostergren | County Attorney      | Jan 2015            |
| Dale McCrea    | County Assessor      | Jan 2016            |

**Muscatine County**



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Auditor of State

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Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

## 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, 2012, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Muscatine County's management. Our responsibility is to express opinions on these financial statements based on our audit.

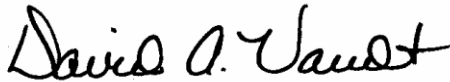
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Muscatine County at June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

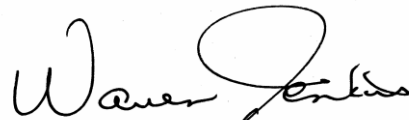
In accordance with Government Auditing Standards, we have also issued our report dated January 7, 2013 on our consideration of Muscatine County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 13 and 48 through 51 are not required parts of the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted 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 nine years ended June 30, 2011 (which are not 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, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information 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

January 7, 2013



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

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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, 2012. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

### **2012 FINANCIAL HIGHLIGHTS**

- Revenues of the County's governmental activities increased 14.5%, or approximately \$4.5 million, from fiscal year 2011 to fiscal year 2012. Property tax increased approximately \$407,000 and operating and capital grants, contributions and restricted interest increased approximately \$3,132,000.
- Expenses of the County's governmental activities decreased 13.4%, or approximately \$3.4 million, from fiscal year 2011 to fiscal year 2012.
- Muscatine County's net assets increased approximately \$6.8 million from June 30, 2011 to June 30, 2012.

### **USING THIS ANNUAL REPORT**

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Muscatine County's operations in more detail than the government-wide financial statements by providing information about the 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 County government (Agency Funds).

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

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

Supplementary Information provides detailed information about the nonmajor governmental 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'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statements*

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

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

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

The County's governmental activities are 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, county environment and education, roads and transportation, governmental services to residents, administration, interest on long-term debt and non-program activities. Property tax and state and federal grants finance most of these activities.

### *Fund Financial Statements*

The County has three kinds of funds:

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

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

2) Proprietary funds account for the County's Internal Service 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 required financial statements for proprietary funds include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets and a Statement of Cash Flows.

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

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

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

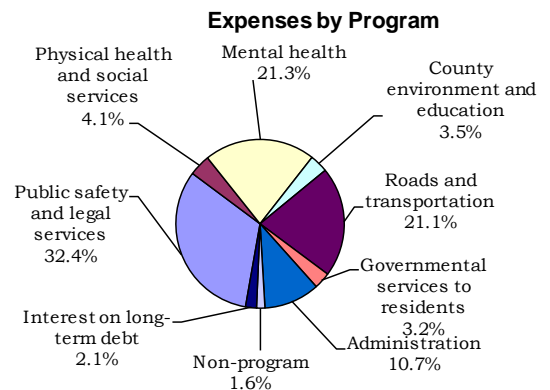
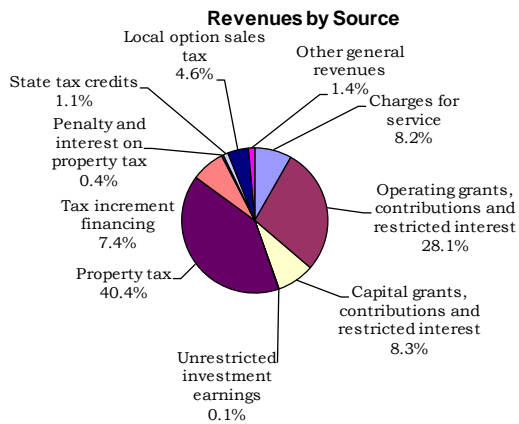
As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets of governmental activities.

| Net Assets of Governmental Activities<br>(Expressed in Thousands) |                  |               |
|---|------------------|---------------|
|   | June 30,         |               |
|   | 2012             | 2011          |
| Current and other assets  | \$ 26,148        | 25,916        |
| Capital assets  | 49,494           | 47,508        |
| Total assets  | <u>75,642</u>    | <u>73,424</u> |
| Long-term liabilities   | 11,538           | 14,762        |
| Other liabilities   | 17,661           | 19,064        |
| Total liabilities   | <u>29,199</u>    | <u>33,826</u> |
| Net assets:   |                  |               |
| Invested in capital assets, net of related debt                   | 39,789           | 37,263        |
| Restricted  | 4,403            | 3,415         |
| Unrestricted  | 2,251            | (1,080)       |
| Total net assets  | <u>\$ 46,443</u> | <u>39,598</u> |

Muscatine County's total net assets increased approximately \$6.8 million from fiscal year 2011 to fiscal year 2012. The largest portion of the County's net assets is 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 resources other than capital assets. Restricted net assets represent resources 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—increased approximately \$3,331,000 over the prior year. The increase is due primarily to the retirement of tax increment urban renewal revenue bonds during the year.

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

|   | Year ended June 30, |               |
|---|---------------------|---------------|
|   | 2012                | 2011          |
| <b>Revenues:</b>  |                     |               |
| <b>Program revenues:</b>                                |                     |               |
| Charges for service                                     | \$ 2,957            | 2,497         |
| Operating grants, contributions and restricted interest | 10,110              | 7,843         |
| Capital grants, contributions and restricted interest   | 2,978               | 2,113         |
| <b>General revenues:</b>                                |                     |               |
| Property tax  | 14,495              | 14,088        |
| Tax increment financing                                 | 2,647               | 2,525         |
| Penalty and interest on property tax                    | 160                 | 181           |
| State tax credits                                       | 387                 | 406           |
| Local option sales tax                                  | 1,660               | 1,516         |
| Unrestricted investment earnings                        | 53                  | 79            |
| Other general revenues                                  | 508                 | 163           |
| <b>Total revenues</b>                                   | <b>35,955</b>       | <b>31,411</b> |
| <b>Program expenses:</b>                                |                     |               |
| Public safety and legal services                        | 9,458               | 8,237         |
| Physical health and social services                     | 1,184               | 1,196         |
| Mental health   | 6,200               | 5,130         |
| County environment and education                        | 1,009               | 1,570         |
| Roads and transportation                                | 6,146               | 4,970         |
| Governmental services to residents                      | 917                 | 823           |
| Administration  | 3,114               | 2,665         |
| Non-program   | 479                 | 385           |
| Interest on long-term debt                              | 603                 | 685           |
| <b>Total expenses</b>                                   | <b>29,110</b>       | <b>25,661</b> |
| <b>Increase in net assets</b>                           | <b>6,845</b>        | <b>5,750</b>  |
| <b>Net assets beginning of year</b>                     | <b>39,598</b>       | <b>33,848</b> |
| <b>Net assets end of year</b>                           | <b>\$ 46,443</b>    | <b>39,598</b> |



Revenues for governmental activities increased approximately \$4,544,000 over the prior year, with operating and capital grants, contributions and restricted interest increasing approximately \$3,132,000. The increase was a result of increases in reimbursements for federal prisoners, mental health allowable growth and contributions for farm to market road projects from the Iowa Department of Transportation.

Muscatine County's property tax rates increased \$.1771 per \$1,000 of taxable valuation in fiscal year 2012. The County's general basic and general supplemental levies remained unchanged. The mental health levy decreased \$.0368 per \$1,000 of taxable valuation and the debt service levy decreased \$.1361 per \$1,000 of taxable valuation. The rural services levy increased \$.35 per \$1,000 of taxable valuation. The rural taxable property valuation increased \$20,852,954 and the countywide taxable property valuation increased \$48,772,812.

## **INDIVIDUAL MAJOR FUND ANALYSIS**

As Muscatine County completed the year, its governmental funds reported a combined fund balance of approximately \$7.9 million, which is higher than the combined fund balance at the end of fiscal year 2011 of approximately \$6.4 million.

- The General Fund, the operating fund for Muscatine County, ended fiscal year 2012 with a fund balance of approximately \$3.6 million. This was an increase of approximately \$887,000 over the fiscal year 2011 ending balance. Property valuations increased from \$1,576,492,065 in fiscal year 2011 to \$1,625,264,877 in fiscal year 2012. Total General Fund revenue increased approximately \$2.1 million. Property tax revenues increased approximately \$331,000. Intergovernmental revenues increased approximately \$1,420,000 due to increased Federal and other prisoner housing reimbursements and use of money and property increased approximately \$196,000 due to increased revenue from the jail commissary. General Fund expenditures increased approximately \$1,431,000, or 11%. Public safety and legal services function disbursements increased approximately \$1,199,000 due to increased costs of operating the new jail.
- Muscatine County has continued to look for ways to effectively manage the cost of mental health services in the Special Revenue, Mental Health Fund. Fiscal year 2011 ended with a balance of approximately \$450,000 whereas fiscal year 2012 ended with a balance of approximately \$273,000. Mental Health Fund revenues increased in fiscal year 2012, due primarily to receiving allowable growth funding from the State. Expenditures increased approximately \$1,077,000 due to increased costs for persons with mental retardation.
- The Special Revenue, Rural Services Fund ended fiscal year 2012 with a balance of approximately \$299,000 compared to the prior year ending balance of approximately \$264,000. The increase in the rural services levy and the taxable valuation increase of approximately \$20.9 million increased property tax revenue approximately \$275,000. In fiscal year 2012, transfers of approximately \$1,400,000 were made to the Special Revenue, Secondary Roads Fund to cover the maintenance and upgrade of rural county roads.
- The Special Revenue, Secondary Roads Fund ended fiscal year 2012 with a balance of approximately \$2.5 million compared to the prior year ending balance of approximately \$1.8 million. Revenues increased approximately \$517,000, which included increases in local option sales tax revenue and intergovernmental revenue of approximately \$144,000 and \$361,000, respectively. Expenditures increased approximately \$1,159,000 due to increases in road repair and maintenance and equipment purchases. Muscatine County maintained 415 miles of gravel, 21 miles of dirt, 43 miles of seal coated and 129 miles of paved roads and 110 bridges with the resources of this fund.

- The Special Revenue, IPSCO TIF Fund collected revenues and paid principal and interest on the IPSCO urban renewal tax increment revenue bonds of approximately \$2.6 million.
- The Debt Service Fund ended fiscal year 2012 with a balance of approximately \$740,000 compared to the prior year ending balance of approximately \$406,000. Fiscal year 2012 payments from the Debt Service Fund include the VPA jail capital lease purchase agreement payment, principal and interest payments for the remodeling of the County Administration Building, County jail expansion/remodel, Courthouse HVAC replacement and courthouse window replacement and County building improvements.
- The Capital Projects Fund ended fiscal year 2012 with a balance of approximately \$377,000, a decrease from the fiscal year 2011 ending balance of approximately \$680,000.

## **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 Internal Service and Agency 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 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 three times. The amendments were made in October 2011, March 2012 and June 2012.

The first amendment mainly adjusted for increased receipts and disbursements for the jail and increases in building maintenance and repair projects. The second amendment mainly adjusted for increased receipts and disbursements for the public safety and mental health functions. The third amendment mainly increased the governmental services to residents function.

The County's receipts were approximately \$95,000 more than budgeted, a variance of less than 1%. Total disbursements were approximately \$2.5 million less than the amended budget. Disbursements for the mental health function were approximately \$627,000 less than budgeted due to a decrease in supported community living expenses. Capital projects disbursements were approximately \$931,000 less than budgeted due to projects extending into fiscal year 2013.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of fiscal year 2012, Muscatine County had approximately \$81.7 million invested in a broad range of capital assets, including public safety equipment, buildings, land, park facilities, roads and bridges. With total accumulated depreciation of approximately \$32.2 million, Muscatine County's capital assets have a net value of approximately \$49.5 million. This is a net increase of approximately \$2 million from fiscal year 2011. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

### **Long-Term Debt**

At the end of fiscal year 2012, Muscatine County had \$10,105,584 in long term debt outstanding, compared to \$13,422,112 at the end of fiscal year 2011.

Muscatine County's outstanding debt decreased as a result of the October 2011 general obligation note issuance of \$500,000 for improvements and repairs to County buildings and the scheduled principal repayments. Muscatine County's general obligation bond rating continues to be 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 counties can issue to 5% of the assessed value of all taxable property within the County's corporate limits. Muscatine County's outstanding general obligation debt of approximately \$10.1 million is significantly below its constitutional debt limit of approximately \$141 million. Additional information about the County's long-term debt is presented in Note 7 of the financial statements.

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

Muscatine County's elected and appointed officials considered many factors when setting the fiscal year 2013 budget and tax rates. The amount available for appropriation in the fiscal year 2013 operating budget is approximately \$35 million, an increase of 4% over the final fiscal year 2012 budget. Muscatine County's other operating fund balances are expected to increase from approximately \$6.3 million to approximately \$6.7 million by the close of fiscal year 2013.

#### **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 Administration Office, 414 East 3rd Street, Suite 101, Muscatine, Iowa, 52761.

**Muscatine County**



## **Basic Financial Statements**

**Exhibit A**

Muscatine County  
Statement of Net Assets  
June 30, 2012

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b>Assets</b>   |                                    |
| Cash and pooled investments                                   | \$ 9,346,486                       |
| Receivables:  |                                    |
| Property tax:   |                                    |
| Delinquent  | 62,735                             |
| Succeeding year   | 14,811,000                         |
| Succeeding year tax increment financing                       | 20,000                             |
| Interest and penalty on property tax                          | 180,074                            |
| Accounts  | 100,538                            |
| Accrued interest  | 7,519                              |
| Due from other governments                                    | 1,303,577                          |
| Inventories   | 162,778                            |
| Prepaid expenses  | 153,491                            |
| Capital assets (net of accumulated depreciation/amortization) | 49,494,116                         |
| <b>Total assets</b>   | <u>75,642,314</u>                  |
| <b>Liabilities</b>  |                                    |
| Accounts payable  | 1,457,334                          |
| Accrued interest payable                                      | 36,922                             |
| Salaries and benefits payable                                 | 103,624                            |
| Due to other governments                                      | 1,081,495                          |
| Deferred revenue:   |                                    |
| Succeeding year property tax                                  | 14,962,000                         |
| Succeeding year tax increment financing                       | 20,000                             |
| Long-term liabilities:  |                                    |
| Portion due or payable within one year:                       |                                    |
| Capital lease purchase agreements                             | 3,528                              |
| General obligation bonds/notes                                | 670,000                            |
| Compensated absences  | 626,159                            |
| Portion due or payable after one year:                        |                                    |
| Capital lease purchase agreements                             | 7,056                              |
| General obligation bonds/notes                                | 9,425,000                          |
| Compensated absences  | 645,919                            |
| Net OPEB liability  | 159,854                            |
| <b>Total liabilities</b>                                      | <u>29,198,891</u>                  |
| <b>Net Assets</b>   |                                    |
| Invested in capital assets, net of related debt               | 39,788,532                         |
| Restricted for:   |                                    |
| Supplemental levy purposes                                    | 680,391                            |
| Mental health purposes  | 128,289                            |
| Rural services  | 283,768                            |
| Secondary roads purposes                                      | 2,321,504                          |
| Conservation land acquisition                                 | 128,313                            |
| Debt service  | 706,788                            |
| Other purposes  | 154,928                            |
| Unrestricted  | 2,250,910                          |
| <b>Total net assets</b>                                       | <u>\$ 46,443,423</u>               |

See notes to financial statements.

Muscatine County

Statement of Activities

Year ended June 30, 2012

|                                     | Expenses      | Program Revenues    |                                       |   | Net (Expense) Revenue and Changes in Net Assets |
|-------------------------------------|---------------|---------------------|---------------------------------------|---|---|
|                                     |               | Charges for Service | Contributions and Restricted Interest | Grants, Capital Grants, Contributions and Restricted Interest |   |
| <b>Functions/Programs:</b>          |               |                     |                                       |   |   |
| Governmental activities:            |               |                     |                                       |   |   |
| Public safety and legal services    | \$ 9,457,782  | 1,629,608           | 2,053,467                             | -   | (5,774,707)                                     |
| Physical health and social services | 1,183,586     | 53,846              | 325,358                               | -   | (804,382)                                       |
| Mental health                       | 6,200,196     | 22,281              | 3,890,847                             | -   | (2,287,068)                                     |
| County environment and education    | 1,009,186     | 47,787              | 52,262                                | 3,801   | (905,336)                                       |
| Roads and transportation            | 6,146,482     | 25,505              | 2,664,127                             | 2,765,924   | (690,926)                                       |
| Governmental services to residents  | 916,452       | 588,574             | 22,576                                | 123,020   | (182,282)                                       |
| Administration                      | 3,114,086     | 71,142              | 169,351                               | 85,558  | (2,788,035)                                     |
| Non-program                         | 479,246       | 518,229             | -                                     | -   | 38,983  |
| Interest on long-term debt          | 603,064       | -                   | 931,794                               | -   | 328,730   |
| Total                               | \$ 29,110,080 | 2,956,972           | 10,109,782                            | 2,978,303   | (13,065,023)                                    |

**General Revenues:**

|   |  |               |
|---|--|---------------|
| Property and other county tax levied for: |  |               |
| General purposes                          |  | 13,503,154    |
| Debt service                              |  | 991,578       |
| Tax increment financing                   |  | 2,646,694     |
| Penalty and interest on property tax      |  | 159,647       |
| State tax credits                         |  | 387,191       |
| Local option sales tax                    |  | 1,660,363     |
| Unrestricted investment earnings          |  | 53,133        |
| Gain on disposition of capital assets     |  | 270,068       |
| Miscellaneous                             |  | 238,264       |
| Total general revenues                    |  | 19,910,092    |
| Change in net assets                      |  | 6,845,069     |
| Net assets beginning of year              |  | 39,598,354    |
| Net assets end of year                    |  | \$ 46,443,423 |

See notes to financial statements.

Muscatine County  
Balance Sheet  
Governmental Funds

June 30, 2012

|  | General              | Special          |                  |
|--|----------------------|------------------|------------------|
|  |                      | Mental Health    | Rural Services   |
| <b>Assets</b>                                      |                      |                  |                  |
| Cash and pooled investments                        | \$ 3,933,295         | 1,403,543        | 312,718          |
| Receivables:                                       |                      |                  |                  |
| Property tax:                                      |                      |                  |                  |
| Delinquent   | 40,000               | 8,000            | 11,000           |
| Succeeding year                                    | 10,271,000           | 1,970,000        | 1,831,000        |
| Succeeding year tax increment financing            | -                    | -                | -                |
| Interest and penalty on property tax               | 180,074              | -                | -                |
| Accounts   | 72,601               | -                | 4,554            |
| Accrued interest                                   | 7,519                | -                | -                |
| Due from other funds                               | 2,177                | -                | -                |
| Due from other governments                         | 197,117              | 73,363           | -                |
| Inventories  | -                    | -                | -                |
| Prepaid expenditures                               | 153,491              | -                | -                |
| <b>Total assets</b>                                | <b>\$ 14,857,274</b> | <b>3,454,906</b> | <b>2,159,272</b> |
| <b>Liabilities and Fund Balances</b>               |                      |                  |                  |
| Liabilities:                                       |                      |                  |                  |
| Accounts payable                                   | \$ 572,164           | 116,480          | 250              |
| Salaries and benefits payable                      | 77,949               | 684              | 554              |
| Due to other funds                                 | 10,394               | 2,299            | 180              |
| Due to other governments                           | 17,336               | 1,063,868        | 90               |
| Deferred revenue:                                  |                      |                  |                  |
| Succeeding year property tax                       | 10,374,000           | 1,991,000        | 1,848,000        |
| Succeeding year tax increment financing            | -                    | -                | -                |
| Other  | 234,430              | 8,000            | 11,000           |
| <b>Total liabilities</b>                           | <b>11,286,273</b>    | <b>3,182,331</b> | <b>1,860,074</b> |
| Fund balances:                                     |                      |                  |                  |
| Nonspendable:                                      |                      |                  |                  |
| Inventories  | -                    | -                | -                |
| Prepaid expenditures                               | 153,491              | -                | -                |
| Restricted for:                                    |                      |                  |                  |
| Supplemental levy purposes                         | 609,534              | -                | -                |
| Mental health purposes                             | -                    | 272,575          | -                |
| Rural services purposes                            | -                    | -                | 299,198          |
| Secondary roads purposes                           | -                    | -                | -                |
| Conservation land acquisition/capital improvements | 128,313              | -                | -                |
| Debt service                                       | -                    | -                | -                |
| Capital projects                                   | -                    | -                | -                |
| Other purposes                                     | -                    | -                | -                |
| Unassigned   | 2,679,663            | -                | -                |
| <b>Total fund balances</b>                         | <b>3,571,001</b>     | <b>272,575</b>   | <b>299,198</b>   |
| <b>Total liabilities and fund balances</b>         | <b>\$ 14,857,274</b> | <b>3,454,906</b> | <b>2,159,272</b> |

See notes to financial statements.

| Revenue          |               |                  |                  |                |                   |
|------------------|---------------|------------------|------------------|----------------|-------------------|
| Secondary Roads  | IPSCO TIF     | Debt Service     | Capital Projects | Nonmajor       | Total             |
| 2,153,899        | 80            | 269,023          | 484,822          | 162,755        | 8,720,135         |
| -                | -             | 3,735            | -                | -              | 62,735            |
| -                | -             | 739,000          | -                | -              | 14,811,000        |
| -                | 20,000        | -                | -                | -              | 20,000            |
| -                | -             | -                | -                | -              | 180,074           |
| -                | -             | -                | -                | -              | 77,155            |
| -                | -             | -                | -                | -              | 7,519             |
| 10,696           | -             | -                | -                | -              | 12,873            |
| 550,985          | -             | 480,872          | -                | 1,240          | 1,303,577         |
| 162,778          | -             | -                | -                | -              | 162,778           |
| -                | -             | -                | -                | -              | 153,491           |
| <b>2,878,358</b> | <b>20,080</b> | <b>1,492,630</b> | <b>484,822</b>   | <b>163,995</b> | <b>25,511,337</b> |
| 280,438          | -             | -                | 108,217          | 6,559          | 1,084,108         |
| 21,929           | -             | -                | -                | 2,508          | 103,624           |
| -                | -             | -                | -                | -              | 12,873            |
| 201              | -             | -                | -                | -              | 1,081,495         |
| -                | -             | 749,000          | -                | -              | 14,962,000        |
| -                | 20,000        | -                | -                | -              | 20,000            |
| 108,664          | -             | 3,735            | -                | -              | 365,829           |
| <b>411,232</b>   | <b>20,000</b> | <b>752,735</b>   | <b>108,217</b>   | <b>9,067</b>   | <b>17,629,929</b> |
| 162,778          | -             | -                | -                | -              | 162,778           |
| -                | -             | -                | -                | -              | 153,491           |
| -                | -             | -                | -                | -              | 609,534           |
| -                | -             | -                | -                | -              | 272,575           |
| -                | -             | -                | -                | -              | 299,198           |
| 2,304,348        | -             | -                | -                | -              | 2,304,348         |
| -                | -             | -                | -                | -              | 128,313           |
| -                | 80            | 739,895          | -                | -              | 739,975           |
| -                | -             | -                | 376,605          | -              | 376,605           |
| -                | -             | -                | -                | 154,928        | 154,928           |
| -                | -             | -                | -                | -              | 2,679,663         |
| <b>2,467,126</b> | <b>80</b>     | <b>739,895</b>   | <b>376,605</b>   | <b>154,928</b> | <b>7,881,408</b>  |
| <b>2,878,358</b> | <b>20,080</b> | <b>1,492,630</b> | <b>484,822</b>   | <b>163,995</b> | <b>25,511,337</b> |

**Muscatine County**

Muscatine County

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

June 30, 2012

|  |                             |
|--|-----------------------------|
| <b>Total governmental fund balances (page 19)</b>  | \$ 7,881,408                |
| <b><i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i></b>   |                             |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$81,669,170 and the accumulated depreciation/amortization is \$32,175,054.   | 49,494,116                  |
| Other long-term assets are not available to pay current year expenditures and, therefore, are deferred in the governmental funds.  | 365,829                     |
| The Internal Service Funds are used by management to charge the costs of the partial self funding of the County's health insurance benefit plan and county insurance to individual funds. The assets and liabilities of the Internal Service Funds are included with governmental activities in the Statement of Net Assets. | 276,508                     |
| Long-term liabilities, including capital lease purchase agreements payable, bonds/notes payable, compensated absences payable, other postemployment benefits payable and accrued interest payable, are not due and payable in the current year and, therefore, are not reported in the governmental funds.                   | <u>(11,574,438)</u>         |
| <b>Net assets of governmental activities (page 16)</b>   | <u><u>\$ 46,443,423</u></u> |

See notes to financial statements.

Muscatine County

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

Year ended June 30, 2012

|   | General      | Mental<br>Health | Special<br>Rural<br>Services |
|---|--------------|------------------|------------------------------|
| <b>Revenues:</b>  |              |                  |                              |
| Property and other county tax                             | \$ 9,826,248 | 1,994,034        | 1,688,474                    |
| Local option sales tax                                    | -            | -                | -                            |
| Tax increment financing                                   | -            | -                | -                            |
| Interest and penalty on property tax                      | 142,125      | -                | -                            |
| Intergovernmental   | 3,772,500    | 3,943,059        | 88,145                       |
| Licenses and permits                                      | 150          | -                | 51,237                       |
| Charges for service                                       | 964,482      | 22,281           | -                            |
| Use of money and property                                 | 529,790      | -                | -                            |
| Miscellaneous   | 196,137      | 8,549            | 2,102                        |
| Total revenues  | 15,431,432   | 5,967,923        | 1,829,958                    |
| <b>Expenditures:</b>                                      |              |                  |                              |
| <b>Operating:</b>   |              |                  |                              |
| Public safety and legal services                          | 9,057,886    | -                | -                            |
| Physical health and social services                       | 1,097,591    | -                | 68,062                       |
| Mental health   | -            | 6,145,291        | -                            |
| County environment and education                          | 611,522      | -                | 292,978                      |
| Roads and transportation                                  | -            | -                | -                            |
| Governmental services to residents                        | 901,593      | -                | 2,525                        |
| Administration  | 2,713,389    | -                | -                            |
| Debt service  | -            | -                | -                            |
| Capital projects  | 1,303        | -                | -                            |
| Total expenditures  | 14,383,284   | 6,145,291        | 363,565                      |
| Excess (deficiency) of revenues over (under) expenditures | 1,048,148    | (177,368)        | 1,466,393                    |
| <b>Other financing sources (uses):</b>                    |              |                  |                              |
| Sale of capital assets                                    | 11,025       | -                | -                            |
| Operating transfers in                                    | 31,400       | -                | -                            |
| Operating transfers out                                   | (204,000)    | -                | (1,431,400)                  |
| General obligation bonds issued                           | -            | -                | -                            |
| Total other financing sources (uses)                      | (161,575)    | -                | (1,431,400)                  |
| Net change in fund balances                               | 886,573      | (177,368)        | 34,993                       |
| Fund balances beginning of year                           | 2,684,428    | 449,943          | 264,205                      |
| Fund balances end of year                                 | \$ 3,571,001 | 272,575          | 299,198                      |

See notes to financial statements.



| Revenue            |              |                 |                     |          |  |             |
|--------------------|--------------|-----------------|---------------------|----------|--|-------------|
| Secondary<br>Roads | IPSCO<br>TIF | Debt<br>Service | Capital<br>Projects | Nonmajor |  | Total       |
| -                  | -            | 993,137         | -                   | -        |  | 14,501,893  |
| 1,660,363          | -            | -               | -                   | -        |  | 1,660,363   |
| -                  | 2,646,694    | -               | -                   | -        |  | 2,646,694   |
| -                  | -            | -               | -                   | -        |  | 142,125     |
| 3,272,804          | -            | 956,320         | 37,654              | 17,978   |  | 12,088,460  |
| 4,830              | -            | -               | -                   | -        |  | 56,217      |
| 20,675             | -            | -               | -                   | 7,216    |  | 1,014,654   |
| -                  | -            | -               | -                   | -        |  | 529,790     |
| 19,899             | -            | -               | -                   | 28,434   |  | 255,121     |
| 4,978,571          | 2,646,694    | 1,949,457       | 37,654              | 53,628   |  | 32,895,317  |
| -                  | -            | -               | -                   | 39,135   |  | 9,097,021   |
| -                  | -            | -               | -                   | -        |  | 1,165,653   |
| -                  | -            | -               | -                   | -        |  | 6,145,291   |
| -                  | -            | -               | -                   | 16,298   |  | 920,798     |
| 5,284,511          | -            | -               | -                   | -        |  | 5,284,511   |
| -                  | -            | -               | -                   | 16,211   |  | 920,329     |
| -                  | -            | -               | -                   | -        |  | 2,713,389   |
| -                  | 2,646,777    | 1,815,094       | -                   | -        |  | 4,461,871   |
| 377,629            | -            | -               | 841,015             | -        |  | 1,219,947   |
| 5,662,140          | 2,646,777    | 1,815,094       | 841,015             | 71,644   |  | 31,928,810  |
| (683,569)          | (83)         | 134,363         | (803,361)           | (18,016) |  | 966,507     |
| -                  | -            | -               | -                   | -        |  | 11,025      |
| 1,400,000          | -            | 200,000         | -                   | 4,000    |  | 1,635,400   |
| -                  | -            | -               | -                   | -        |  | (1,635,400) |
| -                  | -            | -               | 500,000             | -        |  | 500,000     |
| 1,400,000          | -            | 200,000         | 500,000             | 4,000    |  | 511,025     |
| 716,431            | (83)         | 334,363         | (303,361)           | (14,016) |  | 1,477,532   |
| 1,750,695          | 163          | 405,532         | 679,966             | 168,944  |  | 6,403,876   |
| 2,467,126          | 80           | 739,895         | 376,605             | 154,928  |  | 7,881,408   |

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, 2012

**Net change in fund balances - Total governmental funds (page 23)** \$ 1,477,532

**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/amortization expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation/amortization expense in the current year, as follows:

|  |              |           |
|--|--------------|-----------|
| Expenditures for capital assets                      | \$ 1,549,528 |           |
| Capital assets contributed by the Iowa Department of | 2,338,248    |           |
| Depreciation/amortization expense                    | (2,140,121)  | 1,747,655 |

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. 238,867

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 | (7,161)  |          |
| Other        | (44,379) | (51,540) |

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

|        |           |           |
|--------|-----------|-----------|
| Issued | (500,000) |           |
| Repaid | 3,816,528 | 3,316,528 |

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 the governmental funds, as follows:

|                               |          |          |
|-------------------------------|----------|----------|
| Compensated absences          | (44,015) |          |
| Other postemployment benefits | (47,997) |          |
| Interest on long-term debt    | 45,807   | (46,205) |

The Internal Service Funds are used by management to charge the costs of the partial self-funding of the County's health insurance benefit plan and county insurance to individual funds. The change in net assets of the Internal Service Funds is reported with governmental activities. 162,232

**Change in net assets of governmental activities (page 17)** \$ 6,845,069

See notes to financial statements.

Muscatine County  
Statement of Net Assets  
Proprietary Funds

June 30, 2012

|                           | <u>Internal<br/>Service</u> |
|---------------------------|-----------------------------|
| <b>Assets</b>             |                             |
| Cash and cash equivalents | \$ 626,351                  |
| Accounts receivable       | <u>23,383</u>               |
| <b>Total assets</b>       | <u>649,734</u>              |
| <br>                      |                             |
| <b>Liabilities</b>        |                             |
| Accounts payable          | <u>373,226</u>              |
| <br>                      |                             |
| <b>Net Assets</b>         |                             |
| Unrestricted              | <u><u>\$ 276,508</u></u>    |

See notes to financial statements.

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

Year ended June 30, 2012

|   |               | <u>Internal<br/>Service</u> |
|---|---------------|-----------------------------|
| Operating revenues:                       |               |                             |
| Reimbursements from operating funds       |               | \$ 2,483,278                |
| Reimbursements from employees and others  |               | <u>74,561</u>               |
| Total operating revenues                  |               | 2,557,839                   |
| Operating expenses:                       |               |                             |
| Health claims and administrative services | \$ 2,320,199  |                             |
| Loss contingencies and deductibles        | <u>75,436</u> | <u>2,395,635</u>            |
| Operating income                          |               | 162,204                     |
| Non-operating revenues:                   |               |                             |
| Interest income                           |               | <u>28</u>                   |
| Net income                                |               | 162,232                     |
| Net assets beginning of year              |               | <u>114,276</u>              |
| Net assets end of year                    |               | <u>\$ 276,508</u>           |
| See notes to financial statements.        |               |                             |

Muscatine County  
Statement of Cash Flows  
Proprietary Funds  
Year ended June 30, 2012

|   | <u>Internal<br/>Service</u> |
|---|-----------------------------|
| Cash flows from operating activities:   |                             |
| Cash received from operating fund reimbursements  | \$ 2,487,532                |
| Cash received from employees and others   | 51,177                      |
| Cash paid to suppliers for services   | <u>(2,168,045)</u>          |
| Net cash provided by operating activities   | 370,664                     |
| Cash flows from investing activities:   |                             |
| Interest on investments   | <u>35</u>                   |
| Net increase in cash and cash equivalents   | 370,699                     |
| Cash and cash equivalents beginning of year   | <u>255,652</u>              |
| Cash and cash equivalents end of year   | <u>\$ 626,351</u>           |
| <b>Reconciliation of operating income to net cash<br/>provided by operating activities:</b> |                             |
| Operating income  | \$ 162,204                  |
| Adjustment to reconcile operating income to net cash<br>provided by operating activities:   |                             |
| (Increase) in accounts receivable   | (19,130)                    |
| Decrease in prepaid insurance   | 148,000                     |
| Increase in accounts payable  | <u>79,590</u>               |
| Net cash provided by operating activities   | <u>\$ 370,664</u>           |
| See notes to financial statements.  |                             |

## Muscatine County

Statement of Fiduciary Assets and Liabilities  
Agency Funds

June 30, 2012

**Assets**

## Cash and pooled investments:

|                        |              |
|------------------------|--------------|
| County Treasurer       | \$ 3,089,377 |
| Other County officials | 857,114      |

## Receivables:

## Property tax:

|                 |            |
|-----------------|------------|
| Delinquent      | 145,075    |
| Succeeding year | 44,066,000 |

|          |        |
|----------|--------|
| Accounts | 22,067 |
|----------|--------|

|                  |       |
|------------------|-------|
| Accrued interest | 1,644 |
|------------------|-------|

|             |         |
|-------------|---------|
| Assessments | 212,391 |
|-------------|---------|

|                            |        |
|----------------------------|--------|
| Due from other governments | 11,964 |
|----------------------------|--------|

|                     |                   |
|---------------------|-------------------|
| <b>Total assets</b> | <u>48,405,632</u> |
|---------------------|-------------------|

**Liabilities**

|                  |        |
|------------------|--------|
| Accounts payable | 15,747 |
|------------------|--------|

|                               |        |
|-------------------------------|--------|
| Salaries and benefits payable | 13,427 |
|-------------------------------|--------|

|                          |            |
|--------------------------|------------|
| Due to other governments | 46,953,934 |
|--------------------------|------------|

|                |           |
|----------------|-----------|
| Trusts payable | 1,280,856 |
|----------------|-----------|

|                      |         |
|----------------------|---------|
| Compensated absences | 141,668 |
|----------------------|---------|

|                          |                   |
|--------------------------|-------------------|
| <b>Total liabilities</b> | <u>48,405,632</u> |
|--------------------------|-------------------|

|                   |             |
|-------------------|-------------|
| <b>Net assets</b> | <u>\$ -</u> |
|-------------------|-------------|

See notes to financial statements.

Muscatine County

Notes to Financial Statements

June 30, 2012

**(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. The County has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The County participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Muscatine County Assessor's Conference Board, Muscatine County Emergency Management Commission, Great River Bend Area Agency on Aging, 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 the Agency Funds of the County.

The County also participates in the following 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, Muscatine Area Geographic Information Consortium, Muscatine County Joint Communications Commission, Muscatine County Drug Task Force 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/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

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

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

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

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as 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 revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs 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 the road use tax allocation from the State of Iowa, required transfers from the General and the Special Revenue, Rural Services Funds and other revenues to be used for secondary road construction and maintenance.

The IPSCO TIF Fund is used to account for tax increment financing revenues to be used for the payment of interest and principal on the IPSCO Urban Renewal Tax Increment Revenue Bonds.

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

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

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the County's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications – committed, assigned and then unassigned fund balances.

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

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

#### D. Assets, Liabilities and Fund Equity

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

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

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

Property Tax Receivable, Including Tax Increment Financing – Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

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

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

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

Assessments Receivable – Assessments receivable represent amounts assessed to individuals for work done 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. Delinquent 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 certain transactions between funds had not been paid or received as of June 30, 2012, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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 consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets – Capital assets, which include property, equipment and vehicles, intangibles and infrastructure assets acquired after July 1, 1980 (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the County) are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair 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.

| Asset Class                      | Amount    |
|----------------------------------|-----------|
| Infrastructure                   | \$ 50,000 |
| Intangibles                      | 50,000    |
| Land, buildings and improvements | 25,000    |
| Equipment and vehicles           | 5,000     |

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

| Asset Class                | Estimated Useful Lives (In Years) |
|----------------------------|-----------------------------------|
| Infrastructure             | 10 - 65                           |
| Buildings and improvements | 20 - 50                           |
| Intangibles                | 2 - 20                            |
| 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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2012. 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 and 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, fund balances are classified as follows:

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

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

Unassigned – All amounts not included in the preceding classifications.

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

**(2) Cash and Pooled Investments**

The County's deposits in banks at June 30, 2012 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 had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

**(3) Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2012 is as follows:

| Receivable Fund  | Payable Fund     | Amount           |
|------------------|------------------|------------------|
| General          | Special Revenue: |                  |
|                  | Mental Health    | \$ 1,997         |
|                  | Rural Services   | 180              |
| Special Revenue: | General          | 10,394           |
| Secondary Roads  | Special Revenue: |                  |
|                  | Mental Health    | 302              |
| Total            |                  | <u>\$ 12,873</u> |

These balances result from the time lag between the dates 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, 2012 is as follows:

| Transfer to              | Transfer from    | Amount              |
|--------------------------|------------------|---------------------|
| General                  | Special Revenue: |                     |
|                          | Rural Services   | \$ 31,400           |
| Special Revenue:         | Special Revenue: |                     |
| Secondary Roads          | Rural Services   | 1,400,000           |
| Conservation Youth Corps | General          | 4,000               |
| Debt Service             | General          | 200,000             |
| Total                    |                  | <u>\$ 1,635,400</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, 2012 was as follows:

|   | Balance<br>Beginning<br>of Year | Increases | Decreases   | Balance<br>End<br>of Year |
|---|---------------------------------|-----------|-------------|---------------------------|
| <b>Governmental activities:</b>                       |                                 |           |             |                           |
| Capital assets not being depreciated/amortized:       |                                 |           |             |                           |
| Land  | \$ 1,958,235                    | -         | -           | 1,958,235                 |
| Intangibles, road network                             | 1,195,713                       | -         | -           | 1,195,713                 |
| Construction in progress                              | 1,004,908                       | 536,086   | (1,402,784) | 138,210                   |
| Construction in progress, road network                | 1,566,319                       | 2,706,164 | (1,687,170) | 2,585,313                 |
| Total capital assets not being depreciated            | 5,725,175                       | 3,242,250 | (3,089,954) | 5,877,471                 |
| Capital assets being depreciated/amortized:           |                                 |           |             |                           |
| Buildings and improvements                            | 30,154,393                      | 1,402,784 | -           | 31,557,177                |
| Equipment and vehicles                                | 6,676,271                       | 904,325   | (616,641)   | 6,963,955                 |
| Intangibles   | 347,771                         | -         | -           | 347,771                   |
| Infrastructure, road network                          | 34,531,756                      | 1,687,170 | -           | 36,218,926                |
| Infrastructure, other                                 | 692,056                         | 11,814    | -           | 703,870                   |
| Total capital assets being depreciated/amortized      | 72,402,247                      | 4,006,093 | (616,641)   | 75,791,699                |
| Less accumulated depreciation/amortization for:       |                                 |           |             |                           |
| Buildings and improvements                            | 10,091,865                      | 586,819   | -           | 10,678,684                |
| Equipment and vehicles                                | 4,875,611                       | 584,195   | (584,895)   | 4,874,911                 |
| Intangibles   | 193,063                         | 44,574    | -           | 237,637                   |
| Infrastructure, road network                          | 15,214,201                      | 896,429   | -           | 16,110,630                |
| Infrastructure, other                                 | 245,088                         | 28,104    | -           | 273,192                   |
| Total accumulated depreciation/amortization           | 30,619,828                      | 2,140,121 | (584,895)   | 32,175,054                |
| Total capital assets being depreciated/amortized, net | 41,782,419                      | 1,865,972 | (31,746)    | 43,616,645                |
| Governmental activities capital assets, net           | \$ 47,507,594                   | 5,108,222 | (3,121,700) | 49,494,116                |

Depreciation/amortization expense was charged to the following functions:

|   |                     |
|---|---------------------|
| Governmental activities:  |                     |
| Public safety and legal services                                  | \$ 502,331          |
| Physical health and social services                               | 13,825              |
| Mental health   | 58,507              |
| County environment and education                                  | 103,035             |
| Roads and transportation  | 1,311,917           |
| Governmental services to residents                                | 677                 |
| Administration  | 149,829             |
| Total depreciation/amortization expense - governmental activities | <u>\$ 2,140,121</u> |

**(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    | \$ 17,336            |
| Special Revenue:             |             |                      |
| Mental Health                | Services    | 1,063,868            |
| Rural Services               | Services    | 90                   |
| Secondary Roads              | Services    | 201                  |
|                              |             | <u>1,064,159</u>     |
| Total for governmental funds |             | <u>\$ 1,081,495</u>  |
| Agency:                      |             |                      |
| County Assessor              | Collections | \$ 781,623           |
| Schools                      |             | 25,846,727           |
| Community Colleges           |             | 1,580,968            |
| Corporations                 |             | 16,200,645           |
| Townships                    |             | 433,609              |
| Auto License and Use Tax     |             | 846,142              |
| Drainage Districts           |             | 579,639              |
| All other                    |             | 684,581              |
| Total for agency funds       |             | <u>\$ 46,953,934</u> |

**(7) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

|                           | Capital Lease Purchase Agreements | Urban Renewal Tax Increment Revenue Bonds | General Obligation Admin. Office Building Bonds | General Obligation Courthouse Geothermal Notes |  |
|---------------------------|-----------------------------------|---|---|--|--|
| Balance beginning of year | \$ 669,112                        | 2,498,000                                 | 200,000   | 855,000  |  |
| Increases                 | -                                 | -   | -   | -  |  |
| Decreases                 | 658,528                           | 2,498,000                                 | 100,000   | 95,000   |  |
| Balance end of year       | <u>\$ 10,584</u>                  | <u>-</u>                                  | <u>100,000</u>                                  | <u>760,000</u>                                 |  |
| Due within one year       | <u>\$ 3,528</u>                   | <u>-</u>                                  | <u>100,000</u>                                  | <u>95,000</u>                                  |  |

|                           | General Obligation County Building Improvement Notes | General Obligation Urban Renewal Bonds | Compen-sated Absences | Net OPEB Liability | Total             |
|---------------------------|--|--|-----------------------|--------------------|-------------------|
| Balance beginning of year | \$ -   | 9,200,000                              | 1,228,063             | 111,857            | 14,762,032        |
| Increases                 | 500,000  | -                                      | 835,435               | 77,228             | 1,412,663         |
| Decreases                 | 100,000  | 365,000                                | 791,420               | 29,231             | 4,637,179         |
| Balance end of year       | <u>\$ 400,000</u>                                    | <u>8,835,000</u>                       | <u>1,272,078</u>      | <u>159,854</u>     | <u>11,537,516</u> |
| Due within one year       | <u>\$ 100,000</u>                                    | <u>375,000</u>                         | <u>626,159</u>        | <u>-</u>           | <u>1,299,687</u>  |



### Capital Lease Purchase Agreements

The County has entered into a capital lease purchase agreement for a copy machine for the County Sheriff. The agreement requires no interest and the present value of net minimum lease payments under the agreement at June 30, 2012 is as follows:

| <u>Year<br/>Ending<br/>June 30,</u> | <u>Amount</u>    |
|-------------------------------------|------------------|
| 2013                                | \$ 3,528         |
| 2014                                | 3,528            |
| 2015                                | 3,528            |
| Total minimum lease payments        | <u>\$ 10,584</u> |

Payments under the capital lease purchase agreement totaled \$3,528 for the year ended June 30, 2012.

### General Obligation Bonds/Notes

A summary of the County's June 30, 2012 general obligation bond and note indebtedness is as follows:

| <u>Year<br/>Ending<br/>June 30,</u> | <u>Interest<br/>Rate</u> | <u>Administrative Office Building Bonds</u> |                 |              |
|-------------------------------------|--------------------------|---|-----------------|--------------|
|                                     |                          | <u>Principal</u>                            | <u>Interest</u> | <u>Total</u> |
| 2013                                | 3.65%                    | \$ 100,000                                  | 3,700           | 103,700      |

| <u>Year<br/>Ending<br/>June 30,</u> | <u>Interest<br/>Rates</u> | <u>Courthouse Geothermal Notes</u> |                 |              |
|-------------------------------------|---------------------------|------------------------------------|-----------------|--------------|
|                                     |                           | <u>Principal</u>                   | <u>Interest</u> | <u>Total</u> |
| 2013                                | 2.25%                     | \$ 95,000                          | 25,460          | 120,460      |
| 2014                                | 2.75                      | 95,000                             | 23,322          | 118,322      |
| 2015                                | 3.00                      | 95,000                             | 20,710          | 115,710      |
| 2016                                | 3.40                      | 95,000                             | 17,860          | 112,860      |
| 2017                                | 3.60                      | 95,000                             | 14,630          | 109,630      |
| 2018-2020                           | 3.80-4.00                 | 285,000                            | 22,610          | 307,610      |
| Total                               |                           | \$ 760,000                         | 124,592         | 884,592      |

| <u>Year<br/>Ending<br/>June 30,</u> | <u>Interest<br/>Rates</u> | <u>County Building Improvement Notes</u> |                 |              |
|-------------------------------------|---------------------------|--|-----------------|--------------|
|                                     |                           | <u>Principal</u>                         | <u>Interest</u> | <u>Total</u> |
| 2013                                | 1.45%                     | \$ 100,000                               | 5,881           | 105,881      |
| 2014                                | 1.45                      | 100,000                                  | 4,410           | 104,410      |
| 2015                                | 1.45                      | 100,000                                  | 2,940           | 102,940      |
| 2016                                | 1.45                      | 100,000                                  | 1,474           | 101,474      |
| Total                               |                           | \$ 400,000                               | 14,705          | 414,705      |

During the year ended June 30, 2012, the County issued \$500,000 of general obligation notes for county building improvements and retired \$100,000 of the notes. In addition, the County retired \$100,000 of Administrative Office Building bonds and \$95,000 of Courthouse geothermal notes.

General Obligation Urban Renewal Bonds

A summary of the County's June 30, 2012 general obligation urban renewal Build America bond indebtedness is as follows:

| Year<br>Ending<br>June 30, | Interest<br>Rates | Jail         |            | Total      |
|----------------------------|-------------------|--------------|------------|------------|
|                            |                   | Principal    | Interest * |            |
| 2013                       | 2.625%            | \$ 375,000   | 430,914    | 805,914    |
| 2014                       | 3.20              | 385,000      | 421,070    | 806,070    |
| 2015                       | 3.50              | 400,000      | 408,750    | 808,750    |
| 2016                       | 4.00              | 410,000      | 394,750    | 804,750    |
| 2017                       | 4.20              | 425,000      | 378,350    | 803,350    |
| 2018-2022                  | 4.40-5.10         | 2,410,000    | 1,588,660  | 3,998,660  |
| 2023-2027                  | 5.20-5.60         | 3,015,000    | 917,050    | 3,932,050  |
| 2028-2029                  | 5.70-5.80         | 1,415,000    | 123,430    | 1,538,430  |
| Total                      |                   | \$ 8,835,000 | 4,662,974  | 13,497,974 |

\* - The County is eligible to receive a 35% tax credit toward interest payments made upon its application to the federal government.

**(8) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 5.38% of their annual covered salary and the County is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$782,716, \$666,352 and \$614,279, respectively, equal to the required contributions for each year.

**(9) Other Postemployment Benefits (OPEB)**

Plan Description - The County operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 189 active and 5 retired members in the plan. Retired participants must be age 55 or older at retirement.

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

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

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

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

|  |                       |
|--|-----------------------|
| Annual required contribution               | \$ 77,199             |
| Interest on net OPEB obligation            | 4,474                 |
| Adjustment to annual required contribution | <u>(4,445)</u>        |
| Annual OPEB cost                           | 77,228                |
| Contributions made                         | <u>(29,231)</u>       |
| Increase in net OPEB obligation            | 47,997                |
| Net OPEB obligation beginning of year      | <u>111,857</u>        |
| <br>Net OPEB obligation end of year        | <br>\$ <u>159,854</u> |

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the County contributed \$29,231 to the medical plan. Plan members eligible for benefits contributed \$61,785, or 67.9% of the premium costs.

The County’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

| Year<br>Ended<br>June 30, | Annual<br>OPEB Cost | Percentage of<br>Annual OPEB<br>Cost Contributed | Net<br>OPEB<br>Obligation |
|---------------------------|---------------------|--|---------------------------|
| 2010                      | \$54,798            | 33.2%  | \$ 70,802                 |
| 2011                      | 57,895              | 29.1   | 111,857                   |
| 2012                      | 77,228              | 37.9   | 159,854                   |

Funded Status and Funding Progress – As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$943,590, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$943,590. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$8,429,000 and the ratio of the UAAL to covered payroll was 11.2%. As of June 30, 2012, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2011 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on the County's funding policy. The projected annual medical trend rate is 10.0%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Combined Mortality Table applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2010 and applying the termination factors used in the IPERS Actuarial report as of June 30, 2010.

Projected claim costs of the medical plan for retirees less than age 65 are \$1,167 per month. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

#### **(10) Risk Management**

The County is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual 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 15% 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 contributions to the Pool for the year ended June 30, 2012 were \$222,776.

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

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event 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 such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2012, no liability has been recorded in the County's financial statements. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance 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 casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$500,000 and \$250,000, 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.

#### **(11) Employee Health Insurance Plan**

The Internal Service, 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's contribution for the year ended June 30, 2012 was \$2,483,278.

Amounts payable from the Internal Service, Health Insurance Trust Fund at June 30, 2012 total \$372,442, 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 \$231,368 at June 30, 2012 and is reported as a designation of the Internal Service, Health Insurance Trust Fund net assets. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable 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 beginning of year   | \$ 293,636         |
| Incurred claims (including claims incurred but not reported at June 30, 2012) | 2,320,199          |
| Payment on claims during the fiscal year                                      | <u>(2,241,393)</u> |
| Unpaid claims end of year   | <u>\$ 372,442</u>  |

**(12) Jointly Governed Organizations**

The County participates in the Muscatine County Joint Communications Commission, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. Financial transactions of this organization are included in the County's financial statements as part of the Agency Funds because of the County's fiduciary relationship with the organization. The following financial data is for the year ended June 30, 2012:

|                                     |            |                   |
|-------------------------------------|------------|-------------------|
| Additions:                          |            |                   |
| Contributions from Muscatine County |            | \$ 972,173        |
| Miscellaneous                       |            | 452               |
| Total additions                     |            | <u>972,625</u>    |
| Deductions:                         |            |                   |
| Salaries                            | \$ 600,903 |                   |
| Benefits                            | 241,825    |                   |
| Office supplies                     | 5,891      |                   |
| Legal representation                | 749        |                   |
| Telephone and internet              | 6,971      |                   |
| Travel                              | 1,144      |                   |
| Training                            | 7,860      |                   |
| Equipment replacement               | 4,203      |                   |
| Maintenance and rentals             | 66,965     |                   |
| Insurance                           | 17,153     |                   |
| Miscellaneous                       | 1,145      |                   |
|                                     |            | <u>954,809</u>    |
| Net                                 |            | 17,816            |
| Balance beginning of year           |            | <u>179,854</u>    |
| Balance end of year                 |            | <u>\$ 197,670</u> |

The County participates in the Muscatine County Drug Task Force, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. Financial transactions of this organization are maintained by the County Attorney and included in the County's financial statements as part of the Agency Funds because of the County's fiduciary relationship with the organization. The following financial data is for the year ended June 30, 2012:

|  |           |                         |
|--|-----------|-------------------------|
| Additions:                                 |           |                         |
| Grant reimbursements                       |           | \$ 78,827               |
| Reimbursements from special investigations |           | 5,485                   |
| Restitutions                               |           | 2,441                   |
| Miscellaneous                              |           | 4,846                   |
| Total additions                            |           | <u>91,599</u>           |
| Deductions:                                |           |                         |
| Reimbursements to governmental units       | \$ 72,733 |                         |
| Office supplies and equipment              | 5,493     |                         |
| Utilities                                  | 3,664     |                         |
| Medical                                    | 919       |                         |
| Training                                   | 1,848     |                         |
| Investigations                             | 10,500    |                         |
| Miscellaneous                              | 400       | 95,557                  |
|  |           | <u>          </u>       |
| Net  |           | (3,958)                 |
| Balance beginning of year                  |           | <u>31,724</u>           |
| Balance end of year                        |           | <u><u>\$ 27,766</u></u> |

**(13) Subsequent Event**

In August 2012, the County entered into a loan agreement to issue a general obligation county purpose note for \$3,750,000 to finance improvements to County buildings.

**Muscatine County**



**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, 2012

|   | Actual              | Budgeted Amounts  |                   | Final to<br>Net<br>Variance |
|---|---------------------|-------------------|-------------------|-----------------------------|
|   |                     | Original          | Final             |                             |
| <b>Receipts:</b>  |                     |                   |                   |                             |
| Property tax  | \$ 14,042,711       | 14,030,383        | 14,030,383        | 12,328                      |
| Tax increment financing and other county tax  | 4,761,751           | 4,866,359         | 4,866,359         | (104,608)                   |
| Interest and penalty on property tax  | 141,459             | 135,500           | 135,500           | 5,959                       |
| Intergovernmental   | 12,141,563          | 9,145,528         | 12,164,020        | (22,457)                    |
| Licenses and permits  | 52,727              | 73,200            | 73,200            | (20,473)                    |
| Charges for service   | 1,012,757           | 940,375           | 950,375           | 62,382                      |
| Use of money and property   | 474,500             | 397,200           | 447,200           | 27,300                      |
| Miscellaneous   | 266,520             | 128,400           | 132,150           | 134,370                     |
| <b>Total receipts</b>   | <b>32,893,988</b>   | <b>29,716,945</b> | <b>32,799,187</b> | <b>94,801</b>               |
| <b>Disbursements:</b>   |                     |                   |                   |                             |
| Public safety and legal services  | 9,073,301           | 8,209,965         | 9,143,805         | 70,504                      |
| Physical health and social services   | 1,079,889           | 1,334,886         | 1,359,005         | 279,116                     |
| Mental health   | 5,490,406           | 5,247,687         | 6,117,687         | 627,281                     |
| County environment and education  | 952,744             | 991,908           | 1,174,203         | 221,459                     |
| Roads and transportation  | 5,367,776           | 5,375,000         | 5,375,000         | 7,224                       |
| Governmental services to residents  | 921,889             | 861,859           | 960,827           | 38,938                      |
| Administration  | 2,663,268           | 2,754,287         | 2,839,161         | 175,893                     |
| Debt service  | 4,461,871           | 4,614,506         | 4,614,506         | 152,635                     |
| Capital projects  | 1,225,361           | 1,406,000         | 2,156,000         | 930,639                     |
| <b>Total disbursements</b>  | <b>31,236,505</b>   | <b>30,796,098</b> | <b>33,740,194</b> | <b>2,503,689</b>            |
| Excess (deficiency) of receipts<br>over (under) disbursements   | 1,657,483           | (1,079,153)       | (941,007)         | 2,598,490                   |
| Other financing sources, net  | 511,025             | 534,000           | 534,000           | (22,975)                    |
| Excess (deficiency) of receipts and other<br>financing sources over (under)<br>disbursements and other financing uses | 2,168,508           | (545,153)         | (407,007)         | 2,575,515                   |
| Balance beginning of year   | 6,551,627           | 4,052,876         | 6,307,751         | 243,876                     |
| Balance end of year   | <b>\$ 8,720,135</b> | <b>3,507,723</b>  | <b>5,900,744</b>  | <b>2,819,391</b>            |

See accompanying independent auditor's report.

Muscatine County  
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation  
 Required Supplementary Information  
 Year ended June 30, 2012

|                              | Governmental Funds  |                             |                              |
|------------------------------|---------------------|-----------------------------|------------------------------|
|                              | Cash<br>Basis       | Accrual<br>Adjust-<br>ments | Modified<br>Accrual<br>Basis |
| Revenues                     | \$ 32,893,988       | 1,329                       | 32,895,317                   |
| Expenditures                 | 31,236,505          | 692,305                     | 31,928,810                   |
| Net                          | 1,657,483           | (690,976)                   | 966,507                      |
| Other financing sources, net | 511,025             | -                           | 511,025                      |
| Beginning fund balances      | 6,551,627           | (147,751)                   | 6,403,876                    |
| Ending fund balances         | <u>\$ 8,720,135</u> | <u>(838,727)</u>            | <u>7,881,408</u>             |

See accompanying independent auditor's report.

Muscatine County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2012

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

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

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, three budget amendments increased budgeted disbursements by \$2,944,096. 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, 2012, disbursements did not exceed the amounts budgeted.

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Muscatine County

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

Required Supplementary Information

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| Year<br>Ended<br>June 30, | Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b - a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((b-a)/c) |
|---------------------------|--------------------------------|--|---|--------------------------------------|--------------------------|---------------------------|---|
| 2010                      | Jul 1, 2008                    | -                                      | \$ 553  | 553                                  | 0.00%                    | \$ 7,910                  | 7.0%  |
| 2011                      | Jul 1, 2008                    | -                                      | 589   | 589                                  | 0.00                     | 8,076                     | 7.3   |
| 2012                      | Jul 1, 2011                    | -                                      | 944   | 944                                  | 0.00                     | 8,429                     | 11.2  |

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See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

**Muscatine County**

**Supplementary Information**

Muscatine County  
 Combining Balance Sheet  
 Nonmajor Governmental Funds

June 30, 2012

|  |   |  | Special                       |
|--|---|--|-------------------------------|
|  | County<br>Recorder's<br>Records<br>Management | Resource<br>Enhancement<br>and<br>Protection | Conservation<br>Youth<br>Corp |
| <b>Assets</b>                              |   |  |                               |
| Cash and pooled investments                | \$ 18,592                                     | 68,247                                       | 11,335                        |
| Due from other governments                 | -   | -  | -                             |
| <b>Total assets</b>                        | <b>\$ 18,592</b>                              | <b>68,247</b>                                | <b>11,335</b>                 |
| <b>Liabilities and Fund Balances</b>       |   |  |                               |
| Liabilities:                               |   |  |                               |
| Accounts payable                           | \$ -  | -  | 159                           |
| Salaries payable                           | -   | -  | 2,508                         |
| Total liabilities                          | -   | -  | 2,667                         |
| Fund balances:                             |   |  |                               |
| Restricted for:                            |   |  |                               |
| Other purposes                             | 18,592  | 68,247                                       | 8,668                         |
| <b>Total liabilities and fund balances</b> | <b>\$ 18,592</b>                              | <b>68,247</b>                                | <b>11,335</b>                 |

See accompanying independent auditor's report.



| Revenue            |                                   |                                    |         |
|--------------------|-----------------------------------|------------------------------------|---------|
| Sheriff<br>Special | County<br>Sheriff's<br>Forfeiture | County<br>Attorney's<br>Forfeiture | Total   |
| 1,950              | 35,414                            | 27,217                             | 162,755 |
| -                  | 1,240                             | -                                  | 1,240   |
| 1,950              | 36,654                            | 27,217                             | 163,995 |
| -                  | 4,900                             | 1,500                              | 6,559   |
| -                  | -                                 | -                                  | 2,508   |
| -                  | 4,900                             | 1,500                              | 9,067   |
| 1,950              | 31,754                            | 25,717                             | 154,928 |
| 1,950              | 36,654                            | 27,217                             | 163,995 |

Muscatine County

Combining Schedule of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Governmental Funds

Year ended June 30, 2012

|   | County<br>Recorder's<br>Records<br>Management | Resource<br>Enhance-<br>ment and<br>Protection | Special<br>Conservation<br>Youth<br>Corp |
|---|---|--|--|
| Revenues:   |   |  |  |
| Intergovernmental   | \$ -  | 17,978   | -  |
| Charges for service   | 7,216   | -  | -  |
| Miscellaneous   | -   | -  | 8,650                                    |
| Total revenues  | 7,216   | 17,978   | 8,650                                    |
| Expenditures:   |   |  |  |
| Operating:  |   |  |  |
| Public safety and legal services  | -   | -  | -  |
| County environment and education  | -   | -  | 16,298                                   |
| Governmental services to residents  | -   | 16,211   | -  |
| Total expenditures  | -   | 16,211   | 16,298                                   |
| Excess (deficiency) of revenues over<br>(under) expenditures                                | 7,216   | 1,767  | (7,648)                                  |
| Other financing sources:  |   |  |  |
| Operating transfers in  | -   | -  | 4,000                                    |
| Excess (deficiency) of revenues and<br>other financing sources over (under)<br>expenditures | 7,216   | 1,767  | (3,648)                                  |
| Fund balances beginning of year   | 11,376  | 66,480   | 12,316                                   |
| Fund balances end of year   | \$ 18,592                                     | 68,247   | 8,668                                    |

See accompanying independent auditor's report.

| Revenue            |                                   |                                    |          |
|--------------------|-----------------------------------|------------------------------------|----------|
| Sheriff<br>Special | County<br>Sheriff's<br>Forfeiture | County<br>Attorney's<br>Forfeiture | Total    |
| -                  | -                                 | -                                  | 17,978   |
| -                  | -                                 | -                                  | 7,216    |
| 1,000              | 18,784                            | -                                  | 28,434   |
| 1,000              | 18,784                            | -                                  | 53,628   |
| -                  | 25,388                            | 13,747                             | 39,135   |
| -                  | -                                 | -                                  | 16,298   |
| -                  | -                                 | -                                  | 16,211   |
| -                  | 25,388                            | 13,747                             | 71,644   |
| 1,000              | (6,604)                           | (13,747)                           | (18,016) |
| -                  | -                                 | -                                  | 4,000    |
| 1,000              | (6,604)                           | (13,747)                           | (14,016) |
| 950                | 38,358                            | 39,464                             | 168,944  |
| 1,950              | 31,754                            | 25,717                             | 154,928  |

**Schedule 3**

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Muscatine County  
Combining Schedule of Net Assets  
Internal Service Funds

June 30, 2012

|                           | Health<br>Insurance<br>Trust | County<br>Insurance<br>Trust | Total   |
|---------------------------|------------------------------|------------------------------|---------|
| <b>Assets</b>             |                              |                              |         |
| Cash and cash equivalents | \$ 580,427                   | 45,924                       | 626,351 |
| Accounts receivable       | 23,383                       | -                            | 23,383  |
| <b>Total assets</b>       | 603,810                      | 45,924                       | 649,734 |
| <b>Liabilities</b>        |                              |                              |         |
| Accounts payable          | 372,442                      | 784                          | 373,226 |
| <b>Net Assets</b>         |                              |                              |         |
| Unrestricted              | \$ 231,368                   | 45,140                       | 276,508 |

See accompanying independent auditor's report.

## Muscatine County

Combining Schedule of Revenues, Expenses  
and Changes in Fund Net Assets  
Internal Service Funds

Year ended June 30, 2012

|   | Health<br>Insurance<br>Trust | County<br>Insurance<br>Trust | Total     |
|---|------------------------------|------------------------------|-----------|
| Operating revenues:                       |                              |                              |           |
| Reimbursements from operating funds       | \$ 2,463,278                 | 20,000                       | 2,483,278 |
| Reimbursements from others                | 56,986                       | 17,575                       | 74,561    |
| Total operating revenues                  | 2,520,264                    | 37,575                       | 2,557,839 |
| Operating expenses:                       |                              |                              |           |
| Health claims and administrative services | 2,320,199                    | -                            | 2,320,199 |
| Loss contingencies and deductibles        | -                            | 75,436                       | 75,436    |
| Total operating expenses                  | 2,320,199                    | 75,436                       | 2,395,635 |
| Operating income (loss)                   | 200,065                      | (37,861)                     | 162,204   |
| Non-operating revenues:                   |                              |                              |           |
| Interest income                           | 28                           | -                            | 28        |
| Change in net assets                      | 200,093                      | (37,861)                     | 162,232   |
| Net assets beginning of year              | 31,275                       | 83,001                       | 114,276   |
| Net assets end of year                    | \$ 231,368                   | 45,140                       | 276,508   |

See accompanying independent auditor's report.

**Schedule 5**

Muscatine County  
Combining Schedule of Cash Flows  
Internal Service Funds

Year ended June 30, 2012

|   | Health<br>Insurance<br>Trust | County<br>Insurance<br>Trust | Total       |
|---|------------------------------|------------------------------|-------------|
| Cash flows from operating activities:   |                              |                              |             |
| Cash received from operating funds  | \$ 2,467,532                 | 20,000                       | 2,487,532   |
| Cash received from others   | 33,602                       | 17,575                       | 51,177      |
| Cash paid to suppliers for services   | (2,093,393)                  | (74,652)                     | (2,168,045) |
| Net cash provided (used) by operating activities  | 407,741                      | (37,077)                     | 370,664     |
| Cash flows from investing activities:   |                              |                              |             |
| Interest on investments   | 35                           | -                            | 35          |
| Net increase (decrease) in cash and cash equivalents  | 407,776                      | (37,077)                     | 370,699     |
| Cash and cash equivalents beginning of year   | 172,651                      | 83,001                       | 255,652     |
| Cash and cash equivalents end of year   | \$ 580,427                   | 45,924                       | 626,351     |
| <b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b> |                              |                              |             |
| Operating income (loss)   | \$ 200,065                   | (37,861)                     | 162,204     |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: |                              |                              |             |
| Increase in accounts receivable   | (19,130)                     | -                            | (19,130)    |
| Decrease in prepaid insurance   | 148,000                      | -                            | 148,000     |
| Increase in accounts payable  | 78,806                       | 784                          | 79,590      |
| Net cash provided (used) by operating activities  | \$ 407,741                   | (37,077)                     | 370,664     |

See accompanying independent auditor's report.

**Muscatine County**

Muscatine County  
 Combining Schedule of Fiduciary Assets and Liabilities  
 Agency Funds

June 30, 2012

|                               | County<br>Offices | Agricultural<br>Extension<br>Education | County<br>Assessor | Schools           | Community<br>Colleges | Corporations      |
|-------------------------------|-------------------|--|--------------------|-------------------|-----------------------|-------------------|
| <b>Assets</b>                 |                   |  |                    |                   |                       |                   |
| Cash and pooled investments:  |                   |  |                    |                   |                       |                   |
| County Treasurer              | \$ -              | 2,477                                  | 271,960            | 258,084           | 17,379                | 193,332           |
| Other County officials        | 847,382           | -                                      | -                  | -                 | -                     | -                 |
| Receivables:                  |                   |  |                    |                   |                       |                   |
| Property tax:                 |                   |  |                    |                   |                       |                   |
| Delinquent                    | -                 | 943                                    | 2,623              | 97,643            | 6,589                 | 34,253            |
| Succeeding year               | -                 | 237,000                                | 567,000            | 25,491,000        | 1,557,000             | 15,764,000        |
| Accounts                      | -                 | -                                      | -                  | -                 | -                     | -                 |
| Accrued interest              | 119               | -                                      | -                  | -                 | -                     | -                 |
| Assessments                   | -                 | -                                      | -                  | -                 | -                     | 209,060           |
| Due from other governments    | -                 | -                                      | -                  | -                 | -                     | -                 |
| <b>Total assets</b>           | <b>\$ 847,501</b> | <b>240,420</b>                         | <b>841,583</b>     | <b>25,846,727</b> | <b>1,580,968</b>      | <b>16,200,645</b> |
| <b>Liabilities</b>            |                   |  |                    |                   |                       |                   |
| Accounts payable              | \$ -              | -                                      | 1,061              | -                 | -                     | -                 |
| Salaries and benefits payable | -                 | -                                      | -                  | -                 | -                     | -                 |
| Due to other governments      | 42,415            | 240,420                                | 781,623            | 25,846,727        | 1,580,968             | 16,200,645        |
| Trusts payable                | 805,086           | -                                      | -                  | -                 | -                     | -                 |
| Compensated absences          | -                 | -                                      | 58,899             | -                 | -                     | -                 |
| <b>Total liabilities</b>      | <b>\$ 847,501</b> | <b>240,420</b>                         | <b>841,583</b>     | <b>25,846,727</b> | <b>1,580,968</b>      | <b>16,200,645</b> |

See accompanying independent auditor's report.



| Townships | Auto License and Use Tax | Drainage Districts | Joint Communications Center | Muscatine County Drug Task Force | Other   | Total      |
|-----------|--------------------------|--------------------|-----------------------------|----------------------------------|---------|------------|
| 3,816     | 846,142                  | 574,783            | 197,670                     | 6,070                            | 717,664 | 3,089,377  |
| -         | -                        | -                  | -                           | 9,732                            | -       | 857,114    |
| 2,793     | -                        | -                  | -                           | -                                | 231     | 145,075    |
| 427,000   | -                        | -                  | -                           | -                                | 23,000  | 44,066,000 |
| -         | -                        | -                  | -                           | -                                | 22,067  | 22,067     |
| -         | -                        | 1,525              | -                           | -                                | -       | 1,644      |
| -         | -                        | 3,331              | -                           | -                                | -       | 212,391    |
| -         | -                        | -                  | -                           | 11,964                           | -       | 11,964     |
| 433,609   | 846,142                  | 579,639            | 197,670                     | 27,766                           | 762,962 | 48,405,632 |
| -         | -                        | -                  | 1,286                       | 6,069                            | 7,331   | 15,747     |
| -         | -                        | -                  | 13,427                      | -                                | -       | 13,427     |
| 433,609   | 846,142                  | 579,639            | 116,930                     | 21,697                           | 263,119 | 46,953,934 |
| -         | -                        | -                  | -                           | -                                | 475,770 | 1,280,856  |
| -         | -                        | -                  | 66,027                      | -                                | 16,742  | 141,668    |
| 433,609   | 846,142                  | 579,639            | 197,670                     | 27,766                           | 762,962 | 48,405,632 |

Muscatine County

Combining Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Funds

Year ended June 30, 2012

|                                    | Agricultural      |                        |                    |            |                       |
|------------------------------------|-------------------|------------------------|--------------------|------------|-----------------------|
|                                    | County<br>Offices | Extension<br>Education | County<br>Assessor | Schools    | Community<br>Colleges |
| <b>Assets and Liabilities</b>      |                   |                        |                    |            |                       |
| Balances beginning of year         | \$ 806,119        | 235,160                | 824,851            | 24,536,194 | 1,696,477             |
| Additions:                         |                   |                        |                    |            |                       |
| Property and other county tax      | -                 | 237,640                | 569,719            | 25,567,840 | 1,558,639             |
| E911 surcharge                     | -                 | -                      | -                  | -          | -                     |
| State tax credits                  | -                 | 6,179                  | 14,309             | 641,193    | 43,201                |
| Office fees and collections        | 675,553           | -                      | -                  | -          | -                     |
| Auto licenses, use tax and postage | -                 | -                      | -                  | -          | -                     |
| Assessments                        | -                 | -                      | -                  | -          | -                     |
| Trusts                             | 3,295,408         | -                      | -                  | -          | -                     |
| Miscellaneous                      | 5,371             | -                      | 1,500              | 62,513     | -                     |
| Total additions                    | 3,976,332         | 243,819                | 585,528            | 26,271,546 | 1,601,840             |
| Deductions:                        |                   |                        |                    |            |                       |
| Agency remittances:                |                   |                        |                    |            |                       |
| To other funds                     | 407,494           | -                      | -                  | -          | -                     |
| To other governments               | 260,526           | 238,559                | 568,796            | 24,961,013 | 1,717,349             |
| Trusts paid out                    | 3,266,930         | -                      | -                  | -          | -                     |
| Total deductions                   | 3,934,950         | 238,559                | 568,796            | 24,961,013 | 1,717,349             |
| Balances end of year               | \$ 847,501        | 240,420                | 841,583            | 25,846,727 | 1,580,968             |

See accompanying independent auditor's report.

| Corporations | Townships | Auto License and Use Tax | Drainage Districts | Joint Communications Center | Muscatine County Drug Task Force | Other     | Total      |
|--------------|-----------|--------------------------|--------------------|-----------------------------|----------------------------------|-----------|------------|
| 15,887,338   | 362,123   | 852,057                  | 546,850            | 179,854                     | 31,724                           | 681,275   | 46,640,022 |
| 15,800,279   | 428,466   | -                        | -                  | -                           | -                                | 1,951,919 | 46,114,502 |
| -            | -         | -                        | -                  | -                           | -                                | 92,280    | 92,280     |
| 358,228      | 10,659    | -                        | -                  | -                           | -                                | 672       | 1,074,441  |
| -            | -         | -                        | -                  | -                           | -                                | -         | 675,553    |
| -            | -         | 10,387,195               | -                  | -                           | -                                | -         | 10,387,195 |
| 195,124      | -         | -                        | 184,080            | -                           | -                                | -         | 379,204    |
| -            | -         | -                        | -                  | -                           | -                                | 946,717   | 4,242,125  |
| -            | -         | -                        | 13,881             | 972,625                     | 91,599                           | 1,210,929 | 2,358,418  |
| 16,353,631   | 439,125   | 10,387,195               | 197,961            | 972,625                     | 91,599                           | 4,202,517 | 65,323,718 |
| -            | -         | 333,782                  | -                  | -                           | -                                | -         | 741,276    |
| 16,040,324   | 367,639   | 10,059,328               | 165,172            | 954,809                     | 95,557                           | 3,174,113 | 58,603,185 |
| -            | -         | -                        | -                  | -                           | -                                | 946,717   | 4,213,647  |
| 16,040,324   | 367,639   | 10,393,110               | 165,172            | 954,809                     | 95,557                           | 4,120,830 | 63,558,108 |
| 16,200,645   | 433,609   | 846,142                  | 579,639            | 197,670                     | 27,766                           | 762,962   | 48,405,632 |

Muscatine County

Schedule of Revenues By Source and Expenditures By Function -  
All Governmental Funds

For the Last Ten Years

|                                      | 2012                 | 2011              | 2010              |
|--------------------------------------|----------------------|-------------------|-------------------|
| <b>Revenues:</b>                     |                      |                   |                   |
| Property and other county tax        | \$ 14,501,893        | 14,082,221        | 13,301,678        |
| Local option sales tax               | 1,660,363            | 1,515,990         | 1,569,049         |
| Tax increment financing              | 2,646,694            | 2,524,868         | 2,426,949         |
| Interest and penalty on property tax | 142,125              | 163,591           | 143,331           |
| Intergovernmental                    | 12,088,460           | 9,343,296         | 9,280,544         |
| Licenses and permits                 | 56,217               | 49,240            | 57,704            |
| Charges for service                  | 1,014,654            | 999,475           | 949,125           |
| Use of money and property            | 529,790              | 333,308           | 336,494           |
| Miscellaneous                        | 255,121              | 115,649           | 163,573           |
| <b>Total</b>                         | <b>\$ 32,895,317</b> | <b>29,127,638</b> | <b>28,228,447</b> |
| <b>Expenditures:</b>                 |                      |                   |                   |
| <b>Operating:</b>                    |                      |                   |                   |
| Public safety and legal services     | \$ 9,097,021         | 7,905,440         | 7,263,162         |
| Physical health and social services  | 1,165,653            | 1,178,269         | 1,295,177         |
| Mental health                        | 6,145,291            | 5,068,043         | 4,673,403         |
| County environment and education     | 920,798              | 1,396,550         | 1,611,528         |
| Roads and transportation             | 5,284,511            | 4,101,712         | 6,087,223         |
| Governmental services to residents   | 920,329              | 820,077           | 874,604           |
| Administration                       | 2,713,389            | 2,562,491         | 2,526,382         |
| Non-program                          | -                    | -                 | -                 |
| Debt service                         | 4,461,871            | 4,175,606         | 3,835,638         |
| Capital projects                     | 1,219,947            | 7,032,504         | 5,338,057         |
| <b>Total</b>                         | <b>\$ 31,928,810</b> | <b>34,240,692</b> | <b>33,505,174</b> |

\* Restated to include financial activity related to the IPSCO TIF Fund.

See accompanying independent auditor's report.

| Modified Accrual Basis |            |            |            |            |            |            |
|------------------------|------------|------------|------------|------------|------------|------------|
| 2009                   | 2008       | 2007       | 2006       | 2005       | 2004       | 2003*      |
| 12,374,917             | 11,687,141 | 10,903,381 | 9,427,758  | 8,929,409  | 9,126,056  | 9,291,992  |
| 1,890,098              | 1,525,736  | 1,612,758  | 1,426,194  | 1,207,208  | 1,376,438  | 1,310,286  |
| 2,710,391              | 2,779,066  | 2,728,449  | 2,518,739  | 2,659,483  | 2,458,523  | 2,457,784  |
| 158,370                | 177,397    | 135,701    | 129,222    | 134,751    | 127,342    | 144,830    |
| 9,625,903              | 7,279,800  | 8,658,921  | 7,917,815  | 7,448,135  | 7,603,530  | 7,927,276  |
| 58,197                 | 71,353     | 90,155     | 134,265    | 110,512    | 55,094     | 15,572     |
| 786,881                | 953,362    | 1,044,584  | 993,581    | 1,012,192  | 1,034,421  | 1,014,933  |
| 476,709                | 671,957    | 808,911    | 690,112    | 496,672    | 318,069    | 527,125    |
| 277,782                | 119,239    | 400,300    | 267,666    | 171,141    | 670,697    | 559,391    |
| 28,359,248             | 25,265,051 | 26,383,160 | 23,505,352 | 22,169,503 | 22,770,170 | 23,249,189 |
| 6,661,244              | 6,430,196  | 6,190,825  | 5,995,995  | 5,980,757  | 5,294,006  | 5,020,243  |
| 1,518,634              | 1,397,525  | 1,345,536  | 1,244,312  | 1,367,221  | 1,286,790  | 1,360,473  |
| 4,686,393              | 4,899,395  | 4,560,083  | 4,872,925  | 4,361,931  | 4,108,575  | 4,364,043  |
| 1,514,371              | 855,660    | 862,523    | 811,459    | 771,303    | 691,276    | 682,378    |
| 6,741,764              | 3,995,683  | 3,965,737  | 3,679,065  | 4,706,304  | 3,974,820  | 3,774,979  |
| 819,374                | 744,212    | 772,229    | 1,045,653  | 770,148    | 671,631    | 625,204    |
| 2,486,510              | 2,202,626  | 2,149,595  | 2,060,956  | 1,967,755  | 1,869,951  | 1,898,196  |
| -                      | 482        | 329        | 94         | 83,479     | 443,908    | -          |
| 3,908,576              | 3,862,312  | 3,873,429  | 3,395,626  | 3,332,801  | 3,113,051  | 3,638,246  |
| 1,004,988              | 2,229,263  | 2,543,108  | 1,205,609  | 2,643,201  | 575,768    | 440,019    |
| 29,341,854             | 26,617,354 | 26,263,394 | 24,311,694 | 25,984,900 | 22,029,776 | 21,803,781 |

Muscatine County  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2012

| Grantor/Program  | CFDA<br>Number | Agency or<br>Pass-through<br>Number | Program<br>Expenditures |
|--|----------------|-------------------------------------|-------------------------|
| Direct:  |                |                                     |                         |
| U.S. Department of Defense:  |                |                                     |                         |
| Payments in Lieu of Taxes  | 15.226         |                                     | \$ 4,180                |
| U.S. Department of Justice:  |                |                                     |                         |
| Bulletproof Vest Partnership Program   | 16.607         |                                     | 985                     |
| U.S. Department of Homeland Security:  |                |                                     |                         |
| Emergency Food and Shelter National Board Program  | 97.024         |                                     | <u>1,076</u>            |
| Total direct   |                |                                     | <u>6,241</u>            |
| Indirect:  |                |                                     |                         |
| U.S. Department of Agriculture:  |                |                                     |                         |
| Iowa Department of Human Services:   |                |                                     |                         |
| Human Services Administrative Reimbursements:  |                |                                     |                         |
| State Administrative Matching Grants for the<br>Supplemental Nutrition Assistance Program                              | 10.561         |                                     | <u>35,200</u>           |
| U.S. Department of Defense:  |                |                                     |                         |
| Iowa Treasurer of State:   |                |                                     |                         |
| Payments to States in Lieu of Real Estate Taxes  | 12.112         |                                     | <u>83,351</u>           |
| U.S. Department of Housing and Urban Development:  |                |                                     |                         |
| Iowa Economic Development Authority:   |                |                                     |                         |
| Community Development Block Grants/State's Program and<br>Non-Entitlement Grants in Hawaii                             | 14.228         | 08-DHRB-210                         | <u>18,953</u>           |
| U.S. Department of the Interior:   |                |                                     |                         |
| Fish and Wildlife Cluster:   |                |                                     |                         |
| Iowa Department of Natural Resources:  |                |                                     |                         |
| Sport Fish Restoration Program   | 15.605         |                                     | 3,565                   |
| Wildlife Restoration and Basic Hunter Education  | 15.611         |                                     | <u>2,462</u>            |
|  |                |                                     | <u>6,027</u>            |
| U.S. Department of Justice:  |                |                                     |                         |
| Iowa Department of Justice:  |                |                                     |                         |
| Violence Against Women Formula Grants  | 16.588         | VW-12-58B                           | <u>2,777</u>            |
| City of Muscatine:   |                |                                     |                         |
| Edward Byrne Memorial Justice Assistance Grant Program   | 16.738         | 2010-DJ-BX-0788                     | 7,802                   |
| Edward Byrne Memorial Justice Assistance Grant Program   | 16.738         | 2011-H5697-IA-DJ                    | <u>8,321</u>            |
| Governor's Office of Drug Control Policy:  |                |                                     | <u>16,123</u>           |
| ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance<br>Grant (JAG) Program/Grants to States and Territories | 16.803         | 09JAG-16463                         | <u>78,827</u>           |
| U.S. Department of Transportation:   |                |                                     |                         |
| Iowa Department of Transportation:   |                |                                     |                         |
| Highway Planning and Construction  | 20.205         | BROS-C070(52)8J--70                 | 156,077                 |
| Highway Planning and Construction  | 20.205         | BROS-C070(53)8J--70                 | <u>211,364</u>          |
|  |                |                                     | <u>367,441</u>          |
| Iowa Department of Public Safety:  |                |                                     |                         |
| Alcohol Impaired Driving Countermeasures Incentive Grants  | 20.601         | 11-410 Task 52                      | 15,134                  |
| Alcohol Impaired Driving Countermeasures Incentive Grants  | 20.601         | 12-410 Task 53                      | <u>35,022</u>           |
|  |                |                                     | <u>50,156</u>           |

Muscatine County  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2012

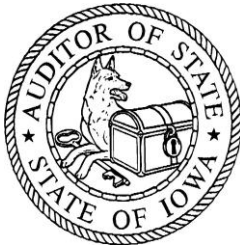
| Grantor/Program   | CFDA<br>Number | Agency or<br>Pass-through<br>Number | Program<br>Expenditures |
|---|----------------|-------------------------------------|-------------------------|
| Indirect (continued):   |                |                                     |                         |
| U.S. Department of Health and Human Services:   |                |                                     |                         |
| Iowa Department of Public Health:   |                |                                     |                         |
| Centers for Disease Control and Prevention-<br>Investigation and Technical Assistance | 93.283         | 5881BT370                           | 40,799                  |
| Centers for Disease Control and Prevention-<br>Investigation and Technical Assistance | 93.283         | 5881BT70                            | 12,974                  |
| Centers for Disease Control and Prevention-<br>Investigation and Technical Assistance | 93.283         | 5882BT70                            | 21,153                  |
|   |                |                                     | <u>74,926</u>           |
| Iowa Department of Human Services:  |                |                                     |                         |
| Human Services Administrative Reimbursements:   |                |                                     |                         |
| Refugee and Entrant Assistance - State Administered Programs                          | 93.566         |                                     | 57                      |
| Child Care Mandatory and Matching Funds of the Child<br>Care and Development Fund     | 93.596         |                                     | 7,824                   |
| Foster Care - Title IV-E  | 93.658         |                                     | 12,850                  |
| Adoption Assistance   | 93.659         |                                     | 3,733                   |
| Children's Health Insurance Program   | 93.767         |                                     | 122                     |
| Medical Assistance Program  | 93.778         |                                     | 33,042                  |
| Social Services Block Grant   | 93.667         |                                     | 11,212                  |
| Social Services Block Grant   | 93.667         |                                     | 201,683                 |
|   |                |                                     | <u>212,895</u>          |
| Executive Office of the President:  |                |                                     |                         |
| Iowa Department of Public Safety:   |                |                                     |                         |
| High Intensity Drug Trafficking Areas Program   | 95.001         | G10MW0002A                          | 8,878                   |
| High Intensity Drug Trafficking Areas Program   | 95.001         | G11MW0002A                          | 19,315                  |
| High Intensity Drug Trafficking Areas Program   | 95.001         | G12MW0002A                          | 27,710                  |
|   |                |                                     | <u>55,903</u>           |
| U.S. Department of Homeland Security:   |                |                                     |                         |
| Iowa Department of Public Defense:  |                |                                     |                         |
| Iowa Homeland Security and Emergency<br>Management Division:                          |                |                                     |                         |
| Emergency Management Performance Grants   | 97.042         | EMPG-11-PT-70                       | 8,679                   |
| Emergency Management Performance Grants   | 97.042         | EMPG-12-PT-70                       | 29,346                  |
|   |                |                                     | <u>38,025</u>           |
| Total indirect  |                |                                     | <u>1,098,232</u>        |
| Total   |                |                                     | <u>\$ 1,104,473</u>     |

**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 in 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

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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

To the Officials of 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, 2012, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated January 7, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Muscatine County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Muscatine County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Muscatine County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Muscatine County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the County's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-12 and II-B-12 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-C-12 and II-D-12 to be significant deficiencies.

## Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

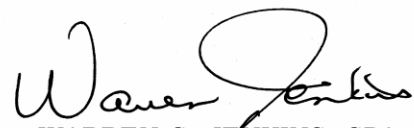
Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all 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.

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

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

We would like to acknowledge the many courtesies and assistance extended to us by 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.

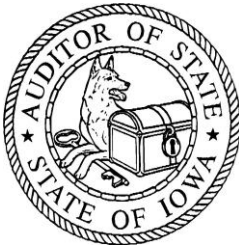
  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 7, 2013

**Independent Auditor's Report on Compliance  
with Requirements That Could Have a Direct and Material Effect  
on Each Major Program and on Internal Control over Compliance in Accordance  
with OMB Circular A-133**

**Muscatine County**



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA

Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Compliance  
with Requirements That Could Have a Direct and Material Effect  
on Each Major Program and on Internal Control over Compliance in Accordance  
with OMB Circular A-133

To the Officials of Muscatine County:

### Compliance

We have audited Muscatine County, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Muscatine County's major federal programs for the year ended June 30, 2012. 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 grant agreements 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, 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 OMB Circular A-133 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 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

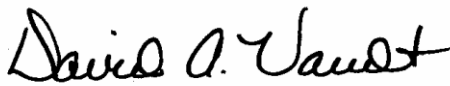
### Internal Control Over Compliance

The management of Muscatine County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Muscatine County's internal control over compliance.

A deficiency in the County's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above.

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, and 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

January 7, 2013

Muscatine County  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2012

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over a major program 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) The major programs were as follows:
  - CFDA Number 20.205 – Highway Planning and Construction
  - CFDA Number 93.667 – Social Services Block Grant
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Muscatine County did not qualify as a low-risk auditee.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-12 Financial Reporting – During the audit, we identified material amounts of payables not recorded in the County’s financial statements. Adjustments were subsequently made by the County to properly include these amounts in the financial statements.

Recommendation – The County should implement procedures to ensure all payables are identified and included in the County’s financial statements.

Response – The County will make every effort to ensure all payables are identified and included in the financial statements.

Conclusion – Response accepted.

II-B-12 Segregation of Duties – During our review of the internal control, the existing procedures are evaluated in order to determine 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, maximize the accuracy of the County’s financial statements. The following weaknesses in the offices identified were noted for which no compensating controls exist:

County Engineer’s Office – All incoming mail should be opened by an employee who is not authorized to make entries to the accounting records. This employee should prepare a listing of cash and checks received. The mail should then be forwarded to the accounting personnel for processing. Later, the same listing should be compared to the cash receipts. There is no evidence of review of the cash receipts log and deposit by an independent person.

County Attorney’s Office – The same person who collects receipts also makes deposits.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, each official should review the operating procedures to obtain the maximum internal control possible under the circumstances. Current personnel, including elected officials, should be utilized to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons to the extent possible and should be evidenced by initials or signature of the reviewer and the date of the review.



Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Responses:

County Engineer – Someone who is not responsible for accounting functions will open the mail and create a log on a frequent random basis to spot check against the deposits.

County Attorney – Incoming mail will be opened in the presence of two individuals. Checks, currency or other financial instruments will be logged by one person and will be processed for deposit by the other. The log of incoming items will be sent to the County Attorney to allow for reconciliation with the deposited items at a later date.

Conclusions – Responses accepted.

- II-C-12 County Sheriff's Office – A reconciliation of book to bank balances was performed for all accounts as of June 30, 2012. The Jail Inmate account had a variance of \$1,989 between the book and bank balances at that date. A listing of individual inmate account balances was maintained at June 30, 2012, but this listing was not reconciled to the bank statement or book balance. Also, the Trust and Jail Inmate accounts have outstanding checks over one year old.

Recommendation – A complete and accurate listing of individual inmate account balances should be prepared and reconciled to the book and bank balances monthly. Variances, if any, should be resolved timely. Also, outstanding checks over one year old should be canceled and removed from the outstanding check listing as required by Chapter 331.554(6) of the Code of Iowa.

Response – The new inmate banking system should solve this issue. Money left and outstanding checks over one year old will be forwarded to the State Treasurer.

Conclusion – Response accepted.

- II-D-12 Sale of Scrap Metal – The County maintains a receptacle for scrap metal which is periodically emptied by a scrap metal vendor. The County receives a check from the vendor for the sales. Supporting documentation was not always available to substantiate the amount paid to the County.

Recommendation – The County should request and retain supporting documentation for all scrap metal sales.

Response – We will endeavor to obtain a weight ticket or other documentation for each transaction. Please note we did have support for some but not all of the receipts for salvage material.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

No matters were noted.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

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

- IV-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted.
- IV-B-12 Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- IV-C-12 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- IV-D-12 Business Transactions – No business transactions between the County and County officials or employees were noted.
- IV-E-12 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 ensure the coverage is adequate for current operations.
- IV-F-12 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- IV-G-12 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-H-12 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).
- IV-I-12 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, 2012 for the County Extension Office did not exceed the amount budgeted.

Certain minutes of meetings of the County Extension Council were not signed.

Recommendation – The Extension Council should ensure minutes are signed as required.

Response – We will bring this to the attention of the Extension Council.

Conclusion – Response accepted.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

IV-J-12 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows cancelled checks to be retained in an electronic format but requires the retention to include an image of both the front and back of each cancelled check. The County Sheriff does not retain electronic images of the back of cancelled checks.

Recommendation – The County Sheriff should retain an image of both the front and back of each cancelled check as required.

Response – We will contact the bank and ask them to provide this.

Conclusion – Response accepted.

IV-K-12 Taxable Fringe Benefits – Certain County expenditures for clothing considered adaptable to general usage as ordinary clothing were not included in wages of employees in accordance with Internal Revenue Service (IRS) guidelines.

Recommendation – The County should properly include taxable fringe benefits in reported employee wages in accordance with IRS guidelines.

Response – The County will review procedures for including clothing expenditures in wages of employees and make changes, if necessary.

Conclusion – Response accepted.

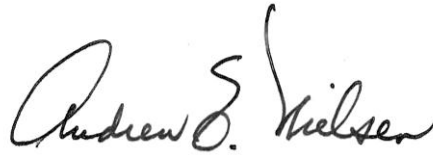
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Muscatine County

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager  
Kelly L. Hilton, Senior Auditor  
James R. Wittenwyler, Senior Auditor  
David C. McQuarry, CPA, Staff Auditor  
Matthew J. Erlbacher, Assistant Auditor  
Kirstie R. Hill, Assistant Auditor  
Kelsey J. Kranz, Assistant Auditor  
Eric L. Rath, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, stylized initial "A".

Andrew E. Nielsen, CPA  
Deputy Auditor of State