



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

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_ January 7, 2005

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

The County had local tax revenue of \$45,681,052 for the year ended June 30, 2004, which included \$2,202,982 in tax credits from the state. The County forwarded \$36,050,138 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$9,630,914 of the local tax revenue to finance County operations, a 6.3 percent decrease from the prior year. Other revenues included charges for service of \$1,534,826, operating grants, contributions and restricted interest of \$6,884,469, capital grants, contributions and restricted interest of \$2,041,798, tax increment financing revenues of \$2,458,523, local option sales tax of \$1,376,438, unrestricted investment earnings of \$164,405 and other general revenues of \$574,150.

Expenses for County operations totaled \$20,126,826, a 6.4 percent increase from the prior year. Expenses included \$5,507,686 for public safety and legal services, \$4,098,526 for roads and transportation and \$4,082,757 for mental health.

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

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**MUSCATINE COUNTY**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2004**

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	14
Statement of Activities	B	15
Governmental Fund Financial Statements:		
Balance Sheet	C	16-17
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	D	19
Statement of Revenues, Expenditures and Changes in Fund Balances	E	20-21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F	22
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	23
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	24
Statement of Cash Flows	I	25
Fiduciary Fund Financial Statement:		
Statement of Fiduciary Assets and Liabilities – Agency Funds	J	26
Notes to Financial Statements		27-41
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds		44-45
Budget to GAAP Reconciliation		46
Notes to Required Supplementary Information – Budgetary Reporting		47
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	50–51
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	52–53
Internal Service Funds:		
Combining Statement of Net Assets	3	54
Combining Schedule of Revenues, Expenses and Changes in Fund Net Assets	4	55
Combining Statement of Cash Flows	5	57
Agency Funds:		
Combining Schedule of Fiduciary Assets and Liabilities	6	58-59
Combining Schedule of Changes in Fiduciary Assets and Liabilities	7	60-61
Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	8	62
Schedule of Expenditures of Federal Awards	9	64-66
Independent Auditor’s Report on Compliance and on Internal Control over Financial Reporting		67–68
Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance		71–72
Schedule of Findings and Questioned Costs		73–82
Staff		83

**Muscatine County**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Marr	Board of Supervisors	Jan 2005
David Watkins	Board of Supervisors	Jan 2005
John Oberhaus	Board of Supervisors	Jan 2007
Esther Dean	Board of Supervisors	Jan 2007
Lewis Morrison	Board of Supervisors	Jan 2007
Leslie Soule	County Auditor	Jan 2005
Jerry Coffman	County Treasurer	Jan 2007
Dorothy Fitchner	County Recorder	Jan 2007
R. Greg Orr	County Sheriff	Jan 2005
Gary Allison	County Attorney	Jan 2007
Dale McCrea	County Assessor	Jan 2010

**Muscatine County**



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Independent Auditor's Report

To the Officials of Muscatine County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Muscatine County, Iowa, as of and for the year ended June 30, 2004, 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

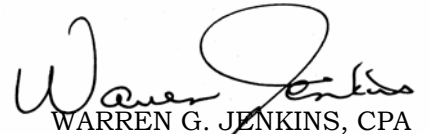
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Muscatine County at June 30, 2004, and the respective changes in financial 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 reports dated October 7, 2004 on our consideration of Muscatine County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 44 through 47 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Muscatine County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

October 7, 2004

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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, 2004. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

### **FINANCIAL HIGHLIGHTS**

- Governmental fund revenue decreased 2%, or approximately \$479,000, from FY03 to FY04.
- Governmental fund expenditures increased 1%, or approximately \$226,000, from FY03 to FY04.
- Property tax decreased approximately \$236,000 and operating grants and contributions increased approximately \$918,000.
- Net assets increased approximately \$4.5 million from FY03.

### **USING THIS ANNUAL REPORT**

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

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

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

Notes to Financial Statements provide additional information that is 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.

Other Supplementary Information provides detailed information about the non-major governmental funds and the individual Internal Service and Agency funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various Federal programs benefiting the County.



## **REPORTING THE COUNTY AS A WHOLE**

### *The Statement of Net Assets and the Statement of Activities*

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

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

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

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

### *Fund Financial Statements*

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

The County has three kinds of funds:

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

The 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 and cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for County offices, City special assessments 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 described in Note 13 on page 41, beginning governmental activities net assets decreased by \$1.6 million to correct accumulated depreciation and decreased by \$17.2 million to report tax increment urban renewal revenue bonds previously excluded. To enhance comparability, all amounts presented for governmental activities for fiscal year 2003 in this discussion and analysis were revised, where applicable, to reflect these changes as if the changes had been made in the prior year.

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

Net Assets of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2004	2003
Current and other assets	\$ 24,323	20,408
Capital assets	16,955	15,187
Total assets	<u>41,278</u>	<u>35,595</u>
Long-term liabilities	21,295	23,199
Other liabilities	13,226	10,177
Total liabilities	<u>34,521</u>	<u>33,376</u>
Net assets:		
Invested in capital assets, net of related debt	12,191	9,912
Restricted	6,244	5,508
Unrestricted	<u>(11,678)</u>	<u>(13,201)</u>
Total net assets	<u>\$ 6,757</u>	<u>2,219</u>

Muscatine County's total net assets increased by approximately \$4.5 million from FY03 to FY04. The largest portion of the County's net assets is the invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, is at a deficit of \$11.7 million. The deficit unrestricted net assets results primarily from the County's liability for tax increment urban renewal revenue bonds issued for IPSCO, Inc. The County does not own and, accordingly, has not recorded the assets for which this debt was issued.

Changes in Net Assets of Governmental Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2004	2003
Revenues:		
Program revenues:		
Charges for service	\$ 1,535	1,659
Operating grants, contributions and restricted interest	6,884	5,966
Capital grants, contributions and restricted interest	2,042	1,353
General revenues:		
Property tax	9,124	9,360
Tax increment financing	2,459	2,458
Penalty and interest on property tax	153	120
State tax credits	507	920
Local option sales tax	1,376	1,310
Grants and contributions not restricted		
to specific purposes	107	328
Unrestricted investment earnings	164	352
Gain on sale of capital assets	5	100
Other general revenues	309	217
Total revenues	24,665	24,143
Program expenses:		
Public safety and legal services	5,508	5,400
Physical health and social services	1,296	1,358
Mental health	4,083	4,410
County environment and education	708	740
Roads and transportation	4,098	3,771
Governmental services to residents	675	637
Administration	1,915	2,011
Non-program	659	330
Interest on long-term debt	1,185	1,589
Total expenses	20,127	20,246
Increase in net assets	4,538	3,897
Net assets July 1, as restated	2,219	(1,678)
Net assets June 30, as restated	\$ 6,757	2,219

Muscatine County property tax rates did not increase in FY04. There was an increase in rural taxable property valuation of \$9,726,677 and a decrease in countywide taxable property valuation of \$10,067,325. Revenues from the State of Iowa in the form of mental health funding decreased by \$349,000 and local option sales tax increased by approximately \$66,000 during the fiscal year.

## **INDIVIDUAL MAJOR FUND ANALYSIS**

As Muscatine County completed the year, its governmental funds reported a combined fund balance of approximately \$10.8 million, which is higher than the \$10 million combined fund balance at the end of FY03. The increase is mainly seen in the Secondary Roads Fund due to an increase in revenue and projects that were expected to be completed in FY04 that will carry over into FY05. As these projects are completed the Secondary Roads Fund balance will decrease.

The General Fund, the operating fund for Muscatine County, ended FY04 with a fund balance of \$3.9 million. This was a slight reduction from the FY03 ending balance of \$4 million. FY04 saw a decrease in property valuation from \$1,322,069,127 in FY03 to \$1,312,001,802 in FY04. The levy rate for the General Fund remained the same in FY03 and FY04.

Muscatine County has continued to look for ways to effectively manage the cost of mental health services in the Mental Health Fund. FY04 ended with a \$1.6 million balance, whereas FY03 ended with a \$1.4 million balance. Although the levy rate remained the same from FY03 to FY04, the increased fund balance is directly related to the privatization of services at the County care facility in May 2001, which allowed residents access to Medicaid funding.

The Rural Services Fund ended FY04 with a \$56,000 balance compared to the prior year ending balance of \$85,000. The decrease is primarily due to a decrease of state credits of approximately \$34,000 while expenditures and transfers exceeded revenues by approximately \$29,000.

The Secondary Roads Fund ended FY04 with a \$3.4 million balance, compared to the prior year ending balance of \$2.7 million. While total FY04 expenditures in the fund increased approximately \$274,000, FY04 intergovernmental revenue and local option sales tax revenue increased approximately \$431,000. In addition, revenues and transfers in have exceeded expenditures for the past two years. Along with a semi tractor, the County purchased two motor graders in FY04. Muscatine County maintained 415 miles of gravel, 21 miles of dirt, 43 miles of seal coated, 129 miles of paved roads and 110 bridges with the resources of this fund.

The Debt Service Fund ended FY04 with a \$269,000 balance compared to the prior year ending balance of \$189,000. Due to the refinancing of the VPA Jail bonds, capital lease purchase agreement payments were reduced from approximately \$730,000 in FY03 to \$654,000 in FY04.

## **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 functional disbursements by fund, the legal level of control is at the aggregated function (service area) level, not by fund. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The County budget is prepared on the cash basis. Over the course of the year, Muscatine County amended the operating budget twice. The first amendment was made in December 2003 and the second amendment was made in June 2004. Both amendments were to adjust for expenditure and revenue changes after the certification of the FY04 budget. During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the debt service function. The overexpenditure was due to tax increment urban renewal revenue bond principal and interest payments for which the County has not historically budgeted. These disbursements should be budgeted.

None of the amendments made during the 2004 fiscal year should have any impact on the fiscal year 2005 budget.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of FY04, Muscatine County had approximately \$17 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This is a net increase of approximately \$1.8 million from FY03. Muscatine County had depreciation expense of \$918,000 in FY04 and total accumulated depreciation of \$11,347,000 at June 30, 2004. The significant increase in capital assets was primarily due to an increase in infrastructure and the purchase of two motor graders. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

### **Debt**

At the end of FY04, Muscatine County had \$4,744,000 in lease purchase agreements outstanding, compared to \$5,274,000 at the end of FY03, and \$15,674,000 in tax increment urban renewal revenue bonds outstanding, compared to \$17,062,000 at the end of FY03.

Outstanding debt decreased as a result of the lease purchase payments for the County jail and vehicles. Muscatine County's general obligation debt continues to carry the A1 rating assigned by Moody's Investors Service, a national rating agency. The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 percent of the assessed value of all taxable property within the county's corporate limits. Muscatine County's outstanding debt is significantly below its constitutional debt limit of \$104 million. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

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

Muscatine County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget and tax rates. In an ongoing effort to maintain County services without raising tax levies, the Muscatine County Board of Supervisors is committed to limiting expenditure increases and using excess fund balances to provide services.

Amounts available for appropriation in the FY05 operating budget are approximately \$22.5 million, an increase of 4% over the final 2004 budget. Muscatine County will spend down fund balances to finance programs currently offered and to offset the effect inflation has on program costs. Increased wage adjustments for pay-plan employees represent the largest portion of the increased expenses. Muscatine County has added no major projects to the 2005 budget, but will begin construction of the new Discovery Center to be paid from the Conservation Land Acquisition Trust Fund.

If these estimates are realized, Muscatine County's operating fund balances are expected to decrease from \$10.8 million to approximately \$7 million by the close of 2005.

## **CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Muscatine County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sherry Seright at the Muscatine County Budget Coordinator's Office, 401 East 3rd Street, Muscatine, Iowa, 52761.

## **Basic Financial Statements**

**Exhibit A**

Muscatine County  
Statement of Net Assets  
June 30, 2004

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and pooled investments	\$ 10,928,151
Receivables:	
Property tax:	
Delinquent	104,118
Succeeding year	8,835,000
Tax increment financing:	
Succeeding year	2,659,000
Interest and penalty on property tax	239,037
Accounts	21,340
Accrued interest	7,992
Due from other governments	1,182,436
Inventories	180,050
Prepaid insurance	166,149
Capital assets (net of accumulated depreciation)	16,954,814
<b>Total assets</b>	<u>41,278,087</u>
<b>Liabilities</b>	
Accounts payable	1,084,991
Accrued interest payable	169,801
Salaries and benefits payable	105,848
Due to other governments	300,130
Deferred revenue:	
Succeeding year property tax	8,906,000
Succeeding year tax increment financing	2,659,000
Long-term liabilities:	
Portion due or payable within one year:	
Capital lease purchase agreements	554,240
Tax increment urban renewal revenue bonds	1,493,000
Installment purchase	6,361
Compensated absences	363,974
Portion due or payable after one year:	
Capital lease purchase agreements	4,190,000
Tax increment urban renewal revenue bonds	14,181,000
Installment purchase	13,647
Compensation absences	492,702
<b>Total liabilities</b>	<u>34,520,694</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	12,190,566
Restricted for:	
Mental health purposes	1,621,902
Secondary roads purposes	3,182,226
Debt service	105,828
Other purposes	1,334,570
Unrestricted	(11,677,699)
<b>Total net assets</b>	<u>\$ 6,757,393</u>

See notes to financial statements.

Muscatine County  
Statement of Activities  
Year ended June 30, 2004

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
<b>Functions / Programs:</b>					
Governmental activities:					
Public safety and legal services	\$ 5,507,686	435,776	1,367,767	-	(3,704,143)
Physical health and social services	1,295,544	74,119	290,778	-	(930,647)
Mental health	4,082,757	46,064	2,213,898	-	(1,822,795)
County environment and education	707,953	29,841	27,436	407,073	(243,603)
Roads and transportation	4,098,526	102,054	2,445,054	1,634,509	83,091
Governmental services to residents	675,378	642,146	26,749	-	(6,483)
Administration	1,915,006	23,443	103,931	-	(1,787,632)
Non-program	659,090	181,383	408,856	216	(68,635)
Interest on long-term debt	1,184,886	-	-	-	(1,184,886)
<b>Total</b>	<b>\$ 20,126,826</b>	<b>1,534,826</b>	<b>6,884,469</b>	<b>2,041,798</b>	<b>(9,665,733)</b>
<b>General Revenues:</b>					
Property and other county tax levied for:					
General purposes					8,425,917
Debt service					697,962
Tax increment financing					2,458,523
Penalty and interest on property tax					152,802
State tax credits					507,035
Local option sales tax					1,376,438
Grants and contributions not restricted to specific purpose					106,532
Unrestricted investment earnings					164,405
Gain on disposal of capital assets					5,252
Miscellaneous					309,564
<b>Total general revenues</b>					<b>14,204,430</b>
Change in net assets					4,538,697
Net assets beginning of year, as restated					2,218,696
Net assets end of year					<b>\$ 6,757,393</b>

See notes to financial statements.



Muscatine County  
Balance Sheet  
Governmental Funds

June 30, 2004

	Special		
	General	Mental Health	Rural Services
<b>Assets</b>			
Cash and pooled investments	\$ 3,610,042	2,251,463	55,096
Receivables:			
Property tax:			
Delinquent	60,016	20,809	16,594
Succeeding year	5,871,000	1,503,000	821,000
Tax increment financing:			
Succeeding year	-	-	-
Interest and penalty on property tax	239,037	-	-
Accounts	436	3,994	8,852
Accrued interest	7,992	-	-
Due from other funds	147,029	-	-
Due from other governments	425,513	188,939	2,374
Inventories	-	-	-
Prepaid insurance	166,149	-	-
	<b>Total assets</b>	<b>3,968,205</b>	<b>903,916</b>
	<b>\$ 10,527,214</b>	<b>3,968,205</b>	<b>903,916</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 210,606	324,854	1,637
Salaries and benefits payable	75,086	724	901
Due to other funds	4,488	147,215	109
Due to other governments	20,692	278,537	550
Deferred revenue:			
Succeeding year property tax	5,915,000	1,518,000	828,000
Succeeding year tax increment financing	-	-	-
Other	360,354	83,011	16,493
Total liabilities	6,586,226	2,352,341	847,690
Fund balances:			
Reserved for debt service	-	-	-
Unreserved:			
Designated for conservation equipment	17,976	-	-
Undesignated, reported in:			
General fund	3,923,012	-	-
Special revenue funds	-	1,615,864	56,226
Total fund balances	3,940,988	1,615,864	56,226
	<b>Total liabilities and fund balances</b>	<b>3,968,205</b>	<b>903,916</b>
	<b>\$ 10,527,214</b>	<b>3,968,205</b>	<b>903,916</b>

See notes to financial statements.

Revenue				
Secondary Roads	IPSCO TIF	Debt Service	Nonmajor	Total
2,852,936	-	273,578	1,639,880	10,682,995
-	-	6,699	-	104,118
-	-	640,000	-	8,835,000
-	2,659,000	-	-	2,659,000
-	-	-	-	239,037
5,851	-	-	2,207	21,340
-	-	-	-	7,992
4,783	-	-	-	151,812
404,383	-	352	160,875	1,182,436
180,050	-	-	-	180,050
-	-	-	-	166,149
<b>3,448,003</b>	<b>2,659,000</b>	<b>920,629</b>	<b>1,802,962</b>	<b>24,229,929</b>
48,277	-	-	258,624	843,998
29,137	-	-	-	105,848
-	-	-	-	151,812
351	-	-	-	300,130
-	-	645,000	-	8,906,000
-	2,659,000	-	-	2,659,000
-	-	6,607	14,196	480,661
<b>77,765</b>	<b>2,659,000</b>	<b>651,607</b>	<b>272,820</b>	<b>13,447,449</b>
-	-	269,022	-	269,022
-	-	-	-	17,976
-	-	-	-	3,923,012
<b>3,370,238</b>	<b>-</b>	<b>-</b>	<b>1,530,142</b>	<b>6,572,470</b>
<b>3,370,238</b>	<b>-</b>	<b>269,022</b>	<b>1,530,142</b>	<b>10,782,480</b>
<b>3,448,003</b>	<b>2,659,000</b>	<b>920,629</b>	<b>1,802,962</b>	<b>24,229,929</b>

**Muscatine County**

Muscatine County

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

June 30, 2004

**Total governmental fund balances (page 17)** \$ 10,782,480

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$28,301,444 and the accumulated depreciation is \$11,346,630. 16,954,814

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 480,661

The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. 4,163

Long-term liabilities, including capital lease purchase agreements payable, bonds payable, compensated absences payable and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the funds. (21,464,725)

**Net assets of governmental activities (page 14)** \$ 6,757,393

See notes to financial statements.

Muscatine County

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

Year ended June 30, 2004

	Special		
	General	Mental Health	Rural Services
<b>Revenues:</b>			
Property and other county tax	\$ 5,606,559	1,951,670	869,698
Tax increment financing	-	-	-
Interest and penalty on property tax	127,342	-	-
Intergovernmental	2,120,822	2,372,927	73,206
Licenses and permits	188	-	53,891
Charges for service	870,672	46,065	-
Use of money and property	179,976	57,376	-
Miscellaneous	172,581	5,647	-
Total revenues	9,078,140	4,433,685	996,795
<b>Expenditures:</b>			
Operating:			
Public safety and legal services	5,208,398	-	-
Physical health and social services	1,225,631	-	61,159
Mental health	-	4,108,575	-
County environment and education	492,935	-	182,575
Roads and transportation	40,983	-	-
Governmental services to residents	662,900	-	2,313
Administration	1,828,682	-	-
Non-program	34,836	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total expenditures	9,494,365	4,108,575	246,047
Excess (deficiency) of revenues over (under) expenditures	(416,225)	325,110	750,748
<b>Other financing sources (uses):</b>			
Sale of capital assets	-	-	-
Operating transfers in	290,846	-	-
Operating transfers out	(9,000)	(146,681)	(780,000)
Installment purchase	21,720	-	-
Total other financing sources (uses)	303,566	(146,681)	(780,000)
Net change in fund balances	(112,659)	178,429	(29,252)
Fund balances beginning of year	4,053,647	1,437,435	85,478
Fund balances end of year	\$ 3,940,988	1,615,864	56,226

See notes to financial statements.

Revenue				
Secondary Roads	IPSCO TIF	Debt Service	Nonmajor	Total
1,376,438	-	698,129	-	10,502,494
-	2,458,523	-	-	2,458,523
-	-	-	-	127,342
2,556,093	134	36,309	444,039	7,603,530
1,015	-	-	-	55,094
53,507	-	-	64,177	1,034,421
680	-	-	80,037	318,069
36,596	-	-	455,873	670,697
4,024,329	2,458,657	734,438	1,044,126	22,770,170
-	-	-	85,608	5,294,006
-	-	-	-	1,286,790
-	-	-	-	4,108,575
-	-	-	15,766	691,276
3,933,837	-	-	-	3,974,820
-	-	-	6,418	671,631
-	-	-	41,269	1,869,951
-	-	-	409,072	443,908
-	2,458,657	654,394	-	3,113,051
219,696	-	-	356,072	575,768
4,153,533	2,458,657	654,394	914,205	22,029,776
(129,204)	-	80,044	129,921	740,394
11,725	-	-	-	11,725
780,000	-	-	17,142	1,087,988
-	-	-	(152,307)	(1,087,988)
-	-	-	-	21,720
791,725	-	-	(135,165)	33,445
662,521	-	80,044	(5,244)	773,839
2,707,717	-	188,978	1,535,386	10,008,641
3,370,238	-	269,022	1,530,142	10,782,480

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, 2004

**Net change in fund balances - Total governmental funds (page 21)** \$ 773,839

**Amounts reported for governmental activities in the Statement of Activities  
are different because:**

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

Expenditures for capital assets	\$ 1,146,358	
Capital assets contributed by the Iowa Department of Transportation	1,572,016	
Depreciation expense	(918,444)	1,799,930

In the Statement of Activities, the gain on the disposition of capital assets is reported whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (6,473)

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	(2,176)	
Other	142,081	139,905

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 debt repayments exceeded debt issuances, as follows:

Issued	(21,720)	
Repaid	1,919,621	1,897,901

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

Compensated absences	5,881	
Accrued interest on long-term debt	(10,076)	(4,195)

The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. (62,210)

**Change in net assets of governmental activities (page 15)** \$ 4,538,697

See notes to financial statements.

Muscatine County  
 Statement of Net Assets  
 Proprietary Funds  
 June 30, 2004

	<u>Internal Service</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 245,156
<b>Liabilities</b>	
Accounts payable	<u>240,993</u>
<b>Net Assets</b>	
Unrestricted	<u>\$ 4,163</u>

See notes to financial statements.



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

Year ended June 30, 2004

		<u>Internal Service</u>
Operating revenues:		
Reimbursements from operating funds		\$ 1,170,954
Reimbursements from others		<u>161,408</u>
Total operating revenues		1,332,362
Operating expenses:		
Health claims and administrative services	\$ 1,338,237	
Loss contingencies and deductibles	50,797	
Miscellaneous	<u>6,656</u>	<u>1,395,690</u>
Operating loss		(63,328)
Non-operating revenues:		
Interest income		<u>1,118</u>
Change in net assets		(62,210)
Net assets beginning of year		<u>66,373</u>
Net assets end of year		<u>\$ 4,163</u>

See notes to financial statements.

Muscatine County  
 Statement of Cash Flows  
 Proprietary Funds  
 Year ended June 30, 2004

	Internal Service
Cash flows from operating activities:	
Cash received from operating funds	\$ 1,170,954
Cash received from employees and others	161,755
Cash paid to suppliers for services	(1,326,047)
Net cash provided by operating activities	6,662
Cash flows from investing activities:	
Interest on investments	1,118
Net increase in cash and cash equivalents	7,780
Cash and cash equivalents beginning of year	237,376
Cash and cash equivalents end of year	\$ 245,156
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>	
Operating loss	\$ (63,328)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Decrease in accounts receivable	348
Increase in accounts payable	69,642
Net cash provided by operating activities	\$ 6,662

See notes to financial statements.

Muscatine County  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
June 30, 2004

**Assets**

Cash and pooled investments:	
County Treasurer	\$ 2,644,189
Other County officials	463,842
Receivables:	
Property tax:	
Delinquent	263,087
Succeeding year	32,845,000
Accounts	29,125
Assessments	451,575
Due from other governments	55,216
<b>Total assets</b>	<u>36,752,034</u>

**Liabilities**

Accounts payable	28,430
Due to other governments	35,938,883
Trusts payable	722,605
Compensated absences	62,116
<b>Total liabilities</b>	<u>36,752,034</u>

**Net assets** \$ -

See notes to financial statements.

Muscatine County

Notes to Financial Statements

June 30, 2004

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

B. Basis of Presentation

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions 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 secondary road construction and maintenance.

The IPSCO TIF Fund is used to account for the payment of interest and principal on the IPSCO tax increment urban renewal revenue bonds.

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

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 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 period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and 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 and similar arrangements 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-reimbursements grant resources to such programs, followed by categorical block grants, and then by general revenues.

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 balance sheet:

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year.

However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds 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, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2003.

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

Assessments Receivable – Assessments receivable represent amounts assessed to individuals for work done that benefits 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. Assessments receivable represent assessments which are due and payable but have not been collected.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2004, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and 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
Land, buildings and improvements	25,000
Equipment and vehicles	5,000

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

Asset Class	Estimated Useful lives (In Years)
Buildings and improvements	20 - 50
Infrastructure	10 - 65
Equipment	2 - 20
Vehicles	3 - 10

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

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

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

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. 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, reservations of fund balance are reported for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the debt service function.

**(2) Cash and Pooled Investments**

The County's deposits in banks at June 30, 2004 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 investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$6,000,000 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

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

The detail of interfund receivables and payables at June 30, 2004 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue: Mental Health	<u>\$ 147,029</u>
Special Revenue: Secondary Roads	General	4,488
	Special Revenue: Mental Health	186
	Rural Services	109
		<u>4,783</u>
Total		<u>\$ 151,812</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, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General Fund	Special Revenue: Mental Health	\$ 146,681
	Conservation Land Acquisition Trust	17,976
	Turkey Growers CDBG	125,000
	Capital Projects	1,189
		<u>290,846</u>
Special Revenue: Secondary Roads	Special Revenue: Rural Services	780,000
Conservation Land Acquisition Trust	General	9,000
Conservation Youth Corp	Special Revenue: Conservation Land Acquisition Trust	8,142
Total		<u>\$ 1,087,988</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, 2004 was as follows:

	Balance Beginning of Year (as restated, note 13)	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 2,011,835	-	-	2,011,835
Land, road network	-	278,056	-	278,056
Construction in progress	86,207	1,813,604	(1,269,958)	629,853
Total capital assets not being depreciated	2,098,042	2,091,660	(1,269,958)	2,919,744
Capital assets being depreciated:				
Buildings and improvements	17,469,793	-	-	17,469,793
Equipment and vehicles	4,979,248	694,847	(300,861)	5,373,234
Infrastructure, road network	763,308	1,269,958	-	2,033,266
Infrastructure, other	505,407	-	-	505,407
Total capital assets being depreciated	23,717,756	1,964,805	(300,861)	25,381,700
Less accumulated depreciation for:				
Buildings and improvements	7,649,705	287,097	-	7,936,802
Equipment and vehicles	2,926,696	554,705	(201,015)	3,280,386
Infrastructure, road network	9,067	54,164	-	63,231
Infrastructure, other	43,733	22,478	-	66,211
Total accumulated depreciation	10,629,201	918,444	(201,015)	11,346,630
Total capital assets being depreciated, net	13,088,555	1,046,361	(99,846)	14,035,070
Governmental activities capital assets, net	\$ 15,186,597	3,138,021	(1,369,804)	16,954,814

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 348,710
Physical health and social services	2,261
Mental health	27,443
County environment and education	17,340
Roads and transportation	460,367
Governmental services to residents	2,256
Administration	11,930
Non-program	48,137
Total depreciation expense - governmental activities	\$ 918,444

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

**(6) Due to Other Governments**

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

Fund	Description	Amount
General	Services	\$ 20,692
Special Revenue:		
Mental Health	Services	278,537
Rural Services	Services	550
Secondary Roads	Services	351
		<u>279,438</u>
Total for governmental funds		<u>\$ 300,130</u>
Agency:		
County Assessor	Collections	\$ 768,543
Schools		19,878,851
Community Colleges		749,918
Corporations		12,239,577
Auto License and Use Tax		726,593
All other		1,575,401
Total for agency funds		<u>\$ 35,938,883</u>

**(7) Changes in Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Tax Increment				Total
	Capital Lease Purchase Agreements	Urban Renewal Revenue Bonds	Installment Purchase	Compen-sated Absences	
Balance beginning of year, as restated	\$ 5,274,149	17,062,000	-	862,557	23,198,706
Increases	-	-	21,720	524,943	546,663
Decreases	529,909	1,388,000	1,712	530,824	2,450,445
Balance end of year	<u>\$ 4,744,240</u>	<u>15,674,000</u>	<u>20,008</u>	<u>856,676</u>	<u>21,294,924</u>
Due within one year	\$ 554,240	1,493,000	6,361	363,974	2,417,575

The July 1, 2003 long-term liabilities balance for governmental activities has been restated as follows:

Balance June 30, 2003, as previously reported	\$ 6,136,706
Tax increment urban renewal revenue bonds not previously reported	<u>17,062,000</u>
Balance July 1, 2003, as restated	<u>\$ 23,198,706</u>

### Capital Lease Purchase Agreements

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

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

The County has also entered into a capital lease purchase agreement for a vehicle for the Sheriff's Office.

The following is a schedule of the future minimum lease payments, including interest ranging from 2.50% to 3.40% per annum for the correctional facility and 5.00% for the Sheriff's vehicle, and the present value of net minimum lease payments under the agreements in effect at June 30, 2004:

<u>Year</u> <u>ending</u> <u>June 30,</u>	<u>Correctional</u> <u>Facility</u>	<u>Sheriff's</u> <u>Vehicle</u>	<u>Total</u>
2005	\$ 673,318	19,900	693,218
2006	674,943	-	674,943
2007	676,193	-	676,193
2008	672,068	-	672,068
2009	679,818	-	679,818
2010-2012	2,026,996	-	2,026,996
Total minimum lease payments	5,403,336	19,900	5,423,236
Less amount representing interest	(678,336)	(660)	(678,996)
Present value of net minimum lease payments	\$ 4,725,000	19,240	4,744,240

Payments under capital lease purchase agreements for the year ended June 30, 2004 totaled \$682,448.

### Tax Increment Urban Renewal Revenue Bonds

On August 3, 1995, the County issued \$23,550,000 of urban renewal tax increment revenue bonds. The bonds bear interest at 7.49% per annum with final maturity on April 10, 2012. The proceeds were used to make an economic development grant to IPSCO Steel, Inc. as an incentive to encourage them to construct and equip a steel manufacturing facility in the County.

Since repayment of the bonds is dependent upon the amount of tax increment financing revenues collected each year, a formal repayment schedule has not been established for the tax increment urban renewal revenue bonds. Interest is due and payable from tax increment financing revenues on October 10, 1997 and semi-annually thereafter until final maturity on April 10, 2012.

During the year ended June 30, 2004, the County paid principal of \$1,388,000 on the bonds. The balance of the bonds at June 30, 2004 was \$15,674,000. The bonds are not a general obligation of the County. However, the debt is subject to the constitutional debt limitation of the County.

### Installment Purchase

On April 5, 2004, the County entered into an installment purchase agreement for \$21,720 to purchase a truck. The agreement bears interest at the rate of 4.9% per annum and requires monthly payments of \$650, including interest, with the final payment due on April 5, 2007. The balance of the agreement at June 30, 2004 was \$20,008.

## **(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.

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll, except for law enforcement employees, in which case the percentages for the year ended June 30, 2004 are 4.99% and 7.48%, respectively. For the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 8.05%, respectively, and for the year ended June 30, 2002, the contribution rates for law enforcement employees and the County were 5.50% and 8.25%, respectively. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$384,023, \$391,391 and \$387,994, respectively, equal to the required contributions for each year.

## **(9) Turkey Growers Community Development Block Grant Fund**

During the year ended June 30, 2001, the County was awarded a grant totaling \$125,000 for economic development from the Iowa Department of Economic Development. The County subsequently loaned \$125,000 to Iowa Turkey Growers Cooperative. This interest free loan is to be amortized over a five year period with quarterly payments of \$7,813. The first payment was due January 1, 2001. A Turkey Growers Community Development Block Grant Fund has been established and the County intends to use these funds to establish a revolving loan fund for a housing development program. Loan payments of \$15,625 were received by the County during the year ended June 30, 2004, and the loan has been paid in its entirety as of June 30, 2004.

## **(10) Risk Management**

Muscatine County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 490 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

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

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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2004 were \$157,144.

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

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the County's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.



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

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation, boiler and machinery and employee blanket bond in the amount of \$5,000,000 and \$11,000,000, and \$50,000 (\$250,000 for certain employees), respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(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, 2004 was \$1,150,954.

Amounts payable from the Health Insurance Trust Fund at June 30, 2004 total \$239,807, 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. 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 at July 1, 2003	\$ 171,351
Incurred claims (including claims incurred but not reported at June 30, 2004)	1,406,693
Payment on claims during the fiscal year	<u>(1,338,237)</u>
Unpaid claims at June 30, 2004	<u><u>\$ 239,807</u></u>

**(12) Commitments**

The County has entered into a construction contract totaling \$1,683,999 for a new learning center. As of June 30, 2004, costs of \$190,373 had been incurred against this contract. The remaining \$1,493,626 will be paid as work on this project progresses. The project will be funded primarily through private grants, donations and a state grant.

**(13) Restatement/Reclassification**

Beginning net assets for governmental activities has been restated due to errors in reporting of accumulated depreciation in the prior year and the addition of tax increment urban renewal revenue bonds payable that were previously not reported. The restatement decreased the beginning net assets by \$18,810,248, as follows:

	<u>Amount</u>
Net assets June 30, 2003, as previously reported	\$ 21,028,944
Correction of prior year accumulated depreciation	(1,588,523)
Tax increment urban renewal revenue bonds	(17,062,000)
Accrued interest payable at June 30, 2003 for the tax increment urban renewal revenue bonds	<u>(159,725)</u>
Net assets July 1, 2003, as restated	<u>\$ 2,218,696</u>

The IPSCO TIF fund has been reclassified from the agency funds to the governmental funds. Since the fund had no balance at June 30, 2003, the reclassification has no effect on the beginning agency or governmental fund balances.

The beginning fund balance of the Capital Projects Fund was decreased by \$215,088 and the beginning fund balance of the Special Revenue, Geographic Information System Fund was increased by \$215,088. This restatement was made to more properly reflect the nature of the remaining assets.

**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, 2004

	Actual	Budgeted Original
Receipts:		
Property and other county tax	\$ 10,600,746	10,614,802
Tax increment financing	2,458,523	-
Interest and penalty on property tax	127,139	119,500
Intergovernmental	7,435,151	9,019,852
Licenses and permits	47,737	66,600
Charges for service	1,020,408	842,050
Use of money and property	383,366	355,000
Miscellaneous	640,453	59,300
Total receipts	<u>22,713,523</u>	<u>21,077,104</u>
Disbursements:		
Public safety and legal services	5,284,630	5,250,782
Physical health and social services	1,353,977	1,505,880
Mental health	3,977,566	4,933,783
County environment and education	701,617	718,811
Roads and transportation	3,982,164	4,212,000
Governmental services to residents	671,369	665,976
Administration	1,949,895	2,040,263
Non-program	336,792	50,000
Debt service	3,113,051	729,648
Capital projects	501,750	3,645,335
Total disbursements	<u>21,872,811</u>	<u>23,752,478</u>
Excess (deficiency) of receipts over (under) disbursements	840,712	(2,675,374)
Other financing sources, net	33,361	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	874,073	(2,675,374)
Balance beginning of year	<u>9,808,922</u>	<u>8,772,533</u>
Balance end of year	<u>\$ 10,682,995</u>	<u>6,097,159</u>

See accompanying independent auditor's report.

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<u>Amounts</u>	Final to
Final	Net Variance
10,614,802	(14,056)
-	2,458,523
119,500	7,639
8,668,784	(1,233,633)
40,100	7,637
1,022,550	(2,142)
424,050	(40,684)
147,300	493,153
<u>21,037,086</u>	<u>1,676,437</u>
5,449,547	164,917
1,528,077	174,100
4,933,783	956,217
713,811	12,194
4,212,000	229,836
702,281	30,912
2,146,558	196,663
347,735	10,943
729,648	(2,383,403)
3,208,526	2,706,776
<u>23,971,966</u>	<u>2,099,155</u>
(2,934,880)	3,775,592
-	33,361
(2,934,880)	3,808,953
<u>9,462,350</u>	<u>346,572</u>
<u>6,527,470</u>	<u>4,155,525</u>

Muscatine County  
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation  
 Required Supplementary Information  
 Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 22,713,523	56,647	22,770,170
Expenditures	21,872,811	156,965	22,029,776
Net	840,712	(100,318)	740,394
Other financing sources, net	33,361	84	33,445
Beginning fund balances	9,808,922	199,719	10,008,641
Ending fund balances	\$ 10,682,995	99,485	10,782,480

See accompanying independent auditor's report.

Muscatine County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

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 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects 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, two budget amendments increased budgeted disbursements by \$219,488. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the debt service function. The overexpenditure was due to tax increment urban renewal revenue bond principal and interest payments for which the County has not historically budgeted. These disbursements should be budgeted.

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.



**Muscatine County**

**Other Supplementary Information**

Muscatine County  
 Combining Balance Sheet  
 Nonmajor Governmental Funds

June 30, 2004

	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	Resource Enhance- ment	Conservation Land Acquisition Trust	Special Conservation Youth Corp
<b>Assets</b>					
Cash and pooled investments	\$ 43,832	22,759	74,853	1,222,028	8,142
Accounts receivable	-	-	-	1,151	-
Due from other governments	-	14,196	-	-	-
<b>Total assets</b>	<b>\$ 43,832</b>	<b>36,955</b>	<b>74,853</b>	<b>1,223,179</b>	<b>8,142</b>
<b>Liabilities and Fund Equity</b>					
Liabilities:					
Accounts payable	\$ -	-	-	98,401	107
Deferred revenue	-	14,196	-	-	-
Total liabilities	-	14,196	-	98,401	107
Fund equity:					
Unreserved fund balances	43,832	22,759	74,853	1,124,778	8,035
<b>Total liabilities and fund equity</b>	<b>\$ 43,832</b>	<b>36,955</b>	<b>74,853</b>	<b>1,223,179</b>	<b>8,142</b>

See accompanying independent auditor's report.

Revenue								
Jail Commissary	County Sheriff's Canine	County Sheriff's Forfeiture	Community Policing	Emergency Medical Services Training	MCSA Community Development Block Grant	Geographic Information System		Total
49,803	370	36,356	1,593	6,325	-	173,819		1,639,880
1,056	-	-	-	-	-	-		2,207
-	-	-	-	16,461	130,218	-		160,875
50,859	370	36,356	1,593	22,786	130,218	173,819		1,802,962
24,908	-	-	-	4,990	130,218	-		258,624
-	-	-	-	-	-	-		14,196
24,908	-	-	-	4,990	130,218	-		272,820
25,951	370	36,356	1,593	17,796	-	173,819		1,530,142
50,859	370	36,356	1,593	22,786	130,218	173,819		1,802,962

Muscatine County

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

Year ended June 30, 2004

	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	Resource Enhance- ment	Conservation Land Acquisition Trust	Conservation Youth Corp	Jail Commissary	Special County Sheriff's Canine
Revenues:							
Intergovernmental	-	-	16,686	-	-	-	-
Charges for service	\$ 11,647	22,689	-	29,841	-	-	-
Use of money and property	283	70	434	8,709	-	70,541	-
Miscellaneous	-	-	-	417,823	-	-	-
Total revenues	11,930	22,759	17,120	456,373	-	70,541	-
Expenditures:							
Operating:							
Public safety and legal services	-	-	-	-	-	62,094	-
County environment and education	-	-	-	15,659	107	-	-
Governmental services to residents	6,418	-	-	-	-	-	-
Administration	-	-	-	-	-	-	-
Non-program	-	-	-	-	-	-	-
Capital projects	-	-	-	338,834	-	-	-
Total expenditures	6,418	-	-	354,493	107	62,094	-
Excess (deficiency) of revenues over (under) expenditures	5,512	22,759	17,120	101,880	(107)	8,447	-
Other financing sources (uses):							
Operating transfers in	-	-	-	9,000	8,142	-	-
Operating transfers out	-	-	-	(26,118)	-	-	-
Total other financing sources (uses)	-	-	-	(17,118)	8,142	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	5,512	22,759	17,120	84,762	8,035	8,447	-
Fund balances beginning of year	38,320	-	57,733	1,040,016	-	17,504	370
Fund balances end of year	\$ 43,832	22,759	74,853	1,124,778	8,035	25,951	370

See accompanying independent auditor's report.

Revenue									
County Sheriff Forfeiture	Community Policing	Emergency Medical Services Training	Turkey Growers Community Development Block Grant	Montpelier Community Development Block Grant	MCSA Community Development Block Grant	Geographic Information System	Capital Projects	Total	
-	275	18,006	-	216	408,856	-	-	444,039	
-	-	-	-	-	-	-	-	64,177	
-	-	-	-	-	-	-	-	80,037	
21,335	-	1,090	15,625	-	-	-	-	455,873	
21,335	275	19,096	15,625	216	408,856	-	-	1,044,126	
7,285	-	16,229	-	-	-	-	-	85,608	
-	-	-	-	-	-	-	-	15,766	
-	-	-	-	-	-	-	-	6,418	
-	-	-	-	-	-	41,269	-	41,269	
-	-	-	-	216	408,856	-	-	409,072	
-	-	-	-	-	-	-	17,238	356,072	
7,285	-	16,229	-	216	408,856	41,269	17,238	914,205	
14,050	275	2,867	15,625	-	-	(41,269)	(17,238)	129,921	
-	-	-	-	-	-	-	-	17,142	
-	-	-	(125,000)	-	-	-	(1,189)	(152,307)	
-	-	-	(125,000)	-	-	-	(1,189)	(135,165)	
14,050	275	2,867	(109,375)	-	-	(41,269)	(18,427)	(5,244)	
22,306	1,318	14,929	109,375	-	-	215,088	18,427	1,535,386	
36,356	1,593	17,796	-	-	-	173,819	-	1,530,142	

**Schedule 3**

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Muscatine County  
Combining Schedule of Net Assets  
Internal Service Funds

June 30, 2004

	Health Insurance Trust	County Insurance Trust	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 202,901	42,255	245,156
<b>Liabilities</b>			
Liabilities:			
Accounts payable	239,807	1,186	240,993
<b>Net Assets</b>			
Unrestricted	\$ (36,906)	41,069	4,163

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, 2004

	Health Insurance Trust	County Insurance Trust	Total
Operating revenues:			
Reimbursements from operating funds	\$ 1,150,954	20,000	1,170,954
Reimbursements from others	130,674	30,734	161,408
Total operating revenues	<u>1,281,628</u>	<u>50,734</u>	<u>1,332,362</u>
Operating expenses:			
Health claims and administrative services	1,338,237	-	1,338,237
Loss contingencies and deductibles	-	50,797	50,797
Miscellaneous	6,656	-	6,656
Total operating expenses	<u>1,344,893</u>	<u>50,797</u>	<u>1,395,690</u>
Operating loss	(63,265)	(63)	(63,328)
Non-operating revenues:			
Interest on investments	1,118	-	1,118
Change in net assets	(62,147)	(63)	(62,210)
Net assets beginning of year	<u>25,241</u>	<u>41,132</u>	<u>66,373</u>
Net assets end of year	<u>\$ (36,906)</u>	<u>41,069</u>	<u>4,163</u>

See accompanying independent auditor's report.



**Schedule 5**

Muscatine County  
Combining Statement of Cash Flows  
Internal Service Funds

Year ended June 30, 2004

	Health Insurance Trust	County Insurance Trust	Total
Cash flows from operating activities:			
Cash received from operating funds	\$ 1,150,954	20,000	1,170,954
Cash received from others	131,021	30,734	161,755
Cash paid to suppliers for services	(1,276,436)	(49,611)	(1,326,047)
Net cash provided by operating activities	5,539	1,123	6,662
Cash flows from investing activities:			
Interest on investments	1,118	-	1,118
Net increase in cash and cash equivalents	6,657	1,123	7,780
Cash and cash equivalents beginning of year	196,244	41,132	237,376
Cash and cash equivalents end of year	\$ 202,901	42,255	245,156
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (63,265)	(63)	(63,328)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Decrease in accounts receivable	348	-	348
Increase in accounts payable	68,456	1,186	69,642
Net cash provided by operating activities	\$ 5,539	1,123	6,662

See accompanying independent auditor's report.

**Muscatine County**

Muscatine County

Combining Schedule of Fiduciary Assets and Liabilities  
Agency Funds

June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools
<b>Assets</b>				
Cash and pooled investments:				
County Treasurer	\$ -	2,744	596,424	295,615
Other county officials	463,842	-	-	-
Receivables:				
Property tax:				
Delinquent	-	1,846	3,882	192,250
Succeeding year	-	181,000	218,000	19,381,000
Accounts	115	-	-	-
Assessments	-	-	-	-
Due from other governments	-	93	115	9,986
<b>Total assets</b>	<b>\$ 463,957</b>	<b>185,683</b>	<b>818,421</b>	<b>19,878,851</b>
<b>Liabilities</b>				
Accounts payable	\$ -	-	-	-
Due to other governments	24,286	185,683	768,543	19,878,851
Trusts payable	439,671	-	-	-
Compensated absences	-	-	49,878	-
<b>Total liabilities</b>	<b>\$ 463,957</b>	<b>185,683</b>	<b>818,421</b>	<b>19,878,851</b>

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	City Special Assessments	Auto License and Use Tax	Drainage Districts	Other	Total
12,280	144,820	5,672	2,686	726,593	543,835	313,520	2,644,189
-	-	-	-	-	-	-	463,842
8,263	51,118	4,998	-	-	-	730	263,087
729,000	12,037,000	280,000	-	-	-	19,000	32,845,000
-	-	-	-	-	1,092	27,918	29,125
-	-	-	439,738	-	714	11,123	451,575
375	6,639	126	-	-	-	37,882	55,216
<b>749,918</b>	<b>12,239,577</b>	<b>290,796</b>	<b>442,424</b>	<b>726,593</b>	<b>545,641</b>	<b>410,173</b>	<b>36,752,034</b>
-	-	-	-	-	-	28,430	28,430
749,918	12,239,577	290,796	442,424	726,593	545,641	86,571	35,938,883
-	-	-	-	-	-	282,934	722,605
-	-	-	-	-	-	12,238	62,116
<b>749,918</b>	<b>12,239,577</b>	<b>290,796</b>	<b>442,424</b>	<b>726,593</b>	<b>545,641</b>	<b>410,173</b>	<b>36,752,034</b>

Muscatine County

Combining Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Funds

Year ended June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools
<b>Assets and Liabilities</b>				
Balances beginning of year, as restated	\$ 537,570	171,829	949,868	18,481,417
Additions:				
Property and other county tax	-	186,773	236,085	20,301,620
E911 surcharge	-	-	-	-
State tax credits	-	9,384	19,648	1,000,286
Office fees and collections	742,313	-	-	-
Electronic transaction fee	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	2,629,159	-	-	-
Miscellaneous	14,615	-	6,662	34,329
Total additions	3,386,087	196,157	262,395	21,336,235
Deductions:				
Agency remittances:				
To other funds	560,466	-	-	-
To other governments	279,246	182,303	393,842	19,938,801
Trusts paid out	2,619,988	-	-	-
Total deductions	3,459,700	182,303	393,842	19,938,801
Balances end of year	\$ 463,957	185,683	818,421	19,878,851

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	City Special Assessments	Auto License and Use Tax	Drainage Districts	Other	Total
781,226	11,617,972	279,973	472,223	693,771	703,412	336,606	35,025,867
756,414	12,553,307	301,192	-	-	-	18,800	34,354,191
-	-	-	-	-	-	130,728	130,728
41,956	602,951	20,607	-	-	-	1,115	1,695,947
-	-	-	-	-	-	-	742,313
-	-	-	-	-	-	58,235	58,235
-	-	-	-	8,473,742	-	-	8,473,742
-	-	-	24,458	-	-	-	24,458
-	-	-	-	-	-	1,771,971	4,401,130
-	5,806	-	-	-	29,760	287,660	378,832
798,370	13,162,064	321,799	24,458	8,473,742	29,760	2,268,509	50,259,576
-	-	-	-	273,759	-	95,974	930,199
829,678	12,540,459	310,976	54,257	8,167,161	187,531	355,998	43,240,252
-	-	-	-	-	-	1,742,970	4,362,958
829,678	12,540,459	310,976	54,257	8,440,920	187,531	2,194,942	48,533,409
749,918	12,239,577	290,796	442,424	726,593	545,641	410,173	36,752,034

**Schedule 8**

## Muscatine County

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

For the Last Four Years

	Modified Accrual Basis			
	2004	2003*	2002*	2001*
<b>Revenues:</b>				
Property and other county tax	\$ 10,502,494	10,602,278	10,314,206	10,145,190
Tax increment financing	2,458,523	2,457,784	2,908,378	2,889,528
Interest and penalty on property tax	127,342	144,830	212,979	104,846
Intergovernmental	7,603,530	7,927,276	8,021,297	8,353,920
Licenses and permits	55,094	15,572	13,029	14,213
Charges for service	1,034,421	1,014,933	949,760	1,483,781
Use of money and property	318,069	527,125	993,777	677,912
Miscellaneous	670,697	559,391	435,417	171,515
<b>Total</b>	<b>\$ 22,770,170</b>	<b>23,249,189</b>	<b>23,848,843</b>	<b>23,840,905</b>
<b>Expenditures:</b>				
<b>Operating:</b>				
Public safety and legal services	\$ 5,294,006	5,020,243	4,813,687	4,694,131
Physical health and social services	1,286,790	1,360,473	1,465,092	1,500,002
Mental health	4,108,575	4,364,043	4,251,095	6,718,152
County environment and education	691,276	682,378	648,066	667,141
Roads and transportation	3,974,820	3,774,979	3,485,159	3,054,161
Governmental services to residents	671,631	625,204	584,730	597,979
Administration	1,869,951	1,898,196	1,968,484	1,883,392
Non-program	443,908	-	55,881	43,410
Debt service	3,113,051	3,638,246	3,423,630	3,375,245
Capital projects	575,768	440,019	824,947	2,730,522
<b>Total</b>	<b>\$ 22,029,776</b>	<b>21,803,781</b>	<b>21,520,771</b>	<b>25,264,135</b>

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

See accompanying independent auditor's report.

**Muscatine County**



**Schedule 9**

## Muscatine County

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
Office of National Drug Control Policy: High Intensity Drug Trafficking Area	07.000	I3PMWP563	\$ 29,357
U.S. Department of Homeland Security: Emergency Food and Shelter National Board Program	97.024	20-2992-00	995
Total direct			30,352
Indirect:			
Office of National Drug Control Policy: Iowa Department of Public Safety: High Intensity Drug Trafficking Area Program	07.000	I4PMWP563	33,274
U.S. Department of Agriculture: Iowa Department of Human Services: State Administrative Matching Grants for Food Stamp Program	10.561		22,238
U.S. Department of Housing and Urban Development: Iowa Department of Economic Development: Community Development Block Grants/State's Program Community Development Block Grants/State's Program	14.228 14.228	01-WS-012 02-CF-038	216 408,856 409,072
U.S. Department of Justice: Iowa Department of Human Rights: Juvenile Accountability Incentive Block Grant Juvenile Justice and Delinquency Prevention- Allocation to States Title V-Delinquency Prevention Program Governor's Office of Drug Control Policy: Byrne Formula Grant Program Violence Against Women Formula Grants Iowa Department of Public Safety: Federal Marijuana Eradication Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Program	16.523 16.540 16.548 16.579 16.588 16.000 16.580	33-JD01-F502 33-JD01-F502 33-JD01-F502 03A-0207 VW-04-6187 03-Hot Spots-14	44,768 9,168 3,907 132,272 1,947 2,287 24,954

Muscatine County  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect (continued):			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	BROS C070(28)-8J-70	<u>62,493</u>
Iowa Department of Public Safety:			
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	04-410 Task 29	<u>11,756</u>
U.S. Department of Education:			
Iowa Department of Education:			
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	03-CSPE-01	18,633
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	04-CSPE-01	<u>125,075</u>
			<u>143,708</u>
U.S. Department of Health and Human Services:			
Iowa Department of Human Services:			
Block Grants for Community Mental Health Services	93.958		<u>5,549</u>
Human Services Administrative Reimbursements:			
Temporary Assistance for Needy Families	93.558		<u>28,932</u>
Refugee and Entrant Assistance - State Administered Programs	93.566		<u>96</u>
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		<u>5,318</u>
Foster Care - Title IV-E	93.658		<u>13,218</u>
Adoption Assistance	93.659		<u>3,518</u>
Medical Assistance Program	93.778		<u>29,073</u>
Social Services Block Grant	93.667		<u>19,020</u>
Social Services Block Grant	93.667		<u>184,139</u>
			<u>203,159</u>
Iowa Department of Public Health:			
Public Health and Social Services Emergency Fund	93.003		<u>10,101</u>
Childhood Lead Poisoning Prevention Projects- State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	2003-LP02	<u>1,274</u>
Centers for Disease Control and Prevention- Investigations and Technical Assistance	93.283		11,725

**Schedule 9**

Muscatine County  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect (continued):			
U.S. Department of Health and Human Services:			
Des Moines County Iowa:			
Centers for Disease Control and Prevention- Investigations and Technical Assistance	93.283		33,572
			<u>45,297</u>
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
State Domestic Preparedness Support Program	97.004		255
Hazard Mitigation Grant	97.039		3,248
Emergency Management Performance Grants	97.042		17,139
			<u>1,268,021</u>
Total indirect			<u>1,268,021</u>
Total			<u>\$ 1,298,373</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 on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.



**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  
and on Internal Control over Financial Reporting

To the Officials of Muscatine County:

We have audited the financial statements of Muscatine County, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 7, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items IV-B-04 and IV-J-04.

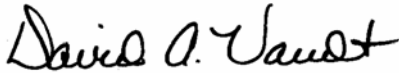
Internal Control Over Financial Reporting

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

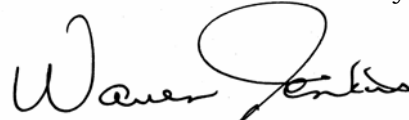
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses. Prior year reportable conditions have been resolved except for items II-A-04, II-B-04, II-C-04 and II-E-04.

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

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



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

October 7, 2004

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

**Muscatine County**



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

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

To the Officials of Muscatine County:

Compliance

We have audited the compliance of Muscatine County, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. Muscatine County's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Muscatine County's management. Our responsibility is to express an opinion on Muscatine County's compliance based on our audit.

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

In our opinion, Muscatine County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

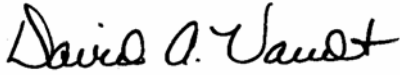
The management of Muscatine County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Muscatine County's internal control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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of

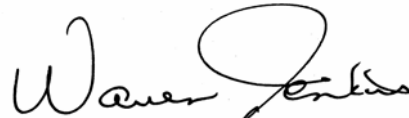


laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

October 7, 2004

Muscatine County  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2004

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

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

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

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

**INSTANCE OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

II-A-04 Segregation of Duties – During our review of 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, maximizes the accuracy of the County's financial statements. Generally, one or two individuals in the County Recorder's Office may have control over the following area for which no compensating controls exist:

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

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

Response – Checks are now prepared and signed by the County Recorder. They are then forwarded to another individual who verifies the check to support and to the monthly report of activities that goes to the Board of Supervisors (BOS). This individual will evidence their review of the checks by initialing the monthly report to the BOS and will mail the checks to the appropriate agency or individual.

Conclusion – Response accepted.

II-B-04 County Attorney – Forfeiture and Confiscated Property Collections – The County Attorney received forfeited and confiscated property collections. These collections were not reflected in the County's accounting system and have not been included in the County's annual budget or monthly financial reports.

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

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

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

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

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

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

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

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

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

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

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

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

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

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

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

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

II-C-04 Information System – The following weaknesses in the County’s computer based systems were noted:

The County does not have written policies for:

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

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

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

Response – The Budget Coordinator has drafted procedures to trace and correct input errors that are currently being reviewed by the County Auditor. We will form a committee to develop a written disaster recovery plan.

Conclusion – Response accepted.

- II-D-04 Credit Cards – The County has credit cards for use by various County departments while on County business. The County has not adopted a formal policy to regulate the use of credit cards or to establish procedures for the proper accounting of credit card charges.

Recommendation – The County should adopt a formal written policy regulating the use of County credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purpose. The policy should also require an itemized vendor receipt to support each charge on the credit card statement.

Response – We will develop and adopt a written policy regulating the use of credit cards.

Conclusion – Response accepted.

- II-E-04 County Sheriff's Office –

Inmate Trust/Commissary Account – A reconciliation of book to bank balances was not performed for June 2004. A variance of \$1,180 existed between the book and bank balance at that date.

Public Funds Account – The book balance at June 30, 2004 did not reconcile to the bank balance at that date by \$687.

Work Release Account – The book balance at June 30, 2004 did not reconcile to the bank balance at that date by \$1,868.

Recommendation – Bank and book balances should be reconciled at the end of each month and variances, if any, should be resolved timely.

Response – We will attempt to reconcile the bank balances to the book balances every month when we receive the bank statements and all variances will be resolved.

Conclusion – Response accepted.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

II-F-04 Cancellation of Paid Invoices – Invoices and/or other documentation is not cancelled to prevent reuse.

Recommendation – Invoices and/or other documentation should be cancelled to prevent reuse.

Response – Supporting documentation will be cancelled with a date stamp.

Conclusion – Response accepted.

II-G-04 Conservator Disbursements – Although an independent person reviews checks to supporting documentation, this independent review is not evidenced.

Recommendation – The independent review of checks to supporting documentation should be evidenced by the initials of the reviewer and the date reviewed.

Response – Check and batch listings are now forwarded to a second person for review. This person will initial the batch listing to evidence review of checks and supporting documentation.

Conclusion – Response accepted.

Muscatine County  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2004

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

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



Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

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

IV-A-04 Official Depositories – A resolution naming official depositories has been adopted by the Board of Supervisors. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

IV-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amount budgeted in the debt service function. The overexpenditure was due to tax increment urban renewal revenue bond principal and interest payments for which the county has not historically budgeted. These disbursements should be budgeted.

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

Response – The tax increment financing revenue bond principal and interest payments will be included in the budget.

Conclusion – Response accepted.

IV-C-04 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-D-04 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

IV-E-04 Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Tina Bacorn, County Sheriff’s Office employee	Inmate uniform repair	\$ 197
Joe Wedekind, Engineer’s Office employee	Mowing	280
William Wilson, Deputy Sheriff	Vehicle repairs	360

In accordance with Chapter 331.342(10) of the Code of Iowa, these transactions do not appear to represent conflicts of interest since the cumulative amount for each individual was less than \$1,500 during the fiscal year.

IV-F-04 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of surety bond coverage should be reviewed annually to insure the coverage is adequate for current operations.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

IV-G-04 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-H-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.

IV-I-04 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-J-04 County Ordinances – The County Board of Supervisors has not completed a compilation of County ordinances.

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

Response – All County ordinances will be compiled in accordance with the Code of Iowa requirements by the end of the fiscal year.

Conclusion – Response accepted.

IV-K-04 E911 Service Board Budget – The proposed budget was not published with the notice of public hearing as required by Chapter 24 of the Code of Iowa.

Recommendation – The E911 Service Board proposed budget should be published with the notice of public hearing as required.

Response – In the future, we will publish the proposed budget in the advertisement for the budget hearing for the Muscatine County E-911 Service Board.

Conclusion – Response accepted.

IV-L-04 Emergency Management Commission Budget – The Emergency Management Commission's proposed budget was not published with the notice of public hearing as required by Chapter 24 of the Code of Iowa and expenditures for the year exceeded the budget.

Recommendation – The Emergency Management Commission proposed budget should be published with the notice of public hearing as required. The budget should be amended in accordance with Chapter 24 of the Code of Iowa before disbursements are allowed to exceed the budget.

Response – In the future, we will publish all of the proposed budget in the advertisement for the budget hearing for the Muscatine County Joint Administration.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Conclusion – Response acknowledged. The budget should be amended as required before disbursements are allowed to exceed the budget.

IV-M-04 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, 2004 for the County Extension Office did not exceed the amount budgeted.

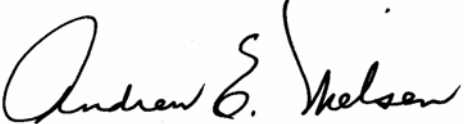
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Muscatine County

Staff

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