



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

January 31, 2014

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an audit report on Muscatine County, Iowa.

The County had local tax revenue of \$63,939,855 for the year ended June 30, 2013, which included \$1,765,382 in tax credits from the state. The County forwarded \$48,464,285 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$15,475,570 of the local tax revenue to finance County operations, a 4.0% increase over the prior year. Other revenues included charges for service of \$3,208,022, operating grants, contributions and restricted interest of \$6,842,897, capital grants, contributions and restricted interest of \$3,192,733, tax increment financing of \$20,326, local option sales tax of \$1,579,156, unrestricted investment earnings of \$60,308 and other general revenues of \$369,837.

Expenses for County operations for the year ended June 30, 2013 totaled \$24,708,698, a 15.1% decrease from the prior year. Expenses included \$9,437,949 for public safety and legal services, \$6,004,826 for roads and transportation and \$2,887,112 for administration.

The decrease in expenses is due primarily to reduced costs associated with mental health services due to a change in the method the State pays for Medicaid reimbursed services.

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/1310-0070-B00F.pdf>.

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MUSCATINE COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2013

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Muscatine County

Officials

(Before January 2013)

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

(After January 2013)

Tom Furlong	Board of Supervisors	Jan 2015
Robert Howard	Board of Supervisors	Jan 2015
Jeff Sorensen	Board of Supervisors	Jan 2015
Kas Kelly	Board of Supervisors	Jan 2017
Scott Sauer	Board of Supervisors	Jan 2017
Leslie Soule	County Auditor	Jan 2017
Jerry Coffman	County Treasurer	Jan 2015
Cindy Gray	County Recorder	Jan 2015
David White	County Sheriff	Jan 2017
Alan Ostergren	County Attorney	Jan 2015
Dale McCrea	County Assessor	Jan 2016

Muscatine County



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Independent Auditor's Report

To the Officials of Muscatine County:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Muscatine County, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the County's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Muscatine County as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 8 through 14 and 48 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


Supplementary Information


Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Muscatine County's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 15, 2014 on our consideration of Muscatine County's internal control over financial reporting and on 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 in considering Muscatine County's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 15, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Muscatine County provides this Management's Discussion and Analysis of Muscatine County's annual financial statements. This narrative overview and analysis of the financial activities of Muscatine County is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities decreased 14.5%, or approximately \$5.2 million, from fiscal year 2012 to fiscal year 2013. Tax increment financing decreased approximately \$2,627,000 and operating grants, contributions and restricted interest decreased approximately \$3,267,000.
- Expenses of the County's governmental activities decreased 15.1%, or approximately \$4.4 million, from fiscal year 2012 to fiscal year 2013. Mental health function expenses decreased approximately \$3,598,000.
- Muscatine County's net position increased approximately \$6.0 million from June 30, 2012 to June 30, 2013.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The County has three kinds of funds:

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

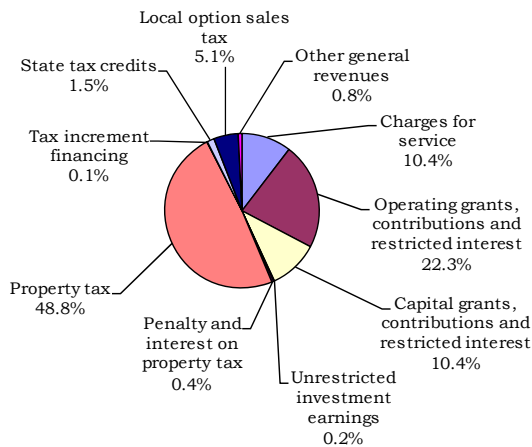
Net Position of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2013	2012
Current and other assets	\$ 29,522	\$ 26,148
Capital assets	53,918	49,494
Total assets	<u>83,440</u>	<u>75,642</u>
Long-term liabilities	14,312	11,538
Other liabilities	16,644	17,661
Total liabilities	<u>30,956</u>	<u>29,199</u>
Net position:		
Net investment in capital assets	42,955	39,789
Restricted	5,383	4,403
Unrestricted	4,146	2,251
Total net position	<u>\$ 52,484</u>	<u>\$ 46,443</u>

Muscatine County's total net position increased approximately \$6.0 million from fiscal year 2012 to fiscal year 2013. The largest portion of the County's net position 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 position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements – increased approximately \$1,895,000 over the prior year. The increase is due primarily to increased General Fund revenues.

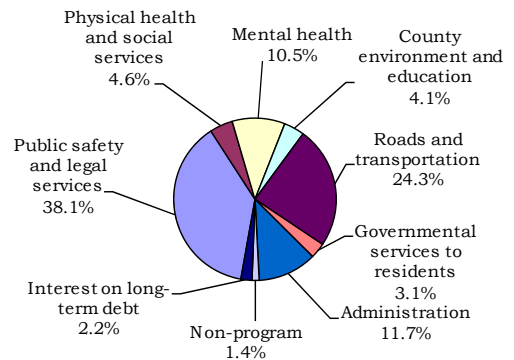
Changes in Net Position of Governmental Activities
(Expressed in Thousands)

	Year ended June 30,	
	2013	2012
Revenues:		
Program revenues:		
Charges for service	\$ 3,208	\$ 2,957
Operating grants, contributions and restricted interest	6,843	10,110
Capital grants, contributions and restricted interest	3,193	2,978
General revenues:		
Property tax	15,011	14,495
Tax increment financing	20	2,647
Penalty and interest on property tax	124	160
State tax credits	465	387
Local option sales tax	1,579	1,660
Unrestricted investment earnings	60	53
Other general revenues	246	508
Total revenues	30,749	35,955
Program expenses:		
Public safety and legal services	9,438	9,458
Physical health and social services	1,127	1,184
Mental health	2,602	6,200
County environment and education	1,024	1,009
Roads and transportation	6,005	6,146
Governmental services to residents	754	917
Administration	2,887	3,114
Non-program	339	479
Interest on long-term debt	532	603
Total expenses	24,708	29,110
Increase in net position	6,041	6,845
Net position beginning of year	46,443	39,598
Net position end of year	\$ 52,484	\$ 46,443

Revenues by Source



Expenses by Program



Revenues for governmental activities decreased approximately \$5,206,000 from the prior year, with operating grants, contributions and restricted interest decreasing approximately \$3,267,000. The decrease was a result of decreases in mental health funding from the State of Iowa.

Muscatine County's property tax rates decreased \$.35615 per \$1,000 of taxable valuation in fiscal year 2013. The County's general basic levy decreased \$.06 per \$1,000 of taxable valuation while the general supplemental levy increased \$.00064 per \$1,000 of taxable valuation. The mental health levy decreased \$.07777 per \$1,000 of taxable valuation and the debt service levy decreased \$.13902 per \$1,000 of taxable valuation. The rural services levy decreased \$.08 per \$1,000 of taxable valuation. The rural taxable property valuation increased \$89,851,297 and the countywide taxable property valuation increased \$121,399,430.

INDIVIDUAL MAJOR FUND ANALYSIS

As Muscatine County completed the year, its governmental funds reported a combined fund balance of approximately \$12.1 million, which is higher than the combined fund balance at the end of fiscal year 2012 of approximately \$7.9 million.

- The General Fund, the operating fund for Muscatine County, ended fiscal year 2013 with a fund balance of approximately \$5.3 million. This was an increase of approximately \$1.7 million over the fiscal year 2012 ending balance. Property valuations increased from \$1,625,264,877 in fiscal year 2012 to \$1,746,664,307 in fiscal year 2013. Total General Fund revenues increased approximately \$712,000. Property tax revenue increased approximately \$575,000. General Fund expenditures decreased approximately \$63,000.
- Muscatine County has continued to look for ways to effectively manage the cost of mental health services in the Special Revenue, Mental Health Fund. Fiscal year 2013 ended with a balance of approximately \$915,000 compared to the fiscal year 2012 ending balance of approximately \$273,000. Mental Health Fund revenues decreased approximately \$2,770,000 in fiscal year 2013, due primarily to decreased funding from the State. Expenditures decreased approximately \$3,590,000, due primarily to the State of Iowa being responsible to pay certain costs previously paid by the County.
- The Special Revenue, Rural Services Fund ended fiscal year 2013 with a balance of approximately \$475,000 compared to the prior year ending balance of approximately \$299,000. The increase in the rural services levy and the taxable valuation increase of approximately \$89.9 million increased property tax revenue approximately \$165,000. In fiscal year 2013, transfers of \$1,440,000 were made to the Special Revenue, Secondary Roads Fund to cover the maintenance and upgrade of rural county roads.
- The Special Revenue, Secondary Roads Fund ended fiscal year 2013 with a balance of approximately \$3.0 million compared to the prior year ending balance of approximately \$2.5 million. Revenues decreased approximately \$406,000, which included decreases in local option sales tax revenue and intergovernmental revenue of approximately \$82,000 and \$310,000, respectively. Expenditures decreased approximately \$209,000 from the prior year. 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 fiscal year 2013 with a balance of approximately \$537,000 compared to the prior year ending balance of approximately \$740,000. Fiscal year 2013 payments from the Debt Service Fund include principal and interest payments for the remodeling of the County Administration Building, County jail expansion/remodel, Courthouse HVAC replacement, courthouse window replacement and County building improvements.

- The Capital Projects Fund ended fiscal year 2013 with a balance of approximately \$1,665,000, an increase from the fiscal year 2012 ending balance of approximately \$377,000.

BUDGETARY HIGHLIGHTS

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

Over the course of the year, Muscatine County amended the operating budget two times. The amendments were made in March 2013 and June 2013.

The first amendment primarily decreased receipts and disbursements for mental health for changes in funding from the State of Iowa. The second amendment primarily increased receipts and disbursements for the public safety and legal services and the physical health and social services functions.

The County's receipts were approximately \$323,000 less than budgeted, a variance of 1.2%. Total disbursements were approximately \$5.8 million less than the amended budget. Disbursements for the mental health function were approximately \$871,000 less than budgeted. Capital projects disbursements were approximately \$3,066,000 less than budgeted due to projects extending into fiscal year 2014.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2013, Muscatine County had approximately \$87.9 million invested in a broad range of capital assets, including public safety equipment, buildings, land, park facilities, roads and bridges. With total accumulated depreciation of approximately \$34.0 million, Muscatine County's capital assets have a net value of approximately \$53.9 million. This is a net increase of approximately \$4.4 million from fiscal year 2012. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At the end of fiscal year 2013, Muscatine County had \$12,807,056 of long term debt outstanding, compared to \$10,105,584 at the end of fiscal year 2012.

Muscatine County's outstanding debt increased as a result of the issuance of a general obligation note of \$3,750,000 for improvements and repairs to County buildings offset by scheduled principal repayments. Muscatine County's general obligation bond rating continues to be the A1 rating assigned by Moody's Investors Service, a national rating agency. The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5% of the assessed value of all taxable property within the County's corporate limits. Muscatine County's outstanding general obligation debt of \$15,436,650, including a development agreement of \$2,629,594, is significantly below its constitutional debt limit of approximately \$144 million. Additional information about the County's long-term debt is presented in Note 7 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Muscatine County's elected and appointed officials considered many factors when setting the fiscal year 2014 budget and tax rates. The amount available for appropriation in the fiscal year 2014 operating budget is approximately \$35 million, a decrease of 13% from the final fiscal year 2013 budget. Muscatine County's other operating fund balances are expected to increase from approximately \$5.7 million to approximately \$5.9 million by the close of fiscal year 2014.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Muscatine County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sherry Seright at the Muscatine County Administration Office, 414 East 3rd Street, Suite 101, Muscatine, Iowa, 52761.

Basic Financial Statements

Exhibit A

Muscatine County
Statement of Net Position
June 30, 2013

	<u>Governmental Activities</u>
Assets	
Cash, cash equivalents and pooled investments	\$ 12,877,078
Receivables:	
Property tax:	
Delinquent	59,782
Succeeding year	15,032,000
Succeeding year tax increment financing	29,000
Interest and penalty on property tax	166,834
Accounts	84,688
Accrued interest	7,747
Due from other governments	991,600
Inventories	134,055
Prepaid expenses	139,699
Capital assets (net of accumulated depreciation/amortization)	53,917,768
Total assets	<u>83,440,251</u>
Liabilities	
Accounts payable	1,222,016
Accrued interest payable	39,573
Salaries and benefits payable	120,233
Due to other governments	43,658
Deferred revenue:	
Succeeding year property tax	15,190,000
Succeeding year tax increment financing	29,000
Long-term liabilities:	
Portion due or payable within one year:	
Capital lease purchase agreement	3,528
General obligation bonds/notes	955,000
Compensated absences	608,029
Portion due or payable after one year:	
Capital lease purchase agreement	3,528
General obligation bonds/notes	11,845,000
Compensated absences	694,267
Net OPEB liability	202,845
Total liabilities	<u>30,956,677</u>
Net Position	
Net investment in capital assets	42,955,243
Restricted for:	
Supplemental levy purposes	908,324
Mental health purposes	757,047
Rural services purposes	458,500
Secondary roads purposes	2,838,977
Conservation land acquisition	109,335
Debt service	150,268
Other purposes	160,088
Unrestricted	4,145,792
Total net position	<u>\$ 52,483,574</u>

See notes to financial statements.

Muscatine County
Statement of Activities
Year ended June 30, 2013

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Service	Contributions and Restricted Interest	Contributions and Restricted Interest	
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 9,437,949	1,854,847	1,985,209	-	(5,597,893)
Physical health and social services	1,126,904	75,802	269,175	-	(781,927)
Mental health	2,602,634	22,135	1,114,247	-	(1,466,252)
County environment and education	1,023,705	34,423	38,812	-	(950,470)
Roads and transportation	6,004,826	6,981	2,794,789	3,140,406	(62,650)
Governmental services to residents	754,046	314,598	6,650	-	(432,798)
Administration	2,887,112	413,158	214,495	52,327	(2,207,132)
Non-program	339,698	486,078	-	-	146,380
Interest on long-term debt	531,824	-	419,520	-	(112,304)
Total	\$ 24,708,698	3,208,022	6,842,897	3,192,733	(11,465,046)
General Revenues:					
Property and other county tax levied for:					
General purposes					14,252,812
Debt service					757,455
Tax increment financing					20,326
Penalty and interest on property tax					124,396
State tax credits					465,303
Local option sales tax					1,579,156
Unrestricted investment earnings					60,308
Gain on disposition of capital assets					124,602
Miscellaneous					120,839
Total general revenues					17,505,197
Change in net position					6,040,151
Net position beginning of year					46,443,423
Net position end of year					\$ 52,483,574
See notes to financial statements.					

Muscatine County
Balance Sheet
Governmental Funds

June 30, 2013

	General	Special	
		Mental Health	Rural Services
Assets			
Cash, cash equivalents and pooled investments	\$ 5,406,749	909,671	495,308
Receivables:			
Property tax:			
Delinquent	39,000	8,000	10,000
Succeeding year	10,451,000	1,930,000	1,860,000
Succeeding year tax increment financing	-	-	-
Interest and penalty on property tax	166,834	-	-
Accounts	48,645	-	-
Accrued interest	7,747	-	-
Due from other funds	1,413	-	-
Due from other governments	206,934	138,425	2,993
Inventories	-	-	-
Prepaid expenditures	139,699	-	-
Total assets	\$ 16,468,021	2,986,096	2,368,301
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 288,105	102,555	2,006
Salaries and benefits payable	96,234	1,438	567
Due to other funds	9,909	1,480	1,071
Due to other governments	2,179	6,799	325
Deferred revenue:			
Succeeding year property tax	10,561,000	1,951,000	1,879,000
Succeeding year tax increment financing	-	-	-
Other	220,656	8,000	10,000
Total liabilities	11,178,083	2,071,272	1,892,969
Fund balances:			
Nonspendable:			
Inventories	-	-	-
Prepaid expenditures	139,699	-	-
Restricted for:			
Supplemental levy purposes	991,719	-	-
Mental health purposes	-	914,824	-
Rural services purposes	-	-	475,332
Secondary roads purposes	-	-	-
Conservation land acquisition/capital improvements	109,335	-	-
Debt service	-	-	-
Capital projects	-	-	-
Other purposes	-	-	-
Assigned for debt service	-	-	-
Unassigned	4,049,185	-	-
Total fund balances	5,289,938	914,824	475,332
Total liabilities and fund balances	\$ 16,468,021	2,986,096	2,368,301

See notes to financial statements.

Revenue				
Secondary Roads	Debt Service	Capital Projects	Nonmajor	Total
2,582,603	450,888	2,121,384	146,817	12,113,420
-	2,782	-	-	59,782
-	791,000	-	-	15,032,000
-	-	-	29,000	29,000
-	-	-	-	166,834
95	-	-	-	48,740
-	-	-	-	7,747
11,047	-	-	-	12,460
549,077	94,171	-	-	991,600
134,055	-	-	-	134,055
-	-	-	-	139,699
3,276,877	1,338,841	2,121,384	175,817	28,735,337
120,985	-	456,853	1,124	971,628
19,760	-	-	2,234	120,233
-	-	-	-	12,460
34,355	-	-	-	43,658
-	799,000	-	-	15,190,000
-	-	-	29,000	29,000
75,263	2,782	-	-	316,701
250,363	801,782	456,853	32,358	16,683,680
134,055	-	-	-	134,055
-	-	-	-	139,699
-	-	-	-	991,719
-	-	-	-	914,824
-	-	-	-	475,332
2,892,459	-	-	-	2,892,459
-	-	-	-	109,335
-	187,059	-	-	187,059
-	-	1,664,531	-	1,664,531
-	-	-	143,459	143,459
-	350,000	-	-	350,000
-	-	-	-	4,049,185
3,026,514	537,059	1,664,531	143,459	12,051,657
3,276,877	1,338,841	2,121,384	175,817	28,735,337

Muscatine County

Muscatine County

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

June 30, 2013

Total governmental fund balances (page 21)	\$ 12,051,657
<i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$87,890,149 and the accumulated depreciation/ amortization is \$33,972,381.	53,917,768
Other long-term assets are not available to pay current year expenditures and, therefore, are deferred in the governmental funds.	316,701
The Internal Service Funds are used by management to charge the costs of the partial self funding of the County's health insurance benefit plan and county insurance to individual funds. The assets and liabilities of the Internal Service Funds are included with governmental activities in the Statement of Net Position.	549,218
Long-term liabilities, including capital lease purchase agreement payable, bonds/notes payable, compensated absences payable, other postemployment benefits payable and accrued interest payable, are not due and payable in the current year and, therefore, are not reported in the governmental funds.	<u>(14,351,770)</u>
Net position of governmental activities (page 18)	<u><u>\$ 52,483,574</u></u>

See notes to financial statements.

Muscatine County

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

Year ended June 30, 2013

	Special		
	General	Mental Health	Rural Services
Revenues:			
Property and other county tax	\$ 10,400,889	2,000,175	1,853,748
Local option sales tax	-	-	-
Tax increment financing	-	-	-
Interest and penalty on property tax	137,636	-	-
Intergovernmental	3,711,203	1,175,077	82,649
Licenses and permits	100	-	64,074
Charges for service	1,016,840	22,135	-
Use of money and property	728,408	-	-
Miscellaneous	148,035	642	1,950
Total revenues	16,143,111	3,198,029	2,002,421
Expenditures:			
Operating:			
Public safety and legal services	9,173,093	-	-
Physical health and social services	1,042,011	-	69,039
Mental health	-	2,555,780	-
County environment and education	616,119	-	284,618
Roads and transportation	-	-	-
Governmental services to residents	741,127	-	2,630
Administration	2,700,947	-	-
Debt service	-	-	-
Capital projects	46,921	-	-
Total expenditures	14,320,218	2,555,780	356,287
Excess (deficiency) of revenues over (under) expenditures	1,822,893	642,249	1,646,134
Other financing sources (uses):			
Sale of capital assets	20,044	-	-
Operating transfers in	30,000	-	-
Operating transfers out	(154,000)	-	(1,470,000)
General obligation notes issued	-	-	-
Total other financing sources (uses)	(103,956)	-	(1,470,000)
Change in fund balances	1,718,937	642,249	176,134
Fund balances beginning of year	3,571,001	272,575	299,198
Fund balances end of year	\$ 5,289,938	914,824	475,332

See notes to financial statements.

Revenue				
Secondary Roads	Debt Service	Capital Projects	Nonmajor	Total
-	758,408	-	-	15,013,220
1,578,784	-	-	-	1,578,784
-	-	-	20,326	20,326
-	-	-	-	137,636
2,963,035	442,523	16,000	16,780	8,407,267
4,955	-	-	-	69,129
2,026	-	-	8,327	1,049,328
-	-	-	-	728,408
23,290	-	-	55,800	229,717
4,572,090	1,200,931	16,000	101,233	27,233,815
-	-	-	57,804	9,230,897
-	-	-	-	1,111,050
-	-	-	-	2,555,780
-	-	-	23,852	924,589
5,082,667	-	-	-	5,082,667
-	-	-	14,720	758,477
-	-	-	-	2,700,947
-	1,553,767	-	20,406	1,574,173
370,035	-	2,478,074	-	2,895,030
5,452,702	1,553,767	2,478,074	116,782	26,833,610
(880,612)	(352,836)	(2,462,074)	(15,549)	400,205
-	-	-	-	20,044
1,440,000	150,000	-	4,000	1,624,000
-	-	-	-	(1,624,000)
-	-	3,750,000	-	3,750,000
1,440,000	150,000	3,750,000	4,000	3,770,044
559,388	(202,836)	1,287,926	(11,549)	4,170,249
2,467,126	739,895	376,605	155,008	7,881,408
3,026,514	537,059	1,664,531	143,459	12,051,657

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, 2013

Change in fund balances - Total governmental funds (page 25) \$ 4,170,249

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

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

Expenditures for capital assets	\$ 3,745,270	
Capital assets contributed by the Iowa Department of	3,019,917	
Depreciation/amortization expense	<u>(2,379,658)</u>	4,385,529

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. 38,123

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

Property tax	(2,953)	
Other	<u>(46,175)</u>	(49,128)

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

Issued	(3,750,000)	
Repaid	<u>1,048,528</u>	(2,701,472)

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	(30,218)	
Other postemployment benefits	(42,991)	
Interest on long-term debt	<u>(2,651)</u>	(75,860)

The Internal Service Funds are used by management to charge the costs of the partial self-funding of the County's health insurance benefit plan and county insurance to individual funds. The change in net position of the Internal Service Funds is reported with governmental activities. 272,710

Change in net position of governmental activities (page 19) \$ 6,040,151

See notes to financial statements.

Muscatine County
Statement of Net Position
Proprietary Funds
June 30, 2013

	<u>Internal Service</u>
Assets	
Cash, cash equivalents and pooled investments	\$ 763,658
Accounts receivable	35,948
Total assets	<u>799,606</u>
Liabilities	
Accounts payable	<u>250,388</u>
Net Position	
Unrestricted	<u>\$ 549,218</u>

See notes to financial statements.

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

Year ended June 30, 2013

		<u>Internal Service</u>
Operating revenues:		
Reimbursements from operating funds		\$ 2,389,598
Reimbursements from employees and others		81,323
Total operating revenues		<u>2,470,921</u>
Operating expenses:		
Health claims and administrative services	\$ 2,170,185	
Loss contingencies and deductibles	<u>28,026</u>	<u>2,198,211</u>
Operating income		272,710
Net position beginning of year		<u>276,508</u>
Net position end of year		<u><u>\$ 549,218</u></u>

See notes to financial statements.

Muscatine County
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2013

	Internal Service
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 2,389,598
Cash received from employees and others	68,758
Cash paid to suppliers for services	(2,321,049)
Net cash provided by operating activities	137,307
Cash and cash equivalents beginning of year	626,351
Cash and cash equivalents end of year	\$ 763,658
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 272,710
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in accounts receivable	(12,565)
Decrease in accounts payable	(122,838)
Net cash provided by operating activities	\$ 137,307

See notes to financial statements.

Muscatine County
Statement of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2013

Assets

Cash, cash equivalents and pooled investments:

County Treasurer	\$ 3,206,614
Other County officials	791,898

Receivables:

Property tax:

Delinquent	144,351
Succeeding year	44,773,000

Accounts	20,443
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Accrued interest	750
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Assessments	204,200
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Total assets	<u>49,141,256</u>
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Liabilities

Accounts payable	67,599
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Salaries and benefits payable	23,020
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Due to other governments	47,692,157
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Trusts payable	1,286,525
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Compensated absences	71,955
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Total liabilities	<u>49,141,256</u>
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Net position

\$	<u><u>-</u></u>
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See notes to financial statements.

Muscatine County

Notes to Financial Statements

June 30, 2013

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

For financial reporting purposes, Muscatine County has included all funds, organizations, agencies, boards, commissions and authorities. The County has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the County. The County has no component units which meet the Governmental Accounting Standards Board criteria.

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

The County also participates in the following jointly governed organizations established pursuant to Chapter 28E of the Code of Iowa: Veterans' Plaza Authority, Bi-State Regional Planning Commission, Muscatine County Solid Waste Management Agency, Muscatine Area Geographic Information Consortium, Muscatine County Joint Communications Commission, Iowa Precinct Atlas Consortium, Muscatine County Drug Task Force and Job Training Partnership Act Quality Jobs Program.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Position (previously referred to as 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 Position presents the County’s nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in the following categories.

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those 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 to be used to fund mental health, mental retardation and developmental disabilities services.

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

The Secondary Roads Fund is used to account for the road use tax allocation from the State of Iowa, required transfers from the General and the Special Revenue, Rural Services Funds and other revenues to be used for secondary road construction and maintenance.

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

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

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service 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, Cash Equivalents and Pooled Investments – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the Statement of Cash Flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, 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, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2012.

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

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

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2013, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

Capital Assets – Capital assets, which include property, equipment and vehicles, intangibles and infrastructure assets acquired after July 1, 1980 (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the County) are reported in the governmental activities column in the government-wide Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial,

individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

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

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

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

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

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

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

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2013. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund and the Special Revenue, 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 Position. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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

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

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

Assigned – Amounts the County intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

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

E. Budgets and Budgetary Accounting

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

(2) Cash, Cash Equivalents and Pooled Investments

The County's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The County had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2013 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue: Mental Health	\$ 1,413
Special Revenue: Secondary Roads	General Special Revenue: Mental Health Rural Services	9,909 67 1,071
Total		<u>\$ 12,460</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, 2013 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Rural Services	\$ 30,000
Special Revenue: Secondary Roads Conservation Youth Corps	Special Revenue: Rural Services General	1,440,000 4,000
Debt Service	General	150,000
Total		<u>\$ 1,624,000</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, 2013 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated/amortized:				
Land	\$ 1,958,235	-	-	1,958,235
Intangibles, road network	1,195,713	-	-	1,195,713
Construction in progress	138,210	2,421,531	-	2,559,741
Construction in progress, road network	2,585,313	3,405,602	(5,605,230)	385,685
Total capital assets not being depreciated	5,877,471	5,827,133	(5,605,230)	6,099,374
Capital assets being depreciated/amortized:				
Buildings and improvements	31,557,177	37,230	-	31,594,407
Equipment and vehicles	6,963,955	985,923	(629,307)	7,320,571
Intangibles	347,771	-	-	347,771
Infrastructure, road network	36,218,926	5,605,230	-	41,824,156
Infrastructure, other	703,870	-	-	703,870
Total capital assets being depreciated/amortized	75,791,699	6,628,383	(629,307)	81,790,775
Less accumulated depreciation/amortization for:				
Buildings and improvements	10,678,684	588,308	-	11,266,992
Equipment and vehicles	4,874,911	606,473	(582,331)	4,899,053
Intangibles	237,637	44,574	-	282,211
Infrastructure, road network	16,110,630	1,112,199	-	17,222,829
Infrastructure, other	273,192	28,104	-	301,296
Total accumulated depreciation/amortization	32,175,054	2,379,658	(582,331)	33,972,381
Total capital assets being depreciated/amortized, net	43,616,645	4,248,725	(46,976)	47,818,394
Governmental activities capital assets, net	\$ 49,494,116	10,075,858	(5,652,206)	53,917,768

Depreciation/amortization expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 510,516
Physical health and social services	14,854
Mental health	49,922
County environment and education	89,710
Roads and transportation	1,559,104
Governmental services to residents	676
Administration	154,876
Total depreciation/amortization expense - governmental activities	<u>\$ 2,379,658</u>

(6) Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments at June 30, 2013 is as follows:

Fund	Description	Amount
General	Services	\$ 2,179
Special Revenue:		
Mental Health	Services	6,799
Rural Services	Services	325
Secondary Roads	Services	34,355
		<u>41,479</u>
Total for governmental funds		<u>\$ 43,658</u>
Agency:		
County Assessor	Collections	\$ 783,033
Schools		26,133,223
Community Colleges		1,618,169
Corporations		16,549,170
Townships		431,685
Auto License and Use Tax		918,754
Drainage Districts		587,077
All other		671,046
Total for agency funds		<u>\$ 47,692,157</u>

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2013 is as follows:

	Capital Lease Purchase Agreement	General Obligation County Building Improvement Note	General Obligation Admin. Office Building Bonds	General Obligation Courthouse Geothermal Notes
Balance beginning of year	\$ 10,584	-	100,000	760,000
Increases	-	3,750,000	-	-
Decreases	3,528	375,000	100,000	95,000
Balance end of year	<u>\$ 7,056</u>	<u>3,375,000</u>	<u>-</u>	<u>665,000</u>
Due within one year	<u>\$ 3,528</u>	<u>375,000</u>	<u>-</u>	<u>95,000</u>

	General Obligation County Building Improvement Notes	General Obligation Urban Renewal Bonds	Compensated Absences	Net OPEB Liability	Total
Balance beginning of year	\$ 400,000	8,835,000	1,272,078	159,854	11,537,516
Increases	-	-	805,438	75,145	4,630,583
Decreases	100,000	375,000	775,220	32,154	1,855,902
Balance end of year	<u>\$ 300,000</u>	<u>8,460,000</u>	<u>1,302,296</u>	<u>202,845</u>	<u>14,312,197</u>
Due within one year	<u>\$ 100,000</u>	<u>385,000</u>	<u>608,029</u>	<u>-</u>	<u>1,566,557</u>

Capital Lease Purchase Agreement

The County has entered into a capital lease purchase agreement for a copy machine for the County Sheriff. The agreement requires no interest and the present value of net minimum lease payments under the agreement at June 30, 2013 is as follows:

Year Ending June 30,	Amount
2014	\$ 3,528
2015	3,528
Total minimum lease payments	<u>\$ 7,056</u>

Payments under the capital lease purchase agreement totaled \$3,528 for the year ended June 30, 2013.

Notes Payable

A summary of the County's June 30, 2013 general obligation note indebtedness is as follows:

Year Ending June 30,	Interest Rate	County Building Improvement Note		
		Principal	Interest	Total
2014	1.50%	\$ 375,000	50,625	425,625
2015	1.50	375,000	45,000	420,000
2016	1.50	375,000	39,375	414,375
2017	1.50	375,000	33,750	408,750
2018	1.50	375,000	28,125	403,125
2019-2022	1.50	1,500,000	56,250	1,556,250
Total		<u>\$ 3,375,000</u>	<u>253,125</u>	<u>3,628,125</u>

Year Ending June 30,	Interest Rates	Courthouse Geothermal Notes		
		Principal	Interest	Total
2014	2.75%	\$ 95,000	23,322	118,322
2015	3.00	95,000	20,710	115,710
2016	3.40	95,000	17,860	112,860
2017	3.60	95,000	14,630	109,630
2018	3.80	95,000	11,210	106,210
2019-2023	4.00-4.10	190,000	11,400	201,400
Total		<u>\$ 665,000</u>	<u>99,132</u>	<u>764,132</u>

Year Ending June 30,	Interest Rate	County Building Improvement Notes		
		Principal	Interest	Total
2014	1.45%	\$ 100,000	4,410	104,410
2015	1.45	100,000	2,940	102,940
2016	1.45	100,000	1,474	101,474
Total		<u>\$ 300,000</u>	<u>8,824</u>	<u>308,824</u>

During the year ended June 30, 2013, the County issued a \$3,750,000 general obligation note for improvements at the Jail Administration and DHS buildings. The County retired \$670,000 of general obligation notes during the year.

General Obligation Urban Renewal Bonds

A summary of the County’s June 30, 2013 general obligation urban renewal Build America Bond indebtedness is as follows:

Year Ending June 30,	Interest Rates	Jail		
		Principal	Interest *	Total
2014	3.20%	\$ 385,000	421,070	806,070
2015	3.50	400,000	408,750	808,750
2016	4.00	410,000	394,750	804,750
2017	4.20	425,000	378,350	803,350
2018	4.40	445,000	360,500	805,500
2019-2023	4.60-5.20	2,515,000	1,472,625	3,987,625
2024-2028	5.30-5.70	3,155,000	753,965	3,908,965
2029	5.80	725,000	42,050	767,050
Total		\$ 8,460,000	4,232,060	12,692,060

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

The County retired \$375,000 of general obligation urban renewal bonds during the year.

(8) Development Agreement

In November 2010, the County entered into a development agreement with SSAB Iowa, Inc. Under the agreement, SSAB agreed to construct a research and development center. The County will provide a combination of property tax abatement and tax increment rebates. The total to be paid by the County under the agreement is not to exceed \$2,650,000. The amount rebated during the year ended June 30, 2013 was \$20,406. The outstanding balance of the agreement at June 30, 2013 was \$2,629,594. The agreement is not a general obligation of the County. However, the agreement is subject to the constitutional debt limitation of the County.

(9) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 5.78% of their annual covered salary and the County is required to contribute 8.67% 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, 2013, 2012 and 2011 were \$807,835, \$782,716 and \$666,352, respectively, equal to the required contributions for each year.

(10) Other Postemployment Benefits (OPEB)

Plan Description – The County operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 174 active and 6 retired members in the plan. Retired participants must be age 55 or older at retirement.

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

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

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

The following table shows the components of the County’s annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the County’s net OPEB obligation:

Annual required contribution	\$ 75,104
Interest on net OPEB obligation	6,394
Adjustment to annual required contribution	<u>(6,353)</u>
Annual OPEB cost	75,145
Contributions made	<u>(32,154)</u>
Increase in net OPEB obligation	42,991
Net OPEB obligation beginning of year	<u>159,854</u>
Net OPEB obligation end of year	\$ <u>202,845</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

For the year ended June 30, 2013, the County contributed \$32,154 to the medical plan. Plan members eligible for benefits contributed \$72,620, or 69.3% of the premium costs.

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

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$57,895	29.1%	\$ 111,857
2012	77,228	37.9	159,854
2013	75,145	42.8	202,845

Funded Status and Funding Progress – As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$919,731 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$919,731. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$8,682,000 and the ratio of the UAAL to covered payroll was 10.6%. As of June 30, 2013, there were no trust fund assets.

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

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

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

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

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

(11) Risk Management

The County is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of total 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, 2013 were \$235,650.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by the Lexington Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2013, no liability has been recorded in the County's financial statements. As of June 30, 2013, 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 casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by the amount of capital distributions previously received by the withdrawing member and an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$1,000,000 and \$150,000, 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.

(12) 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 \$75,000. 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, 2013 was \$2,369,598.

Amounts payable from the Internal Service, Health Insurance Trust Fund at June 30, 2013 total \$250,000, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on actuarial estimates of the amounts necessary to pay prior-year and current-year claims and to establish a reserve for catastrophic losses. That reserve was \$549,218 at June 30, 2013 and is reported as a designation of the Internal Service, Health Insurance Trust Fund net position. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in any of the past three years. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid claims beginning of year	\$ 372,442
Incurred claims (including claims incurred but not reported at June 30, 2013)	2,170,185
Payment on claims during the fiscal year	<u>(2,292,627)</u>
Unpaid claims end of year	<u>\$ 250,000</u>

(13) Jointly Governed Organizations

The County participates in the Muscatine County Joint Communications Commission, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. Financial transactions of this organization are included in the County's financial statements as part of the Other Agency Funds because of the County's fiduciary relationship with the organization. The following financial data is for the year ended June 30, 2013:

Additions:		
Contributions from Muscatine County		\$ 990,000
Miscellaneous		528
Total additions		<u>990,528</u>
Deductions:		
Salaries	\$ 579,669	
Benefits	245,163	
Office supplies	4,047	
Legal representation	525	
Postage and publicaitons	805	
Telephone and internet	857	
Travel	8,308	
Training	3,948	
Equipment replacement	1,187	
Maintenance and rentals	68,608	
Insurance	19,098	
Miscellaneous	1,317	933,532
Net		<u>56,996</u>
Balance beginning of year		<u>197,670</u>
Balance end of year		<u><u>\$ 254,666</u></u>

The County participates in the Muscatine County Drug Task Force, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. Financial transactions of this organization are maintained by the County Attorney and included in the County's financial statements as part of the Agency Funds because of the County's fiduciary relationship with the organization. The following financial data is for the year ended June 30, 2013:

Additions:		
Grant reimbursements		\$ 63,678
Reimbursements from special investigations		17,394
Restitutions		6,630
Forfeiture		10,334
Miscellaneous		1,139
Total additions		<u>99,175</u>
Deductions:		
Reimbursements to governmental units	\$ 81,238	
Office supplies and equipment	1,920	
Utilities	3,844	
Medical	779	
Training	889	
Investigations	21,357	
Miscellaneous	160	110,187
Net		<u>(11,012)</u>
Balance beginning of year		<u>27,766</u>
Balance end of year		<u><u>\$ 16,754</u></u>

(14) Industrial Development Revenue Notes

In May 2013, the County issued \$6,000,000 of industrial development revenue notes under the provisions of Chapter 419 of the Code of Iowa on behalf of the Lutheran Homes Society. The notes and related interest are not a liability of the County but are payable solely and only from the revenues derived by the property constructed by the Lutheran Homes Society.

(15) Subsequent Event

In September 2013, the County entered into a loan agreement to issue a general obligation county purpose note for \$1,350,000 to finance improvements to County buildings.

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, 2013

	Actual	Budgeted Amounts		Final to
		Original	Final	Net Variance
Receipts:				
Property tax	\$ 14,569,213	14,758,016	14,653,725	(84,512)
Tax increment financing and other county tax	2,057,460	2,054,578	2,087,046	(29,586)
Interest and penalty on property tax	134,942	142,000	142,000	(7,058)
Intergovernmental	8,680,551	11,864,707	9,021,132	(340,581)
Licenses and permits	73,682	55,700	55,700	17,982
Charges for service	1,050,784	928,713	948,713	102,071
Use of money and property	738,045	446,705	756,705	(18,660)
Miscellaneous	243,985	161,680	206,830	37,155
Total receipts	27,548,662	30,412,099	27,871,851	(323,189)
Disbursements:				
Public safety and legal services	9,430,068	9,630,152	10,115,852	685,784
Physical health and social services	1,156,150	1,309,033	1,373,578	217,428
Mental health	3,626,838	6,684,700	4,497,955	871,117
County environment and education	923,574	1,106,367	1,120,861	197,287
Roads and transportation	5,234,030	5,628,000	5,628,000	393,970
Governmental services to residents	755,701	851,397	848,097	92,396
Administration	2,731,109	2,897,760	2,988,560	257,451
Debt service	1,574,175	1,585,000	1,620,000	45,825
Capital projects	2,493,776	5,560,000	5,560,000	3,066,224
Total disbursements	27,925,421	35,252,409	33,752,903	5,827,482
Excess (deficiency) of receipts over (under) disbursements	(376,759)	(4,840,310)	(5,881,052)	5,504,293
Other financing sources, net	3,770,044	3,761,000	3,761,000	9,044
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	3,393,285	(1,079,310)	(2,120,052)	5,513,337
Balance beginning of year	8,720,135	6,723,000	8,473,910	246,225
Balance end of year	\$ 12,113,420	5,643,690	6,353,858	5,759,562

See accompanying independent auditor's report.

Muscatine County

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2013

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 27,548,662	(314,847)	27,233,815
Expenditures	27,925,421	(1,091,811)	26,833,610
Net	(376,759)	776,964	400,205
Other financing sources, net	3,770,044	-	3,770,044
Beginning fund balances	8,720,135	(838,727)	7,881,408
Ending fund balances	\$ 12,113,420	(61,763)	12,051,657

See accompanying independent auditor's report.

Muscatine County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2013

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

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except the 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 ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments decreased budgeted disbursements by \$1,499,506. 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, 2013, disbursements did not exceed the amounts budgeted.

Muscatine County

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

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)			
2009	Jul 1, 2008	-	\$ 553	553	0.0%	\$ 7,788	7.1%
2010	Jul 1, 2008	-	553	553	0.0	7,910	7.0
2011	Jul 1, 2008	-	589	589	0.0	8,076	7.3
2012	Jul 1, 2011	-	944	944	0.0	8,429	11.2
2013	Jul 1, 2011	-	920	920	0.0	8,682	10.6

See Note 10 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

Muscatine County

Supplementary Information

Muscatine County
 Combining Balance Sheet
 Nonmajor Governmental Funds

June 30, 2013

	County Recorder's Records Management	Resource Enhance- ment and Protection
Assets		
Cash, cash equivalents and pooled investments	\$ 12,199	74,204
Receivables:		
Succeeding year tax increment financing	-	-
Total assets	\$ 12,199	74,204
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	\$ -	-
Salaries payable	-	152
Deferred revenue - succeeding year tax increment financing	-	-
Total liabilities	-	152
Fund balances:		
Restricted for other purposes	12,199	74,052
Total liabilities and fund balances	\$ 12,199	74,204

See accompanying independent auditor's report.

Special Revenue						
Conservation Youth Corp	Sheriff Special	County Sheriff's Forfeiture	County Attorney's Forfeiture	Tax Increment Financing		Total
9,148	2,044	38,945	10,277	-		146,817
-	-	-	-	29,000		29,000
9,148	2,044	38,945	10,277	29,000		175,817
125	-	999	-	-		1,124
2,082	-	-	-	-		2,234
-	-	-	-	29,000		29,000
2,207	-	999	-	29,000		32,358
6,941	2,044	37,946	10,277	-		143,459
9,148	2,044	38,945	10,277	29,000		175,817

Muscatine County

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

Year ended June 30, 2013

	County	Resource	Special
	Recorder's Records Management	Enhance- ment and Protection	Conservation Youth Corp
Revenues:			
Tax increment financing	\$ -	-	-
Intergovernmental	-	16,780	-
Charges for service	8,327	-	-
Miscellaneous	-	-	7,150
Total revenues	8,327	16,780	7,150
Expenditures:			
Operating:			
Public safety and legal services	-	-	-
County environment and education	-	10,975	12,877
Governmental services to residents	14,720	-	-
Debt service	-	-	-
Total expenditures	14,720	10,975	12,877
Excess (deficiency) of revenues over (under) expenditures	(6,393)	5,805	(5,727)
Other financing sources:			
Operating transfers in	-	-	4,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(6,393)	5,805	(1,727)
Fund balances beginning of year	18,592	68,247	8,668
Fund balances end of year	\$ 12,199	74,052	6,941

See accompanying independent auditor's report.

Revenue					
Sheriff Special	County Sheriff's Forfeiture	County Attorney's Forfeiture	Tax Increment Financing		Total
-	-	-	20,326		20,326
-	-	-	-		16,780
-	-	-	-		8,327
94	48,556	-	-		55,800
94	48,556	-	20,326		101,233
-	42,364	15,440	-		57,804
-	-	-	-		23,852
-	-	-	-		14,720
-	-	-	20,406		20,406
-	42,364	15,440	20,406		116,782
94	6,192	(15,440)	(80)		(15,549)
-	-	-	-		4,000
94	6,192	(15,440)	(80)		(11,549)
1,950	31,754	25,717	80		155,008
2,044	37,946	10,277	-		143,459

Schedule 3

Muscatine County

Combining Schedule of Net Position
Internal Service Funds

June 30, 2013

	Health Insurance Trust	County Insurance Trust	Total
Assets			
Cash, cash equivalents and pooled investments	\$ 693,289	70,369	763,658
Accounts receivable	35,948	-	35,948
Total assets	<u>729,237</u>	<u>70,369</u>	<u>799,606</u>
Liabilities			
Accounts payable	250,000	388	250,388
Net Position			
Unrestricted	<u>\$ 479,237</u>	<u>69,981</u>	<u>549,218</u>

See accompanying independent auditor's report.

Muscatine County

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

Year ended June 30, 2013

	Health Insurance Trust	County Insurance Trust	Total
Operating revenues:			
Reimbursements from operating funds	\$ 2,369,598	20,000	2,389,598
Reimbursements from others	48,456	32,867	81,323
Total operating revenues	<u>2,418,054</u>	<u>52,867</u>	<u>2,470,921</u>
Operating expenses:			
Health claims and administrative services	2,170,185	-	2,170,185
Loss contingencies and deductibles	-	28,026	28,026
Total operating expenses	<u>2,170,185</u>	<u>28,026</u>	<u>2,198,211</u>
Operating income	247,869	24,841	272,710
Net position beginning of year	231,368	45,140	276,508
Net position end of year	<u>\$ 479,237</u>	<u>69,981</u>	<u>549,218</u>

See accompanying independent auditor's report.

Schedule 5

Muscatine County
Combining Schedule of Cash Flows
Internal Service Funds

Year ended June 30, 2013

	Health Insurance Trust	County Insurance Trust	Total
Cash flows from operating activities:			
Cash received from operating funds	\$ 2,369,598	20,000	2,389,598
Cash received from others	35,891	32,867	68,758
Cash paid to suppliers for services	(2,292,627)	(28,422)	(2,321,049)
Net cash provided by operating activities	112,862	24,445	137,307
Cash and cash equivalents beginning of year	580,427	45,924	626,351
Cash and cash equivalents end of year	\$ 693,289	70,369	763,658

**Reconciliation of operating income to net cash
provided by operating activities:**

Operating income	\$ 247,869	24,841	272,710
Adjustments to reconcile operating income to net cash provided by operating activities:			
Increase in accounts receivable	(12,565)	-	(12,565)
Decrease in accounts payable	(122,442)	(396)	(122,838)
Net cash provided by operating activities	\$ 112,862	24,445	137,307

See accompanying independent auditor's report.

Muscatine County

Muscatine County
Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2013

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges	Corporations
Assets						
Cash, cash equivalents and pooled investments:						
County Treasurer	\$ -	2,331	286,479	251,726	15,350	173,390
Other County officials	775,618	-	-	-	-	-
Receivables:						
Property tax:						
Delinquent	-	887	2,125	95,497	5,819	37,136
Succeeding year	-	244,000	561,000	25,786,000	1,597,000	16,136,000
Accounts	177	-	-	-	-	-
Accrued interest	-	-	-	-	-	-
Assessments	-	-	-	-	-	202,644
Total assets	\$ 775,795	247,218	849,604	26,133,223	1,618,169	16,549,170
Liabilities						
Accounts payable	\$ -	-	-	-	-	-
Salaries and benefits payable	-	-	1,697	-	-	-
Due to other governments	22,966	247,218	783,033	26,133,223	1,618,169	16,549,170
Trusts payable	752,829	-	64,874	-	-	-
Compensated absences	-	-	-	-	-	-
Total liabilities	\$ 775,795	247,218	849,604	26,133,223	1,618,169	16,549,170

See accompanying independent auditor's report.

Townships	Auto License and Use Tax	Drainage Districts	Joint Communications Center	Muscatine County Drug Task Force	Other	Total
4,005	918,754	621,655	257,641	474	674,809	3,206,614
-	-	-	-	16,280	-	791,898
2,680	-	-	-	-	207	144,351
425,000	-	-	-	-	24,000	44,773,000
-	-	-	-	-	20,266	20,443
-	-	750	-	-	-	750
-	-	1,556	-	-	-	204,200
431,685	918,754	623,961	257,641	16,754	719,282	49,141,256
-	-	36,884	3,670	474	26,571	67,599
-	-	-	21,323	-	-	23,020
431,685	918,754	587,077	161,887	16,280	222,695	47,692,157
-	-	-	-	-	468,822	1,286,525
-	-	-	70,761	-	1,194	71,955
431,685	918,754	623,961	257,641	16,754	719,282	49,141,256

Muscatine County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2013

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges
Assets and Liabilities					
Balances beginning of year	\$ 847,501	240,420	841,583	25,846,727	1,580,968
Additions:					
Property and other county tax	-	244,383	647,222	25,916,423	1,605,382
E911 surcharge	-	-	-	-	-
State tax credits	-	7,326	17,546	785,336	48,063
Office fees and collections	873,861	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-	-
Assessments	-	-	-	-	-
Trusts	3,134,565	-	-	-	-
Miscellaneous	10,454	-	-	-	-
Total additions	4,018,880	251,709	664,768	26,701,759	1,653,445
Deductions:					
Agency remittances:					
To other funds	470,552	-	-	-	-
To other governments	434,969	244,911	656,747	26,415,263	1,616,244
Trusts paid out	3,185,065	-	-	-	-
Total deductions	4,090,586	244,911	656,747	26,415,263	1,616,244
Balances end of year	\$ 775,795	247,218	849,604	26,133,223	1,618,169

See accompanying independent auditor's report.

Corporations	Townships	Auto License and Use Tax	Drainage Districts	Joint Communications Center	Muscatine County Drug Task Force	Other	Total
16,200,645	433,609	846,142	579,639	197,670	27,766	762,962	48,405,632
16,183,937	425,005	-	-	-	-	2,141,854	47,164,206
-	-	-	-	-	-	84,986	84,986
426,457	14,462	-	-	-	-	889	1,300,079
-	-	-	-	-	-	-	873,861
-	-	10,952,189	-	-	-	-	10,952,189
76,488	-	-	199,729	-	-	-	276,217
-	-	-	-	-	-	608,172	3,742,737
-	-	-	18,161	990,528	99,175	1,315,935	2,434,253
16,686,882	439,467	10,952,189	217,890	990,528	99,175	4,151,836	66,828,528
-	-	340,306	-	-	-	-	810,858
16,338,357	441,391	10,539,271	173,568	930,557	110,187	3,587,344	61,488,809
-	-	-	-	-	-	608,172	3,793,237
16,338,357	441,391	10,879,577	173,568	930,557	110,187	4,195,516	66,092,904
16,549,170	431,685	918,754	623,961	257,641	16,754	719,282	49,141,256

Muscatine County

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

For the Last Ten Years

	2013	2012	2011	2010
Revenues:				
Property and other county tax	\$ 15,013,220	\$ 14,501,893	14,082,221	13,301,678
Local option sales tax	1,578,784	1,660,363	1,515,990	1,569,049
Tax increment financing	20,326	2,646,694	2,524,868	2,426,949
Interest and penalty on property tax	137,636	142,125	163,591	143,331
Intergovernmental	8,407,267	12,088,460	9,343,296	9,280,544
Licenses and permits	69,129	56,217	49,240	57,704
Charges for service	1,049,328	1,014,654	999,475	949,125
Use of money and property	728,408	529,790	333,308	336,494
Miscellaneous	229,717	255,121	115,649	163,573
Total	\$ 27,233,815	32,895,317	29,127,638	28,228,447
Expenditures:				
Operating:				
Public safety and legal services	\$ 9,230,897	9,097,021	7,905,440	7,263,162
Physical health and social services	1,111,050	1,165,653	1,178,269	1,295,177
Mental health	2,555,780	6,145,291	5,068,043	4,673,403
County environment and education	924,589	920,798	1,396,550	1,611,528
Roads and transportation	5,082,667	5,284,511	4,101,712	6,087,223
Governmental services to residents	758,477	920,329	820,077	874,604
Administration	2,700,947	2,713,389	2,562,491	2,526,382
Non-program	-	-	-	-
Debt service	1,574,173	4,461,871	4,175,606	3,835,638
Capital projects	2,895,030	1,219,947	7,032,504	5,338,057
Total	\$ 26,833,610	31,928,810	34,240,692	33,505,174

See accompanying independent auditor's report.

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

Muscatine County
Schedule of Expenditures of Federal Awards
Year ended June 30, 2013

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of the Interior:			
Payments in Lieu of Taxes	15.226		\$ 4,080
U.S. Department of Homeland Security:			
Emergency Food and Shelter National Board Program	97.024		<u>2,570</u>
Total direct			<u>6,650</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		<u>40,880</u>
U.S. Department of Defense:			
Iowa Treasurer of State:			
Payments to States in Lieu of Real Estate Taxes	12.112		<u>83,007</u>
U.S. Department of the Interior:			
Fish and Wildlife Cluster:			
Iowa Department of Natural Resources:			
Sport Fish Restoration Program	15.605		<u>2,160</u>
Wildlife Restoration and Basic Hunter Education	15.611		<u>2,553</u>
U.S. Department of Justice:			
Iowa Department of Justice:			
Violence Against Women Formula Grants	16.588	VW-13-58B	<u>1,141</u>
City of Muscatine:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ- BX-0179	<u>8,555 *</u>
Governor's Office of Drug Control Policy:			
Public Safety Partnership and Community Policing Grants	16.710	09-Hotspots/Interdiction-03	<u>3,770</u>
Edward Byrne Memorial Justice Assistance Grant Program	16.738	10JAG-42612	<u>59,908 *</u>
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	BROS-C070(58)8J--70	<u>59,047</u>
Iowa Department of Public Safety:			
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	12-410 Task 53	9,763
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	13-410 Task 53	<u>10,312</u> <u>20,075</u>

Muscatine County
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2013

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect (continued):			
U.S. Department of Health and Human Services:			
Iowa Department of Public Health:			
Centers for Disease Control and Prevention- Investigations and Technical Assistance	93.283	5882BT70	3,733
Centers for Disease Control and Prevention- Investigation and Technical Assistance	93.283	5883BT70	21,505
			<u>25,238</u>
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
Refugee and Entrant Assistance_State Administered Programs	93.566		193
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		9,468
Foster Care_Title IV-E	93.658		14,074
Adoption Assistance	93.659		3,938
Social Services Block Grant	93.667		12,130
Children's Health Insurance Program	93.767		160
Medical Assistance Program	93.778		40,877
Executive Office of the President:			
Iowa Department of Public Safety:			
High Intensity Drug Trafficking Areas Program	95.001	G11MW0002A	15,244
High Intensity Drug Trafficking Areas Program	95.001	G12MW0002A	40,732
High Intensity Drug Trafficking Areas Program	95.001	G13MW0002A	38,645
			<u>94,621</u>
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-DR-4119-IA	13,513
Hazard Mitigation Grant	97.039	DR-4018-0003-01	10,493
Emergency Management Performance Grants	97.042		34,987
Total indirect			540,788
Total			<u>\$ 547,438</u>

* Total for CFDA Number 16.738 is \$68,463.

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

See accompanying independent auditor's report.

Muscatine County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, 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 in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Muscatine County, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Muscatine County's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Muscatine County's internal control. Accordingly, we do not express an opinion on the effectiveness of Muscatine County's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the County's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-13 and II-B-13 to be 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 which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2013 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.

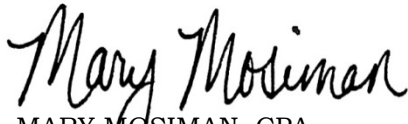
Muscatine County's Responses to the Findings

Muscatine County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Muscatine County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

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.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 15, 2014

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

Muscatine County



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

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

To the Officials of Muscatine County:

Report on Compliance for Each Major Federal Program

We have audited Muscatine County, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. Muscatine County's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Muscatine County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Muscatine County's compliance.

Opinion on Each Major Federal Program

In our opinion, Muscatine County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.


Report on Internal Control Over Compliance


The management of Muscatine County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Muscatine County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Muscatine County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 15, 2014

Muscatine County
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

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

- (a) Unmodified opinions were issued on the financial statements.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were as follows:
 - CFDA Number 12.112 – Payments in Lieu of Real Estate Taxes
 - CFDA Number 16.738 – Edward Byrne Memorial Justice Assistance Grant Program
 - CFDA Number 20.205 – Highway Planning and Construction
 - CFDA Number 95.001 – High Intensity Drug Trafficking Areas Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Muscatine County did not qualify as a low-risk auditee.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-13 Financial Reporting – During the audit, we identified material amounts of receivables not recorded in the County’s financial statements. Adjustments were subsequently made by the County to properly include these amounts in the financial statements.

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

Response – We will make every effort to ensure proper identification of receivables.

Conclusion – Response accepted.

II-B-13 Segregation of Duties – During our review of the internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximize the accuracy of the County’s financial statements. The following weaknesses in the offices identified were noted for which no compensating controls exist:

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

County Sheriff – The bank reconciliation is not prepared by someone who doesn’t sign checks, handle or record cash.

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

Responses –

County Engineer – The incoming mail will be opened in the presence of two persons. The receipts will be logged by one person who does not perform the accounting function.

Muscatine County
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

County Sheriff – We will look into having a third person sign the checks.

Conclusions – Responses accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Muscatine County
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-13 Certified Budget – Disbursements during the year ended June 30, 2013 did not exceed the amounts budgeted.
- IV-B-13 Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- IV-C-13 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- IV-D-13 Business Transactions – No business transactions between the County and County officials or employees were noted.
- IV-E-13 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of surety bond coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- IV-F-13 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- IV-G-13 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-13 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- IV-I-13 Urban Renewal Annual Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1. The amount reported by the County as TIF debt outstanding was understated by \$2,650,000 since the County did not include a development agreement entered into in November 2010 but not certified until November 2011.

Recommendation – The County should ensure the amount reported as outstanding TIF debt includes all TIF debt certified and certifiable.

Response – Muscatine County included this debt in the fiscal year 2012-2013 annual report. The amount of debt was missed when the project was reported on the fiscal year 2011-2012 annual report. We will make every effort to report all outstanding TIF debt in the future.

Conclusion – Response accepted.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

IV-J-13 Taxable Fringe Benefits – Certain County expenditures for clothing considered adaptable to general usage as ordinary clothing were not included in wages of employees in accordance with Internal Revenue Service (IRS) guidelines.

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

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

Conclusion – Response accepted.

IV-K-13 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, 2013 for the County Extension Office did not exceed the amount budgeted.

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

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

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


Conclusion – Response accepted.

Muscatine County

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Kelly L. Hilton, Senior Auditor
Tyler L. Carter, Staff Auditor
Kirstie R. Hill, Staff Auditor
Kelsey J. Kranz, Staff Auditor
Eric L. Rath, Staff Auditor
Jeremy L. Krajicek, Assistant Auditor
Zack D. Kubik, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State