



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

David A. Vaudt, CPA  
Auditor of State

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**NEWS RELEASE**

FOR RELEASE

December 24, 2007

Contact: Andy Nielsen  
515/281-5834

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

The County had local tax revenue of \$49,518,330 for the year ended June 30, 2007, which included \$1,666,214 in tax credits from the state. The County forwarded \$38,189,418 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$11,328,912 of the local tax revenue to finance County operations, a 15.7 percent increase over the prior year. Other revenues included charges for service of \$2,142,540, operating grants, contributions and restricted interest of \$7,715,284, capital grants, contributions and restricted interest of \$339,951, tax increment financing of \$2,728,449, local option sales tax of \$1,612,758, unrestricted investment earnings of \$597,342 and other general revenues of \$316,731.

Expenses for County operations totaled \$23,142,585, a 2.8 percent increase over the prior year. Expenses included \$6,541,517 for public safety and legal services, \$5,160,179 for roads and transportation and \$4,615,090 for mental health.

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

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**MUSCATINE COUNTY**

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

**JUNE 30, 2007**

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**Muscatine County**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2007)</b>		
John Oberhaus	Board of Supervisors	Jan 2007
Esther Dean	Board of Supervisors	Jan 2007
Lewis Morrison	Board of Supervisors	Jan 2007
David Watkins	Board of Supervisors	Jan 2009
Kas Kelly	Board of Supervisors	Jan 2009
Leslie Soule	County Auditor	Jan 2009
Jerry Coffman	County Treasurer	Jan 2007
Cindy Gray	County Recorder	Jan 2007
R. Greg Orr	County Sheriff	Jan 2009
Gary Allison	County Attorney	Jan 2007
Dale McCrea	County Assessor	Jan 2010
<b>(After January 2007)</b>		
David Watkins	Board of Supervisors	Jan 2009
Kas Kelly	Board of Supervisors	Jan 2009
Esther Dean	Board of Supervisors	Jan 2011
Tom Furlong	Board of Supervisors	Jan 2011
Wayne Shoultz	Board of Supervisors	Jan 2011
Leslie Soule	County Auditor	Jan 2009
Jerry Coffman	County Treasurer	Jan 2011
Cindy Gray	County Recorder	Jan 2011
R. Greg Orr	County Sheriff	Jan 2009
Gary Allison	County Attorney	Jan 2011
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, 2007, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Muscatine County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Muscatine County at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 13, 2007 on our consideration of Muscatine County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 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 required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Muscatine County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2006 (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, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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

November 13, 2007

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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, 2007. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

### **FINANCIAL HIGHLIGHTS**

- Revenues of the County's governmental activities increased 3.8%, or approximately \$971,000, from fiscal year (FY) 2006 to FY2007. Property tax increased approximately \$1,513,000 and operating and capital grants, contributions and restricted interest decreased approximately \$1,399,000.
- Expenses of the County's governmental activities increased 2.8%, or approximately \$625,000, from FY2006 to FY2007.
- Muscatine County's net assets increased approximately \$3.6 million from June 30, 2006 to June 30, 2007.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year.

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

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

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

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

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

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

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

### *Fund Financial Statements*

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

The County has three kinds of funds:

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

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

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

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

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

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

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

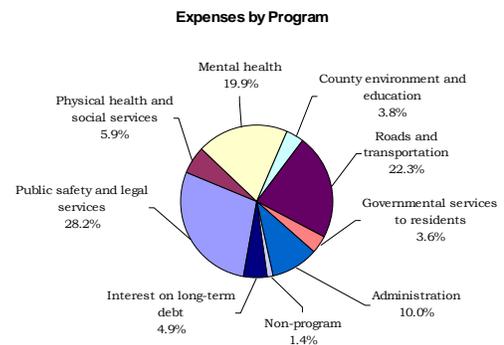
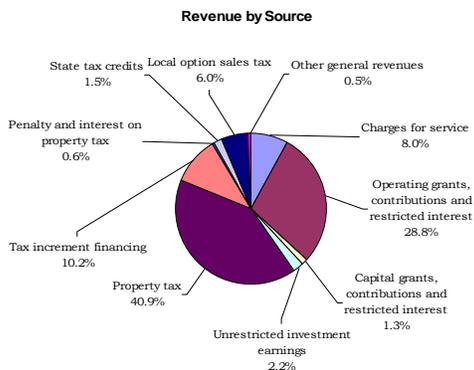
As noted earlier, net assets may serve over time as a useful indicator of financial position.

Net Assets of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2007	2006
Current and other assets	\$ 24,308	22,995
Capital assets	33,702	32,782
Total assets	58,010	55,777
Long-term liabilities	16,145	18,692
Other liabilities	16,283	15,143
Total liabilities	32,428	33,835
Net assets:		
Invested in capital assets, net of related debt	29,451	27,657
Restricted	5,142	4,823
Unrestricted	(9,011)	(10,538)
Total net assets	\$ 25,582	21,942

Muscatine County's total net assets increased by approximately \$3.6 million from 2006 to 2007. The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements—is a deficit of approximately \$9 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,	
	2007	2006
Revenues:		
Program revenues:		
Charges for service	\$ 2,143	1,942
Operating grants, contributions and restricted interest	7,715	6,687
Capital grants, contributions and restricted interest	340	2,767
General revenues:		
Property tax	10,917	9,404
Tax increment financing	2,728	2,519
Penalty and interest on property tax	171	67
State tax credits	412	386
Local option sales tax	1,613	1,426
Unrestricted investment earnings	597	457
Other general revenues	146	156
Total revenues	<u>26,782</u>	<u>25,811</u>
Program expenses:		
Public safety and legal services	6,542	6,325
Physical health and social services	1,355	1,232
Mental health	4,615	4,921
County environment and education	873	850
Roads and transportation	5,160	4,894
Governmental services to residents	826	843
Administration	2,309	2,240
Non-program	331	197
Interest on long-term debt	1,131	1,014
Total expenses	<u>23,142</u>	<u>22,516</u>
Increase in net assets	3,640	3,295
Net assets beginning of year	21,942	18,647
Net assets end of year	<u>\$ 25,582</u>	<u>21,942</u>



Muscatine County's property tax rates were increased by \$.69 per \$1,000 of taxable valuation in FY07. The general supplemental levy was increased by \$.40 per \$1,000 of taxable valuation to keep up with increasing health insurance costs. The mental health fund levy was increased by \$.22 per \$1,000 of taxable valuation to access state funding and maintain an adequate fund balance. The debt service levy increased \$.07 per \$1,000 of taxable valuation due to the remodeling of the former HNI building. There was an increase in rural taxable property valuation of \$32,255,327 and an increase in countywide taxable property valuation of \$75,086,899. Revenues from the State of Iowa in the form of mental health funding increased by \$990,000 and local option sales tax increased by \$187,000 during the fiscal year.

## **INDIVIDUAL MAJOR FUND ANALYSIS**

As Muscatine County completed the year, its governmental funds reported a combined fund balance of approximately \$8.1 million, which is higher than the \$7.9 million combined fund balance at the end of FY06.

The General Fund, the operating fund for Muscatine County, ended FY07 with a fund balance of \$2.7 million. This was an increase to the FY06 ending balance of \$2.5 million. Property valuation increased from \$1,326,641,058 in FY06 to \$1,401,727,957 in FY07.

Muscatine County has continued to look for ways to effectively manage the cost of mental health services in the Mental Health Fund. FY07 ended with a \$1.4 million balance, whereas FY06 ended with a \$239,000 balance. The FY07 levy rate increased by \$0.22 to levy the required dollars to qualify for state mental health allocation monies.

The Rural Services Fund ended FY07 with a \$178,000 balance compared to the prior year ending balance of \$234,000. The property tax levy rate for the Rural Services Fund remained the same in FY06 and FY07. The taxable valuation increase of \$32 million increased the amount of property tax collected by approximately \$51,000.

The Secondary Roads Fund ended FY07 with a \$3.2 million balance, compared to the prior year ending balance of \$3.4 million. Capital project expenditures in the fund in FY07 increased approximately \$991,000 from FY06. Roads and transportation expenditures in the fund increased from FY06 by approximately \$287,000. Local option sales tax revenue increased by \$187,000 and intergovernmental revenue increased \$57,000. Along with a motor grader, the County purchased two pickups in FY07. Muscatine County maintained 415 miles of gravel, 21 miles of dirt, 43 miles of seal coated and 129 miles of paved roads and 110 bridges with the resources of this fund.

The Debt Service Fund ended FY07 with a \$150,000 balance compared to the prior year ending balance of \$272,000. FY07 payments from the Debt Service Fund include the VPA jail capital lease purchase agreement payment of \$676,192 and, along with a bond payment of \$343,788, an additional \$125,000 was spent from the fund to repay the loan for the remodeling of the County Administration Building.

## **BUDGETARY HIGHLIGHTS**

In accordance with the Code of Iowa, the Board of Supervisors annually adopts a budget following required public notice and hearing for all funds except Agency Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function (service area) level, not at the fund level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The County budget is prepared on the cash basis.

Over the course of the year, Muscatine County amended the operating budget twice. The first amendment, made in February 2007, increased mental health disbursements \$512,000, substance abuse treatment disbursements \$70,000, the Administration Building remodel budget an additional \$125,000, Administration Building roof repair \$20,000 and Sheriff Forfeiture disbursements \$20,000. Mental Health Fund revenues were increased \$1.5 million, investment interest increased \$100,000, federal prisoner reimbursement decreased \$250,000, Sheriff Forfeiture revenue increased \$20,000 and loan proceeds for the Administration Building remodel were increased \$125,000.

The second amendment, made in June 2007, increased Record's Management disbursements \$2,300, Recorder revenue decreased \$40,000, investment interest increased an additional \$100,000, Sheriff Forfeiture revenue increased an additional \$70,000 and federal prisoner reimbursement increased \$50,000. Both amendments were to adjust for disbursement and revenue changes after certification of the FY07 budget.

None of the amendments made during the 2007 fiscal year should have any impact on the fiscal year 2008 budget.

The County's receipts were \$626,362 more than budgeted, a variance of two percent.

Total disbursements were \$2,043,653 less than the amended budget. Actual disbursements for the roads and transportation function were \$647,564 less than budgeted, primarily due to milder than expected weather conditions, and mental health disbursements were \$581,645 less than budgeted due to diligent monitoring of mental health services.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of FY07, Muscatine County had approximately \$57.7 million invested in a broad range of capital assets, including public safety equipment, buildings, land, park facilities, roads and bridges. With total accumulated depreciation of \$24 million, Muscatine County's capital assets have a net value of \$33.7 million. This is a net increase of approximately \$920,000 over FY06. See Note 5 to the financial statements for more information about the County's capital assets.

### **Long-Term Debt**

At the end of FY07, Muscatine County had \$3,126,108 in capital lease purchase agreements outstanding, compared to \$3,705,465 at the end of FY06.

Although Muscatine County issued debt of \$125,000 in FY07 for the HNI Building, outstanding debt decreased as a result of the IPSCO tax increment urban renewal revenue bond payments, lease purchase payments for the Muscatine County Jail and vehicle lease payments. Muscatine County's general obligation bond rating continues to carry the A1 rating assigned by Moody's Investors Service, a national rating agency. The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 percent of the assessed value of all taxable property within the county's corporate limits. Muscatine County's outstanding general obligation debt of \$15.1 million is significantly below its constitutional debt limit of \$120 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 BUDGET AND RATES**

Muscatine County's elected and appointed officials considered many factors when setting the fiscal year 2008 budget and tax rates. In an ongoing effort to maintain quality County services, the Muscatine County Board of Supervisors may be required to increase tax levies to offset the effect inflation has on program costs. Wage adjustments for employees represent the largest portion of the increased expenses. Amounts available for appropriation in the FY08 operating budget are approximately \$27.2 million, a decrease of 6% from the final 2007 budget. If these estimates are realized, Muscatine County's operating fund balances are expected to decrease from \$7.3 million to approximately \$5.9 million by the close of FY08.

The unemployment rate for Muscatine County increased from 2.9% in 2006 to 3.3% in 2007.

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

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Muscatine County's finances, and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sherry Seright at the Muscatine County Administration Office, 414 East 3rd Street, Muscatine, Iowa, 52761.

**Muscatine County**

## **Basic Financial Statements**

**Exhibit A**

Muscatine County  
Statement of Net Assets  
June 30, 2007

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and pooled investments	\$ 7,334,822
Receivables:	
Property tax:	
Delinquent	76,095
Succeeding year	11,524,000
Succeeding year tax increment financing	2,779,000
Interest and penalty on property tax	186,712
Accounts	30,932
Accrued interest	64,067
Due from other governments	919,041
Inventories	206,070
Prepaid expenses	1,187,400
Capital assets (net of accumulated depreciation)	33,702,199
<b>Total assets</b>	<u>58,010,338</u>
<b>Liabilities</b>	
Accounts payable	989,278
Accrued interest payable	202,515
Salaries and benefits payable	195,052
Due to other governments	395,005
Deferred revenue:	
Succeeding year property tax	11,642,000
Succeeding year tax increment financing	2,779,000
Other	80,474
Long-term liabilities:	
Portion due or payable within one year:	
Capital lease purchase agreements	590,109
Tax increment urban renewal revenue bonds	1,862,000
General obligation bonds	265,000
Compensated absences	465,816
Portion due or payable after one year:	
Capital lease purchase agreements	2,535,999
Tax increment urban renewal revenue bonds	8,982,000
General obligation bonds	860,000
Compensation absences	584,308
<b>Total liabilities</b>	<u>32,428,556</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	29,451,091
Restricted for:	
Supplemental levy purposes	332,392
Mental health purposes	1,336,143
Secondary roads purposes	2,961,046
Other purposes	512,523
Unrestricted	(9,011,413)
<b>Total net assets</b>	<u>\$ 25,581,782</u>

See notes to financial statements.

Muscatine County  
 Statement of Activities  
 Year ended June 30, 2007

	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	\$ 6,541,517	686,803	1,181,888	-	(4,672,826)
Physical health and social services	1,355,422	117,571	301,834	-	(936,017)
Mental health	4,615,090	80,508	3,584,550	-	(950,032)
County environment and education	872,793	45,305	35,662	14,046	(777,780)
Roads and transportation	5,160,179	200,901	2,418,650	275,905	(2,264,723)
Governmental services to residents	826,262	593,794	15,768	-	(216,700)
Administration	2,309,077	37,085	176,932	-	(2,095,060)
Non-program	331,219	380,573	-	50,000	99,354
Interest on long-term debt	1,131,026	-	-	-	(1,131,026)
<b>Total</b>	<b>\$23,142,585</b>	<b>2,142,540</b>	<b>7,715,284</b>	<b>339,951</b>	<b>(12,944,810)</b>
<b>General Revenues:</b>					
Property and other county tax levied for:					
General purposes					9,926,255
Debt service					990,773
Tax increment financing					2,728,449
Penalty and interest on property tax					170,978
State tax credits					411,884
Local option sales tax					1,612,758
Unrestricted investment earnings					597,342
Miscellaneous					145,753
<b>Total general revenues</b>					<b>16,584,192</b>
Change in net assets					3,639,382
Net assets beginning of year					21,942,400
Net assets end of year					<b>\$ 25,581,782</b>

See notes to financial statements.

Muscatine County  
Balance Sheet  
Governmental Funds

June 30, 2007

	Special		
	General	Mental Health	Rural Services
<b>Assets</b>			
Cash and pooled investments	\$ 2,608,707	1,908,613	181,580
Receivables:			
Property tax:			
Delinquent	46,867	13,265	10,000
Succeeding year	7,585,000	1,959,000	944,000
Succeeding year tax increment financing	-	-	-
Interest and penalty on property tax	186,712	-	-
Accounts	560	452	7,528
Accrued interest	64,067	-	-
Due from other funds	559	-	-
Due from other governments	313,192	151,019	1,501
Inventories	-	-	-
Prepaid expenses	230,400	-	-
<b>Total assets</b>	<b>\$ 11,036,064</b>	<b>4,032,349</b>	<b>1,144,609</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 300,037	155,023	389
Salaries and benefits payable	121,216	17,314	2,828
Due to other funds	11,914	665	-
Due to other governments	24,251	369,855	600
Deferred revenue:			
Succeeding year property tax	7,662,000	1,980,000	953,000
Succeeding year tax increment financing	-	-	-
Other	233,578	93,739	10,000
Total liabilities	<b>8,352,996</b>	<b>2,616,596</b>	<b>966,817</b>
Fund balances:			
Reserved for:			
Debt service	-	-	-
Supplemental levy purposes	322,741	-	-
Unreserved:			
Designated for conservation equipment	2,896	-	-
Undesignated, reported in:			
General fund	2,357,431	-	-
Special revenue funds	-	1,415,753	177,792
Capital projects fund	-	-	-
Total fund balances	<b>2,683,068</b>	<b>1,415,753</b>	<b>177,792</b>
<b>Total liabilities and fund balances</b>	<b>\$ 11,036,064</b>	<b>4,032,349</b>	<b>1,144,609</b>

See notes to financial statements.

Revenue				
Secondary Roads	IPSCO TIF	Debt Service	Nonmajor	Total
1,882,576	-	161,223	535,928	7,278,627
-	-	5,963	-	76,095
-	-	1,036,000	-	11,524,000
-	2,779,000	-	-	2,779,000
-	-	-	-	186,712
6,790	-	-	15,602	30,932
-	-	-	-	64,067
28,826	-	-	-	29,385
449,321	-	-	4,008	919,041
206,070	-	-	-	206,070
957,000	-	-	-	1,187,400
<u>3,530,583</u>	<u>2,779,000</u>	<u>1,203,186</u>	<u>555,538</u>	<u>24,281,329</u>
288,904	-	-	20,323	764,676
47,808	-	-	5,886	195,052
-	-	-	16,806	29,385
299	-	-	-	395,005
-	-	1,047,000	-	11,642,000
-	2,779,000	-	-	2,779,000
-	-	5,962	-	343,279
<u>337,011</u>	<u>2,779,000</u>	<u>1,052,962</u>	<u>43,015</u>	<u>16,148,397</u>
-	-	150,224	-	150,224
-	-	-	-	322,741
-	-	-	-	2,896
-	-	-	-	2,357,431
3,193,572	-	-	506,861	5,293,978
-	-	-	5,662	5,662
<u>3,193,572</u>	<u>-</u>	<u>150,224</u>	<u>512,523</u>	<u>8,132,932</u>
<u>3,530,583</u>	<u>2,779,000</u>	<u>1,203,186</u>	<u>555,538</u>	<u>24,281,329</u>

**Muscatine County**

Muscatine County

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

June 30, 2007

**Total governmental fund balances (page 19)** \$ 8,132,932

***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 \$57,671,329 and the accumulated depreciation is \$23,969,130. 33,702,199

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 262,805

The Internal Service Funds are used by management to charge the costs of partial self funding of the County's health insurance benefit plan and county insurance to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Statement of Net Assets. (168,407)

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. (16,347,747)

**Net assets of governmental activities (page 16)** \$ 25,581,782

See notes to financial statements.

Muscatine County

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

Year ended June 30, 2007

	General	Special	
		Mental Health	Rural Services
<b>Revenues:</b>			
Property and other county tax	\$ 7,013,077	1,984,599	916,132
Local option sales tax	-	-	-
Tax increment financing	-	-	-
Interest and penalty on property tax	135,701	-	-
Intergovernmental	1,942,759	3,658,388	66,609
Licenses and permits	450	-	87,455
Charges for service	902,138	80,508	-
Use of money and property	607,836	9,250	-
Miscellaneous	238,431	4,282	600
Total revenues	10,840,392	5,737,027	1,070,796
<b>Expenditures:</b>			
Operating:			
Public safety and legal services	5,993,738	-	-
Physical health and social services	1,276,866	-	68,670
Mental health	-	4,560,083	-
County environment and education	568,656	-	230,444
Roads and transportation	-	-	-
Governmental services to residents	741,838	-	2,813
Administration	2,056,852	-	-
Non-program	-	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total expenditures	10,637,950	4,560,083	301,927
Excess (deficiency) of revenues over (under) expenditures	202,442	1,176,944	768,869
<b>Other financing sources (uses):</b>			
Sale of capital assets	5,587	-	-
Operating transfers in	8,717	-	-
Operating transfers out	(29,000)	-	(825,000)
General obligation note proceeds	-	-	-
Total other financing sources (uses)	(14,696)	-	(825,000)
Net change in fund balances	187,746	1,176,944	(56,131)
Fund balances beginning of year	2,495,322	238,809	233,923
Fund balances end of year	\$ 2,683,068	1,415,753	177,792

See notes to financial statements.

Revenue				
Secondary Roads	IPSCO TIF	Debt Service	Nonmajor	Total
-	-	989,573	-	10,903,381
1,612,758	-	-	-	1,612,758
-	2,728,449	-	-	2,728,449
-	-	-	-	135,701
2,878,137	-	33,959	79,069	8,658,921
2,250	-	-	-	90,155
7,644	-	-	54,294	1,044,584
-	-	-	191,825	808,911
25,088	-	-	131,899	400,300
4,525,877	2,728,449	1,023,532	457,087	26,383,160
-	-	-	197,087	6,190,825
-	-	-	-	1,345,536
-	-	-	-	4,560,083
-	-	-	63,423	862,523
3,965,737	-	-	-	3,965,737
-	-	-	27,578	772,229
-	-	-	92,743	2,149,595
-	-	-	329	329
-	2,728,449	1,144,980	-	3,873,429
1,519,113	-	-	1,023,995	2,543,108
5,484,850	2,728,449	1,144,980	1,405,155	26,263,394
(958,973)	-	(121,448)	(948,068)	119,766
1,020	-	-	-	6,607
800,000	-	-	54,000	862,717
-	-	-	(8,717)	(862,717)
-	-	-	125,000	125,000
801,020	-	-	170,283	131,607
(157,953)	-	(121,448)	(777,785)	251,373
3,351,525	-	271,672	1,290,308	7,881,559
3,193,572	-	150,224	512,523	8,132,932

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, 2007

**Net change in fund balances - Total governmental funds (page 23)** \$ 251,373

**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	\$ 2,766,633	
Capital assets contributed by the Iowa Department of Transportation	7,425	
Depreciation expense	(1,765,369)	1,008,689

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. (88,223)

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	13,648	
Other	35,276	48,924

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	(125,000)	
Repaid	2,728,212	2,603,212

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

Compensated absences	(56,034)	
Accrued interest on long-term debt	32,403	(23,631)

The Internal Service Funds are used by management to charge the costs of partial self funding of the County's health insurance benefit plan and county insurance to individual funds. The change in net assets of the Internal Service Funds is reported with governmental activities. (160,962)

**Change in net assets of governmental activities (page 17)** \$ 3,639,382

See notes to financial statements.

Muscatine County  
Statement of Net Assets  
Proprietary Funds  
June 30, 2007

	<u>Internal Service</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 56,195
<b>Liabilities</b>	
Accounts payable	<u>224,602</u>
<b>Net Assets</b>	
Unrestricted	<u>\$ (168,407)</u>

See notes to financial statements.

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

Year ended June 30, 2007

	<u>Internal Service</u>
Operating revenues:	
Reimbursements from operating funds	\$ 1,306,534
Reimbursements from others	404,168
Total operating revenues	<u>1,710,702</u>
Operating expenses:	
Health claims and administrative services	1,850,022
Loss contingencies and deductibles	29,733
Miscellaneous	500
Total operating expenses	<u>1,880,255</u>
Operating loss	(169,553)
Non-operating revenues:	
Interest income	<u>8,591</u>
Change in net assets	(160,962)
Net assets beginning of year	<u>(7,445)</u>
Net assets end of year	<u>\$ (168,407)</u>

See notes to financial statements.

Muscatine County  
Statement of Cash Flows  
Proprietary Funds  
Year ended June 30, 2007

	Internal Service
Cash flows from operating activities:	
Cash received from operating funds	\$ 1,330,128
Cash received from others	404,168
Cash paid to suppliers for services	(1,867,993)
Net cash used by operating activities	(133,697)
Cash flows from investing activities:	
Interest on investments	8,591
Net decrease in cash and cash equivalents	(125,106)
Cash and cash equivalents beginning of year	181,301
Cash and cash equivalents end of year	\$ 56,195
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (169,553)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Decrease in accounts receivable	23,594
Increase in accounts payable	12,262
Net cash used by operating activities	\$ (133,697)

See notes to financial statements.

Muscatine County  
Statement of Fiduciary Assets and Liabilities  
Agency Funds

June 30, 2007

**Assets**

Cash and pooled investments:

County Treasurer	\$ 2,806,861
Other County officials	673,653

Receivables:

Property tax:

Delinquent	189,051
Succeeding year	36,651,071

Accounts	30,861
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Assessments	130,228
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Due from other governments	125,769
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<b>Total assets</b>	<u>40,607,494</u>
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**Liabilities**

Accounts payable	126,852
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Salaries and benefits payable	21,225
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Due to other governments	39,336,230
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Trusts payable	1,058,476
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Compensated absences	64,711
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<b>Total liabilities</b>	<u>40,607,494</u>
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<b>Net assets</b>	<u><u>\$ -</u></u>
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See notes to financial statements.

Muscatine County

Notes to Financial Statements

June 30, 2007

**(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, Muscatine County Joint Communications Commission and Job Training Partnership Act Quality Jobs Program.

B. Basis of Presentation

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

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

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

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

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

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

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

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

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

The Debt Service Fund is utilized to account for 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-reimbursement 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 financial statements:

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2006.

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, 2007, 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 acquired after July 1, 1980 (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the County), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost 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 and tax increment financing 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 who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. 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.

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.

Net Assets – The net assets of the Health Insurance Trust and County Insurance Trust Funds are designated for anticipated future catastrophic losses of the County.

E. Budgets and Budgetary Accounting

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

**(2) Cash and Pooled Investments**

The County's deposits in banks at June 30, 2007 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.

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

The detail of interfund receivables and payables at June 30, 2007 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue: Mental Health	\$ 559
Special Revenue: Secondary Roads	General Special Revenue: Mental Health Conservation Land Acquisition	11,914 106 16,806 <u>28,826</u>
Total		\$ <u>29,385</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, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Resource Enhancement and Protection	\$ 8,717
Special Revenue: Conservation Youth Corp Geographic Information System	General General Special Revenue: Rural Services	4,000 25,000 25,000
Secondary Roads	Special Revenue: Rural Services	800,000
Total		\$ <u>862,717</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, 2007 was as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>Beginning</u>		<u>Decreases</u>	<u>End</u>
	<u>of Year</u>	<u>Increases</u>		<u>of Year</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,883,215	100,000	(24,980)	1,958,235
Land, road network	1,172,953	22,760	-	1,195,713
Construction in progress	625,349	922,478	(1,547,827)	-
Construction in progress, road network	193,521	1,327,597	(1,482,170)	38,948
Total capital assets not being depreciated	<u>3,875,038</u>	<u>2,372,835</u>	<u>(3,054,977)</u>	<u>3,192,896</u>
Capital assets being depreciated:				
Buildings and improvements	19,283,593	1,622,827	(161,750)	20,744,670
Equipment and vehicles	6,026,893	424,937	(284,897)	6,166,933
Infrastructure, road network	25,436,004	1,482,170	-	26,918,174
Infrastructure, other	648,656	-	-	648,656
Total capital assets being depreciated	<u>51,395,146</u>	<u>3,529,934</u>	<u>(446,647)</u>	<u>54,478,433</u>
Less accumulated depreciation for:				
Buildings and improvements	8,066,482	366,846	(10,410)	8,422,918
Equipment and vehicles	3,310,373	634,943	(274,280)	3,671,036
Infrastructure, road network	10,997,564	738,236	-	11,735,800
Infrastructure, other	114,032	25,344	-	139,376
Total accumulated depreciation	<u>22,488,451</u>	<u>1,765,369</u>	<u>(284,690)</u>	<u>23,969,130</u>
Total capital assets being depreciated, net	<u>28,906,695</u>	<u>1,764,565</u>	<u>(161,957)</u>	<u>30,509,303</u>
Governmental activities capital assets, net	<u>\$ 32,781,733</u>	<u>4,137,400</u>	<u>(3,216,934)</u>	<u>33,702,199</u>
Governmental activities:				
Public safety and legal services				\$ 317,779
Physical health and social services				4,931
Mental health				28,221
County environment and education				24,446
Roads and transportation				1,183,692
Governmental services to residents				58,861
Administration				147,439
Total depreciation expense - governmental activities				<u>\$ 1,765,369</u>

The cost and accumulated depreciation of the leased county jail facility at June 30, 2007 were \$8,450,000 and \$2,028,000, respectively.

**(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	\$ 24,251
Special Revenue:		
Mental Health	Services	369,855
Rural Services	Services	600
Secondary Roads	Services	299
		<u>370,754</u>
Total for governmental funds		<u>\$ 395,005</u>
Agency:		
County Assessor	Collections	\$ 777,032
Schools		21,135,702
Community Colleges		852,481
Corporations		14,212,236
Townships		315,257
Auto License and Use Tax		765,592
Drainage Districts		622,324
All other		655,606
Total for agency funds		<u>\$ 39,336,230</u>

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

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Tax Increment						Total
	Capital Lease Purchase Agreements	Urban Renewal Revenue Bonds	General Obligation Building Bonds	General Obligation Building Notes	Installment Purchase Agreement	Compensated Absences	
Balance beginning of year	\$ 3,705,465	12,574,000	1,415,000	-	3,855	994,090	18,692,410
Increases	-	-	-	125,000	-	649,691	774,691
Decreases	579,357	1,730,000	290,000	125,000	3,855	593,657	3,321,869
Balance end of year	<u>\$ 3,126,108</u>	<u>10,844,000</u>	<u>1,125,000</u>	<u>-</u>	<u>-</u>	<u>1,050,124</u>	<u>16,145,232</u>
Due within one year	\$ 590,109	1,862,000	265,000	-	-	465,816	3,182,925

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.

The County has also entered into capital lease purchase agreements for copy machines for the County Jail, Community Services and the County Attorney.

The following is a schedule of the future minimum lease payments, including interest ranging from 0.0% to 3.40% per annum, for the correctional facility and various copy machines and the present value of net minimum lease payments under the agreements in effect at June 30, 2007:

Year ending June 30,	Copiers				Total
	Correctional Facility	County Jail	Community Services	County Attorney	
2008	\$ 672,068	11,088	2,652	4,140	689,948
2009	679,818	11,088	2,652	4,140	697,698
2010	671,818	11,088	2,652	4,140	689,698
2011	677,908	-	-	3,450	681,358
2012	677,270	-	-	-	677,270
Total minimum lease payments	3,378,882	33,264	7,956	15,870	3,435,972
Less amount representing interest	(303,882)	(2,002)	-	(3,980)	(309,864)
Present value of net minimum lease payments	\$ 3,075,000	31,262	7,956	11,890	3,126,108

Payments under these capital lease purchase agreements for the year ended June 30, 2007 totaled \$694,073.

#### 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 it 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, 2007, the County paid principal of \$1,730,000 on the bonds. The balance of the bonds at June 30, 2007 was \$10,844,000. The bonds are not a general obligation of the County. However, the debt is subject to the constitutional debt limitation of the County.

#### General Obligation Bonds Payable

A summary of the County's June 30, 2007 general obligation bonded indebtedness is as follows:

Year ending June 30,	Interest Rates	Principal	Interest	Total
2008	3.75%	\$ 265,000	43,057	308,057
2009	3.80	275,000	33,120	308,120
2010	3.85	290,000	22,670	312,670
2011	3.90	295,000	11,505	306,505
Total		\$ 1,125,000	110,352	1,235,352

During the year ended June 30, 2007, the County retired general obligation bonds for the administrative office building and remodeling of \$290,000.

**(8) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$432,575, \$415,830 and \$403,640, respectively, equal to the required contributions for each year.

**(9) 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 556 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, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 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 contributions to the Pool for the year ended June 30, 2007 were \$190,377.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage 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 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, 2007, no liability has been recorded in the County's financial statements. As of June 30, 2007, 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 and employee blanket bond in the amount of \$500,000 and \$100,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **(10) 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, 2007 was \$1,286,534.

Amounts payable from the Health Insurance Trust Fund at June 30, 2007 total \$222,211, 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, 2006	\$ 210,547
Incurred claims (including claims incurred but not reported at June 30, 2007)	1,861,686
Payment on claims during the fiscal year	<u>(1,850,022)</u>
Unpaid claims at June 30, 2007	<u>\$ 222,211</u>

**(11) Subsequent Event**

On June 18, 2007, the County approved the issuance of a \$280,000 general obligation computer equipment note. These notes were subsequently issued in July, 2007. The note bears interest at 4.02% per annum with final maturity on June 1, 2010. The proceeds will be used for the acquisition of computer equipment. Muscatine County has an annual Debt Service Fund levy for which collections are to be used for the purpose of paying the note and interest amounts due.

**(12) Deficit Fund Balance**

The Internal Service, Health Insurance Trust Fund had a deficit fund balance of \$217,557 at June 30, 2007. Monthly premiums paid to the Health Insurance Trust Fund increased as of July 1, 2007.

**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, 2007

	Actual
Receipts:	
Property and other county tax	\$ 12,514,574
Tax increment financing	2,728,449
Interest and penalty on property tax	135,970
Intergovernmental	8,728,902
Licenses and permits	96,759
Charges for service	1,144,861
Use of money and property	786,695
Miscellaneous	269,023
Total receipts	26,405,233
Disbursements:	
Public safety and legal services	6,091,793
Physical health and social services	1,309,842
Mental health	4,539,252
County environment and education	866,031
Roads and transportation	3,894,436
Governmental services to residents	774,575
Administration	2,141,398
Non-program	423
Debt service	3,873,429
Capital projects	3,455,570
Total disbursements	26,946,749
Excess (deficiency) of receipts over (under) disbursements	(541,516)
Other financing sources (uses), net	131,607
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(409,909)
Balance beginning of year	7,688,536
Balance end of year	\$ 7,278,627

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
12,271,321	12,271,321	243,253
2,800,000	2,800,000	(71,551)
132,000	132,000	3,970
7,204,542	8,545,468	183,434
120,150	120,150	(23,391)
992,475	989,625	155,236
526,107	727,107	59,588
102,200	193,200	75,823
<u>24,148,795</u>	<u>25,778,871</u>	<u>626,362</u>
6,288,509	6,281,431	189,638
1,433,319	1,498,371	188,529
4,608,430	5,120,897	581,645
954,771	957,351	91,320
4,542,000	4,542,000	647,564
809,884	792,428	17,853
2,224,203	2,263,224	121,826
25,000	25,000	24,577
3,821,700	3,946,700	73,271
3,438,000	3,563,000	107,430
<u>28,145,816</u>	<u>28,990,402</u>	<u>2,043,653</u>
(3,997,021)	(3,211,531)	2,670,015
7,000	133,271	(1,664)
(3,990,021)	(3,078,260)	2,668,351
6,940,000	7,454,650	233,886
<u>2,949,979</u>	<u>4,376,390</u>	<u>2,902,237</u>

Muscatine County  
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation  
 Required Supplementary Information  
 Year ended June 30, 2007

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 26,405,233	(22,073)	26,383,160
Expenditures	26,946,749	(683,355)	26,263,394
Net	(541,516)	661,282	119,766
Other financing sources, net	131,607	-	131,607
Beginning fund balances	7,688,536	193,023	7,881,559
Ending fund balances	\$ 7,278,627	854,305	8,132,932

See accompanying independent auditor's report.

Muscatine County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds 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, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$844,586. The budget amendments are reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted or the amounts appropriated.

**Muscatine County**

**Other Supplementary Information**

Muscatine County  
 Combining Balance Sheet  
 Nonmajor Governmental Funds

June 30, 2007

	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	Resource Enhance- ment	Conservation Land Acquisition	Special Conservation Youth Corp
<b>Assets</b>					
Cash and pooled investments	\$ 26,418	158	63,619	195,616	20,194
Accounts receivable	-	-	-	737	-
Due from other governments	-	-	681	-	-
<b>Total assets</b>	<b>\$ 26,418</b>	<b>158</b>	<b>64,300</b>	<b>196,353</b>	<b>20,194</b>
<b>Liabilities and Fund Equity</b>					
Liabilities:					
Accounts payable	\$ -	-	-	2,388	278
Salaries payable	-	-	-	-	5,886
Due to other funds	-	-	-	16,806	-
Total liabilities	-	-	-	19,194	6,164
Fund balances:					
Unreserved:					
Undesignated, reported in:					
Special revenue funds	26,418	158	64,300	177,159	14,030
Capital projects fund	-	-	-	-	-
Total fund balances	26,418	158	64,300	177,159	14,030
<b>Total liabilities and fund equity</b>	<b>\$ 26,418</b>	<b>158</b>	<b>64,300</b>	<b>196,353</b>	<b>20,194</b>

See accompanying independent auditor's report.

Revenue							
Jail Commissary	County Sheriff's Forfeiture	County Sheriff's Canine / Community Policing	County Sheriff's Firearms Buyback	Geographic Information System	Capital Projects	Total	
40,659	115,294	2,376	5,532	58,884	7,178	535,928	
12,158	-	-	2,707	-	-	15,602	
-	3,327	-	-	-	-	4,008	
52,817	118,621	2,376	8,239	58,884	7,178	555,538	
9,519	5,760	123	739	-	1,516	20,323	
-	-	-	-	-	-	5,886	
-	-	-	-	-	-	16,806	
9,519	5,760	123	739	-	1,516	43,015	
43,298	112,861	2,253	7,500	58,884	-	506,861	
-	-	-	-	-	5,662	5,662	
43,298	112,861	2,253	7,500	58,884	5,662	512,523	
52,817	118,621	2,376	8,239	58,884	7,178	555,538	

Muscatine County

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

Year ended June 30, 2007

	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	Resource Enhance- ment and Protection	Conservation Land Acquisition	Special Conservation Youth Corp
Revenues:					
Intergovernmental	\$ -	-	22,987	2,061	-
Charges for service	8,989	-	-	45,305	-
Use of money and property	1,471	35	3,044	11,022	-
Miscellaneous	-	-	-	11,984	12,675
Total revenues	10,460	35	26,031	70,372	12,675
Expenditures:					
Operating:					
Public safety and legal services	-	-	-	-	-
County environment and education	-	-	-	44,488	18,935
Governmental services to residents	27,578	-	-	-	-
Administration	-	-	-	-	-
Non-program	-	-	329	-	-
Capital projects	-	-	-	-	-
Total expenditures	27,578	-	329	44,488	18,935
Excess (deficiency) of revenues over (under) expenditures	(17,118)	35	25,702	25,884	(6,260)
Other financing sources (uses):					
Operating transfers in	-	-	-	-	4,000
Operating transfers out	-	-	(8,717)	-	-
General obligation note proceeds	-	-	-	-	-
Total other financing sources (uses)	-	-	(8,717)	-	4,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(17,118)	35	16,985	25,884	(2,260)
Fund balances beginning of year	43,536	123	47,315	151,275	16,290
Fund balances end of year	\$ 26,418	158	64,300	177,159	14,030

See accompanying independent auditor's report.

Revenue								
Jail Commissary	County Sheriff Forfeiture	County Sheriff's Community Policing	County Sheriff's Firearms Buyback	Emergency Medical Services Training	Geographic Information System	Capital Projects	Total	
-	-	-	-	4,021	50,000	-	79,069	
-	-	-	-	-	-	-	54,294	
176,253	-	-	-	-	-	-	191,825	
-	102,251	1,000	3,989	-	-	-	131,899	
176,253	102,251	1,000	3,989	4,021	50,000	-	457,087	
145,118	30,614	1,267	3,989	16,099	-	-	197,087	
-	-	-	-	-	-	-	63,423	
-	-	-	-	-	-	-	27,578	
-	-	-	-	-	92,743	-	92,743	
-	-	-	-	-	-	-	329	
-	-	-	-	-	-	1,023,995	1,023,995	
145,118	30,614	1,267	3,989	16,099	92,743	1,023,995	1,405,155	
31,135	71,637	(267)	-	(12,078)	(42,743)	(1,023,995)	(948,068)	
-	-	-	-	-	50,000	-	54,000	
-	-	-	-	-	-	-	(8,717)	
-	-	-	-	-	-	125,000	125,000	
-	-	-	-	-	50,000	125,000	170,283	
31,135	71,637	(267)	-	(12,078)	7,257	(898,995)	(777,785)	
12,163	41,224	2,520	7,500	12,078	51,627	904,657	1,290,308	
43,298	112,861	2,253	7,500	-	58,884	5,662	512,523	

**Schedule 3**

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## Muscatine County

Combining Schedule of Net Assets  
Internal Service Funds

June 30, 2007

	Health Insurance Trust	County Insurance Trust	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 4,654	51,541	56,195
<b>Liabilities</b>			
Liabilities:			
Accounts payable	222,211	2,391	224,602
<b>Net Assets</b>			
Unrestricted	\$ (217,557)	49,150	(168,407)

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, 2007

	Health Insurance Trust	County Insurance Trust	Total
Operating revenues:			
Reimbursements from operating funds	\$ 1,286,534	20,000	1,306,534
Reimbursements from others	382,222	21,946	404,168
Total operating revenues	1,668,756	41,946	1,710,702
Operating expenses:			
Health claims and administrative services	1,850,022	-	1,850,022
Loss contingencies and deductibles	-	29,733	29,733
Miscellaneous	500	-	500
Total operating expenses	1,850,522	29,733	1,880,255
Operating income (loss)	(181,766)	12,213	(169,553)
Non-operating revenues:			
Interest income	8,591	-	8,591
Change in net assets	(173,175)	12,213	(160,962)
Net assets beginning of year	(44,382)	36,937	(7,445)
Net assets end of year	\$ (217,557)	49,150	(168,407)

See accompanying independent auditor's report.

**Schedule 5**

Muscatine County  
Combining Schedule of Cash Flows  
Internal Service Funds

Year ended June 30, 2007

	Health Insurance Trust	County Insurance Trust	Total
Cash flows from operating activities:			
Cash received from operating funds	\$ 1,310,128	20,000	1,330,128
Cash received from others	382,222	21,946	404,168
Cash paid to suppliers for services	(1,838,858)	(29,135)	(1,867,993)
Net cash provided (used) by operating activities	(146,508)	12,811	(133,697)
Cash flows from investing activities:			
Interest on investments	8,591	-	8,591
Net increase (decrease) in cash and cash equivalents	(137,917)	12,811	(125,106)
Cash and cash equivalents beginning of year	142,571	38,730	181,301
Cash and cash equivalents end of year	\$ 4,654	51,541	56,195
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ (181,766)	12,213	(169,553)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Decrease in accounts receivable	23,594	-	23,594
Increase in accounts payable	11,664	598	12,262
Net cash provided (used) by operating activities	\$ (146,508)	12,811	(133,697)

See accompanying independent auditor's report.

**Muscatine County**

Muscatine County  
 Combining Schedule of Fiduciary Assets and Liabilities  
 Agency Funds

June 30, 2007

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges	Corporations
<b>Assets</b>						
Cash and pooled investments:						
County Treasurer	\$ -	2,337	337,739	236,157	9,938	152,524
Other county officials	673,653	-	-	-	-	-
Receivables:						
Property tax:						
Delinquent	-	1,304	3,394	129,545	5,543	45,712
Succeeding year	-	202,000	498,000	20,770,000	837,000	14,014,000
Accounts	148	-	-	-	-	-
Assessments	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 673,801</b>	<b>205,641</b>	<b>839,133</b>	<b>21,135,702</b>	<b>852,481</b>	<b>14,212,236</b>
<b>Liabilities</b>						
Accounts payable	\$ -	-	92	-	-	-
Salaries and benefits payable	-	-	6,209	-	-	-
Due to other governments	32,741	205,641	777,032	21,135,702	852,481	14,212,236
Trusts payable	641,060	-	-	-	-	-
Compensated absences	-	-	55,800	-	-	-
<b>Total liabilities</b>	<b>\$ 673,801</b>	<b>205,641</b>	<b>839,133</b>	<b>21,135,702</b>	<b>852,481</b>	<b>14,212,236</b>

See accompanying independent auditor's report.

Townships	City Special Assessments	Auto License and Use Tax	Drainage Districts	Joint Communications Center	Other	Total
4,122	3,083	765,592	621,073	98,701	575,595	2,806,861
-	-	-	-	-	-	673,653
3,135	-	-	-	-	418	189,051
308,000	-	-	1,071	-	21,000	36,651,071
-	-	-	-	-	30,713	30,861
-	130,048	-	180	-	-	130,228
-	-	-	-	-	125,769	125,769
315,257	133,131	765,592	622,324	98,701	753,495	40,607,494
-	-	-	-	1,795	124,965	126,852
-	-	-	-	12,867	2,149	21,225
315,257	133,131	765,592	622,324	84,039	200,054	39,336,230
-	-	-	-	-	417,416	1,058,476
-	-	-	-	-	8,911	64,711
315,257	133,131	765,592	622,324	98,701	753,495	40,607,494

Muscatine County  
Combining Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Funds

Year ended June 30, 2007

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges
<b>Assets and Liabilities</b>					
Balances beginning of year	\$ 456,673	198,818	798,502	20,043,021	843,967
Additions:					
Property and other county tax	-	202,210	500,130	21,000,646	839,135
E911 surcharge	-	-	-	-	-
State tax credits	-	7,383	19,220	746,071	31,392
Office fees and collections	812,360	-	-	-	-
Electronic transaction fees	-	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-	-
Assessments	-	-	-	-	-
Trusts	3,188,076	-	-	-	-
Miscellaneous	4,186	-	2,395	36,495	-
Total additions	4,004,622	209,593	521,745	21,783,212	870,527
Deductions:					
Agency remittances:					
To other funds	428,666	-	-	-	-
To other governments	384,440	202,770	481,114	20,690,531	862,013
Trusts paid out	2,974,388	-	-	-	-
Total deductions	3,787,494	202,770	481,114	20,690,531	862,013
Balances end of year	\$ 673,801	205,641	839,133	21,135,702	852,481

See accompanying independent auditor's report.

Corporations	Townships	City Special Assess- ments	Auto License and Use Tax	Drainage Districts	Joint Communications Center	Other	Total
13,926,518	311,642	148,742	733,978	607,657	85,998	556,366	38,711,882
14,061,832	309,351	-	-	-	-	21,784	36,935,088
-	-	-	-	-	-	181,102	181,102
436,456	12,863	-	-	-	-	945	1,254,330
-	-	-	-	-	-	-	812,360
-	-	-	-	-	-	8,989	8,989
-	-	-	8,592,553	-	-	-	8,592,553
-	-	46,905	-	98,278	-	-	145,183
-	-	-	-	-	-	2,432,457	5,620,533
-	-	-	-	26,388	790,632	519,360	1,379,456
14,498,288	322,214	46,905	8,592,553	124,666	790,632	3,164,637	54,929,594
-	-	-	226,258	-	-	-	654,924
14,212,570	318,599	62,516	8,334,681	109,999	777,929	2,967,508	49,404,670
-	-	-	-	-	-	-	2,974,388
14,212,570	318,599	62,516	8,560,939	109,999	777,929	2,967,508	53,033,982
14,212,236	315,257	133,131	765,592	622,324	98,701	753,495	40,607,494

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

For the Last Seven Years

	2007	2006	Modified 2005
<b>Revenues:</b>			
Property and other county tax	\$ 10,903,381	9,427,758	8,929,409
Local option sales tax	1,612,758	1,426,194	1,207,208
Tax increment financing	2,728,449	2,518,739	2,659,483
Interest and penalty on property tax	135,701	129,222	134,751
Intergovernmental	8,658,921	7,917,815	7,448,135
Licenses and permits	90,155	134,265	110,512
Charges for service	1,044,584	993,581	1,012,192
Use of money and property	808,911	690,112	496,672
Miscellaneous	400,300	267,666	171,141
<b>Total</b>	<b>\$ 26,383,160</b>	<b>23,505,352</b>	<b>22,169,503</b>
<b>Expenditures:</b>			
<b>Operating:</b>			
Public safety and legal services	\$ 6,190,825	5,995,995	5,980,757
Physical health and social services	1,345,536	1,244,312	1,367,221
Mental health	4,560,083	4,872,925	4,361,931
County environment and education	862,523	811,459	771,303
Roads and transportation	3,965,737	3,679,065	4,706,304
Governmental services to residents	772,229	1,045,653	770,148
Administration	2,149,595	2,060,956	1,967,755
Non-program	329	94	83,479
Debt service	3,873,429	3,395,626	3,332,801
Capital projects	2,543,108	1,205,609	2,643,201
<b>Total</b>	<b>\$ 26,263,394</b>	<b>24,311,694</b>	<b>25,984,900</b>

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

See accompanying independent auditor's report.

Accrual Basis			
2004	2003*	2002*	2001*
9,126,056	9,291,992	9,076,263	8,739,212
1,376,438	1,310,286	1,237,943	1,405,978
2,458,523	2,457,784	2,908,378	2,889,528
127,342	144,830	212,979	104,846
7,603,530	7,927,276	8,021,297	8,353,920
55,094	15,572	13,029	14,213
1,034,421	1,014,933	949,760	1,483,781
318,069	527,125	993,777	677,912
670,697	559,391	435,417	171,515
<b>22,770,170</b>	<b>23,249,189</b>	<b>23,848,843</b>	<b>23,840,905</b>
5,294,006	5,020,243	4,813,687	4,694,131
1,286,790	1,360,473	1,465,092	1,500,002
4,108,575	4,364,043	4,251,095	6,718,152
691,276	682,378	648,066	667,141
3,974,820	3,774,979	3,485,159	3,054,161
671,631	625,204	584,730	597,979
1,869,951	1,898,196	1,968,484	1,883,392
443,908	-	55,881	43,410
3,113,051	3,638,246	3,423,630	3,375,245
575,768	440,019	824,947	2,730,522
<b>22,029,776</b>	<b>21,803,781</b>	<b>21,520,771</b>	<b>25,264,135</b>

**Schedule 9**

Muscatine County  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2007

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Corporation for National and Community Service: AMERICORPS	✔ 94.006		\$ 6,326
U.S. Department of Homeland Security: Emergency Food and Shelter National Board Program	97.024	23-2992-00	<u>3,544</u>
Total direct			<u>9,870</u>
Indirect:			
Office of National Drug Control Policy:			
Iowa Department of Public Safety:			
High Intensity Drug Trafficking Area Program	✔ 07.000	I5PMWP556	2,717
High Intensity Drug Trafficking Area Program	✔ 07.000	I6PMWP556Z	33,532
High Intensity Drug Trafficking Area Program	✔ 07.000	I7PMWP556Z	<u>42,308</u>
			<u>78,557</u>
U.S. Department of Agriculture:			
Iowa Department of Human Services:			
State Administrative Matching Grants for Food Stamp Program	10.561		<u>17,428</u>
U.S. Department of Justice:			
Iowa Attorney General:			
Violence Against Women Formula Grants	✔ 16.588	VW-07-50	<u>1,084</u>
Governor's Office of Drug Control Policy:			
Public Safety Partnership and Community Policing Grant	16.710	06JAG-A05	<u>55,746</u>
Edward Byrne Memorial Justice Assistance Grant Program	16.738	06JAG-A05	40,951
City of Muscatine:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2005-DJ-BX-0013	<u>1,137</u>
			<u>42,088</u>
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	BROS C070(39)-8J-70	<u>268,480</u>
Iowa Department of Public Safety:			
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants			
	20.601	06-410 Task 25	4,910
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants			
	20.601	07-410 Task 25	<u>17,280</u>
			<u>22,190</u>
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	06-163 Task 46	<u>16,731</u>

Muscatine County  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2007

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect (continued):			
U.S. General Services Administration:			
Iowa Secretary of State:			
Help America Vote Act Requirements Payments	90.401	06-HAVA-70-100	3,800
U.S. Department of Health and Human Services:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
Child Care Block Grant	93.037		8
Temporary Assistance for Needy Families	93.558		23,666
Refugee and Entrant Assistance	93.566		41
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		5,218
Foster Care - Title IV-E	93.658		13,055
Adoption Assistance	93.659		2,636
Expansion-Title XXI	93.767		155
Medical Assistance Program	93.778		30,791
Social Services Block Grant	93.667		15,557
Social Services Block Grant	93.667		186,624
			202,181
Des Moines County, Iowa:			
Centers for Disease Control and Prevention- Investigations and Technical Assistance	93.283	BT70	42,168
Iowa Department of Public Health:			
National Bioterrorism Hospital Preparedness Program	93.889	5886EM169	4,021
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
State Domestic Preparedness Equipment Support	97.004		18,387
Emergency Management Performance Grants	97.042		6,824
Total indirect			855,255
Total			\$ 865,125

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

See accompanying independent auditor's report.

**Muscatine County**



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

David A. Vaudt, CPA  
Auditor of State

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

To the Officials of Muscatine County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Muscatine County, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated November 13, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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 opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Muscatine County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Muscatine County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Muscatine County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Muscatine County's financial statements that is more than inconsequential will not be prevented or detected by Muscatine County's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Muscatine County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Muscatine County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters 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, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Muscatine County and other parties to whom Muscatine County may report, including federal awarding agencies and pass-through entities. 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

November 13, 2007

**Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133**

**Muscatine County**



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

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Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Officials of Muscatine County:

Compliance

We have audited 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, 2007. 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 grant agreements 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, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Muscatine County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Muscatine County's compliance with those requirements.

In our opinion, Muscatine County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Muscatine County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Muscatine County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Muscatine County's internal control over compliance.

A control deficiency in the County's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Muscatine County and other parties to whom Muscatine County may report, including federal awarding agencies and pass-through entities. 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

November 13, 2007

Muscatine County  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2007

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies 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 the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the 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 20.205 – Highway Planning and Construction.
- (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, 2007

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

**SIGNIFICANT DEFICIENCIES:**

II-A-07 Board of Supervisors – The County has adopted a credit card policy allowing County purchases using a credit card. The policy requires all credit card bills to be supported by a statement and detailed itemized vendor receipts. The policy prohibits employee use of a County credit card for personal purchases with the intent of reimbursing the County. Additionally, departmental credit cards and credit limits are to be approved by the Board of Supervisors, including a list of credit cards, cardholders and credit limits.

Credit card bills were not always supported by statements and detailed itemized vendor receipts. We noted personal purchases with a County credit card which were appropriately not paid by the County. However, the balance owed still remains on the County credit card. One department had a number of credit cards not approved by the Board of Supervisors.

Credit card charges included internet fees while an employee was on a County related business trip. This type of cost is not addressed in any County policies and the public purpose served by this expenditure was not documented.

A number of offices and departments within the County provide a cellular telephone to employees for business use. One cellular telephone service billing reviewed included \$172 in roaming charges, all of which were assessed from out of state calling areas for which the employee was not there for business reasons. Although a number of the calls were to County phone numbers, there were other calls where the business justification is not apparent. Therefore, we could not determine the public purpose served. Additionally, written policies governing the use of cellular phones have not been adopted.

Recommendation – The Board should ensure credit card bills are properly supported by statements and detailed itemized vendor receipts, personal purchases on a County credit card should be paid by the employee and all credit cards should be approved by the Board of Supervisors as required by the County's Credit Card policy.

The public purpose of employee internet charges while on County business trips should be documented.

The Board of Supervisors, in conjunction with office and department heads, should establish written policies governing the use of cellular telephones. In addition, cellular phone bills should be scrutinized for proper usage by office and department heads, the County Auditor's office and the Board of Supervisors.

Response – A copy of credit card statements, along with detailed receipts will be required before credit card payments are processed. Public purpose must be documented before any internet charges, while on County business trips, will be paid.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

The County's list of approved credit cards will be updated.

The County will establish a cell phone policy and require detailed usage statements before payments will be made.

Conclusion – Response accepted.

II-B-07 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.

Additionally, the County Attorney maintains a separate checking account for deposit of the forfeited and confiscated property collections. This checking account was not reconciled to the ledger balance on a monthly basis and resulted in a \$510 variance at June 30, 2007.

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.

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.

I concur, however, with your concern that our recordkeeping practices need improvement. To that end, I have taken steps including the implementation of new software and improved employee training that have resulted in a balanced checkbook and monthly reports.

In addition, the variance in the ledger balance noted in your comment has been researched and resolved.

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

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Year ended June 30, 2007

(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 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 \$293,490 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.

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Year ended June 30, 2007

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. Procedures for forfeiture funds implemented by the Department of Justice in a letter dated March 17, 2005 require forfeiture funds be maintained and accounted for using the procedures recommended by the State Auditor's Office. If this requirement is not met, the County will no longer be eligible to receive forfeiture funds. A Special Revenue, County Attorney Forfeiture Fund could be established with a fund balance which would carry forward to the next year and only the County Attorney would have access to the fund.

II-C-07 County Sheriff's Office – A reconciliation of book to bank balances was not performed for all accounts as of June 30, 2007, including a complete listing of checks outstanding for the Jail Inmate account. Deposits in July include June and July receipts. Additionally, a complete and accurate listing of trusts on hand was not maintained. Between the Sheriff's Trust account and Jail Inmate account, a variance of \$460 existed between the book and bank balances at that date.

Additionally, the quarterly fees for the quarter ended March 31, 2007 were not remitted to the County Treasurer until July 16, 2007. Not all disbursements from the Jail Inmate account were supported by invoices or inmate approvals.

Recommendation – Book balances should be reconciled at the end of each month to bank account balances and a list of outstanding checks should be prepared monthly. Deposits in July which include June and July receipts should be separate deposits according to the fiscal year. Additionally, a complete and accurate listing of trusts on hand should be prepared and reconciled to this balance monthly. Variances, if any, should be resolved timely.

Quarterly fees should be remitted to the County Treasurer on a timely basis. All disbursements from the Jail Inmate account should be supported by invoices or inmate approvals.

Response – We will attempt to reconcile at the end of every month the book balances to the bank account balances and a true and complete list of outstanding checks will be prepared, too. We will make sure that June and July receipts will not be deposited together. A complete and accurate listing of trusts on hand will be prepared and reconciled to this balance monthly. All quarterly fees will be remitted in a timely basis. All inmate disbursements will be supported by invoices or inmate approvals.

Conclusion – Response accepted.

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II-D-07 Secondary Roads Department Inventory – Written approval/requisitions are not required for materials released from the storeroom.

Recommendation – Written approval/requisitions should be required for materials to be released from the storeroom.

Response – A plan will be developed for written documentation of materials released from the store room.

Conclusion – Response accepted.

II-E-07 Timesheets and Payroll Records – All County personnel do not prepare and file timesheets.

Recommendation – Except for elected officials, timesheets should be prepared by all personnel in all departments, salaried as well as hourly, and should be submitted to the County Auditor's office prior to the processing of payroll each pay period. The timesheets should be signed by the employee and should be reviewed and signed by the employee's immediate supervisor prior to submission. The timesheets should support all hours worked and all hours taken as vacation, sick leave, compensatory time, holiday hours, and personal days. For internal control, as well as for potential legal claims (payroll dispute/grievance), timesheets would provide an accurate record of hours worked and leave time earned and taken.

Response – The County will review the payroll process to determine the feasibility of the recommended change.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Muscatine County  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2007

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT DEFICIENCIES:**

No material weaknesses in internal control over the major program were noted.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

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

- IV-A-07 Certified Budget – Disbursements during the year ended June 30, 2007 did not exceed the amounts budgeted.
- IV-B-07 Questionable Expenditures – Except as described in Finding II-A-07, no expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s Opinion dated April 25, 1979 were noted.
- IV-C-07 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- IV-D-07 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	\$ 49
William Wilson, Deputy Sheriff	Vehicle repairs	112
Esther Dean, Board of Supervisors	Court appointed attorney	1,179
Joe Wedekind, Secondary Roads Employee	Lawn care and mowing	715

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-E-07 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.
- IV-F-07 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- IV-G-07 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County’s investment policy were noted.
- IV-H-07 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

Muscatine County

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Year ended June 30, 2007

- IV-I-07 Financial Condition - The Jail Commissary Fund had a deficit cash balance during the year ended June 30, 2007. This appears to violate Chapter 331.476 of the Code of Iowa.

The Internal Service, Health Insurance Trust Fund had a deficit fund balance (on a modified accrual basis) of \$217,557 at June 30, 2007.

Recommendation - Claims should not be approved for payment when funds are not available unless the debt is authorized by resolution of the Board of Supervisors and takes the form of anticipatory warrants, loans from other formal short-term debt instruments or obligations.

The County should investigate alternatives to eliminate the deficit fund balances in order to return these funds to a sound financial position.

Response - All departments have been notified that no claims are to be submitted unless the funds are available or the debt is authorized by resolution of the Board of Supervisors.

Monthly premiums paid to the Health Insurance Trust Fund increased as of July 1, 2007.

Conclusion - Response accepted.

- IV-J-07 County Vehicles - The County has a number of vehicles to be used by various County offices and departments. A number of employees also use the vehicles to commute to and from work.

Recommendation - As required by the IRS Taxable Fringe Benefit Guide, unless the County requires the employee to commute in a county vehicle, the fair market value of the personal use portion of the vehicle is a taxable fringe benefit to the employee. The IRS provides a commuting rule of \$1.50 each way if the employer requires the employee to commute in the vehicle for a valid non-compensatory business reason. However, the County has not done this.

Response - The County will review county vehicle usage by employees and adopt a policy that addresses which employees are required to commute in a county vehicle. The County Auditor will then ensure compliance with the IRS Taxable Fringe Benefit Guide.

Conclusion - Response accepted.

- IV-K-07 Assessor Vehicle - The County Assessor purchased a vehicle to be used by the Assessor's office. The Assessor also uses the vehicle to commute to and from work.

Recommendation - As required by the IRS Taxable Fringe Benefit Guide, unless the County requires the Assessor to commute in a county vehicle, the fair market value of the personal use portion of the vehicle is a taxable fringe benefit to the employee. The IRS provides a commuting rule of \$1.50 each way if the employer requires the employee to commute in the vehicle for a valid non-compensatory business reason. However, the County has not done this.

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Response – The recommendation will be presented to the Muscatine County Conference Board at their next meeting. The Assessor's Office will work with the Board to resolve this issue.

Conclusion – Response accepted.

- IV-L-07 Electronic Check Retention – Community Services – Chapter 554D.114 of the Code of Iowa allows Community Services to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. Community Services retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – Community Services should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We will work with the bank to obtain the back as well as the front.

Conclusion – Response accepted.

- IV-M-07 Payments on Contracts – A pay estimate for a seal coating project was prepared by the Secondary Roads Department based on estimated work that would be completed by the end of the year. However, it was prior to the start of work on the project. The contractor was paid more on the initial pay estimate than was actually earned by the end of the fiscal year. Per Chapter 573.12 of the Code of Iowa, payments made under contracts for the construction of public improvements, unless otherwise provided by law, shall be made on the basis of monthly estimates of labor performed and material delivered, as determined by the project architect or engineer. This matter was resolved for audit purposes.

Recommendation – Pay estimates should be made on the basis of monthly estimates of labor performed and material delivered as required in the Code of Iowa.

Response – This was an exception to normal procedure. We will continue to make payment estimates on the basis of material delivered and actual work in place.

Conclusion – Response accepted.

- IV-N-07 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, 2007 for the County Extension Office did not exceed the amount budgeted.

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Muscatine County

Staff

This audit was performed by:

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