



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

March 15, 2006

Contact: Andy Nielsen
515/281-5834

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

The County had local tax revenue of \$44,654,016 for the year ended June 30, 2005, which included \$1,700,375 in tax credits from the state. The County forwarded \$35,363,912 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$9,290,104 of the local tax revenue to finance County operations, a 3.5 percent decrease from the prior year. Other revenues included charges for service of \$1,719,406, operating grants, contributions and restricted interest of \$6,693,347, capital grants, contributions and restricted interest of \$896,622, tax increment financing of \$2,659,483, local option sales tax of \$1,207,208, unrestricted investment earnings of \$269,852 and other general revenues of \$346,828.

Expenses for County operations totaled \$21,253,604, a 5.6 percent increase from the prior year. Expenses included \$6,193,181 for public safety and legal services, \$4,276,613 for mental health and \$4,248,592 for roads and transportation.

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

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MUSCATINE COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005

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Muscatine County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2005)		
Richard Marr	Board of Supervisors	Jan 2005
David Watkins	Board of Supervisors	Jan 2005
John Oberhaus	Board of Supervisors	Jan 2007
Esther Dean	Board of Supervisors	Jan 2007
Lewis Morrison	Board of Supervisors	Jan 2007
Leslie Soule	County Auditor	Jan 2005
Jerry Coffman	County Treasurer	Jan 2007
Cindy Gray	County Recorder	Jan 2007
R. Greg Orr	County Sheriff	Jan 2005
Gary Allison	County Attorney	Jan 2007
Dale McCrea	County Assessor	Jan 2010
(After January 2005)		
John Oberhaus	Board of Supervisors	Jan 2007
Esther Dean	Board of Supervisors	Jan 2007
Lewis Morrison	Board of Supervisors	Jan 2007
David Watkins	Board of Supervisors	Jan 2009
Kas Kelly	Board of Supervisors	Jan 2009
Leslie Soule	County Auditor	Jan 2009
Jerry Coffman	County Treasurer	Jan 2007
Cindy Gray	County Recorder	Jan 2007
R. Greg Orr	County Sheriff	Jan 2009
Gary Allison	County Attorney	Jan 2007
Dale McCrea	County Assessor	Jan 2010

Muscatine County



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Independent Auditor's Report

To the Officials of Muscatine County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Muscatine County, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Muscatine County's management. Our responsibility is to express opinions on these financial statements based on our audit.

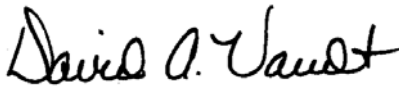
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Muscatine County at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

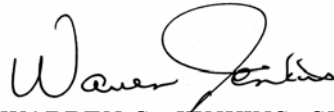
In accordance with Government Auditing Standards, we have also issued our report dated September 29, 2005 on our consideration of Muscatine County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Muscatine County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 29, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Muscatine County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities decreased 6.4%, or approximately \$1,582,000, from fiscal 2004 to fiscal 2005. Property tax decreased approximately \$211,000 and grants and contributions decreased approximately \$1,336,000.
- Expenses of the County's governmental activities increased 5.6%, or approximately \$1,126,000, from fiscal 2004 to fiscal 2005. Public safety and legal services expenses increased approximately \$685,000. Mental health expenses increased approximately \$194,000.
- The County's net assets increased 27%, or approximately \$1,829,000, from June 30, 2004 to June 30, 2005.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the individual internal service and agency funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various Federal programs benefiting the County.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the event or 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 periods.

The County's governmental activities are presented in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health services, county environment and education, roads and transportation, 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. These governmental funds include: 1) the General Fund, 2) the Special Revenue Funds such as Mental Health, Rural Services, Secondary Roads and IPSCO TIF, 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 financing of goods or services purchased by one department of the County and provided to other departments or agencies on a cost-reimbursement basis.

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Muscatine County's combined net assets changed from a year ago, increasing from \$6.8 million to \$8.6 million. The analysis that follows focuses on the changes in the net assets for governmental activities.

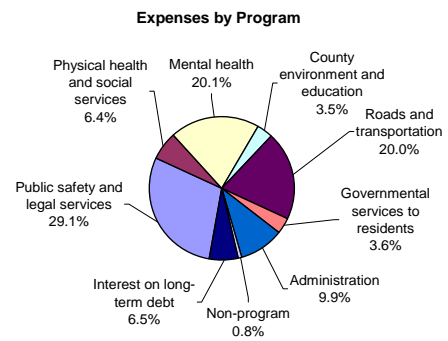
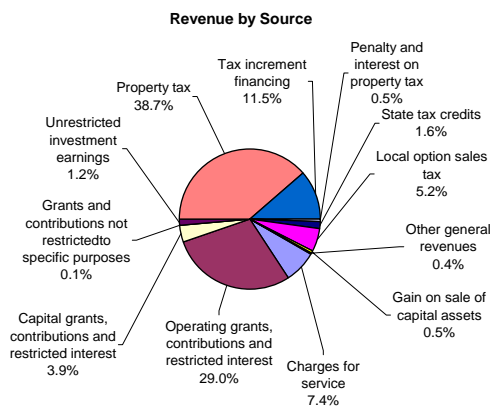
Net Assets of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2005	2004
Current and other assets	\$ 21,463	24,323
Capital assets	20,175	16,955
Total assets	<u>41,638</u>	<u>41,278</u>
Long-term liabilities	19,277	21,295
Other liabilities	13,774	13,226
Total liabilities	<u>33,051</u>	<u>34,521</u>
Net assets:		
Invested in capital assets, net of related debt	15,972	12,191
Restricted	3,858	6,244
Unrestricted	<u>(11,243)</u>	<u>(11,678)</u>
Total net assets	<u>\$ 8,587</u>	<u>6,757</u>

Muscatine County's total net assets increased by approximately \$1,830,000 from fiscal 2004 to fiscal 2005. The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operating without constraints established by debt covenants, enabling legislation or other legal requirements, is a deficit of \$11.2 million. The deficit unrestricted net assets results primarily from the County's liability for tax increment urban renewal revenue bonds issued for IPSCO, Inc. The County does not own and, accordingly, has not recorded the assets for which this debt was issued.

Changes in Net Assets of Governmental Activities

Changes in Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2005	2004
Revenues:		
Program revenues:		
Charges for service	\$ 1,719	1,535
Operating grants, contributions and restricted interest	6,693	6,884
Capital grants, contributions and restricted interest	897	2,042
General revenues:		
Property tax	8,913	9,124
Tax increment financing	2,659	2,459
Penalty and interest on property tax	112	153
State tax credits	378	507
Local option sales tax	1,207	1,376
Grants and contributions not restricted to specific purposes	30	107
Unrestricted investment earnings	270	164
Gain on sale of capital assets	122	5
Other general revenues	83	309
Total revenues	23,083	24,665
Program expenses:		
Public safety and legal services	6,193	5,508
Physical health and social services	1,368	1,296
Mental health	4,277	4,083
County environment and education	740	708
Roads and transportation	4,249	4,098
Governmental services to residents	773	675
Administration	2,102	1,915
Non-program	176	659
Interest on long-term debt	1,375	1,185
Total expenses	21,253	20,127
Increase in net assets	1,830	4,538
Net assets July 1	6,757	2,219
Net assets June 30	\$ 8,587	6,757



Muscatine County's property tax rates decreased by \$.04 per \$1,000 of taxable valuation in FY05. There was a decrease in rural taxable property valuation of \$25,900,123 and a decrease in countywide taxable property valuation of \$23,055,839. Revenues from the State of Iowa in the form of mental health funding decreased by \$198,000 and local option sales tax decreased by \$169,000 during the fiscal year.

INDIVIDUAL MAJOR FUND ANALYSIS

As Muscatine County completed the year, its governmental funds reported a combined fund balance of approximately \$7 million, a decrease of approximately \$3.8 million below last year's total of \$10.8 million. The decrease seen in the Conservation Land Acquisition Fund is due to the completion of the Conservation Learning Center Building. The Secondary Roads Fund decreased as projects that carried over from FY04 were completed. The Mental Health Fund balance decreased due to a reduction in levied taxes and state allocations. The General Fund decrease is due to budgeted expenditures in excess of revenues.

- The General Fund, the operating fund for Muscatine County, ended FY05 with a fund balance of \$3 million. This was a reduction from the FY04 ending balance of \$3.9 million. Fiscal year 2005 saw a decrease in property valuation from \$1,267,858,387 in FY04 to \$1,244,802,548 in FY05. The levy rate for the General Fund remained the same in FY04 and FY05.
- Muscatine County has continued to look for ways to effectively manage the cost of mental health services in the Mental Health Fund. FY05 ended with a \$1 million balance, whereas FY04 ended with a \$1.6 million balance. The levy rate was reduced \$.031 per \$1,000 of taxable valuation from FY04 to FY05 in order to decrease the fund balance to a level appropriate to qualify for state mental health allocation monies.
- The Rural Services Fund ended FY05 with a \$284,000 balance compared to the prior year ending balance of \$56,000. Although the property tax levy rate for the Rural Services Fund remained the same from FY04 to FY05, the taxable valuation decrease of \$23 million decreased the amount of property tax collected by approximately \$32,000. FY05 transfers to the Secondary Roads Fund were reduced by \$280,000, thereby increasing the fund balance.
- The Secondary Roads Fund ended FY05 with a \$2.4 million balance, compared to the prior year ending balance of \$3.4 million. Capital project expenditures in the fund in FY05 increased approximately \$567,000 from FY04. Roads and transportation expenditures in the fund increased from FY04 by approximately \$772,000. Although local option sales tax revenue decreased by \$169,000, intergovernmental revenue increased \$299,000. The FY05 expenditures in the fund increased \$1.3 million due to the completion of several projects. The FY05 revenues increased \$66,000 and transfers decreased \$280,000 from FY04. Along with an excavator, the County purchased five trucks in FY05. Muscatine County maintained 415 miles of gravel, 21 miles of dirt, 43 miles of seal coated, 129 miles of paved roads and 110 bridges with the resources of this fund.
- There were no significant changes in the revenues, expenditures or balances of the IPSCO TIF Fund during the year.
- The Debt Service Fund ended FY05 with a \$270,000 balance, compared to the prior year ending balance of \$269,000. The VPA jail capital lease purchase agreement payments were approximately \$673,000 in FY05, compared to \$654,000 in FY04.

BUDGETARY HIGHLIGHTS

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

The County budget is prepared on the cash basis. Over the course of the year, Muscatine County amended the operating budget three times. The first amendment was made in August 2004, the second amendment was made in March 2005 and the third in June 2005. All three amendments were to adjust for expenditure and revenue changes after the certification of the FY05 budget.

None of the amendments made during the 2005 fiscal year should have any impact on the fiscal year 2006 budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of FY05, Muscatine County had approximately \$20 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This is a net increase of approximately \$3 million over FY04. Muscatine County had depreciation expense of approximately \$981,000 in FY05 and total accumulated depreciation of approximately \$11,200,000 at June 30, 2005. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Debt

At the end of FY05, Muscatine County had \$4,190,000 in capital lease purchase agreements outstanding, compared to \$4,744,000 at the end of FY04.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Muscatine County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget and tax rates. In an ongoing effort to maintain County services without raising tax levies, the Muscatine County Board of Supervisors is committed to limiting expenditure increases and using excess fund balances to provide services.

Amounts available for appropriation in the FY06 operating budget are approximately \$23.7 million, a decrease of 8% under the final 2005 budget. Muscatine County will spend down fund balances to finance programs currently offered to offset the effect inflation has on program costs. Increased wage adjustments for pay-plan employees represent the largest portion of the increased expenses. Muscatine County will purchase voting equipment and purchase and remodel the former HNI headquarters for county administration offices out of the 2006 budget.

If these estimates are realized, Muscatine County's operating fund balances are expected to decrease from \$6.9 million to approximately \$4.3 million by the close of 2006, which may require a tax levy increase in FY07.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Muscatine County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sherry Seright at the Muscatine County Budget Coordinator's Office, 401 East 3rd Street, Muscatine, Iowa, 52761-3840.

Basic Financial Statements

Exhibit A

Muscatine County
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 7,747,972
Receivables:	
Property tax:	
Delinquent	87,971
Succeeding year	9,310,000
Tax increment financing:	
Succeeding year	2,479,000
Interest and penalty on property tax	215,900
Accounts	14,337
Accrued interest	22,794
Due from other governments	1,258,621
Inventories	151,006
Prepaid insurance	174,917
Capital assets (net of accumulated depreciation)	20,175,170
Total assets	<u>41,637,688</u>
Liabilities	
Accounts payable	1,142,305
Accrued interest payable	259,809
Salaries and benefits payable	139,678
Due to other governments	363,597
Deferred revenue:	
Succeeding year property tax	9,390,000
Succeeding year tax increment financing	2,479,000
Long-term liabilities:	
Portion due or payable within one year:	
Capital lease purchase agreement	550,000
Tax increment urban renewal revenue bonds	1,607,000
Installment purchase agreement	7,294
Compensated absences	396,989
Portion due or payable after one year:	
Capital lease purchase agreement	3,640,000
Tax increment urban renewal revenue bonds	12,574,000
Installment purchase agreement	6,353
Compensation absences	495,024
Total liabilities	<u>33,051,049</u>
Net Assets	
Invested in capital assets, net of related debt	15,971,523
Restricted for:	
Supplemental levy purposes	175,868
Mental health purposes	971,888
Secondary roads purposes	2,357,605
Debt service	14,964
Other purposes	337,861
Unrestricted	(11,243,070)
Total net assets	<u>\$ 8,586,639</u>

See notes to financial statements.

Muscatine County
Statement of Activities
Year ended June 30, 2005

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 6,193,181	488,821	1,341,823	-	(4,362,537)
Physical health and social services	1,368,129	130,184	266,572	-	(971,373)
Mental health	4,276,613	49,201	2,076,302	-	(2,151,110)
County environment and education	739,625	54,805	408,237	238,793	(37,790)
Roads and transportation	4,248,592	121,677	2,419,970	649,325	(1,057,620)
Governmental services to residents	773,378	599,114	8,793	-	(165,471)
Administration	2,102,142	29,990	171,650	25	(1,900,477)
Non-program	176,375	245,614	-	8,479	77,718
Interest on long-term debt	1,375,569	-	-	-	(1,375,569)
Total	\$ 21,253,604	1,719,406	6,693,347	896,622	(11,944,229)
General Revenues:					
Property and other county tax levied for:					
General purposes					8,264,864
Debt service					647,706
Tax increment financing					2,659,483
Penalty and interest on property tax					111,967
State tax credits					377,534
Local option sales tax					1,207,208
Grants and contributions not restricted to specific purpose					30,499
Unrestricted investment earnings					269,852
Gain on sale of capital assets					121,822
Miscellaneous					82,540
Total general revenues					13,773,475
Change in net assets					1,829,246
Net assets beginning of year					6,757,393
Net assets end of year					\$ 8,586,639

See notes to financial statements.

Muscatine County
Balance Sheet
Governmental Funds
June 30, 2005

	Special		
	General	Mental Health	Rural Services
Assets			
Cash and pooled investments	\$ 2,890,756	1,462,215	296,042
Receivables:			
Property tax:			
Delinquent	54,744	14,242	13,615
Succeeding year	6,041,000	1,572,000	853,000
Tax increment financing:			
Succeeding year	-	-	-
Interest and penalty on property tax	215,900	-	-
Accounts	497	1,264	-
Accrued interest	22,794	-	-
Due from other funds	837	-	-
Due from other governments	283,336	79,858	-
Inventories	-	-	-
Prepaid insurance	174,917	-	-
	<u>\$ 9,684,781</u>	<u>3,129,579</u>	<u>1,162,657</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 164,029	170,897	1,789
Salaries and benefits payable	86,765	10,324	1,998
Due to other funds	4,715	1,037	124
Due to other governments	52,501	309,458	1,065
Deferred revenue:			
Succeeding year property tax	6,094,000	1,586,000	860,000
Succeeding year tax increment financing	-	-	-
Other	266,938	13,922	13,248
Total liabilities	<u>6,668,948</u>	<u>2,091,638</u>	<u>878,224</u>
Fund balances:			
Reserved:			
Debt service	-	-	-
Supplemental levy purposes	169,999	-	-
Unreserved:			
Designated for conservation equipment	13,976	-	-
Undesignated, reported in:			
General fund	2,831,858	-	-
Special revenue funds	-	1,037,941	284,433
Total fund balances	<u>3,015,833</u>	<u>1,037,941</u>	<u>284,433</u>
	<u>\$ 9,684,781</u>	<u>3,129,579</u>	<u>1,162,657</u>

See notes to financial statements.

Revenue				
Secondary Roads	IPSCO TIF	Debt Service	Nonmajor	Total
2,458,491	-	275,403	45,735	7,428,642
-	-	5,370	-	87,971
-	-	844,000	-	9,310,000
-	2,479,000	-	-	2,479,000
-	-	-	-	215,900
1,354	-	-	11,222	14,337
-	-	-	-	22,794
5,039	-	-	-	5,876
485,951	-	-	409,476	1,258,621
151,006	-	-	-	151,006
-	-	-	-	174,917
3,101,841	2,479,000	1,124,773	466,433	21,149,064
510,008	-	-	125,763	972,486
37,782	-	-	2,809	139,678
-	-	-	-	5,876
573	-	-	-	363,597
-	-	850,000	-	9,390,000
-	2,479,000	-	-	2,479,000
109,201	-	5,218	400,000	808,527
657,564	2,479,000	855,218	528,572	14,159,164
-	-	269,555	-	269,555
-	-	-	-	169,999
-	-	-	-	13,976
-	-	-	-	2,831,858
2,444,277	-	-	(62,139)	3,704,512
2,444,277	-	269,555	(62,139)	6,989,900
3,101,841	2,479,000	1,124,773	466,433	21,149,064

Muscatine County

Muscatine County

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

June 30, 2005

Total governmental fund balances (page 17) \$ 6,989,900

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$31,381,413 and the accumulated depreciation is \$11,206,243. 20,175,170

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 808,527

The Internal Service Funds are used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Statement of Net Assets. 149,511

Long-term liabilities, including capital lease purchase agreement payable, bonds payable, installment purchase agreement payable, compensated absences payable and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the funds. (19,536,469)

Net assets of governmental activities (page 14) \$ 8,586,639

See notes to financial statements.

Muscatine County

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

Year ended June 30, 2005

	General	Special	
		Mental Health	Rural Services
Revenues:			
Property and other county tax	\$ 5,906,409	1,536,291	837,614
Local option sales tax	-	-	-
Tax increment financing	-	-	-
Interest and penalty on property tax	134,751	-	-
Intergovernmental	2,122,538	2,202,853	47,614
Licenses and permits	150	-	108,947
Charges for service	896,380	49,201	-
Use of money and property	327,358	11,550	-
Miscellaneous	476	18,949	-
Total revenues	9,388,062	3,818,844	994,175
Expenditures:			
Operating:			
Public safety and legal services	5,783,955	-	-
Physical health and social services	1,305,384	-	61,837
Mental health	-	4,361,931	-
County environment and education	528,845	-	198,615
Roads and transportation	-	-	-
Governmental services to residents	721,842	-	2,784
Administration	1,913,468	-	-
Non-program	75,000	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total expenditures	10,328,494	4,361,931	263,236
Excess (deficiency) of revenues over (under) expenditures	(940,432)	(543,087)	730,939
Other financing sources (uses):			
Sale of capital assets	4,900	-	-
Operating transfers in	78,552	-	-
Operating transfers out	(68,175)	(34,836)	(502,732)
Total other financing sources (uses)	15,277	(34,836)	(502,732)
Net change in fund balances	(925,155)	(577,923)	228,207
Fund balances beginning of year	3,940,988	1,615,864	56,226
Fund balances end of year	\$ 3,015,833	1,037,941	284,433

See notes to financial statements.

Revenue				
Secondary Roads	IPSCO TIF	Debt Service	Nonmajor	Total
-	-	649,095	-	8,929,409
1,207,208	-	-	-	1,207,208
-	2,659,483	-	-	2,659,483
-	-	-	-	134,751
2,855,514	-	24,756	194,860	7,448,135
1,415	-	-	-	110,512
4,056	-	-	62,555	1,012,192
850	-	-	156,914	496,672
20,865	-	-	130,851	171,141
4,089,908	2,659,483	673,851	545,180	22,169,503
-	-	-	196,802	5,980,757
-	-	-	-	1,367,221
-	-	-	-	4,361,931
-	-	-	43,843	771,303
4,706,304	-	-	-	4,706,304
-	-	-	45,522	770,148
-	-	-	54,287	1,967,755
-	-	-	8,479	83,479
-	2,659,483	673,318	-	3,332,801
786,498	-	-	1,856,703	2,643,201
5,492,802	2,659,483	673,318	2,205,636	25,984,900
(1,402,894)	-	533	(1,660,456)	(3,815,397)
17,917	-	-	-	22,817
500,000	-	-	118,175	696,727
(40,984)	-	-	(50,000)	(696,727)
476,933	-	-	68,175	22,817
(925,961)	-	533	(1,592,281)	(3,792,580)
3,370,238	-	269,022	1,530,142	10,782,480
2,444,277	-	269,555	(62,139)	6,989,900

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, 2005

Net change in fund balances - Total governmental funds (page 21) \$ (3,792,580)

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

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

Expenditures for capital assets	\$ 3,881,476	
Capital assets contributed by the Iowa Department of Transportation	220,786	
Depreciation expense	<u>(980,911)</u>	3,121,351

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

99,005

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	(16,838)	
Other	<u>344,704</u>	327,866

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

2,053,601

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

Compensated absences	(35,337)	
Accrued interest on long-term debt	<u>(90,008)</u>	(125,345)

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

145,348

Change in net assets of governmental activities (page 15)

\$ 1,829,246

See notes to financial statements.

Muscatine County
Statement of Net Assets
Proprietary Funds

June 30, 2005

	<u>Internal Service</u>
Assets	
Cash and cash equivalents	\$ 319,330
Liabilities	
Accounts payable	<u>169,819</u>
Net Assets	
Unrestricted	<u><u>\$ 149,511</u></u>

See notes to financial statements.

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

Year ended June 30, 2005

		<u>Internal Service</u>
Operating revenues:		
Reimbursements from operating funds		\$ 1,331,389
Reimbursements from others		<u>245,614</u>
Total operating revenues		1,577,003
Operating expenses:		
Health claims and administrative services	\$ 1,376,829	
Loss contingencies and deductibles	52,113	
Miscellaneous	<u>6,106</u>	<u>1,435,048</u>
Operating income		141,955
Non-operating revenues:		
Interest income		<u>3,393</u>
Change in net assets		<u>145,348</u>
Net assets beginning of year		<u>4,163</u>
Net assets end of year		<u>\$ 149,511</u>

See notes to financial statements.

Muscatine County
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2005

	Internal Service
Cash flows from operating activities:	
Cash received from operating funds	\$ 1,331,389
Cash received from employees and others	245,614
Cash paid to suppliers for services	(1,506,222)
Net cash provided by operating activities	70,781
Cash flows from investing activities:	
Interest on investments	3,393
Net increase in cash and cash equivalents	74,174
Cash and cash equivalents beginning of year	245,156
Cash and cash equivalents end of year	\$ 319,330
Reconciliation of operating loss to net cash provided by operating activities:	
Operating income	\$ 141,955
Adjustment to reconcile operating income to net cash provided by operating activities:	
Decrease in accounts payable	(71,174)
Net cash provided by operating activities	\$ 70,781

See notes to financial statements.

Muscatine County

Statement of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2005

Assets

Cash and pooled investments:

County Treasurer	\$ 2,534,845
Other County officials	446,632

Receivables:

Property tax:

Delinquent	236,230
Succeeding year	33,805,000

Accounts	35,964
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Assessments	403,837
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Due from other governments	44,181
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Total assets	<u>37,506,689</u>
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Liabilities

Accounts payable	9,268
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Salaries and benefits payable	15,267
-------------------------------	--------

Due to other governments	36,691,602
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Trusts payable	724,292
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Compensated absences	66,260
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Total liabilities	<u>37,506,689</u>
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Net assets	<u><u>\$ -</u></u>
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See notes to financial statements.

Muscatine County

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

B. Basis of Presentation

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, 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, the proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

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

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

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

Property Tax Receivable, 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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2004.

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

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

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2005, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the County), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

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

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

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

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

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

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

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

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

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

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amount budgeted in the debt service function and disbursements in one department exceeded the amount appropriated.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,500,000 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2005 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue: Mental Health	\$ 837
Special Revenue: Secondary Roads	General	4,715
	Special Revenue: Mental Health	200
	Rural Services	124
		<u>5,039</u>
Total		<u>\$ 5,876</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, 2005 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Mental Health	\$ 34,836
	Rural Services	2,732
	Secondary Roads	<u>40,984</u>
		78,552
Special Revenue: Conservation Youth Corp	General	4,000
Firearms Buyback	General	7,500
Emergency Medical Services	General	1,400
Secondary Roads	Special Revenue: Rural Services	500,000
Conservation Land Acquisition	Resource Enhancement and Protection	50,000
Capital Projects	General	<u>55,275</u>
Total		<u>\$ 696,727</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, 2005 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,011,835	24,980	-	2,036,815
Land, road network	278,056	3,711	-	281,767
Construction in progress	629,853	3,278,574	(3,326,466)	581,961
Total capital assets not being depreciated	2,919,744	3,307,265	(3,326,466)	2,900,543
Capital assets being depreciated:				
Buildings and improvements	17,469,793	2,352,900	(447,100)	19,375,593
Equipment and vehicles	5,373,234	774,358	(716,303)	5,431,289
Infrastructure, road network	2,033,266	1,135,315	-	3,168,581
Infrastructure, other	505,407	-	-	505,407
Total capital assets being depreciated	25,381,700	4,262,573	(1,163,403)	28,480,870
Less accumulated depreciation for:				
Buildings and improvements	7,936,802	334,390	(447,100)	7,824,092
Equipment and vehicles	3,280,386	545,391	(674,198)	3,151,579
Infrastructure, road network	63,231	78,652	-	141,883
Infrastructure, other	66,211	22,478	-	88,689
Total accumulated depreciation	11,346,630	980,911	(1,121,298)	11,206,243
Total capital assets being depreciated, net	14,035,070	3,281,662	(42,105)	17,274,627
Governmental activities capital assets, net	\$ 16,954,814	6,588,927	(3,368,571)	20,175,170

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 332,902
Physical health and social services	2,261
Mental health	30,913
County environment and education	17,340
Roads and transportation	485,921
Governmental services to residents	2,256
Administration	109,318
Total depreciation expense - governmental activities	\$ 980,911

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

The cost and accumulated depreciation of the leased county jail facility at June 30, 2005 were \$8,450,000 and \$1,690,000, respectively.

(6) Due to Other Governments

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

Fund	Description	Amount
General	Services	\$ 52,501
Special Revenue:		
Mental Health	Services	309,458
Rural Services	Services	1,065
Secondary Roads	Services	573
		<u>311,096</u>
Total for governmental funds		<u>\$ 363,597</u>
Agency:		
County Assessor	Collections	\$ 820,591
Schools		19,710,983
Community Colleges		771,812
Corporations		12,949,845
Auto License and Use Tax		800,920
All other		1,637,451
Total for agency funds		<u>\$ 36,691,602</u>

(7) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Tax Increment				Total
	Capital Lease Purchase Agreements	Urban Renewal Revenue Bonds	Installment Purchase Agreement	Compensated Absences	
Balance beginning of year	\$ 4,744,240	15,674,000	20,008	856,676	21,294,924
Increases	-	-	-	573,049	573,049
Decreases	554,240	1,493,000	6,361	537,712	2,591,313
Balance end of year	<u>\$ 4,190,000</u>	<u>14,181,000</u>	<u>13,647</u>	<u>892,013</u>	<u>19,276,660</u>
Due within one year	<u>\$ 550,000</u>	<u>1,607,000</u>	<u>7,294</u>	<u>396,989</u>	<u>2,561,283</u>

Capital Lease Purchase Agreements

The County entered into a capital lease purchase agreement, dated December 1, 1991, with the Veterans' Plaza Authority (Authority), a jointly governed organization, for the purpose of leasing a new correctional facility to the County which the Authority agreed to construct. The lease payments correspond in timing and amount with the debt service obligations of the Authority for bonds the Authority issued to fund construction of the correctional facility. Muscatine County has an annual Debt Service Fund levy for which collections have been pledged to the Authority for the purpose of paying the Authority's bond and interest amounts due. The lease term continues until all bonds are retired or a

purchase option is exercised by the County, which requires a payment from the County to the Authority sufficient to retire all remaining outstanding bonds and interest. At the end of the lease term, the Authority surrenders ownership rights in the property to Muscatine County. The County makes lease payments directly to the Authority's Trustee pursuant to an Indenture of Trust which the Authority established to retire the bonds and interest.

The following is a schedule of the future minimum lease payments, including interest ranging from 2.50% to 3.40% per annum, for the correctional facility and the present value of net minimum lease payments under the agreement in effect at June 30, 2005:

Year ending June 30,	Correctional Facility
2006	\$ 674,943
2007	676,193
2008	672,068
2009	679,818
2010	671,818
2011-2012	1,355,178
Total minimum lease payments	4,730,018
Less amount representing interest	(540,018)
Present value of net minimum lease payments	<u>\$ 4,190,000</u>

Payments under this capital lease purchase agreement and the final payment on an agreement for a Sheriff's office vehicle for the year ended June 30, 2005 totaled \$693,218.

Tax Increment Urban Renewal Revenue Bonds

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

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

During the year ended June 30, 2005, the County paid principal of \$1,493,000 on the bonds. The balance of the bonds at June 30, 2005 was \$14,181,000. The bonds are not a general obligation of the County. However, the debt is subject to the constitutional debt limitation of the County.

Installment Purchase Agreement

On April 5, 2004, the County entered into an installment purchase agreement for \$21,720 to purchase a truck. The agreement bears interest at the rate of 4.9% per annum and requires monthly payments of \$650, including interest, with the final payment due on April 5, 2007. The balance of the agreement at June 30, 2005 was \$13,647.

(8) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$403,640, \$384,023 and \$391,391, respectively, equal to the required contributions for each year.

(9) Risk Management

Muscatine County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 509 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

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

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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's contributions to the Pool for the year ended June 30, 2005 were \$174,448.

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

\$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2005, no liability has been recorded in the County's financial statements. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

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

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$500,000 and \$100,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Employee Health Insurance Plan

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

Monthly payments of service fees and plan contributions to the Health Insurance Trust Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Wellmark from the Health Insurance Trust Fund. The County's contribution for the year ended June 30, 2005 was \$1,311,389.

Amounts payable from the Health Insurance Trust Fund at June 30, 2005 total \$168,636, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on actuarial estimates of the amounts necessary to pay prior year and current year claims. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have

not exceeded the stop-loss coverage in any of the past three years. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid claims at July 1, 2004	\$ 239,807
Incurred claims (including claims incurred but not reported at June 30, 2005)	1,305,658
Payment on claims during the fiscal year	<u>(1,376,829)</u>
Unpaid claims at June 30, 2005	<u><u>\$ 168,636</u></u>

(11) Commitments

The County entered into a real estate contract in November 2004, totaling \$570,000 with HNI Corporation to purchase a building adjacent to the Courthouse for additional office space. The agreement required a down payment of \$75,000 from Muscatine County. An addendum to the offer to purchase clarified that \$43,000 of the purchase price is allocated to the office furniture in the building. The date of closing is on or before June 30, 2006. The remaining \$495,000 will be paid upon closing. The project will be funded primarily through a county building loan agreement.

On March 13, 2005, the County held a public hearing and approved a voting equipment loan agreement for \$375,000 to purchase voting equipment and a county building loan agreement for \$500,000 to purchase a building and equipment to be used for County offices. These loan agreements are to be repaid from direct annual tax on all taxable property in the County. As of June 30, 2005, the loan agreements have not been finalized.

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, 2005

	Actual	Budgeted Original
Receipts:		
Property and other county tax	\$ 10,181,763	10,396,319
Tax increment financing	2,659,483	-
Interest and penalty on property tax	135,104	140,200
Intergovernmental	7,687,015	7,437,012
Licenses and permits	119,404	64,150
Charges for service	1,088,182	832,885
Use of money and property	479,954	505,392
Miscellaneous	109,986	70,600
Total receipts	<u>22,460,891</u>	<u>19,446,558</u>
Disbursements:		
Public safety and legal services	5,973,528	5,766,706
Physical health and social services	1,339,996	1,374,848
Mental health	4,474,865	4,654,820
County environment and education	752,466	750,122
Roads and transportation	4,186,483	4,223,000
Governmental services to residents	750,949	755,918
Administration	2,043,541	2,128,719
Non-program	138,697	-
Debt service	3,332,801	673,318
Capital projects	2,744,735	2,745,000
Total disbursements	<u>25,738,061</u>	<u>23,072,451</u>
Excess (deficiency) of receipts over (under) disbursements	(3,277,170)	(3,625,893)
Other financing sources, net	22,817	2,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(3,254,353)	(3,623,893)
Balance beginning of year	<u>10,682,995</u>	<u>8,776,287</u>
Balance end of year	<u>\$ 7,428,642</u>	<u>5,152,394</u>

See accompanying independent auditor's report.

Amounts	Final to
Final	Net Variance
10,396,319	(214,556)
2,458,657	200,826
140,200	(5,096)
7,960,119	(273,104)
92,150	27,254
972,746	115,436
440,392	39,562
451,822	(341,836)
22,912,405	(451,514)
6,149,877	176,349
1,469,060	129,064
4,654,820	179,955
770,754	18,288
4,223,000	36,517
777,439	26,490
2,145,648	102,107
138,697	-
3,131,975	(200,826)
3,625,275	880,540
27,086,545	1,348,484
(4,174,140)	896,970
2,000	20,817
(4,172,140)	917,787
10,361,211	321,784
6,189,071	1,239,571

Muscatine County
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 22,460,891	(291,388)	22,169,503
Expenditures	25,738,061	246,839	25,984,900
Net	(3,277,170)	(538,227)	(3,815,397)
Other financing sources, net	22,817	-	22,817
Beginning fund balances	10,682,995	99,485	10,782,480
Ending fund balances	\$ 7,428,642	(438,742)	6,989,900

See accompanying independent auditor's report.

Muscatine County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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

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

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, three budget amendments increased budgeted disbursements by \$4,014,094. 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, 2005, disbursements exceeded the amount budgeted in the debt service function and disbursements in one department exceeded the amount appropriated.

Muscatine County

Other Supplementary Information

Muscatine County
 Combining Balance Sheet
 Nonmajor Governmental Funds

June 30, 2005

	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	Resource Enhance- ment	Conservation Land Acquisition	Special Conservation Youth Corp
Assets					
Cash and pooled investments	\$ 46,009	9,165	33,994	(276,339)	15,781
Accounts receivable	-	-	-	-	-
Due from other governments	-	-	-	400,000	-
Total assets	\$ 46,009	9,165	33,994	123,661	15,781
Liabilities and Fund Equity					
Liabilities:					
Accounts payable	\$ -	9,088	-	99,900	96
Salaries payable	-	-	-	-	2,809
Deferred revenue	-	-	-	400,000	-
Total liabilities	-	9,088	-	499,900	2,905
Fund equity:					
Unreserved fund balances	46,009	77	33,994	(376,239)	12,876
Total liabilities and fund equity	\$ 46,009	9,165	33,994	123,661	15,781

See accompanying independent auditor's report.

Revenue							
Jail Commissary	County Sheriff's Canine	County Sheriff's Forfeiture	Community Policing	County Sheriff's Firearms Buyback	Emergency Medical Services Training	Geographic Information System	Total
48,784	370	29,658	1,924	4,261	12,571	119,557	45,735
7,299	-	-	-	3,923	-	-	11,222
-	-	1,800	-	-	7,676	-	409,476
56,083	370	31,458	1,924	8,184	20,247	119,557	466,433
5,430	-	207	-	684	10,358	-	125,763
-	-	-	-	-	-	-	2,809
-	-	-	-	-	-	-	400,000
5,430	-	207	-	684	10,358	-	528,572
50,653	370	31,251	1,924	7,500	9,889	119,557	(62,139)
56,083	370	31,458	1,924	8,184	20,247	119,557	466,433

Muscatine County

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

Year ended June 30, 2005

	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	Resource Enhance- ment	Conservation Land Acquisition	Conservation Youth Corp	Jail Commissary	Special County Sheriff's Canine
Revenues:							
Intergovernmental	\$ -	-	8,237	162,000	-	-	-
Charges for service	10,052	14,196	-	38,307	-	-	-
Use of money and property	769	-	904	1,497	-	153,744	-
Miscellaneous	-	-	-	76,793	16,498	-	-
Total revenues	10,821	14,196	9,141	278,597	16,498	153,744	-
Expenditures:							
Operating:							
Public safety and legal services	-	-	-	-	-	129,042	-
County environment and education	-	-	-	28,186	15,657	-	-
Governmental services to residents Administration	8,644	36,878	-	-	-	-	-
Non-program	-	-	-	-	-	-	-
Capital projects	-	-	-	1,801,428	-	-	-
Total expenditures	8,644	36,878	-	1,829,614	15,657	129,042	-
Excess (deficiency) of revenues over (under) expenditures	2,177	(22,682)	9,141	(1,551,017)	841	24,702	-
Other financing sources (uses):							
Operating transfers in	-	-	-	50,000	4,000	-	-
Operating transfers out	-	-	(50,000)	-	-	-	-
Total other financing sources (uses)	-	-	(50,000)	50,000	4,000	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	2,177	(22,682)	(40,859)	(1,501,017)	4,841	24,702	-
Fund balances beginning of year	43,832	22,759	74,853	1,124,778	8,035	25,951	370
Fund balances end of year	\$ 46,009	77	33,994	(376,239)	12,876	50,653	370

See accompanying independent auditor's report.

Revenue							
County Sheriff Forfeiture	Community Policing	County Sheriff's Firearms Buyback	Emergency Medical Services Training	MCSA Community Development Block Grant	Geographic Information System	Capital Projects	Total
-	905	-	15,214	8,479	25	-	194,860
-	-	-	-	-	-	-	62,555
-	-	-	-	-	-	-	156,914
33,081	-	4,479	-	-	-	-	130,851
33,081	905	4,479	15,214	8,479	25	-	545,180
38,186	574	4,479	24,521	-	-	-	196,802
-	-	-	-	-	-	-	43,843
-	-	-	-	-	-	-	45,522
-	-	-	-	-	54,287	-	54,287
-	-	-	-	8,479	-	-	8,479
-	-	-	-	-	-	55,275	1,856,703
38,186	574	4,479	24,521	8,479	54,287	55,275	2,205,636
(5,105)	331	-	(9,307)	-	(54,262)	(55,275)	(1,660,456)
-	-	7,500	1,400	-	-	55,275	118,175
-	-	-	-	-	-	-	(50,000)
-	-	7,500	1,400	-	-	55,275	68,175
(5,105)	331	7,500	(7,907)	-	(54,262)	-	(1,592,281)
36,356	1,593	-	17,796	-	173,819	-	1,530,142
31,251	1,924	7,500	9,889	-	119,557	-	(62,139)

Schedule 3

Muscatine County

Combining Schedule of Net Assets
Internal Service Funds

June 30, 2005

	Health Insurance Trust	County Insurance Trust	Total
Assets			
Cash and cash equivalents	\$ 283,993	35,337	319,330
Liabilities			
Liabilities:			
Accounts payable	168,636	1,183	169,819
Net Assets			
Unrestricted	\$ 115,357	34,154	149,511

See accompanying independent auditor's report.

Muscatine County

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

Year ended June 30, 2005

	Health Insurance Trust	County Insurance Trust	Total
Operating revenues:			
Reimbursements from operating funds	\$ 1,311,389	20,000	1,331,389
Reimbursements from others	220,416	25,198	245,614
Total operating revenues	1,531,805	- 45,198	1,577,003
Operating expenses:			
Health claims and administrative services	1,376,829	-	1,376,829
Loss contingencies and deductibles	-	52,113	52,113
Miscellaneous	6,106	-	6,106
Total operating expenses	1,382,935	52,113	1,435,048
Operating income (loss)	148,870	(6,915)	141,955
Non-operating revenues:			
Interest income	3,393	-	3,393
Change in net assets	152,263	(6,915)	145,348
Net assets beginning of year	(36,906)	41,069	4,163
Net assets end of year	\$ 115,357	34,154	149,511

See accompanying independent auditor's report.

Schedule 5

Muscatine County

Combining Schedule of Cash Flows
Internal Service Funds

Year ended June 30, 2005

	Health Insurance Trust	County Insurance Trust	Total
Cash flows from operating activities:			
Cash received from operating funds	\$ 1,311,389	20,000	1,331,389
Cash received from others	220,416	25,198	245,614
Cash paid to suppliers for services	(1,454,106)	(52,116)	(1,506,222)
Net cash provided (used) by operating activities	77,699	(6,918)	70,781
Cash flows from investing activities:			
Interest on investments	3,393	-	3,393
Net increase (decrease) in cash and cash equivalents	81,092	(6,918)	74,174
Cash and cash equivalents beginning of year	202,901	42,255	245,156
Cash and cash equivalents end of year	\$ 283,993	35,337	319,330
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 148,870	(6,915)	141,955
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Decrease in accounts payable	(71,171)	(3)	(71,174)
Net cash provided (used) by operating activities	\$ 77,699	(6,918)	70,781

See accompanying independent auditor's report.

Muscatine County

Muscatine County
Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2005

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges	Corporations
Assets						
Cash and pooled investments:						
County Treasurer	\$ -	2,229	384,470	239,412	9,031	135,541
Other county officials	446,632	-	-	-	-	-
Receivables:						
Property tax:						
Delinquent	-	1,673	2,075	172,571	6,781	48,304
Succeeding year	-	180,000	495,000	19,299,000	756,000	12,766,000
Accounts	65	-	-	-	-	-
Assessments	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-
Total assets	\$ 446,697	183,902	881,545	19,710,983	771,812	12,949,845
Liabilities						
Accounts payable	\$ -	-	342	-	-	-
Salaries and benefits payable	-	-	4,600	-	-	-
Due to other governments	34,580	183,902	820,591	19,710,983	771,812	12,949,845
Trusts payable	412,117	-	-	-	-	-
Compensated absences	-	-	56,012	-	-	-
Total liabilities	\$ 446,697	183,902	881,545	19,710,983	771,812	12,949,845

See accompanying independent auditor's report.

Townships	City Special Assessments	Auto License and Use Tax	Drainage Districts	Joint Communications Center	Other	Total
3,872	6,516	800,920	557,144	48,114	347,596	2,534,845
-	-	-	-	-	-	446,632
4,218	-	-	-	-	608	236,230
290,000	-	-	-	-	19,000	33,805,000
-	-	-	1,093	-	34,806	35,964
-	402,735	-	1,102	-	-	403,837
-	-	-	-	-	44,181	44,181
298,090	409,251	800,920	559,339	48,114	446,191	37,506,689
-	-	-	553	3,559	4,814	9,268
-	-	-	-	9,935	732	15,267
298,090	409,251	800,920	558,786	34,620	118,222	36,691,602
-	-	-	-	-	312,175	724,292
-	-	-	-	-	10,248	66,260
298,090	409,251	800,920	559,339	48,114	446,191	37,506,689

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

Year ended June 30, 2005

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges	Corporations
Assets and Liabilities						
Balances beginning of year	\$ 463,957	185,683	818,421	19,878,851	749,918	12,239,577
Additions:						
Property and other county tax	-	179,334	499,056	19,502,363	756,935	12,788,730
E911 surcharge	-	-	-	-	-	-
State tax credits	-	7,666	9,507	818,822	31,063	441,944
Office fees and collections	728,573	-	-	-	-	-
Electronic transaction fees	-	-	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-	-	-
Assessments	-	-	-	-	-	-
Trusts	2,939,762	-	-	-	-	-
Miscellaneous	13,461	-	1,842	35,743	-	8,350
Total additions	<u>3,681,796</u>	<u>187,000</u>	<u>510,405</u>	<u>20,356,928</u>	<u>787,998</u>	<u>13,239,024</u>
Deductions:						
Agency remittances:						
To other funds	375,336	-	-	-	-	-
To other governments	304,860	188,781	447,281	20,524,796	766,104	12,528,756
Trusts paid out	3,018,860	-	-	-	-	-
Total deductions	<u>3,699,056</u>	<u>188,781</u>	<u>447,281</u>	<u>20,524,796</u>	<u>766,104</u>	<u>12,528,756</u>
Balances end of year	<u>\$ 446,697</u>	<u>183,902</u>	<u>881,545</u>	<u>19,710,983</u>	<u>771,812</u>	<u>12,949,845</u>

See accompanying independent auditor's report.

Townships	City Special Assess- ments	Auto License and Use Tax	Drainage Districts	Joint Communications Center	Other	Total
290,796	442,424	726,593	545,641	16,411	393,762	36,752,034
292,705	-	-	-	-	21,948	34,041,071
-	-	-	-	-	170,007	170,007
12,799	-	-	-	-	1,040	1,322,841
-	-	-	-	-	-	728,573
-	-	-	-	-	10,067	10,067
-	-	8,739,466	-	-	-	8,739,466
-	34,486	-	94,082	-	-	128,568
-	-	-	-	-	1,635,559	4,575,321
-	-	-	13,930	892,130	245,768	1,211,224
305,504	34,486	8,739,466	108,012	892,130	2,084,389	50,927,138
-	-	295,331	-	-	-	670,667
298,210	67,659	8,369,808	94,314	860,427	427,572	44,878,568
-	-	-	-	-	1,604,388	4,623,248
298,210	67,659	8,665,139	94,314	860,427	2,031,960	50,172,483
298,090	409,251	800,920	559,339	48,114	446,191	37,506,689

Schedule 8

Muscatine County

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

For the Last Five Years

	Modified Accrual Basis				
	2005	2004	2003*	2002*	2001*
Revenues:					
Property and other county tax	\$ 8,929,409	9,126,056	9,291,992	9,076,263	8,739,212
Local option sales tax	1,207,208	1,376,438	1,310,286	1,237,943	1,405,978
Tax increment financing	2,659,483	2,458,523	2,457,784	2,908,378	2,889,528
Interest and penalty on property tax	134,751	127,342	144,830	212,979	104,846
Intergovernmental	7,448,135	7,603,530	7,927,276	8,021,297	8,353,920
Licenses and permits	110,512	55,094	15,572	13,029	14,213
Charges for service	1,012,192	1,034,421	1,014,933	949,760	1,483,781
Use of money and property	496,672	318,069	527,125	993,777	677,912
Miscellaneous	171,141	670,697	559,391	435,417	171,515
Total	\$ 22,169,503	22,770,170	23,249,189	23,848,843	23,840,905
Expenditures:					
Operating:					
Public safety and legal services	\$ 5,980,757	5,294,006	5,020,243	4,813,687	4,694,131
Physical health and social services	1,367,221	1,286,790	1,360,473	1,465,092	1,500,002
Mental health	4,361,931	4,108,575	4,364,043	4,251,095	6,718,152
County environment and education	771,303	691,276	682,378	648,066	667,141
Roads and transportation	4,706,304	3,974,820	3,774,979	3,485,159	3,054,161
Governmental services to residents	770,148	671,631	625,204	584,730	597,979
Administration	1,967,755	1,869,951	1,898,196	1,968,484	1,883,392
Non-program	83,479	443,908	-	55,881	43,410
Debt service	3,332,801	3,113,051	3,638,246	3,423,630	3,375,245
Capital projects	2,643,201	575,768	440,019	824,947	2,730,522
Total	\$ 25,984,900	22,029,776	21,803,781	21,520,771	25,264,135

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

See accompanying independent auditor's report.

Muscatine County

Schedule 9

Muscatine County

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
Office of National Drug Control Policy:			
High Intensity Drug Trafficking Area	07.000	I2PMWP563	\$ 383
High Intensity Drug Trafficking Area	07.000	I3PMWP563	8,878
			9,261
U.S. Department of Justice:			
Bulletproof Vest Partnership Program	16.607		10,893
U.S. Corporation for National and Community Service:			
AMERICORPS	94.006		1,876
U.S. Department of Homeland Security:			
Emergency Food and Shelter National Board Program	97.024	20-2992-00	2,856
Total direct			24,886
Indirect:			
Office of National Drug Control Policy:			
Iowa Department of Public Safety:			
High Intensity Drug Trafficking Area Program	07.000	I4PMWP563	24,119
High Intensity Drug Trafficking Area Program	07.000	I5PMWP563	31,174
			55,293
U.S. Department of Agriculture:			
Iowa Department of Human Services:			
State Administrative Matching Grants for Food Stamp Program	10.561		18,968
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	02-CF-038	8,479
U.S. Department of Justice:			
Iowa Department of Human Rights:			
Juvenile Accountability Incentive Block Grant	16.523	33-JD01-F502	47,396
Juvenile Justice and Delinquency Prevention- Allocation to States	16.540	33-JD01-F502	422
Governor's Office of Drug Control Policy:			
Byrne Formula Grant Program	16.579	03A-0207	7,626
Byrne Formula Grant Program	16.579	04A-0207	135,880
			143,506
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Program	16.580	03-Hot Spots-14	62,451
Violence Against Women Formula Grants	16.588	VW-05-58	1,146

Muscatine County
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2005

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect (continued):			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	BROS C070(29)-8J-70	83,383
Highway Planning and Construction	20.205	BROS C070(30)-8J-70	235,955
Highway Planning and Construction	20.205	BROS C070(31)-8J-70	109,200
			<u>428,538</u>
Iowa Department of Public Safety:			
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	04-410 Task 29	370
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	05-410 Task 26	14,130
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	04-163 Task 48	9,799
			<u>24,299</u>
U.S. Department of Education:			
Iowa Department of Education:			
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	04-CSPE-01	38,073
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	05-CSPE-01	49,728
			<u>87,801</u>
U.S. Department of Health and Human Services:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
Temporary Assistance for Needy Families	93.558		25,810
Refugee and Entrant Assistance - State Administered Programs	93.566		53
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		4,748
Foster Care - Title IV-E	93.658		13,086
Adoption Assistance	93.659		3,040
Medical Assistance Program	93.778		27,638
Social Services Block Grant	93.667		16,947
Social Services Block Grant	93.667		181,387
			<u>198,334</u>

Schedule 9

Muscatine County
Schedule of Expenditures of Federal Awards
Year ended June 30, 2005

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:			
Public Health and Social Services Emergency Fund	93.003	5885EM190	<u>7,676</u>
Des Moines County, Iowa:			
Centers for Disease Control and Prevention- Investigations and Technical Assistance	93.283	BT70	<u>20,291</u>
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Emergency Management Performance Grants	97.042		<u>2,780</u>
Total indirect			<u>1,181,755</u>
Total			<u><u>\$ 1,206,641</u></u>

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

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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Des Moines, Iowa 50319-0004

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

To the Officials of Muscatine County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Muscatine County, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated September 29, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

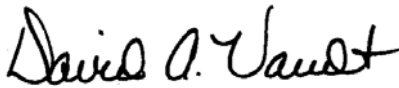
Compliance and Other Matters

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

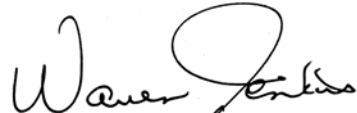
Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all 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.

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 29, 2005

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

Muscatine County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Officials of Muscatine County:

Compliance

We have audited the compliance of Muscatine County, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2005. Muscatine County's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of Muscatine County's management. Our responsibility is to express an opinion on Muscatine County's compliance based on our audit.

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

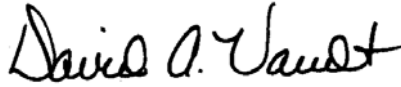
In our opinion, Muscatine County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

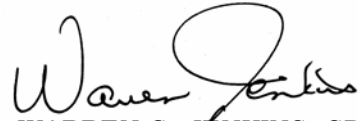
The management of Muscatine County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Muscatine County's internal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

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 29, 2005

Muscatine County
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, none of which were considered to be material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 20.205 – Highway Planning and Construction Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Muscatine County did qualify as a low-risk auditee.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-05 Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County's financial statements. Generally, one or two individuals in the County Recorder's Office may have control over the following area for which no compensating controls exist:

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

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

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

Conclusion – Response accepted.

II-B-05 County Attorney – Forfeiture and Confiscated Property Collections – The County Attorney received forfeited and confiscated property collections. These collections were not reflected in the County's accounting system and have not been included in the County's annual budget or monthly financial reports.

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

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

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

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

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

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

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

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

The audit recommendation includes the comment that the forfeiture funds should be included in the annual budget and financial statements of the county. However, a comment to one of the ODCP forfeiture guidelines provides, "Forfeited property retained for law enforcement use should increase rather than supplant the resources of the agency. Adding resources to law enforcement benefits the public. Budgeting decisions based on anticipated forfeiture revenues expose the budgetary process to unhealthy pressure and unpredictability." Although the recommendation states that forfeiture moneys should not supplant already budgeted funds there is no explanation as to how this will be accomplished.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

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

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

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

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

Conclusion – Response acknowledged. Procedures for forfeiture funds implemented by the Department of Justice in a letter dated March 17, 2005 require forfeiture funds be maintained and accounted for using the procedures recommended by the State Auditor's Office. If this requirement is not met, the County will no longer be eligible to receive forfeiture funds.

II-C-05 Information System – The following weaknesses in the County's computer based systems were noted:

The County does not have written policies for:

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

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

Response – The Board of Supervisors will take formal action to adopt the informal policies that are already developed and being used.

Conclusion – Response accepted.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

- II-D-05 Credit Cards – The County has credit cards for use by various County departments while on County business. Certain charges to credit cards are supported only by a credit card receipt, not by an itemized vendor receipt. Additionally, a number of charges were for meals which may be taxable income to the individual employee in accordance with Internal Revenue Service (IRS) regulations if the business travel does not require overnight lodging. The meals may not be allowable under County policies because the meals are not detailed so as to determine if unallowable items are purchased and the individual for whom each meal was purchased is identified.

Recommendation – The County should ensure all credit card charges are supported by an itemized vendor receipt. Additionally, meals charged to a credit card should be detailed and identify the individual for whom the meal was purchased to ensure the cost of the meal is charged to the proper individual, if it is taxable income per the IRS. Per the County travel policy, a travel expense report is to be prepared for all travel.

Response – The current credit card policy will be revised by the Board of Supervisors to disallow use of the County credit card for taxable meals. Claims submitted to the County Auditor’s Office will not be processed until sufficient itemized supporting detail is provided.

Conclusion – Response accepted.

- II-E-04 County Sheriff’s Office – A reconciliation of book to bank balances was not performed for all accounts as of June 30, 2005. For the Public Funds account, a variance of \$690 existed between the book and bank balance at that date.

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

Response – We will attempt to reconcile all bank and book balances to the end of the month instead of to the day we receive the bank statements and resolve any variances at that time.

Conclusion – Response accepted.

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

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

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

Conclusion – Response accepted.

Muscatine County
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

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

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-05 Official Depositories – A resolution naming official depositories has been adopted by the Board of Supervisors. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

IV-B-05 Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amount budgeted in the debt service function. Disbursements in a department exceeded the amount appropriated.

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

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

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

Conclusion – Response accepted.

IV-C-05 Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's Opinion dated April 25, 1979 were noted.

IV-D-05 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

IV-E-05 Business Transactions – No business transactions between the County and County officials or employees were noted.

IV-F-05 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of surety bond coverage should be reviewed annually to insure the coverage is adequate for current operations.

IV-G-05 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-H-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.

IV-I-05 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

IV-J-05 County Ordinances – The County Board of Supervisors has not completed a compilation of County ordinances.

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

Response – The Board of Supervisors formally adopted a County Code of Ordinances on August 8, 2005.

Conclusion – Response accepted.

IV-K-05 Deficit Cash Balance – The Conservation Land Acquisition Fund had a deficit cash balance of \$276,339 on June 30, 2005. This appears to violate Chapter 331.476 of the Code of Iowa.

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

Response – Muscatine County was awarded \$400,000 of the Community Attraction and Tourism Development Grant for the new Conservation Learning Center. According to the grant, the monies are to be spent by the County then reimbursed by the State. The reimbursement was expected before June 30, 2005, but did not arrive by that date.

Conclusion – Response acknowledged. Claims should not be approved for payments when funds are not available unless the debt is authorized by resolution of the Board of supervisors as required.

IV-L-05 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.

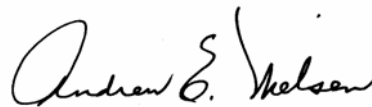
Disbursements during the year ended June 30, 2005 for the County Extension Office did not exceed the amount budgeted.

Muscatine County

Staff

This audit was performed by:

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