



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

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_ December 11, 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 \$46,620,480 for the year ended June 30, 2006, which included \$1,690,994 in tax credits from the state. The County forwarded \$36,830,017 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$9,790,463 of the local tax revenue to finance County operations, a 4.4 percent increase over the prior year. Other revenues included charges for service of \$1,942,131, operating grants, contributions and restricted interest of \$6,687,425, capital grants, contributions and restricted interest of \$2,766,991, tax increment financing of \$2,518,739, local option sales tax of \$1,426,194, unrestricted investment earnings of \$457,421 and other general revenues of \$223,545.

Expenses for County operations totaled \$22,517,164, a 5.9 percent increase over the prior year. Expenses included \$6,324,504 for public safety and legal services, \$4,920,993 for mental health and \$4,894,339 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, 2006**

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**Muscatine County**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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, 2006, 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.

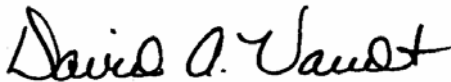
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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, 2006, 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.

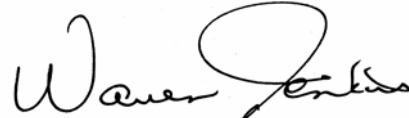
In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2006 on our consideration of Muscatine County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and 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 five years ended June 30, 2005 (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 28, 2006



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

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Management of Muscatine County provides this Management's Discussion and Analysis of Muscatine County's annual financial statements. This narrative overview and analysis of the financial activities of Muscatine County is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

As discussed in Note 12 to the financial statements, the County restated the beginning balance to include infrastructure previously excluded as permitted by U.S. generally accepted accounting principles. To facilitate and enhance comparability in this discussion and analysis, fiscal year 2005 amounts have been revised to reflect the changes as if they had been made in the prior year.

### **FINANCIAL HIGHLIGHTS**

- Revenues of the County's governmental activities increased 11.8%, or approximately \$2,728,000, from fiscal year (FY) 2005 to FY2006. Property tax increased approximately \$491,000 and operating and capital grants, contributions and restricted interest increased approximately \$1,864,000.
- Expenses of the County's governmental activities increased 5.9%, or approximately \$1,263,000, from FY2005 to FY2006.
- Muscatine County's net assets increased approximately \$3.3 million from June 30, 2005 to June 30, 2006.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

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 AS A WHOLE**

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

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

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

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

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

### *Fund Financial Statements*

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

The County has three kinds of funds:

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

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

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

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

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

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

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

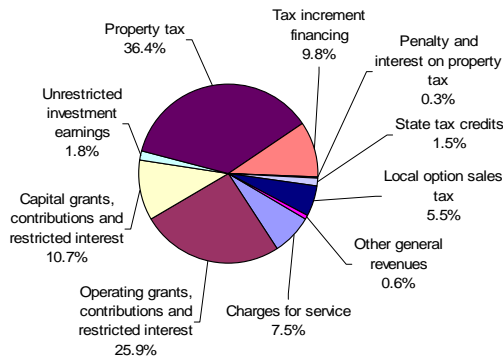
Net Assets of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2006	2005
Current and other assets	\$ 22,995	21,463
Capital assets	32,782	30,235
Total assets	55,777	51,698
Long-term liabilities	18,692	19,277
Other liabilities	15,143	13,774
Total liabilities	33,835	33,051
Net assets:		
Invested in capital assets, net of related debt	27,657	26,032
Restricted	4,823	3,858
Unrestricted	(10,538)	(11,243)
Total net assets	\$ 21,942	18,647

Muscatine County's total net assets increased by approximately \$3.3 million from 2005 to 2006. The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements—is a deficit of approximately \$11 million. The deficit unrestricted net assets results primarily from the County's liability for tax increment urban renewal revenue bonds issued for IPSCO, Inc. The County does not own and, accordingly, has not recorded the assets for which this debt was issued.

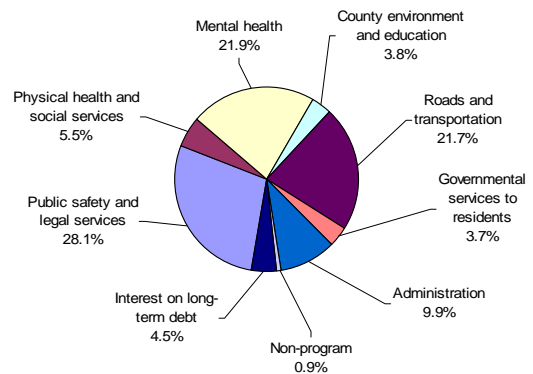
**Changes in Net Assets of Governmental Activities**  
(Expressed in Thousands)

	Year ended June 30,	
	2006	2005
Revenues:		
Program revenues:		
Charges for service	\$ 1,942	1,719
Operating grants, contributions and restricted interest	6,687	6,693
Capital grants, contributions and restricted interest	2,767	897
General revenues:		
Property tax	9,404	8,913
Tax increment financing	2,519	2,659
Penalty and interest on property tax	67	112
State tax credits	386	378
Local option sales tax	1,426	1,207
Grants and contributions not restricted to specific purposes	-	30
Unrestricted investment earnings	457	270
Gain on sale of capital assets	-	122
Other general revenues	156	83
Total revenues	25,811	23,083
Program expenses:		
Public safety and legal services	6,325	6,193
Physical health and social services	1,232	1,368
Mental health	4,921	4,277
County environment and education	850	740
Roads and transportation	4,894	4,249
Governmental services to residents	843	773
Administration	2,240	2,102
Non-program	197	176
Interest on long-term debt	1,014	1,375
Total expenses	22,516	21,253
Increase in net assets	3,295	1,830
Net assets July 1, as restated	18,647	16,817
Net assets June 30, as restated	\$ 21,942	18,647

**Revenue by Source**



**Expenses by Program**



Muscatine County' property tax rates increased by \$.12 per \$1,000 of taxable valuation in FY06. This increase was due to the Debt Service levy for the purchase of voting equipment and the purchase and remodeling cost of the former HNI building. There was an increase in rural taxable property valuation of \$45,570,710 and an increase in countywide taxable property valuation of \$81,838,510. Revenues from the State of Iowa in the form of mental health funding increased by \$213,000 and local option sales tax increased by \$219,000 during the fiscal year.

### **INDIVIDUAL MAJOR FUND ANALYSIS**

As Muscatine County completed the year, its governmental funds reported a combined fund balance of approximately \$7.9 million, which is higher than the \$7 million combined fund balance at the end of FY05.

The General Fund, the operating fund for Muscatine County, ended FY06 with a fund balance of \$2.5 million. This was a reduction from the FY05 ending balance of \$3 million. Property valuation increased from \$1,244,802,548 in FY05 to \$1,326,641,058 in FY06. The levy rate for the General Fund remained the same in FY05 and FY06.

Muscatine County has continued to look for ways to effectively manage the cost of mental health services in the Mental Health Fund. FY06 ended with a \$239,000 balance, whereas FY05 ended with a \$1,038,000 balance. The levy rate remained the same in FY05 and FY06, in order to decrease the fund balance to a level appropriate to qualify for state mental health allocation monies.

The Rural Services Fund ended FY06 with a \$234,000 balance compared to the prior year ending balance of \$284,000. The property tax levy rate for the Rural Services Fund remained the same in FY05 and FY06. The taxable valuation increase of \$46 million increased the amount of property tax collected by approximately \$27,000.

The Secondary Roads Fund ended FY06 with a \$3.4 million balance, compared to the prior year ending balance of \$2.4 million. Capital project expenditures in the fund in FY06 decreased approximately \$258,000 from FY05. Roads and transportation expenditures in the fund increased from FY05 by approximately \$1 million. Local option sales tax revenue increased by \$219,000 and intergovernmental revenue increased \$34,000. Along with a motor grader, the County purchased a wheel loader in FY06. Muscatine County maintained 415 miles of gravel, 21 miles of dirt, 43 miles of seal coated and 129 miles of paved roads and 110 bridges with the resources of this fund.

The Debt Service Fund ended FY06 with a \$272,000 balance compared to the prior year ending balance of \$270,000. Payments from the Debt Service Fund include the VPA jail capital lease purchase agreement payment of \$674,943 in FY06, the voting equipment loan payment of \$84,375 and a bond payment for the remodeling of the former HNI building of \$117,569.

### **BUDGETARY HIGHLIGHTS**

In accordance with the Code of Iowa, the Board of Supervisors annually adopts a budget following required public notice and hearing for all funds except Agency Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function (service area) level, not at the fund level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The County budget is prepared on the cash basis. Over the course of the year, Muscatine County amended the operating budget three times. The first amendment was made in November 2005, the second amendment was made in March 2006 and the third in June 2006. All three amendments were to adjust for expenditure and revenue changes after certification of the FY06 budget.

None of the amendments made during the 2006 fiscal year should have any impact on the fiscal year 2007 budget.

The County's receipts were \$5,038 more than budgeted, a variance of less than one percent. The variance resulted from the County receiving more miscellaneous receipts than anticipated.

Total disbursements were \$2,754,732 less than the amended budget. Actual disbursements for the capital projects, debt service and physical health and social services functions were \$1,706,260, \$281,292 and \$198,542, respectively, less than budgeted. This was primarily due to uncompleted work on contracts for remodeling of a building purchased adjacent to the Courthouse for additional office space (former HNI building).

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of FY06, Muscatine County had approximately \$55.3 million invested in a broad range of capital assets, including public safety equipment, buildings, land, park facilities, roads and bridges. With total accumulated depreciation of \$22.5 million, Muscatine County's capital assets have a net value of \$32.8 million. This is a net increase of approximately \$2.5 million from FY05 after restating the FY05 amounts for prior year infrastructure not previously reported as permitted by U.S. generally accepted accounting principles.

### **Debt**

At the end of FY06, Muscatine County had \$3,705,465 in capital lease purchase agreements outstanding, compared to \$4,190,000 at the end of FY05.

Although Muscatine County issued debt of \$1,530,000 in FY06 for the HNI Building and \$75,655 in lease purchase agreements, outstanding debt decreased as a result of the IPSCO Tax Increment Urban Renewal Revenue Bond payments, lease purchase payments for the Muscatine County Jail and vehicle lease payments. Muscatine County's general obligation bond rating continues to carry the A1 rating assigned by Moody's Investors Service, a national rating agency. The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 percent of the assessed value of all taxable property within the county's corporate limits. Muscatine County's outstanding general obligation debt of \$17.7 million is significantly below its constitutional debt limit of \$104 million.

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

Muscatine County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 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 FY07 operating budget are approximately \$24.4 million, an increase of 3% over the final 2006 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 complete the remodeling of the former HNI headquarters for county administrative offices out of the 2007 budget.

If these estimates are realized, Muscatine County's operating fund balances are expected to decrease from \$7.4 million to approximately \$3.5 million by the close of FY07, which may require a tax levy increase in FY08.

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

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

## **Basic Financial Statements**

**Exhibit A**

Muscatine County  
Statement of Net Assets  
June 30, 2006

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and pooled investments	\$ 7,869,837
Receivables:	
Property tax:	
Delinquent	62,447
Succeeding year	10,801,000
Tax increment financing:	
Succeeding year	2,728,000
Interest and penalty on property tax	151,703
Accounts	60,954
Accrued interest	39,109
Due from other governments	888,234
Inventories	201,891
Prepaid insurance	191,990
Capital assets (net of accumulated depreciation)	32,781,733
<b>Total assets</b>	<u>55,776,898</u>
<b>Liabilities</b>	
Accounts payable	703,154
Accrued interest payable	234,918
Salaries and benefits payable	182,062
Due to other governments	387,954
Deferred revenue:	
Succeeding year property tax	10,906,000
Succeeding year tax increment financing	2,728,000
Long-term liabilities:	
Portion due or payable within one year:	
Capital lease purchase agreements	579,357
Tax increment urban renewal revenue bonds	1,730,000
General obligation bonds	290,000
Installment purchase agreement	3,855
Compensated absences	434,494
Portion due or payable after one year:	
Capital lease purchase agreements	3,126,108
Tax increment urban renewal revenue bonds	10,844,000
General obligation bonds	1,125,000
Compensation absences	559,596
<b>Total liabilities</b>	<u>33,834,498</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	27,657,413
Restricted for:	
Supplemental levy purposes	198,408
Mental health purposes	159,393
Secondary roads purposes	3,133,400
Debt service	41,516
Other purposes	1,290,308
Unrestricted	(10,538,038)
<b>Total net assets</b>	<u>\$ 21,942,400</u>

See notes to financial statements.



Muscatine County  
 Statement of Activities  
 Year ended June 30, 2006

	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	
<b>Functions/Programs:</b>					
Governmental activities:					
Public safety and legal services	\$ 6,324,504	525,735	1,163,767	-	(4,635,002)
Physical health and social services	1,232,359	160,469	251,505	-	(820,385)
Mental health	4,920,993	26,652	2,351,261	-	(2,543,080)
County environment and education	850,156	40,402	30,268	155,183	(624,303)
Roads and transportation	4,894,339	148,841	2,459,159	2,598,183	311,844
Governmental services to residents	843,367	606,902	271,793	-	35,328
Administration	2,239,713	28,772	159,672	13,625	(2,037,644)
Non-program	197,373	404,358	-	-	206,985
Interest on long-term debt	1,014,360	-	-	-	(1,014,360)
<b>Total</b>	<b>\$22,517,164</b>	<b>1,942,131</b>	<b>6,687,425</b>	<b>2,766,991</b>	<b>(11,120,617)</b>
<b>General Revenues:</b>					
Property and other county tax levied for:					
General purposes					8,557,097
Debt service					847,206
Tax increment financing					2,518,739
Penalty and interest on property tax					67,232
State tax credits					386,160
Local option sales tax					1,426,194
Unrestricted investment earnings					457,421
Miscellaneous					156,313
<b>Total general revenues</b>					<b>14,416,362</b>
Change in net assets					3,295,745
Net assets beginning of year, as restated					18,646,655
Net assets end of year					<b>\$ 21,942,400</b>

See notes to financial statements.

Muscatine County  
Balance Sheet  
Governmental Funds

June 30, 2006

	General	Mental Health	Special Rural Services
<b>Assets</b>			
Cash and pooled investments	\$ 2,254,164	665,874	252,808
Receivables:			
Property tax:			
Delinquent	38,395	9,989	9,301
Succeeding year	6,943,000	1,973,000	904,000
Tax increment financing:			
Succeeding year	-	-	-
Interest and penalty on property tax	151,703	-	-
Accounts	4,685	1,661	14,122
Accrued interest	39,109	-	-
Due from other funds	518	-	-
Due from other governments	361,146	111,298	-
Inventories	-	-	-
Prepaid insurance	191,990	-	-
<b>Total assets</b>	<b>\$ 9,984,710</b>	<b>2,761,822</b>	<b>1,180,231</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 148,282	139,198	20,434
Salaries and benefits payable	112,460	16,523	2,728
Due to other funds	5,980	812	219
Due to other governments	21,837	365,491	626
Deferred revenue:			
Succeeding year property tax	7,011,000	1,991,000	913,000
Succeeding year tax increment financing	-	-	-
Other	189,829	9,989	9,301
Total liabilities	7,489,388	2,523,013	946,308
Fund balances:			
Reserved for:			
Debt service	-	-	-
Supplemental levy purposes	196,966	-	-
Unreserved:			
Designated for conservation equipment	8,476	-	-
Undesignated, reported in:			
General fund	2,289,880	-	-
Special revenue funds	-	238,809	233,923
Capital projects fund	-	-	-
Total fund balances	2,495,322	238,809	233,923
<b>Total liabilities and fund balances</b>	<b>\$ 9,984,710</b>	<b>2,761,822</b>	<b>1,180,231</b>

See notes to financial statements.

Revenue				
Secondary Roads	IPSCO TIF	Debt Service	Nonmajor	Total
2,863,710	-	281,672	1,370,308	7,688,536
-	-	4,762	-	62,447
-	-	981,000	-	10,801,000
-	2,728,000	-	-	2,728,000
-	-	-	-	151,703
-	-	-	16,892	37,360
-	-	-	-	39,109
6,493	-	-	-	7,011
412,840	-	-	2,950	888,234
201,891	-	-	-	201,891
-	-	-	-	191,990
<b>3,484,934</b>	<b>2,728,000</b>	<b>1,267,434</b>	<b>1,390,150</b>	<b>22,797,281</b>
88,098	-	-	94,802	490,814
45,311	-	-	5,040	182,062
-	-	-	-	7,011
-	-	-	-	387,954
-	-	991,000	-	10,906,000
-	2,728,000	-	-	2,728,000
-	-	4,762	-	213,881
<b>133,409</b>	<b>2,728,000</b>	<b>995,762</b>	<b>99,842</b>	<b>14,915,722</b>
-	-	271,672	-	271,672
-	-	-	-	196,966
-	-	-	-	8,476
-	-	-	-	2,289,880
3,351,525	-	-	385,651	4,209,908
-	-	-	904,657	904,657
<b>3,351,525</b>	<b>-</b>	<b>271,672</b>	<b>1,290,308</b>	<b>7,881,559</b>
<b>3,484,934</b>	<b>2,728,000</b>	<b>1,267,434</b>	<b>1,390,150</b>	<b>22,797,281</b>

**Muscatine County**

Muscatine County

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

June 30, 2006

**Total governmental fund balances (page 17)** \$ 7,881,559

***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 \$55,270,184 and the accumulated depreciation is \$22,488,451. 32,781,733

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 213,881

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. (7,445)

Long-term liabilities, including capital lease purchase agreements 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. (18,927,328)

**Net assets of governmental activities (page 14)** \$ 21,942,400

See notes to financial statements.

Muscatine County

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

Year ended June 30, 2006

	General	Mental Health	Special Rural Services
<b>Revenues:</b>			
Property and other county tax	\$ 6,122,525	1,592,513	865,058
Local option sales tax	-	-	-
Tax increment financing	-	-	-
Interest and penalty on property tax	129,222	-	-
Intergovernmental	2,129,051	2,416,474	59,760
Licenses and permits	150	-	132,280
Charges for service	915,341	26,652	-
Use of money and property	506,241	10,750	-
Miscellaneous	9,643	27,404	1,135
<b>Total revenues</b>	<b>9,812,173</b>	<b>4,073,793</b>	<b>1,058,233</b>
<b>Expenditures:</b>			
<b>Operating:</b>			
Public safety and legal services	5,762,729	-	-
Physical health and social services	1,178,036	-	66,276
Mental health	-	4,872,925	-
County environment and education	549,695	-	239,224
Roads and transportation	-	-	-
Governmental services to residents	1,028,499	-	3,243
Administration	1,979,401	-	-
Non-program	-	-	-
Debt service	-	-	-
Capital projects	-	-	-
<b>Total expenditures</b>	<b>10,498,360</b>	<b>4,872,925</b>	<b>308,743</b>
Excess (deficiency) of revenues over (under) expenditures	(686,187)	(799,132)	749,490
<b>Other financing sources (uses):</b>			
Sale of capital assets	6,120	-	-
Operating transfers in	5,014	-	-
Operating transfers out	(5,488)	-	(800,000)
Capital lease purchase agreement	75,655	-	-
Bank loan proceeds	84,375	-	-
General obligation bond proceeds	-	-	-
<b>Total other financing sources (uses)</b>	<b>165,676</b>	<b>-</b>	<b>(800,000)</b>
Net change in fund balances	(520,511)	(799,132)	(50,510)
Fund balances beginning of year	3,015,833	1,037,941	284,433
Fund balances end of year	<b>\$ 2,495,322</b>	<b>238,809</b>	<b>233,923</b>

See notes to financial statements.

Revenue				
Secondary Roads	IPSCO TIF	Debt Service	Nonmajor	Total
-	-	847,662	-	9,427,758
1,426,194	-	-	-	1,426,194
-	2,518,739	-	-	2,518,739
-	-	-	-	129,222
2,821,220	-	31,342	459,968	7,917,815
1,835	-	-	-	134,265
1,546	-	-	50,042	993,581
-	-	-	173,121	690,112
62,116	-	-	167,368	267,666
4,312,911	2,518,739	879,004	850,499	23,505,352
-	-	-	233,266	5,995,995
-	-	-	-	1,244,312
-	-	-	-	4,872,925
-	-	-	22,540	811,459
3,679,065	-	-	-	3,679,065
-	-	-	13,911	1,045,653
-	-	-	81,555	2,060,956
-	-	-	94	94
-	2,518,739	876,887	-	3,395,626
528,449	-	-	677,160	1,205,609
4,207,514	2,518,739	876,887	1,028,526	24,311,694
105,397	-	2,117	(178,027)	(806,342)
1,851	-	-	-	7,971
800,000	-	-	5,488	810,502
-	-	-	(5,014)	(810,502)
-	-	-	-	75,655
-	-	-	-	84,375
-	-	-	1,530,000	1,530,000
801,851	-	-	1,530,474	1,698,001
907,248	-	2,117	1,352,447	891,659
2,444,277	-	269,555	(62,139)	6,989,900
3,351,525	-	271,672	1,290,308	7,881,559

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, 2006

**Net change in fund balances - Total governmental funds (page 21)** \$ 891,659

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

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

Expenditures for capital assets	\$ 1,844,107	
Capital assets contributed by the Iowa Department of Transportation	2,490,783	
Depreciation expense	(1,722,646)	2,612,244

In the Statement of Activities, the loss on the sale of capital assets is reported, whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (65,697)

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	(85,445)	
Other	(509,201)	(594,646)

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

Issued	(1,608,012)	
Repaid	2,294,339	686,327

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	(102,077)	
Accrued interest on long-term debt	24,891	(77,186)

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. (156,956)

**Change in net assets of governmental activities (page 15)** \$ 3,295,745

See notes to financial statements.



Muscatine County  
 Statement of Net Assets  
 Proprietary Funds  
 June 30, 2006

	Internal Service
<b>Assets</b>	
Cash and cash equivalents	\$ 181,301
Accounts receivable	23,594
<b>Total assets</b>	204,895
<b>Liabilities</b>	
Accounts payable	212,340
<b>Net Assets</b>	
Unrestricted	\$ (7,445)

See notes to financial statements.

**Exhibit H**

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

Year ended June 30, 2006

		<u>Internal Service</u>
Operating revenues:		
Reimbursements from operating funds		\$ 1,261,808
Reimbursements from others		404,358
Total operating revenues		<u>1,666,166</u>
Operating expenses:		
Health claims and administrative services	\$ 1,807,104	
Loss contingencies and deductibles	20,799	
Miscellaneous	500	1,828,403
Operating loss		<u>(162,237)</u>
Non-operating revenues:		
Interest income		<u>5,281</u>
Change in net assets		(156,956)
Net assets beginning of year		<u>149,511</u>
Net assets end of year		<u>\$ (7,445)</u>

See notes to financial statements.

Muscatine County  
Statement of Cash Flows  
Proprietary Funds  
Year ended June 30, 2006

	<u>Internal Service</u>
Cash flows from operating activities:	
Cash received from operating funds	\$ 1,261,808
Cash received from employees and others	380,764
Cash paid to suppliers for services	(1,785,882)
Net cash used by operating activities	<u>(143,310)</u>
Cash flows from investing activities:	
Interest on investments	<u>5,281</u>
Net decrease in cash and cash equivalents	(138,029)
Cash and cash equivalents beginning of year	<u>319,330</u>
Cash and cash equivalents end of year	<u>\$ 181,301</u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (162,237)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Increase in accounts receivable	(23,594)
Increase in accounts payable	42,521
Net cash used by operating activities	<u>\$ (143,310)</u>

See notes to financial statements.

Muscatine County

Statement of Fiduciary Assets and Liabilities  
Agency Funds

June 30, 2006

**Assets**

Cash and pooled investments:

County Treasurer	\$ 2,714,401
Other County officials	456,659

Receivables:

Property tax:

Delinquent	165,291
Succeeding year	35,188,000

Accounts	34,198
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Assessments	130,852
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Due from other governments	22,481
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<b>Total assets</b>	<u>38,711,882</u>
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**Liabilities**

Accounts payable	4,372
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Salaries and benefits payable	18,015
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Due to other governments	37,787,688
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Trusts payable	841,494
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Compensated absences	60,313
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<b>Total liabilities</b>	<u>38,711,882</u>
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<b>Net assets</b>	<u><u>\$ -</u></u>
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See notes to financial statements.

Muscatine County

Notes to Financial Statements

June 30, 2006

**(1) Summary of Significant Accounting Policies**

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

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

A. Reporting Entity

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

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

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

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

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2005.

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, 2006, 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.

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, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

Long-Term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund Statement of Net Assets.

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

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements in one department exceeded the amount appropriated.

**(2) Cash and Pooled Investments**

The County’s deposits in banks at June 30, 2006 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 \$1,500,000 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, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue: Mental Health	\$ 518
Special Revenue: Secondary Roads	General Special Revenue: Mental Health Rural Services	5,980 294 219
		<u>6,493</u>
Total		<u>\$ 7,011</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, 2006 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Resource Enhancement and Protection	\$ 5,014
Special Revenue: Conservation Youth Corp	General	4,000
Emergency Medical Services Training	General	1,488
Secondary Roads	Special Revenue: Rural Services	800,000
Total		<u>\$ 810,502</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, 2006 was as follows:

	Balance Beginning of Year, as restated	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 2,036,815	-	(153,600)	1,883,215
Land, road network	1,172,953	-	-	1,172,953
Construction in progress	-	625,349	-	625,349
Construction in progress, road network	581,961	2,591,987	(2,980,427)	193,521
Total capital assets not being depreciated	<u>3,791,729</u>	<u>3,217,336</u>	<u>(3,134,027)</u>	<u>3,875,038</u>
Capital assets being depreciated:				
Buildings and improvements	19,375,593	-	(92,000)	19,283,593
Equipment and vehicles	5,431,289	1,151,269	(555,665)	6,026,893
Infrastructure, road network	22,455,577	2,980,427	-	25,436,004
Infrastructure, other	505,407	143,249	-	648,656
Total capital assets being depreciated	<u>47,767,866</u>	<u>4,274,945</u>	<u>(647,665)</u>	<u>51,395,146</u>
Less accumulated depreciation for:				
Buildings and improvements	7,824,092	334,390	(92,000)	8,066,482
Equipment and vehicles	3,151,579	625,398	(466,604)	3,310,373
Infrastructure, road network	10,260,049	737,515	-	10,997,564
Infrastructure, other	88,689	25,343	-	114,032
Total accumulated depreciation	<u>21,324,409</u>	<u>1,722,646</u>	<u>(558,604)</u>	<u>22,488,451</u>
Total capital assets being depreciated, net	<u>26,443,457</u>	<u>2,552,299</u>	<u>(89,061)</u>	<u>28,906,695</u>
Governmental activities capital assets, net	<u>\$ 30,235,186</u>	<u>5,769,635</u>	<u>(3,223,088)</u>	<u>32,781,733</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 318,337
Physical health and social services	4,931
Mental health	29,220
County environment and education	20,163
Roads and transportation	1,173,992
Governmental services to residents	58,186
Administration	<u>117,817</u>
Total depreciation expense - governmental activities	<u>\$ 1,722,646</u>

The cost and accumulated depreciation of the leased county jail facility at June 30, 2006 were \$8,450,000 and \$1,859,000, 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	<u>\$ 21,837</u>
Special Revenue:		
Mental Health	Services	365,491
Rural Services	Services	626
		<u>366,117</u>
Total for governmental funds		<u>\$ 387,954</u>
Agency:		
County Assessor	Collections	\$ 740,854
Schools		20,043,021
Community Colleges		843,967
Corporations		13,926,518
Auto License and Use Tax		733,978
All other		<u>1,499,350</u>
Total for agency funds		<u>\$ 37,787,688</u>

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

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Tax Increment					Total
	Capital Lease Purchase Agreements	Urban Renewal Revenue Bonds	General Obligation Building Bonds	Installment Purchase Agreement	Compensated Absences	
Balance beginning of year	\$ 4,190,000	14,181,000	-	13,647	892,013	19,276,660
Increases	75,655	-	1,530,000	-	606,178	2,211,833
Decreases	560,190	1,607,000	115,000	9,792	504,101	2,796,083
Balance end of year	<u>\$ 3,705,465</u>	<u>12,574,000</u>	<u>1,415,000</u>	<u>3,855</u>	<u>994,090</u>	<u>18,692,410</u>
Due within one year	<u>\$ 579,357</u>	<u>1,730,000</u>	<u>290,000</u>	<u>3,855</u>	<u>434,494</u>	<u>3,037,706</u>

### Capital Lease Purchase Agreements

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

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

The following is a schedule of the future minimum lease payments, including interest ranging from 0.0% to 3.40% per annum, for the correctional facility and various copy machines and the present value of net minimum lease payments under the agreements in effect at June 30, 2006:

Year ending June 30,	Correctional Facility	Copiers			Total
		County Jail	Community Services	County Attorney	
2007	\$ 676,193	11,088	2,652	4,140	694,073
2008	672,068	11,088	2,652	4,140	689,948
2009	679,818	11,088	2,652	4,140	697,698
2010	671,818	11,088	2,652	4,140	689,698
2011	677,908	-	-	3,450	681,358
2012	677,270	-	-	-	677,270
Total minimum lease payments	4,055,075	44,352	10,608	20,010	4,130,045
Less amount representing interest	(415,075)	(3,490)	-	(6,015)	(424,580)
Present value of net minimum lease payments	\$ 3,640,000	40,862	10,608	13,995	3,705,465

Payments under these capital lease purchase agreements for the year ended June 30, 2006 totaled \$689,373.

### 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, 2006, the County paid principal of \$1,607,000 on the bonds. The balance of the bonds at June 30, 2006 was \$12,574,000. 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 County made advance payments so the balance of the agreement at June 30, 2006 was \$3,855.

Bonds Payable

A summary of the County's June 30, 2006 general obligation bonded indebtedness is as follows:

Year ending June 30,	Interest Rates	Principal	Interest	Total
2007	3.70%	\$ 290,000	53,788	343,788
2008	3.75	265,000	43,057	308,057
2009	3.80	275,000	33,120	308,120
2010	3.85	290,000	22,670	312,670
2011	3.90	295,000	11,505	306,505
Total		\$ 1,415,000	164,140	1,579,140

During the year ended June 30, 2006, the County issued \$1,530,000 in general obligation bonds for an administrative office building and remodeling and retired \$115,000 of bonds.

**(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, 2006, 2005 and 2004 were \$415,830, \$403,640 and \$384,023, 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 531 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, 2006 were \$185,716.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$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, 2006, no liability has been recorded in the County's financial statements. As of June 30, 2006, 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, 2006 was \$1,241,808.

Amounts payable from the Health Insurance Trust Fund at June 30, 2006 total \$210,547, 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, 2005	\$ 168,636
Incurred claims (including claims incurred but not reported at June 30, 2006)	1,849,015
Payment on claims during the fiscal year	<u>(1,807,104)</u>
Unpaid claims at June 30, 2006	<u>\$ 210,547</u>

**(11) Construction Commitment**

The County has entered into contracts totaling \$1,081,058, for remodeling of an administrative office building purchased adjacent to the Courthouse for additional office space. As of June 30, 2006, costs of \$127,681 on the project have been incurred. The balance remaining on the project at June 30, 2006 of \$953,377 will be paid as work on the project progresses.

**(12) Restatement**

Beginning net capital assets for governmental activities of \$20,175,170 increased to \$30,235,186 as a result of adding prior years infrastructure not previously reported as permitted by U.S. generally accepted accounting principles.

	<u>Amount</u>
Net capital assets June 30, 2005, as previously reported	\$ 20,175,170
Prior year infrastructure additions:	
Capital assets of \$20,178,182, net of accumulated depreciation of \$10,118,166	<u>10,060,016</u>
Net capital assets July 1, 2005, as restated	<u>\$ 30,235,186</u>

Beginning net assets for governmental activities of \$8,586,639 increased to \$18,646,655 as a result of adding prior years infrastructure not previously reported as permitted by U.S. generally accepted accounting principles.

	<u>Amount</u>
Net assets June 30, 2005, as previously reported	\$ 8,586,639
Adjustment to add prior years infrastructure	<u>10,060,016</u>
Net assets July 1, 2005, as restated	<u>\$ 18,646,655</u>

**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, 2006

	Actual
Receipts:	
Property and other county tax	\$ 10,834,087
Tax increment financing	2,518,739
Interest and penalty on property tax	131,429
Intergovernmental	7,830,790
Licenses and permits	120,164
Charges for service	966,577
Use of money and property	660,414
Miscellaneous	292,951
Total receipts	23,355,151
Disbursements:	
Public safety and legal services	6,029,712
Physical health and social services	1,258,350
Mental health	4,842,618
County environment and education	792,679
Roads and transportation	4,144,386
Governmental services to residents	1,059,853
Administration	2,056,294
Debt service	3,395,626
Capital projects	1,213,740
Total disbursements	24,793,258
Excess (deficiency) of receipts over (under) disbursements	(1,438,107)
Other financing sources, net	1,698,001
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	259,894
Balance beginning of year	7,428,642
Balance end of year	\$ 7,688,536

See accompanying independent auditor's report.

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Budgeted Amounts		Final to Net Variance
Original	Final	
10,935,904	10,935,904	(101,817)
2,458,657	2,800,000	(281,261)
135,700	135,700	(4,271)
7,189,614	7,764,134	66,656
68,650	98,650	21,514
946,600	928,600	37,977
409,300	494,300	166,114
188,700	192,825	100,126
22,333,125	23,350,113	5,038
5,869,052	6,057,448	27,736
1,427,767	1,456,892	198,542
4,430,733	4,930,733	88,115
772,822	803,152	10,473
4,323,000	4,323,000	178,614
1,136,610	1,147,198	87,345
2,183,736	2,232,649	176,355
3,332,975	3,676,918	281,292
2,920,000	2,920,000	1,706,260
26,396,695	27,547,990	2,754,732
(4,063,570)	(4,197,877)	2,759,770
884,000	1,593,375	104,626
(3,179,570)	(2,604,502)	2,864,396
7,565,916	7,565,916	(137,274)
4,386,346	4,961,414	2,727,122

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Muscatine County  
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation  
 Required Supplementary Information  
 Year ended June 30, 2006

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 23,355,151	150,201	23,505,352
Expenditures	24,793,258	(481,564)	24,311,694
Net	(1,438,107)	631,765	(806,342)
Other financing sources, net	1,698,001	-	1,698,001
Beginning fund balances	7,428,642	(438,742)	6,989,900
Ending fund balances	\$ 7,688,536	193,023	7,881,559

See accompanying independent auditor's report.

Muscatine County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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

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

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, three budget amendments increased budgeted disbursements by \$1,151,295. 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, 2006, disbursements in one department exceeded the amount appropriated.

**Muscatine County**



**Other Supplementary Information**

Muscatine County  
Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2006

	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	Resource Enhance- ment	Conservation Land Acquisition	Special Conservation Youth Corp
<b>Assets</b>					
Cash and pooled investments	\$ 43,536	123	47,409	152,991	21,410
Accounts receivable	-	-	-	80	-
Due from other governments	-	-	-	-	-
<b>Total assets</b>	<b>\$ 43,536</b>	<b>123</b>	<b>47,409</b>	<b>153,071</b>	<b>21,410</b>
<b>Liabilities and Fund Equity</b>					
Liabilities:					
Accounts payable	\$ -	-	94	1,796	80
Salaries payable	-	-	-	-	5,040
Total liabilities	-	-	94	1,796	5,120
Fund equity:					
Unreserved fund balances	43,536	123	47,315	151,275	16,290
<b>Total liabilities and fund equity</b>	<b>\$ 43,536</b>	<b>123</b>	<b>47,409</b>	<b>153,071</b>	<b>21,410</b>

See accompanying independent auditor's report.

Revenue								
Jail Commissary	County Sheriff's Forfeiture	County Sheriff's Canine / Community Policing	County Sheriff's Firearms Buyback	Emergency Medical Services Training	Geographic Information System	Capital Projects	Total	
(2,304)	43,679	2,520	5,623	13,936	51,627	989,758	1,370,308	
14,935	-	-	1,877	-	-	-	16,892	
-	1,200	-	-	1,750	-	-	2,950	
12,631	44,879	2,520	7,500	15,686	51,627	989,758	1,390,150	
468	3,655	-	-	3,608	-	85,101	94,802	
-	-	-	-	-	-	-	5,040	
468	3,655	-	-	3,608	-	85,101	99,842	
12,163	41,224	2,520	7,500	12,078	51,627	904,657	1,290,308	
12,631	44,879	2,520	7,500	15,686	51,627	989,758	1,390,150	

Muscatine County

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

Year ended June 30, 2006

	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	Resource Enhance- ment and Protection	Conservation Land Acquisition	Special Conservation Youth Corp
Revenues:					
Intergovernmental	\$ -	-	16,643	420,777	-
Charges for service	9,639	-	-	40,403	-
Use of money and property	1,799	46	1,786	-	-
Miscellaneous	-	-	-	126,475	13,625
Total revenues	11,438	46	18,429	587,655	13,625
Expenditures:					
Operating:					
Public safety and legal services	-	-	-	-	-
County environment and education	-	-	-	8,329	14,211
Governmental services to residents	13,911	-	-	-	-
Administration	-	-	-	-	-
Non-program	-	-	94	-	-
Capital projects	-	-	-	51,812	-
Total expenditures	13,911	-	94	60,141	14,211
Excess (deficiency) of revenues over (under) expenditures	(2,473)	46	18,335	527,514	(586)
Other financing sources (uses):					
Operating transfers in	-	-	-	-	4,000
Operating transfers out	-	-	(5,014)	-	-
General obligation bond proceeds	-	-	-	-	-
Total other financing sources (uses)	-	-	(5,014)	-	4,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(2,473)	46	13,321	527,514	3,414
Fund balances beginning of year	46,009	77	33,994	(376,239)	12,876
Fund balances end of year	\$ 43,536	123	47,315	151,275	16,290

See accompanying independent auditor's report.

Revenue								
Jail Commissary	County Sheriff Forfeiture	County Sheriff's Canine/Community Policing	County Sheriff's Firearms Buyback	Emergency Medical Services Training	Geographic Information System	Capital Projects	Total	
-	-	-	-	8,923	13,625	-	459,968	
-	-	-	-	-	-	-	50,042	
169,490	-	-	-	-	-	-	173,121	
-	23,395	3,055	813	-	-	5	167,368	
169,490	23,395	3,055	813	8,923	13,625	5	850,499	
207,980	13,422	2,829	813	8,222	-	-	233,266	
-	-	-	-	-	-	-	22,540	
-	-	-	-	-	-	-	13,911	
-	-	-	-	-	81,555	-	81,555	
-	-	-	-	-	-	-	94	
-	-	-	-	-	-	625,348	677,160	
207,980	13,422	2,829	813	8,222	81,555	625,348	1,028,526	
(38,490)	9,973	226	-	701	(67,930)	(625,343)	(178,027)	
-	-	-	-	1,488	-	-	5,488	
-	-	-	-	-	-	-	(5,014)	
-	-	-	-	-	-	1,530,000	1,530,000	
-	-	-	-	1,488	-	1,530,000	1,530,474	
(38,490)	9,973	226	-	2,189	(67,930)	904,657	1,352,447	
50,653	31,251	2,294	7,500	9,889	119,557	-	(62,139)	
12,163	41,224	2,520	7,500	12,078	51,627	904,657	1,290,308	

**Schedule 3**

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## Muscatine County

Combining Schedule of Net Assets  
Internal Service Funds

June 30, 2006

	Health Insurance Trust	County Insurance Trust	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 142,571	38,730	181,301
Accounts receivable	23,594	-	23,594
<b>Total assets</b>	<b>166,165</b>	<b>38,730</b>	<b>204,895</b>
<b>Liabilities</b>			
Liabilities:			
Accounts payable	210,547	1,793	212,340
<b>Net Assets</b>			
Unrestricted	\$ (44,382)	36,937	(7,445)

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, 2006

	Health Insurance Trust	County Insurance Trust	Total
Operating revenues:			
Reimbursements from operating funds	\$ 1,241,808	20,000	1,261,808
Reimbursements from others	400,776	3,582	404,358
Total operating revenues	1,642,584	23,582	1,666,166
Operating expenses:			
Health claims and administrative services	1,807,104	-	1,807,104
Loss contingencies and deductibles	-	20,799	20,799
Miscellaneous	500	-	500
Total operating expenses	1,807,604	20,799	1,828,403
Operating income (loss)	(165,020)	2,783	(162,237)
Non-operating revenues:			
Interest income	5,281	-	5,281
Change in net assets	(159,739)	2,783	(156,956)
Net assets beginning of year	115,357	34,154	149,511
Net assets end of year	\$ (44,382)	36,937	(7,445)

See accompanying independent auditor's report.

**Schedule 5**

Muscatine County  
Combining Schedule of Cash Flows  
Internal Service Funds

Year ended June 30, 2006

	Health Insurance Trust	County Insurance Trust	Total
Cash flows from operating activities:			
Cash received from operating funds	\$ 1,241,808	20,000	1,261,808
Cash received from others	377,182	3,582	380,764
Cash paid to suppliers for services	(1,765,693)	(20,189)	(1,785,882)
Net cash provided (used) by operating activities	(146,703)	3,393	(143,310)
Cash flows from investing activities:			
Interest on investments	5,281	-	5,281
Net increase (decrease) in cash and cash equivalents	(141,422)	3,393	(138,029)
Cash and cash equivalents beginning of year	283,993	35,337	319,330
Cash and cash equivalents end of year	\$ 142,571	38,730	181,301
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ (165,020)	2,783	(162,237)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Increase in accounts receivable	(23,594)	-	(23,594)
Increase in accounts payable	41,911	610	42,521
Net cash provided (used) by operating activities	\$ (146,703)	3,393	(143,310)

See accompanying independent auditor's report.



**Muscatine County**

Muscatine County  
 Combining Schedule of Fiduciary Assets and Liabilities  
 Agency Funds

June 30, 2006

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges	Corporations
<b>Assets</b>						
Cash and pooled investments:						
County Treasurer	\$ -	2,680	289,451	285,106	11,207	196,397
Other county officials	456,659	-	-	-	-	-
Receivables:						
Property tax:						
Delinquent	-	1,138	3,051	116,915	4,760	36,121
Succeeding year	-	195,000	506,000	19,641,000	828,000	13,694,000
Accounts	14	-	-	-	-	-
Assessments	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 456,673</b>	<b>198,818</b>	<b>798,502</b>	<b>20,043,021</b>	<b>843,967</b>	<b>13,926,518</b>
<b>Liabilities</b>						
Liabilities:						
Accounts payable	\$ -	-	252	-	-	-
Salaries and benefits payable	-	-	5,954	-	-	-
Due to other governments	29,454	198,818	740,854	20,043,021	843,967	13,926,518
Trusts payable	427,219	-	-	-	-	-
Compensated absences	-	-	51,442	-	-	-
<b>Total liabilities</b>	<b>\$ 456,673</b>	<b>198,818</b>	<b>798,502</b>	<b>20,043,021</b>	<b>843,967</b>	<b>13,926,518</b>

See accompanying independent auditor's report.

Townships	City Special Assessments	Auto License and Use Tax	Drainage Districts	Joint Communications Center	Other	Total	
	3,760	18,025	733,978	606,189	85,998	481,610	2,714,401
	-	-	-	-	-	-	456,659
	2,882	-	-	-	-	424	165,291
	305,000	-	-	-	-	19,000	35,188,000
	-	-	-	1,333	-	32,851	34,198
	-	130,717	-	135	-	-	130,852
	-	-	-	-	-	22,481	22,481
	311,642	148,742	733,978	607,657	85,998	556,366	38,711,882
	-	-	-	-	1,287	2,833	4,372
	-	-	-	-	11,114	947	18,015
	311,642	148,742	733,978	607,657	73,597	129,440	37,787,688
	-	-	-	-	-	414,275	841,494
	-	-	-	-	-	8,871	60,313
	311,642	148,742	733,978	607,657	85,998	556,366	38,711,882

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

Year ended June 30, 2006

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges
<b>Assets and Liabilities</b>					
Balances beginning of year	\$ 446,697	183,902	881,545	19,710,983	771,812
Additions:					
Property and other county tax	-	195,952	498,433	19,963,105	829,030
E911 surcharge	-	-	-	-	-
State tax credits	-	7,431	19,917	792,186	31,077
Office fees and collections	707,872	-	-	-	-
Electronic transaction fees	-	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-	-
Assessments	-	-	-	-	-
Trusts	2,968,393	-	-	-	-
Miscellaneous	4,757	-	8,718	38,825	-
Total additions	3,681,022	203,383	527,068	20,794,116	860,107
Deductions:					
Agency remittances:					
To other funds	420,008	-	-	-	-
To other governments	281,697	188,467	610,111	20,462,078	787,952
Trusts paid out	2,969,341	-	-	-	-
Total deductions	3,671,046	188,467	610,111	20,462,078	787,952
Balances end of year	\$ 456,673	198,818	798,502	20,043,021	843,967

See accompanying independent auditor's report.

Corporations	Townships	City Special Assess- ments	Auto License and Use Tax	Drainage Districts	Joint Communications Center	Other	Total
12,949,845	298,090	409,251	800,920	559,339	48,114	446,191	37,506,689
13,712,883	306,824	-	-	-	-	18,956	35,525,183
-	-	-	-	-	-	153,376	153,376
439,984	13,249	-	-	-	-	990	1,304,834
-	-	-	-	-	-	-	707,872
-	-	-	-	-	-	9,640	9,640
-	-	-	8,724,381	-	-	-	8,724,381
-	-	64,969	-	91,993	-	-	156,962
-	-	-	-	-	-	1,943,651	4,912,044
11,210	15,636	-	-	21,699	750,159	162,164	1,013,168
14,164,077	335,709	64,969	8,724,381	113,692	750,159	2,288,777	52,507,460
-	-	-	293,330	-	-	-	713,338
13,187,404	322,157	325,478	8,497,993	65,374	712,275	335,715	45,776,701
-	-	-	-	-	-	1,842,887	4,812,228
13,187,404	322,157	325,478	8,791,323	65,374	712,275	2,178,602	51,302,267
13,926,518	311,642	148,742	733,978	607,657	85,998	556,366	38,711,882

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

For the Last Six Years

	2006	2005	Modified 2004
<b>Revenues:</b>			
Property and other county tax	\$ 9,427,758	8,929,409	9,126,056
Local option sales tax	1,426,194	1,207,208	1,376,438
Tax increment financing	2,518,739	2,659,483	2,458,523
Interest and penalty on property tax	129,222	134,751	127,342
Intergovernmental	7,917,815	7,448,135	7,603,530
Licenses and permits	134,265	110,512	55,094
Charges for service	993,581	1,012,192	1,034,421
Use of money and property	690,112	496,672	318,069
Miscellaneous	267,666	171,141	670,697
<b>Total</b>	<b>\$ 23,505,352</b>	<b>22,169,503</b>	<b>22,770,170</b>
<b>Expenditures:</b>			
<b>Operating:</b>			
Public safety and legal services	\$ 5,995,995	5,980,757	5,294,006
Physical health and social services	1,244,312	1,367,221	1,286,790
Mental health	4,872,925	4,361,931	4,108,575
County environment and education	811,459	771,303	691,276
Roads and transportation	3,679,065	4,706,304	3,974,820
Governmental services to residents	1,045,653	770,148	671,631
Administration	2,060,956	1,967,755	1,869,951
Non-program	94	83,479	443,908
Debt service	3,395,626	3,332,801	3,113,051
Capital projects	1,205,609	2,643,201	575,768
<b>Total</b>	<b>\$ 24,311,694</b>	<b>25,984,900</b>	<b>22,029,776</b>

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

See accompanying independent auditor's report.

Accrual Basis		
2003*	2002*	2001*
9,291,992	9,076,263	8,739,212
1,310,286	1,237,943	1,405,978
2,457,784	2,908,378	2,889,528
144,830	212,979	104,846
7,927,276	8,021,297	8,353,920
15,572	13,029	14,213
1,014,933	949,760	1,483,781
527,125	993,777	677,912
559,391	435,417	171,515
<b>23,249,189</b>	<b>23,848,843</b>	<b>23,840,905</b>
5,020,243	4,813,687	4,694,131
1,360,473	1,465,092	1,500,002
4,364,043	4,251,095	6,718,152
682,378	648,066	667,141
3,774,979	3,485,159	3,054,161
625,204	584,730	597,979
1,898,196	1,968,484	1,883,392
-	55,881	43,410
3,638,246	3,423,630	3,375,245
440,019	824,947	2,730,522
<b>21,803,781</b>	<b>21,520,771</b>	<b>25,264,135</b>

**Schedule 9**

Muscatine County

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Corporation for National and Community Service: AMERICORPS	94.006		\$ 7,692
U.S. Department of Homeland Security: Emergency Food and Shelter National Board Program	97.024	23-2992-00	3,758
Total direct			11,450
Indirect:			
Office of National Drug Control Policy: Iowa Department of Public Safety:			
High Intensity Drug Trafficking Area Program	07.000	I4PMWP556	6,039
High Intensity Drug Trafficking Area Program	07.000	I5PMWP556	38,521
High Intensity Drug Trafficking Area Program	07.000	I6PMWP556Z	28,577
			73,137
U.S. Department of Agriculture: Iowa Department of Human Services:			
State Administrative Matching Grants for Food Stamp Program	10.561		16,828
U.S. Department of Justice: Iowa Department of Human Rights:			
Edward Byrne Formula Grant Program	16.579	03C-1514	4,618
Governor's Office of Drug Control Policy: Edward Byrne Formula Grant Program	16.579	05JAG-A02	64,990
			69,608
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	03-Hot Spots-14	61,394
Violence Against Women Formula Grants	16.588	VW-06-61	963
City of Muscatine: Edward Byrne Memorial Justice Assistance Grant Program	16.738	2005-DJ-BX-0013	26,508
U.S. Department of Transportation: Iowa Department of Transportation:			
Highway Planning and Construction	20.205	BROS C070(36)-8J-70	107,400
Iowa Department of Public Safety:			
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	05-410 Task 26	1,495
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	06-410 Task 25	9,120
			10,615
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	06-163 Task 46	240
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	06-163 Task 49	16,898
			17,138



Muscatine County  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2006

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect (continued):			
U.S. General Services Administration:			
Iowa Secretary of State:			
Election Reform Payments	39.011	06-HAVA-70-100	252,407
U.S. Department of Education:			
Iowa Department of Education:			
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	05-CSPE-01	20,979
U.S. Department of Health and Human Services:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
Temporary Assistance for Needy Families	93.558		20,309
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		4,832
Foster Care - Title IV-E	93.658		10,473
Adoption Assistance	93.659		2,568
Medical Assistance Program	93.778		27,028
Social Services Block Grant	93.667		13,424
Social Services Block Grant	93.667		174,017
			187,441
Des Moines County, Iowa:			
Centers for Disease Control and Prevention- Investigations and Technical Assistance	93.283	BT70	29,064
Iowa Department of Public Health:			
National Bioterrorism Hospital Preparedness Program	93.889	5886EM169	3,000
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Emergency Management Performance Grants	97.042		20,011
Total indirect			961,703
Total			\$ 973,153

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

See accompanying independent auditor's report.

**Muscatine County**



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
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, 2006, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated September 28, 2006. 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.

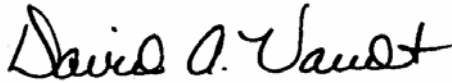
Compliance and Other Matters

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.

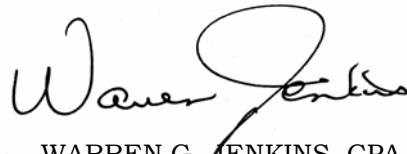
Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all 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 28, 2006

**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 programs for the year ended June 30, 2006. Muscatine County's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Muscatine County's management. Our responsibility is to express an opinion on Muscatine County's compliance based on our audit.

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

In our opinion, Muscatine County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

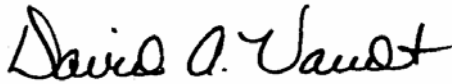
Internal Control Over Compliance

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 28, 2006



Muscatine County  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2006

**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 major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were:
  - CFDA Number 39.011 – Election Reform Payments
  - CFDA Number 93.667 – Social Services Block Grant.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Muscatine County did qualify as a low-risk auditee.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

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

**REPORTABLE CONDITIONS:**

II-A-06 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.

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.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

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

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

Placing money in the County's general budget means it is inevitably part of the whole budget decision. The current arrangement protects against the forbidden supplantation of regular expenditures with forfeiture money. The proposed system will be an open invitation for a violation of the terms of our ODCP grant (a grant program under which the county receives approximately \$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.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

- II-B-06 County Sheriff's Office – A reconciliation of book to bank balances was not performed for all accounts as of June 30, 2006, including a complete listing of checks outstanding for the Jail Commissary account. Deposits in July include June and July receipts. Additionally, a complete and accurate listing of trusts on hand was not maintained. Between the Sheriff's Trust account and Jail Inmate account, a variance of \$786 existed between the book and bank balance at that date.

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

Response – We will work on having the books balanced at months end and list outstanding checks.

Conclusion – Response accepted.

- II-C-06 Secondary Roads Department Inventory – Written approval/requisitions are not required for materials released from the storeroom. Storage areas are not properly safeguarded or controlled to prevent access to materials by unauthorized persons.

Recommendation – Written approval/requisitions should be required for materials to be released from the storeroom. Storage areas should be properly safeguarded or controlled to prevent access to materials by unauthorized persons.

Response – We feel the presence of the Sheriff's Department on our grounds properly safeguards our material storage areas. Due to staff constraints, we are unable to implement a requisition system at this time. If staff becomes available in the future, we will reconsider this recommendation.

Conclusion – Response acknowledged. Written approval/requisitions should be required for materials to be released from the storeroom and storage areas should be properly safeguarded.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Muscatine County  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2006

**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 programs were noted.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

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

IV-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted. Disbursements in one department exceeded the amount appropriated.

Recommendation – 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 – In the future, we will make every effort to ensure all equipment lease amounts are budgeted.

Conclusion – Response accepted.

IV-B-06 Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's Opinion dated April 25, 1979 were noted.

IV-C-06 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

IV-D-06 Business Transactions – No business transactions between the County and County officials or employees were noted.

IV-E-06 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of surety bond coverage should be reviewed annually to insure the coverage is adequate for current operations.

IV-F-06 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-G-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.

IV-H-06 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

IV-I-06 Deficit Cash Balance – The Jail Commissary Fund had a deficit cash balance of \$2,304 on June 30, 2006. This appears to violate Chapter 331.476 of the Code of Iowa.

Muscatine County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

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 – All departments have been notified that no claims can be paid unless the funds are available or the debt is authorized by resolution of the Board of Supervisors.

Conclusion – Response accepted.

- IV-J-06 Capital Lease Purchase Agreements – During the year ended June 30, 2006, the County entered into a capital lease purchase agreement for the purchase of a copier for the Jail department. However, a public hearing was not held prior to the authorization of this lease purchase agreement as required by Chapter 331.301(10)(e) or Chapters 331.478 and 331.479 of the Code of Iowa.

Recommendation – The County should consult legal counsel for the disposition of this matter. In the future, the County should hold a public hearing prior to the authorization of a lease purchase agreement in accordance with Chapter 331.301(10)(e) or Chapters 331.478 and 331.479 of the Code of Iowa.

Response – All departments have been notified that a public hearing is required before entering into a capital lease purchase agreement.

Conclusion – Response accepted.

- IV-K-06 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, 2006 for the County Extension Office did not exceed the amount budgeted.

Certain County Agricultural Extension Council minutes were not signed as required by Chapter 176A.14(3) of the Code of Iowa.

Recommendation - All minutes should be signed to authenticate action taken.

Response – We will make sure minutes are signed.

Conclusion – Response accepted.

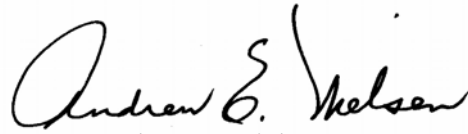
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Muscatine County

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager  
Darryl J. Brumm, CPA, Senior Auditor II  
Carmon K. Kutcher, Staff Auditor  
Carrie L. Livingston, CPA, Staff Auditor  
Gelu Sherpa, Assistant Auditor

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State